



FEDERAL RESERVE BANK *of* ST. LOUIS

CENTRAL to AMERICA'S ECONOMY™

P.O. Box 442
St. Louis, MO 63166
www.stlouisfed.org

Smoking Ban Affects Casinos

Transcript of video interview that was posted to the Fed's web site Aug. 14, 2009

Hello. I'm Al Stamborski from the Public Affairs Department of the Federal Reserve Bank of St. Louis. I'm here today with Tom Garrett, one of the economists from our Research division. Tom recently wrote an article for one of the bank's publications, *The Regional Economist*. In this article, he focused on the impact of Illinois' recent smoking ban on casino revenue.

Al Stamborski: Tom, what was the reason for investigating the impact of the smoking ban that went into effect in Illinois last year? Given that smoking bans have been around for years, what prompted you to do research on this now?

Tom Garrett: Well, tax revenue from casino gaming has been a growing part of state budget revenues over the time, or last couple years, and for local governments it often constitutes a significant portion of their revenue. For example, over in East St. Louis, the Casino Queen provides over half the city's revenue. So, given the importance of this revenue to local governments and state government over time, we decided to take a look at the impact of the smoking ban on Illinois gaming revenues. Another reason was Illinois was the first state to ban smoking in commercial casinos. So, as this was the first example in the United States, we thought it was worthy of further study.

Al Stamborski: What did your research show?

Tom Garrett: Our research was the first to actually look at two effects of the smoking ban: one, the impact on casino revenues, and the other looking at casino attendance. Our idea, our thought, was more of, well, you could have the same number of people going to the casino, but play less as they go outside for smoking breaks. On the other hand, the ban may prevent people from going to the casino at all. So, we kind of decomposed these two effects to look at the revenue effect and the attendance effect. What we found was that, in terms of the revenues, about a 20 percent decline in casino gaming revenues for 2008. That's about \$400 million for the state of Illinois or for the casinos in the state of Illinois. In terms of attendance, attendance was down about 9-13 percent based on our estimates. So, combining those two results, basically attendance was down, but not by as much as revenues; so, fewer people did go to the casinos, but it wasn't a complete shutout, if you will. People still, you know, who smoke go to the casino, but then did gamble less. In terms of tax revenues, totaling the state government tax revenue losses and the local government tax revenue losses for 2008 came to about \$200 million for the state of Illinois; both the local governments in Illinois who get the money from the riverboats and the state government was about a \$200 million loss in 2008.

Al Stamborski: OK. Now, you're talking about casino revenue. What about casino profits? How did the ban affect those?

Tom Garrett: Well, we don't have actual data on profits. Generally profits are revenues minus costs, and that's a pretty simple equation, but it depends on an accounting basis how you consider revenues, what you consider costs. So, we don't actually have data on the profits of the casinos. However, we do know that the profit margins for casinos are relatively low; so, given that revenues were down 20 percent, there was certainly some reduction of casino profits as a result of this ban, but again we don't have any numbers on profits for the casinos.

Al Stamborski: All right. Why should anyone who doesn't patronize casinos care at all about this issue?

Tom Garrett: Well, I think, you know, the casinos are promoted to the public. You know, when a state's thinking about bringing in casinos, that the money will be earmarked for something such as education, and everyone cares about education. And the idea that, you know, as the previous number I gave, a \$200 million loss for local governments and the state government of Illinois, for people who care about education this represents, I think, a significant loss in revenues for, in this case, for Illinois education. And the other thing is these aren't small industries, and the overall employment numbers are in the tens of thousands for the state of Illinois; so, as revenues go down, you're going to see some job losses and things like that. And for local communities that rely on these casinos for both employment and tax revenue can take a big hit in terms of the effects of the smoking ban.

Al Stamborski: What about the net benefits to society of these bans? If they result in fewer cases of lung disease and the like, aren't the losses in tax revenue offset by the savings in health care, and isn't this an argument of critics of your research?

Tom Garrett: Well, I think that the critics, and we've had some, have to read the article again. Our study is not a cost benefit analysis of the smoking ban. We look at one aspect or one cause of the smoking ban, and that's the decrease in revenues and attendance as a result of the ban. We argue in the paper that this one component, these revenues losses, that certainly is a cost of the ban. There are certainly benefits like you cited, the health benefits. We don't estimate those. I don't know how you would estimate the health benefits of the smoking ban. But what we argue in the paper is that our one component or what we find should be taken together with all the other costs and all the other benefits, which will lead to other researchers to come up with, to form an overall opinion as to what are the net costs and benefits of the smoking ban. So, we certainly don't say "Well, because revenues are down, the ban is bad" because we just have this loss in revenues. There are certainly these upsides of having a smoking ban, such as the health benefits to not only the patrons, but the employees. So, those aspects along with our results should be taken together, weighed to formulate an overall opinion as to what the net societal benefit or cost is of the smoking ban.

Al Stamborski: Aren't there studies that show smoking bans actually boost business and profits at many bars and restaurants? If so, are these results necessarily in conflict with your findings? In other words, what are we non-economists to make of this seeming conflict?

Tom Garrett: There are some studies in the public health literature that show a positive impact of a smoking ban on bars and restaurants. However, their statistical methodologies are not very rigorous, and the results are less than convincing. Most of the results out there that, you know, have some statistical weight actually either find that there is a negative effect of a smoking ban on bars and

restaurants or no effect. There's not a lot of evidence out there, strong evidence, that suggests that smoking bans actually have a positive impact on revenues for bars and restaurants. The other issue with the bars and restaurants, it's really hard in terms of getting data on, really what you want is data on a specific restaurant and a specific bar before the ban and after the ban, but what happens is because you can't get specific data you use city data on tax collections or something like that. The benefit of looking at casinos is that you have detailed data, revenue data, for individual casinos both before the ban and after the ban; so it's really easy, or it's easier, to track the impacts of the bans because you have this series of data and you know right here is when the ban happened. So, you can look at what happened to revenues before the ban or after the ban; so, in that sense, looking at the casino industry or in individual casinos to assess the impact of the ban I think is actually easier than looking at the effect on bars and restaurants just because that data is kind of aggregated to say a city level or something like that.

Al Stamborski: All right. What else would you like the public in general or policymakers in particular to consider as more and more communities consider smoking bans?

Tom Garrett: I guess the one thing I would like the public to take away from this, not just our study, but in general is that every public policy has costs and benefits. Some of those are intended, and some of those are unintended. In terms of the smoking ban, as you mentioned earlier there are certainly the costs, which would be the revenue losses and possible employment losses to the casinos, but on the other hand you have the health benefits. I think what we hope to do with our study is, at least in terms of the revenue aspect, really come up with a solid piece of empirical work that documents

“OK, this is what happened in Illinois when they implemented this type of smoking ban.” It was a very complete smoking ban, no smoking at all in casinos. And we leave it, again, up to others, in the public health literature or other economists, to quantify, say the health benefits side of this, and again, those two things taken together I think would give an overall, overall give whether it's a plus or minus, if the ban is a plus or minus overall, but I think, you know, it's the responsibility of the citizens to be well-informed. I think information is a very valuable commodity, and we hope that through this study that we're actually providing the citizenry and some public officials some worthwhile information on which to base their decisions.

Al Stamborski: All right. Thanks Tom. To read Tom's article in *The Regional Economist*, visit our web site at www.stlouisfed.org and click on “Publications” and then “*The Regional Economist*.” The article appeared in the July 2009 issue.