

# Casino



BRUNO TALLARÉ

# Playing the numbers

## Do Patrick's casino projections add up?

**AS A CANDIDATE** for governor, Deval Patrick sounded a cautionary note about the perennial calls to bring casino gambling to Massachusetts. While not morally opposed to slot machines or blackjack tables, Patrick said, he was concerned about the social costs of expanded gambling, as well as its possible threat to the Massachusetts Lottery. In April 2006, he told *The Boston Globe* that he wondered “if the person at the slot machine can afford to be there,” adding that what he’d learned so far made him “uncomfortable with slots in racetracks and casinos in Massachusetts.”

But as governor, Patrick signaled a clear willingness to put the casino question on the table. He said he would initiate a formal process to weigh the pros and cons of the issue, and he established a five-person “Gambling/Gaming Internal Study Group,” chaired by his economic development secretary, Daniel O’Connell, and asked it to gather information to help inform his decision making.

Through the spring, and on through a late summer vacation in the Berkshires, Patrick pondered the casino question. Finally, on September 17, flanked by his lieutenant governor and four cabinet secretaries at a packed State House press conference, Patrick announced his support for three “resort casinos,” laying out a broad set of benefits that he said would flow to the state. Though Patrick later called his proposal “a very modest expansion of gaming” in a television interview, this was no tentative half step. The governor who had expressed reservations about opening the door to casino gambling was charging through it full speed.

Patrick said his plan would create 20,000 permanent jobs and 30,000 construction jobs, and generate more than \$2 billion in annual economic activity. And those were all

“conservative estimates,” he emphasized in later interviews. What’s more, through taxes on casino gambling revenues, the plan was projected to net at least \$400 million a year for state coffers, money that Patrick proposed dividing equally between transportation infrastructure spending and property tax credits for homeowners.

A month later, with his casino bill filed on Beacon Hill, the governor appeared on Jim Braude’s talk show on New England Cable News to promote the plan and its economic benefits. “I’ve done a lot of the homework,” he said. “It’s time for the Legislature to do its homework.”

But in the months since the casino plan was rolled out, the proposal has been dogged by a persistent question: How much homework did the governor really do?

The study group Patrick established was in place for more than eight months, but it conducted no independent analysis of the casino question. Instead, when he finally announced his support for casinos, Patrick unveiled a proposal that closely tracks a plan drawn up by a local researcher known for his strong pro-casino views.

In October, a prominent business-funded watchdog group issued a report claiming that the governor’s plan overstates by at least \$100 million the likely net casino revenue to the state. Meanwhile, a closer look at Patrick’s proposal and the assumptions behind it—from the scale of gambling operations the administration says the regional market can support to the claims of job creation and broader economic activity—finds plenty of grounds for healthy skepticism. Because hype comes with casinos as surely as lights, bells, and convenient cocktail service, it is especially important for policymakers to separate fool’s gold from the real stuff.

BY PHIL PRIMACK | ILLUSTRATION BY BRUNO MALLART



Patrick announced a plan for three “resort casinos” at a September press conference.

### BLUEPRINT MATERIAL

It's hard to talk about casinos in Massachusetts without talking about the work of Clyde Barrow, the University of Massachusetts–Dartmouth political scientist whose reports have, for years, argued that the state stands to accrue considerable economic gains from casinos. It's even more difficult to talk about the particulars of Patrick's casino proposal without talking about Barrow. That's because the plan rolled out by the administration mirrors in great detail one prepared by Barrow last March as the casino debate was heating up and Patrick's study group was busy collecting reports.

Barrow, who directs the Center for Policy Analysis at the Dartmouth campus, submitted a paper to the working group titled, “Maximum Bet: A Preliminary Blueprint for Casino Gaming & Economic Development in Massachusetts.” In it, he calls for “three commercial resort casinos”; so does Patrick. Barrow suggests a 27 percent tax on gross gambling revenues; so does Patrick. Barrow proposes that casinos pay a total of \$600 million in fees for licenses that would have to be renewed every 10 years. Patrick's legislation has similar requirements. And Barrow says that when they are fully operational, the new casinos would “generate over \$400 million” in gaming revenues for the state. Patrick? Ditto.

