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American Indian Culture and Research Journal

Title

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Permalink

<https://escholarship.org/uc/item/73r9m4cz>

Journal

American Indian Culture and Research Journal , 19(1)

ISSN

0161-6463

Author

Cozzetto, Don A.

Publication Date

1995

DOI

10.17953

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The Economic and Social Implications of Indian Gaming: The Case of Minnesota

DON A. COZZETTO

INTRODUCTION

Economic and social problems on Indian reservations in the United States and in other countries are well documented. Hundreds of reports generated by government entities, private research firms, and Indian groups provide a detailed litany concerning poverty, alcohol and drug abuse, juvenile delinquency, inordinately high crime rates, inadequate educational facilities, and a myriad of other problems. Tribal governments continue to press for change and greater Indian self-determination in an effort to deal effectively with the problems confronting their people. The argument, of course, is that tribes are sovereign entities and, by definition, are responsible for their own affairs without interference from other governments. Self-determination—the ability to determine one's own destiny—is a central component of sovereignty. The passage of the 1988 Indian Gaming Regulatory Act (IGRA) is viewed by some as one vehicle whereby at least a small amount of self-determination can be realized. Others argue, however, that federal legislation permitting gaming on reservations amounts to yet another intrusion into tribal sovereignty.

Don A. Cozzetto is an associate professor and director of graduate programs in the Department of Political Science at the University of North Dakota.

Many Indian groups vociferously argue that the IGRA represents what they call a "new economic buffalo" for tribes. They contend that the act provides Indian tribes with the catalyst that they need to rid themselves of paternalistic and ineffective policies implemented by government agencies such as the Bureau of Indian Affairs.¹ Moreover, tribal leaders equate the massive revenues generated from casino operations with native empowerment. Indian leader Bill Means directs a program to train Indian blackjack dealers, thereby providing expanded employment opportunities for Indians.² A number of tribes have invested a significant portion of casino profits in the tribal infrastructure in an attempt to address economic and social problems. For example, in April 1994, Leonard Prescott, the chief executive officer of the Little Six casino in Mystic Lake, Minnesota, revealed that \$70 million in casino profits had been distributed to the 150 members of the Shakope Mdewakanton Dakota band—a staggering \$500,000 for every man, woman, and child.³ The Prairie Island Sioux tribe, which owns the Treasure Island casino in Red Wing, pays its members between \$1,500 and \$3,500 per month, and the Lower Sioux tribe in Morton, Minnesota pays \$2,000 per month to tribal members.⁴ Indian entrepreneurs have established hundreds of new businesses ranging from tourism firms to oil and gas development corporations, and a new trade company called the Indian Business Association represents more than five thousand Indian businesses.

Educational opportunities for Indians have also been improved as a result of revenues from gaming. There are now twenty-six tribal colleges across the country, some of which offer four-year and graduate degree programs. The demand for Indian college graduates will increase as more and more responsibilities are transferred from the BIA to tribal governments.

Cherokee Nation Chief Wilma Mankiller explains that Indians realize that federal resources are going to continue to diminish and that, if Indians want to see economic growth on reservations, they will have to take the initiative themselves.⁵ Executive director of the national Indian Gaming Association, Tim Wapato, comments, "Gaming is the one thing that's worked in 200 years of Federal Indian policy."⁶

The national prominence of tribal casinos has also given Indian leaders potential political clout, especially with the federal government. The recent meeting between President Clinton and 542 native leaders from across the country highlights this point. Tribal leaders were able to secure commitments from the president to

work toward increased Indian self-government. Time will tell whether these commitments will translate into specific policies.

State governments in Florida, North Dakota, and Minnesota, on the other hand, are exerting increasing pressure on Congress to amend the 1988 act and place additional regulations on tribal gaming. The governors of these states are demanding a right to veto certain tribal ventures, such as land acquisition, while others are calling for a moratorium on the construction of additional casinos.⁷ Interestingly, however, these same governments would love to negotiate revenue-sharing agreements with tribes to raise much-needed state funds through means other than increased income or sales taxes. Gerald Vizenor's comments concerning bingo operations capture the essence of the debate between state officials and Indian leaders and are equally applicable to casinos. He writes,

