

## Illustration 13.2

### Competition in Riverboat Gambling: A Case of Fool's Gold\*

Nobody remembers exactly which state governor first cried, "There's gold in them thar casinos," but most everyone now sees that the 1980s ushered in its own brand of gold fever. With government revenues falling in many states nationwide, many governors and state legislatures decided to legalize gambling—casinos, black-jack and poker parlors, state lotteries, and riverboats. Yes, even riverboat gambling is making a comeback on the Mississippi.

Desperate for jobs and tax revenues after a decade that witnessed a collapse in farming and manufacturing, Iowa Governor Terry Branstad decided it was time for Iowa to jump into the newly reborn market for gambling. In April 1991, the first excursion boats with casino gambling began paddling their way up the Mississippi River. Branstad has assured Iowans that gambling will bring prosperity without decadence. This promise is based on the strict limits that Iowa law places on how much gamblers can bet and how much they can lose. Governor Branstad promised to "protect the integrity of the state."

The dream of revitalizing the Iowa economy with revenues generated from casino gambling, particularly by tourists, is not likely to pan out. With unrestricted entry into riverboat gambling, many other state governors are now looking at the profits to be had from riverboat gambling. Just across the river, for example, Illinois politicians recently passed their own law legalizing riverboat gambling. In contrast to the Iowa law, the Illinois law places no limits on wagering. It appears that the entry of this new rival, with a gambling product more in tune with the desires of gamblers, will substantially reduce demand for Iowa's floating casinos. Governor Branstad of Iowa is going to have a tough time keeping limits on wagering when new entrants do not.

Just when Illinois politicians thought they were seeing gold, Mississippi's governor decided to launch a fleet of gambling boats. Worse still, Missouri, Wisconsin, Louisiana, Pennsylvania, and Minnesota are now considering riverboat gambling.

Yes, it appears the governors have been panning for fool's gold. Just as the theory of perfect competition predicts, profits lure new firms until firms earn only a normal rate of return. The economic truth about gambling is that entry is unrestricted when the competitors are the state legislatures themselves. As theory would predict: "The more gambling outlets there are, the less good they do in revitalizing down-trodden communities and helping state and local governments pay their bills."

It is interesting to note that even landlocked states are beginning to enter the gambling industry. In the fall of 1990, Colorado voted to allow \$5-a-hand black-jack and poker, just as South Dakota had done in 1988. South Dakota is now contemplating boosting its limit to \$100-a-hand to retaliate. Even Indian tribes have gold fever. Congress, in 1988, began allowing casino gambling on reservations.

With all this competition and relatively easy entry, William Eadington, an economics professor at the University of Nevada in Reno, predicts casino gambling will be available everywhere in the United States in the next 30 years. It appears that casino gambling is

another market where the theory of perfect competition works rather well in explaining and predicting market behavior.

\* "The Fool's Gold in Gambling," Paul Glastris and Andrew Bates, *US News & World Report*, April 1, 1991.