Perhaps most importantly, Patrick generally accepted Barrow's analysis of the New England gambling market. That analysis assumes that the regional market can support three large gambling palaces in Massachusetts, even as those in Connecticut and elsewhere expand; that the casinos won't mainly suck up money that would otherwise be spent at local restaurants, hotels, and other businesses; and that Massachusetts can recapture most of the Bay State dollars being wagered in Connecticut and, to a lesser degree, Rhode Island.

If anything, his casino proposal to Patrick's study group was “highly conservative,” says Barrow. “My purpose was to get people thinking about the issue. It was a baseline for a conversation. This is a debate that tends to get polarized very quickly. I'm on record that there are fiscal and economic

benefits that accrue to the state if [casinos are] done right. And the governor's proposal does it right.”

Given how much Patrick's legislation borrows from Barrow's “Blueprint,” such praise isn't surprising. “Barrow's numbers withstand a fair degree of scrutiny,” says Stanley McGee, O'Connell's assistant secretary for policy and planning, who coordinated the casino study group. “To the extent [our proposal] is perceived as mirroring Barrow, it is because the mainstream of what Barrow is proposing is pretty close to what [top casino executives] have come up with.”

Perhaps the most often cited single figure used in the argument to bring casinos to Massachusetts is the claim that Bay State residents leave behind some \$900 million each year at Connecticut casinos. That figure derives from research by Barrow that concludes that more than one-third of the patrons at Foxwoods, the Connecticut casino closest to the state's northern border, hail from Massachusetts. Barrow's “patron origin analysis” involves surveying at least 1,000 cars each day for a five-day period at the Foxwoods parking lot and recording which states they're licensed in. Since beginning such surveys in 2004, Barrow has consistently pegged Massachusetts patronage at Foxwoods at around 35 percent.

The Connecticut casinos, not eager to see competition sprout in Massachusetts, certainly have an interest in playing down how much of their business comes from across the border. That said, Foxwoods's former chief executive, Mickey Brown, claims that when he ran the giant casino in the mid 1990s, their own parking lot surveys, combined with zip code information collected from customers obtaining food vouchers and other analyses, suggested a far lower figure. “We consistently found that about 22 percent of our patron count was from Massachusetts,” says Brown. (Connecticut's other casino, Mohegan Sun, publicly states that 22 percent of its patronage is from Massachusetts.)

With his support for casinos in Massachusetts well known, Barrow has faced criticism that his research is biased in favor of expanded gambling. Barrow maintains that none

of his research is funded by the casino industry, a claim that may, strictly speaking, be accurate. But his research center has received funding from pro-casino interests, including, in 1999, funding from the Visions Group, a business group then pushing for a casino in Salisbury. In 2006, Barrow's center received \$20,000 from the Rhode Island Building Trades Council, which backed an unsuccessful casino referendum in the Ocean State. The Trades Council had, in turn, received funding from one of the casino industry's giants, Harrah's Entertainment.

Despite his vote of confidence in Barrow's work, even McGee was mindful of the questions that have been raised about Barrow's reports. In a note attached to the Barrow casino plan in the study group's documents, McGee wrote that Barrow's work "is not without some controversy, and many opponents of expanded gaming question the rigor of the economic analysis and the independence of the [Center for Policy Analysis], given its pro-gaming recommendations."

#### LIVING LARGE

The Patrick administration's baseline premise is that as soon as they open, the new casinos will match the gambling capacity and revenues of Connecticut's Foxwoods Resort

and Mohegan Sun. But O'Connell also warns that doing things on a small scale won't work. "What I heard from industry representatives and various people who study the industry is that to compete effectively [with Connecticut], the full amenities are necessary and you cannot add them incrementally," he says. "You need comparable facilities that are better located than the competition."