Several states have argued in favor of some control over bingo, while tribal governments argue against state regulations; their arguments are based on tribal sovereignty. On the one hand, bingo profits have rescued tribal programs and services at a time when federal funds have been reduced; on the other hand, state governments are concerned that high-stakes reservation bingo is an invitation to organized crime and that the tribes will open casinos, horse racing, and other gambling operations.⁸

This paper provides an overview of some of the important issues at the heart of gambling on Indian reservations in the state of Minnesota. It attempts to provide balanced analysis based on evidence gathered by both Indian and non-Indian interests. Some of the state's casinos have now been in existence for six years, and enough primary data exist to facilitate preliminary analysis. It is important that a number of issues, both economic and social, be raised because they warrant serious consideration and careful study in the coming years as more evidence emerges concerning both the positive and negative aspects of tribal gaming. Using the Minnesota experience as a guide, this paper attempts to provide some insights that may be of use in other areas of the nation as the prominent policy issue of tribal gaming continues to grow.

BACKGROUND

The issue of gambling on Indian reservations was brought to national prominence by two 1982 court cases.⁹ Congressional

testimony on the proposed IGRA began as early as 1984, and an elaborate process evolved until the act's passage four years later. The 1987 Supreme Court decision in the *Cabazon* case also helped set the stage for the growth in the numbers of tribal gaming operations. The case involved the rights of the Cabazon Band of Mission Indians in California to conduct gambling on their reservation. The band claimed that they had sovereign jurisdiction on tribal lands, but the state of California and Riverside County attempted to regulate this activity. In rejecting the claim of the state and county, the court reaffirmed the principle of Indian sovereignty and upheld the right of Native Americans to conduct gambling in states where gaming was already legal.

The 1988 IGRA established three classes of gaming. The act reads as follows:

The term "class I gaming" means social games solely for prizes of minimal value or traditional forms of Indian Gaming

The term "class II gaming" means-the game of chance commonly known as bingo . . . pull tabs, lotto, punch boards, tip jars, instant bingo, and other games similar to bingo

The term "class III gaming" means all forms of gaming that are not class I gaming or class II gaming¹⁰

Class III, the area fueling the current controversy, concerns slot machines, video gaming, blackjack, and baccarat. The IGRA requires that tribes negotiate compacts with state governments and provides for litigation when states refuse to negotiate in good faith.¹¹

Indian gaming was legalized in Minnesota in 1982. Table 1 provides a chronology of the main events as gaming developed in that state.

Table 1

1945	Bingo legalized
1981	Pull-tabs legalized
1982	Indian gaming legalized
1988	IGRA passed by Congress.
1989	Compact negotiations begin with tribal governments
1992	16 tribal casinos operating in Minnesota

Source: Minnesota Department of Planning.

ECONOMIC FACTORS

In the past five years, revenues from Indian gaming operations have grown exponentially. Nationwide, total revenues from Indian gaming in 1995 are projected to eclipse the \$6 billion mark, and total profits will exceed \$1 billion. In Minnesota, revenues have increased from \$173 million in 1991 to more than \$500 million in 1994. The annual impact on the state's gross domestic product is estimated at \$1.5 billion.¹²

Minnesota currently has sixteen tribal casinos, and more are in the planning phase.¹³ Casino employment exceeds 10,000 individuals and is projected to continue to grow to beyond 17,000 by 1996 as the new casinos are added. Secondary job creation in the service sector is estimated at 32,700.¹⁴ Although the majority of the jobs are still held by non-Indians, the situation is improving as new training initiatives are developed. Some of the casinos have already attained Indian employment rates of between 70 and 100 percent. Another positive economic indicator is that, while Aid to Families with Dependent Children (AFDC) payments increased statewide in 1992 for all other groups in the state, payments to Indians declined.¹⁵

These economic indicators are indeed impressive. Employment continues to rise while welfare payments decline; tribes are investing in reservation infrastructure such as education and on-the-job training programs; some tribes are diversifying their portfolios through the acquisition of other business interests; and, as mentioned above, some return dividend payments directly to band members.¹⁶

But what about the economic costs? State senator Charles A. Berg succinctly summed up the situation in Minnesota when he said, "Gambling can mean development, tourism, and profits; but it can also mean broken homes, empty bank accounts, and jealousy from those who do not profit."¹⁷