For this reason, Patrick envisions casinos of an even grander scale than suggested by Barrow. While Barrow calls for the three casinos to have a total of 10,500 slot machines, which are a casino's major draw and dollar source, Patrick assumes a total of 15,000 slots.

Harrah's chairman and CEO Gary Loveman was among the major casino executives who testified—along with Patrick and Boston Mayor Tom Menino—at an all-day State House hearing on December 18 that focused on casino revenues. In his testimony, Loveman said that "the Massachusetts casino market is robust" and can support three resort casinos. But even he seems to wonder about the scale of the administration proposal for 5,000 slot machines at each of three casinos. "Very few casinos in the world have that many slot machines," the former Harvard Business School professor and Massachusetts resident says in an interview. "Foxwoods and Mohegan Sun are the only ones I know. It's pretty rarified



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air.” Casinos with that many slot machines can be “economically viable,” says Loveman, but not without risk. “The engine starts to falter as all this supply comes on line.”

Richard McGowan, a professor of economics at Boston College and expert on gambling and state lotteries, who met with Patrick’s casino study group, also thinks the governor is thinking too big. “You can’t do three casinos,” he says flatly. “If you build one in Boston, who would want to invest in anything in southeastern Massachusetts? You won’t get the revenue or economic development [envisioned by Patrick] there or in western Massachusetts. I don’t think the market is saturated, but the state can overlay its hand.”

Echoing that view at the State House hearing in December, Las Vegas Sands CEO Sheldon Adelson told reporters that “three [casinos] is too many,” a remark dismissed by O’Connell as positioning for a competitive edge in any licensing scramble.

Not everyone is pessimistic. In contrast to the view of a regional market that could quickly become exhausted by new gambling capacity, Gary Border, Foxwoods’s senior vice president, sees one that could grow because of it. Border says there is the risk of “an arms race,” in which developers sell bigger and bigger facilities with greater and greater promises. “But as these new resort casinos come on line, they

tend to create more critical mass,” says Border, who thinks New England could support six casinos.

But even if the Patrick administration’s projections regarding economic activity are solid, changes in any number of variables, such as the appearance of new Connecticut or New Hampshire casinos near the state border, could throw off the assumptions undergirding such numbers. Under federal law, once casino-style gambling is approved here, federally recognized American Indian tribes in Massachusetts could also pursue casino plans independent of the state.

The assumptions built into Patrick’s casino projections could also be thrown off by changes in proposed casino licensing fees, or the proposed tax rate for gambling revenue. Casino lobbyists, for whom Patrick has created a major pay day, may well try to make a case for a more industry-friendly bill. Such moves by casino interests will certainly be seen as posturing to sweeten the deal. However, Loveman insists that for any company to make a return on the estimated \$1 billion in capital investment required for a resort casino it needs the assurance of more than the 10-year license period proposed by Patrick’s bill. That limited time period, on top of the required initial payment of at least \$200 million and annual operating licensing payments of at least \$100 million, Loveman says, gives him “great pause” about competing for

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Jeffrey Hartmann, executive vice president and chief operating officer of Mohegan Sun, is also wary of some of Patrick's terms. "There is always a balance between the economics the state needs and the needs of the investors we must satisfy," he says. "A lower license fee and a longer [license]

## Patrick said the plan is 'first and foremost a jobs proposal,' opening slots for 20,000 employees.

period would drive operators to create greater investments, which would create greater economic opportunity for Massachusetts."

### CASINO WORK

There is nothing subtle about the strong union support for the governor's casino plan. When Patrick and others testified at the December hearing, virtually every seat in the State House's Gardner Auditorium was filled by members of Boston's hotel workers Local 26. CASINO + UNION = GOOD JOBS declared their red T-shirts. And in his testimony, Patrick made the reason for such union backing clear: "Our casino proposal is first and foremost a jobs proposal," he said.

The administration says the three-casino plan will create 20,000 permanent jobs, paying on average \$34,000 a year in wages and benefits. Patrick's team based its jobs number on current employment at the two Connecticut casinos, which have about 22,000 full-time equivalent employees. "We used the real-life experience of Foxwoods and Mohegan Sun to validate some of the specific numbers we were given by industry groups," says McGee, the economic development assistant secretary.

If Massachusetts could support three casinos whose total operations equal those of Connecticut's two, Patrick's 20,000 permanent jobs number may be plausible, says Dartmouth College economist Bruce Sacerdote, co-author of a 2005 Rappaport Institute of Greater Boston report that compared economic data for counties with casinos with those without them. But Patrick's bill itself suggests a lower jobs target. It requires each licensee to "create at least 5,000 new permanent jobs at the casino, or through casino service providers, over a 5-year period." Even 15,000 net new jobs would certainly be a positive, especially for those otherwise unable to find work. Indeed, one main reason Patrick is considering a casino in Boston (though his support for casino there has been on and off) is the prospect of jobs for peo-

ple with relatively limited skills and a dependence on public transportation, says O'Connell. Life sciences is a higher overall economic development priority, he says, but "we would be remiss if we did not have proposals that focus on all strata of educational experience in the Commonwealth."

If the permanent job projection is at least plausible, the claim of 30,000 construction jobs being created by a sudden casino-building boom is harder to square. Patrick has cited the figure several times. The administration press release announcing the casino proposal claims "tens of thousands" of hardhat jobs. O'Connell suggests there will be 8,000 construction jobs per casino, based on his office's look at construction job figures for recent casino developments elsewhere.

But even this estimate, which would translate to 24,000 total construction jobs to build three resort casinos, seems optimistic. Consider, for example, construction employment at the biggest structure ever built in New England, the \$800 million Boston Convention & Exhibition Center, which opened in 2004. Even at the peak of construction, no more than 3,000 construction workers were on site, according to Massachusetts Convention Center Authority Executive Director James Rooney. Mohegan Sun's planned \$740 million, 1.4 million square-foot expansion, which includes a 1,000-room hotel, additional casino space, and new restaurant and retail facilities, will employ 1,400 construction workers, according to a November 2006 Mohegan Sun press release.

### PRIMING THE PUMP

Patrick emphasizes that he views his casino plan as part of an overall strategy for economic development, which includes such efforts as his \$1 billion life sciences initiative. He has insisted that the overall economic impact, not simply the revenues the state will realize from casinos, was the main factor behind his decision. This is how he has explained his opposition to licensing racetracks to operate slot machines, which would generate quick revenue for the state but not drive broader economic activity.

Racinos "don't lead to the level of capital investment he thought would be most positive for the Commonwealth," O'Connell says of the governor's thinking. "Our resort casino plan involves a \$3 billion capital investment. That's a lot of jobs and materials you're buying," triggering direct and indirect economic activity.

McGowan, the Boston College researcher, isn't sold on the economic development argument. "I find it amazing that the governor is using the line of the casino industry, which always wants to talk about economic development because it sounds better," he says. "The industry doesn't like to talk about revenue, because it doesn't want the state to view it



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as a cash cow. It wants to see itself as a legitimate form of entertainment that is also a contributor to economic development." But any conversation about casinos in Massachusetts, says McGowan, is ultimately about revenue.

Besides the minimum \$1 billion capital investment per casino required by Patrick's bill and the gross gaming revenues, which the administration pegs at a minimum of \$2 billion from the three casinos, the administration says casinos will generate millions in additional revenue and economic activity from hotels, restaurants, and other amenities. To economists, however, the key measure of economic activity is net gain, not gross numbers. If a casino draws new people to Massachusetts from outside its borders, or if it causes people here to spend money they would not otherwise spend, the casinos are in the economic plus column. But if the money going to casinos would otherwise be spent at other businesses in the area, it does not represent new net economic activity. Fears of such a "substitution effect" are why, for example, the Massachusetts Restaurant Association has come out strongly against the casino plan.