One troublesome component of tying economic development to gaming is market saturation. How many more casinos can the market support? Surely, with gambling, as with any other economic activity, the laws of supply-and-demand govern profits and losses and ultimately economic survival. The problem is that it is difficult to predict a market saturation point, because class III Indian gaming in Minnesota is relatively new. What we do know, however, is that states such as New Jersey, which has allowed this type of gambling since the 1930s, have seen a decline in revenues

over the past few years. In addition, certain types of gambling, such as betting at horse races, have declined dramatically. A related issue is the increased competition that Indian tribes in Minnesota will experience from private-sector entities operating riverboat casinos in neighboring states such as Illinois and proposals to construct mega-casinos in locations such as Chicago. In other words, the geographic location of competitors could be an important variable impacting Minnesota's Indian gaming operations.

The *New York Times* reported that animosities are beginning to surface as more and more tribes compete with each other for the elusive gambling dollar. Moreover, some Minnesota tribes such as the Lower Sioux have experienced sharp declines in profits from gaming operations, while others have entered into management agreements where most of the profits have gone to non-Indian interests.¹⁸

A second major area for concern relates to an emerging and, for some, frightening twist on gaming operations—the video lottery terminal (VLT). In the 1992 elections, twelve states approved the installation of VLTs in public facilities such as bars and liquor stores. This provides for instant public access to video terminals for wagering on different games such as poker. In Minnesota, VLTs have been the subject of great debate. Non-Indian interests are pressuring their state legislators to approve VLTs to allow private interests to compete with the Indian casinos. These private entities claim that their businesses are being seriously hurt by the migration of potential customers to the casinos. Although this contention is difficult to support empirically, studies show that bankruptcy rates in the non-Indian business sector in Minnesota have been higher than the national average since 1984 and have grown from eight thousand in 1986 to eighteen thousand in 1991.¹⁹ Whether this increase is related to the migration of dollars to the casinos remains to be seen. If this lobbying effort is successful, an additional twelve thousand gambling outlets would be available in Minnesota! The question becomes, Why would an individual travel from Minneapolis to the Jackpot Junction Casino in Morton, Minnesota if that person could gamble on virtually any street corner in the Twin Cities?

Some existing research from adjacent states suggests that the VLT issue can indeed be damaging to casino operations. In an interesting study concerning VLTs, Professor Nelson Rose predicts that, in South Dakota, VLTs will destroy Indian casinos

within three years. He estimates that state revenues from gambling will increase from \$7 million per year to \$50 million per year, \$45 million of which will come from VLTs.²⁰ If his prediction is accurate, tribes will be left holding the bag on hundreds of millions of dollars in capital infrastructure, and Indian groups will again feel betrayed by the interests of the dominant nonnative society.

A third important aspect of the economic considerations surrounding Indian gaming in Minnesota is venture capital provided to construct the casinos and the related infrastructure such as hotels and restaurants. In Minnesota, at least, commercial banks are reluctant to provide the necessary starting capital, because the sovereign nature of Indian tribes precludes the bank from foreclosing in the event of a default. Although some banks would like to get in on the windfall profits, they tend to approach this issue from a very conservative perspective.²¹ The lack of conventional venture capital forces many tribes to seek private consortiums or groups of wealthy citizens to bankroll the operation. Tim Giago laments that this represents yet another form of white oppression of native people. Several tribes signed long-term contracts with these investment groups, only to find later that they were being manipulated. Giago writes,

Those investors didn't put up the money because they loved Indians Even after the tribes gained the expertise to run their own casinos, they soon discovered that they were locked into iron-clad contracts. Many ended up in costly litigation trying to break free of investors.²²

Related issues are increased government regulation of Indian casinos and the potential for infiltration by organized crime. Although no data exist to indicate that criminal elements are present in Minnesota, the current regulatory structure makes it virtually impossible to identify the entities that are investing in tribal casinos.

The positive economic indicators of tribal gaming are overwhelming. Tribes are investing in education, alcohol and drug treatment programs, and housing for tribal members; at the same time, welfare payments to Indians are declining. Some Indian leaders point to their successful casino operations and proclaim a new era of native empowerment. Others become defensive when some of the negative factors are raised. In any case, tribal

leaders deserve tremendous praise for their efforts, but they need to consider some of the potentially negative consequences described above.