Like much else in the debate over casinos, the extent of any substitution effect is hotly contested. Virtually every major study, however, agrees that such an effect is most pronounced in an area, such as Boston, with a healthy economy. Casinos can stimulate depressed economies, said the National Gambling Impact Study Commission in its 1999 report, but "a significant danger [is] posed by the continuing expansion of legalized gambling into places where the economy is already prospering... Not only are the net benefits in these new areas low, but the benefits to other, more deserving places are diminished, due to the new competition."

While Patrick has wavered in his comments about locating a casino in Boston, one person whose position has been unambiguous is Menino, who has come out strongly in support of a casino at the Suffolk Downs racetrack in East Boston. Such a facility, however, could compete not just with restaurant and entertainment businesses in the area, but with one of the mayor's own legacy projects—the South Boston convention center. "I don't necessarily see a casino venue as a need-to-have for purposes of attracting more events or people to Boston," says Rooney, the convention center executive director. "And if a new casino is built to compete head-to-head for meetings and conventions, it would fly in the face of a strategy of many years to grow our convention business through the new center, in which we have invested \$850 million."

If Patrick truly wants "this semi-dream of economic development, you don't put a casino in Boston," says McGowan, the BC researcher. "A tourist visiting Boston isn't going to say, 'I can't wait to go to a casino.'"

Harrah's Loveman thinks that talk of the substitution effect is overstated. A new casino would compete with local business, he says, as does "any new entertainment or retail-oriented facility when it arrives in an area. But just look at

major cities that have casinos,” he says. “Sydney, London, Berlin, Paris, Hong Kong—I know of no case where anyone feels there has been a damaging substitution effect.”

### CASH CALF?

Though the administration carried out no independent analysis of the economics of its casino proposal, McGee says it did some “internal modeling” and has other material that it has not released because “we are still in policy formation.” The thick pile of reports and other information made public, he says, “is just a small part of what we looked at. When there is a hearing, there will be a very robust backup to these numbers. It’s not as if the governor made an ill-informed decision. We knew what we were doing.”

“But the idea that we are going to make available everything that supports this [proposal] is not good policy and good politics,” he says. “If you were talking to people who know this business and they said these numbers are whacked, I’d be concerned.”

He doesn’t exactly use that term, but Michael Widmer, president of the Massachusetts Taxpayers Foundation, a business-funded watchdog group, says the governor’s projections that three casinos will net \$400 million a year in revenue to the state “are significantly off.” In October, the foundation released its own analysis of Patrick’s casino revenue projections. “It quickly became apparent that the administration had not vetted Barrow’s numbers and simply put forward his conclusions as its own,” says Widmer. “There is much too much at stake to inflate numbers and promised benefits, but our analysis concludes unequivocally that that is what they have done in terms of revenues.”

Among other things, the foundation’s report said Patrick failed to properly consider the potential of market saturation due to new casino capacity coming on line across New England. As for market demand, the administration accepted Barrow’s analysis that New England has \$1.5 billion in unmet gaming demand and that Massachusetts gamblers spend \$1.1 billion a year gambling in Rhode Island and Connecticut. “Combining these two elements creates a \$2.6 billion revenue opportunity for Massachusetts casinos,” said the MTF report. “If the administration is to reach its goal of \$2.05 billion [in gross gaming revenues], Massachusetts casinos must capture nearly 80 percent of the estimated \$2.6 billion, an enormous task made all the more difficult as it would take five years before Massachusetts casinos become fully operational.”

MTF concluded that nearly one-third of casino revenues would be needed just to compensate the state Lottery for any fall-off in sales that casinos would cause, as required by Patrick’s bill. Additional revenue would be earmarked to pay for programs for problem gamblers, “mitigation” of local public safety needs, and other costs. The report’s bottom



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line: Rather than generating \$400 million in net revenue to be divided between transportation infrastructure needs and property tax relief, the casino plan would generate roughly \$200 to \$300 million per year, depending on which assumptions are used. That would mean \$100 to \$150 million for transportation spending—far short of the \$400 million a year for transportation needs that would come from the 11.5 cent gas tax increase proposed last year by a state Transportation Finance Commission on which Widmer served.

The administration dismisses the MTF report as off-base and says it seems to be driven largely by Widmer's support for an increase in the state's gas tax, something Patrick has opposed. "That MTF document was, in my opinion, a case for increasing the gas tax," says O'Connell. But with no detailed revenue analysis of its own, the administration has offered no direct, point-by-point rebuttal of the group's report.

In the wake of such criticism of its projections, the administration began voicing support for an independent analysis of the casino proposal. In early December, the Greater Boston Chamber of Commerce announced that it had hired a consulting firm to conduct "an independent, data-based study of the impact that three resort-style casinos may have on the Commonwealth," including social and economic implications. The report is due early this year.

A few weeks later, at the December 18 hearing on casino revenues, O'Connell announced that his office would issue a request for proposals in January to conduct "an independent review" of the fiscal and economic projections put forward in the governor's casino proposal.

#### BUYER BEWARE

The purpose of the governor's earlier study group, says O'Connell, was to inform, not shape or direct, Patrick's casino decision. For that, the governor could also have looked to his secretary of public safety, Kevin Burke, who in 2002 chaired then-Gov. Jane Swift's Commission to Study the Potential Expansion of Legalized Gaming. While that commission's 118-page report generally supported the view that there are net economic benefits to the state from casino gambling, it also offered this caution: "Quantifying the economic development potential of expanded gambling is a complex project...and predictions done before development are notoriously inaccurate."

Though Patrick challenged the Legislature back in October to do its homework on the casino plan, one of the leading players in the consideration of the casino bill will be someone who claims to have already done a lot of home-



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work, due diligence that has convinced him of the folly of chasing casino dollars. With the Senate appearing supportive of casinos, all eyes are on the House, where Speaker Sal DiMasi is skeptical—and where Dan Bosley, chairman of the committee that will review the bill, looms as the chamber's most vociferous opponent of casino gambling.

As much as he has studied the issue over the years, Bosley, a North Adams Democrat who is the House chairman of the economic development committee, says the answer he keeps coming up with is that casinos don't deliver the economic benefits promised by the industry. "The other side has an easy story to tell," says Bosley. "People like to gamble. We're losing money to Connecticut. So let's have our own casinos. I'm not anti-gambling, and any state with as much lottery revenue as Massachusetts loses any claim to moral authority. But we're supposed to be the independent arbiters of public policy, and I've been trying for 11 years to figure out where I'm wrong on this thing."

When his committee takes up the bill, Bosley will no doubt test Patrick's numbers. Some casino effects, however, are harder to quantify. "Not only is what we're going to make from casinos always exaggerated, but the costs are never put into the equation," says Sen. Susan Tucker, an Andover Democrat who says the damage that will be done to families from

increases in compulsive gambling makes casinos bad state policy. "How can you consider something as economic development when even the governor agrees that 2 percent [of gambling revenues] must be set aside for the social havoc that will be wrought on the Commonwealth?"

Patrick and Bosley both agree that casinos are far less important to the state's long-term fortunes than expanding jobs in the knowledge economy. "In terms of importance to the economy, casinos lag behind such things as trying to revamp the life sciences industry," says Bosley. "But it ranks number one in terms of time consumption, both for us and the governor. It just sucks the oxygen out of matters involving true economic policy."

Economic claims about casinos should be viewed cautiously, says Thomas Garrett, assistant vice president of the Federal Reserve Bank of St. Louis and author of several papers about the economics of casino gambling. "I'm a little dubious of these grand projections about the effects of casinos on economic growth and revenues to government, especially when the industry hasn't really been established in the state," he says. "The effects of these casinos won't be seen for years, but politicians tend to have short political lives. It's easier to amplify the benefits now and worry about the costs later." **CW**

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