SOCIAL FACTORS

Some of the positive aspects of tribal gaming also impact the social fabric of reservation life. Job creation and increased education and training opportunities are two examples. Indeed, the creation of additional employment opportunities, both direct and indirect, has captured the interest of a number of rural newspapers in Minnesota. It is the hottest topic of conversation in many of the smaller communities located adjacent to casinos.²³ Many of the state's tribes have invested in the social infrastructure by establishing college scholarship funds, building child care centers, and implementing comprehensive health and dental plans for band members; the Mille Lacs Chippewa are constructing a new school, a health center, and a housing development; and the Fond du Lac Chippewa developed and implemented elderly nutrition and youth drug treatment programs.²⁴

On the negative side, the major social question is, Is there a correlation between changes in pathological gambling activity and the growth in the number of tribal casinos in the state of Minnesota? Pathological gambling is defined as compulsive gambling behavior that is beyond the control of the individual. Just as alcoholics and drug addicts require professional treatment, so, too, do those individuals who are "hooked" on gambling. Primary data on the numbers of individuals claiming to be pathological gamblers were obtained with the cooperation of the Minnesota Institute of Public Health.²⁵ Over the past three years, the number of individuals calling the compulsive gambling hotline seeking assistance for addiction has increased dramatically. The numbers also indicate that there is a more negative impact on women and individuals eighteen to twenty years of age. All of Minnesota's compulsive gambling treatment centers are full, and the state is considering allocating additional resources to meet the demand for treatment.

Several field studies support the fact that the number of compulsive gamblers in Minnesota is increasing in comparison to national trends. Winters's and Stinchfield's study of gambling behavior among Minnesota youth showed that compulsive gam-

bling increased from 2.9 percent in 1990 to 3.5 percent in 1991. In a Minnesota study comparing compulsive gambling rates between Indian and non-Indian adolescents between the ages of twelve and nineteen, Zitzow discovered that 14.8 percent of Indian respondents exhibited signs of problematic gambling compared to 10.5 percent of non-Indian respondents, and 9.6 percent of Indians were pathological gamblers compared to 5.6 percent of non-Indians.²⁶ Michael H. McCabe's report to the Midwestern Legislative Conference of the Council of State Governments identifies similar concerns over the social costs of gambling and even raises the ethical implications of state governments' sanctioning of gambling as a revenue tool simply because it is more politically palatable than increasing direct taxes.²⁷

A related issue is, Who pays for providing treatment services for compulsive gamblers: state government, local government, Indian tribes? In Minnesota, the state allocated \$1.4 million during the current biennium to fund six treatment centers for chronic gamblers. All six are at capacity, and there is a waiting list for some services. The Department of Human Services Advisory Committee on Compulsive Gambling predicts that \$5.6 million will be needed next biennium to keep up with public demand for treatment services, a 250 percent increase in funding!

The problem appears to be getting worse. The Minnesota Planning Department reports the following:

Experts believe that the numbers of problem and compulsive gamblers are likely to increase because compulsive behavior generally takes up to five years to develop. Recent studies report that 52 percent of underage youth participate illegally in gambling activities, such as pull tabs, lottery or casino gambling, often with the assistance of their parents.²⁸

Some preliminary evidence suggests that pathological gambling is more prevalent among Indians than non-Indians, although much more research is needed. The Zitzow study detected a significant difference in compulsive gambling rates between Indians and non-Indians. Two studies conducted in the adjacent state of North Dakota corroborate Zitzow's findings. A 1993 study commissioned by the North Dakota Department of Human Services found that 14.5 percent of Native Americans in the sample were compulsive or probable pathological gamblers, compared to 3.5 percent in the general population.²⁹ A study assessing compulsive gambling rates in the Turtle Mountain Chippewa

tribe and the Devils Lake Lakota Sioux tribe revealed pathological rates of 23 percent and 29 percent, respectively.³⁰ Research conducted by Dr. Durand Jacobs, vice president of the U.S. National Council on Problem Gaming, indicates that the prevalence of pathological gambling addiction in the Indian population is two times greater than in the white population. Jacobs also discovered a relationship between alcohol and drug dependency and pathological gambling behavior. One study revealed that 22 percent of Indians being treated for substance addiction were also confirmed gambling addicts, compared to 7 percent in the white population. Jacobs states, "My concern is that this Economic White Buffalo has in its shadow a Trojan Horse."³¹

CULTURAL IMPLICATIONS

Many Indian leaders choose to focus on the economic benefits of tribal gaming and either ignore or dismiss outright the social implications. Some are skeptical about research conducted on the social side of Indian gaming by non-Indian researchers such as Dr. Jacobs. This skepticism is certainly not unfounded, given the poor track record of some researchers in past studies of social problems in the Indian population. The facts show that many Indian tribes have made tremendous inroads toward improving reservation life through the use of gambling revenues, and perhaps these economic benefits do indeed outweigh any social costs associated with gambling addiction. But, as the number of pathological gamblers in Minnesota continues to increase, tribal leaders need to take a proactive role in acknowledging that a problem exists and in providing programs to address the problem.

A recent poll revealed that an overwhelming 82 percent of Minnesotans surveyed believed that Indian casinos should be required to contribute a percentage of their profits toward the treatment of compulsive gamblers.³² Although some casinos voluntarily provide some funding for treatment, the amounts are small when compared to the demand for treatment services.

CONCLUSION

This paper has explored several of the issues related to a relatively new problem impacting the state of Minnesota: the effects of

gaming on Indian reservations. Since the passage of federal legislation in 1988 allowing class III gaming in states where gambling is legal, a number of positive and negative social and economic trends are emerging. In Minnesota, these issues represent one of the dominant components of public policy debate. The positive effects are impressive, as Indian tribes use gambling as a catalyst for economic development, including employment opportunities for band members. On the social side, the dramatic increase in compulsive gambling in both the Indian and non-Indian communities needs to be recognized and addressed.

Given that tribal casinos are a relatively recent addition in states such as Minnesota, one could argue that it is still too soon to assess the negative effects of gaming and to provide treatment programs, because the development of pathological behavior in individuals who gamble takes several years before it is entrenched. It seems ludicrous, however, to wait another five years, hoping to build a database that allows for more scientific analysis, without acknowledging that compulsive gambling behavior is increasing. In five years it may be too late for those individuals who need help now. What is needed is an immediate and dramatic increase in the allocation of resources to provide treatment and to conduct further studies to determine how Indians and non-Indians develop and are affected by pathological gambling behavior. It is incumbent upon both tribal and state governments to cooperate in this regard.

Tribal casinos will continue to be an important part of economic development on reservations, especially where casinos are located close to large metropolitan centers such as Minneapolis. Indian leaders must continue to focus on the positive impacts of gaming revenues on the tribal communities in Minnesota. On the other hand, the state and the tribes need to address the significant and alarming increase in pathological gambling behavior in the state's population. Ignoring the issue will simply exacerbate the problem.

ACKNOWLEDGMENT

This manuscript was completed while I was on a postdoctoral fellowship in minority communities at the Hubert H. Humphrey Institute, University of Minnesota. I am indebted to Dr. Samuel L. Myers, Jr., Roy Wilkins Professor of Human Relations and Social Justice, for his encouragement and support.

NOTES

1. Considerable literature exists concerning paternalism and Indian demands for self-determination. See, for example, Stephen Cornell, *The Return of the Native: American Indian Political Resurgence* (New York: Oxford University Press, 1988); Emma R. Gross, *Contemporary Federal Policy Toward American Indians* (New York: Greenwood Press, 1989); Guy B. Senese, *Self-Determination and the Social Education of Native Americans* (New York: Praeger, 1991); Deloria Vine, Jr., and Clifford M. Lytle, *The Nations Within: The Past and Future of American Indian Sovereignty* (New York: Pantheon Books, 1984).

2. Address by Bill Means at the Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, June 17, 1993.

3. See front page story, *Minneapolis Star Tribune*, 27 April 1994.

4. Ibid.

5. "Economies Come to Life on Indian Reservations," *New York Times*, 3 July 1994.

6. Ibid.

7. See, for example, "Indians, Indian Tribes, and State Government," Minnesota House of Representatives, February 1993.

8. Gerald Vizenor, *Crossbloods: Bone Courts, Bingo, and Other Reports*, 2d ed. (Minneapolis: University of Minnesota Press, 1990), 22-23.

9. See *Seminole Tribe of Florida v. Butterworth* and *The Barona Group of the Capitan Band of Mission Indians, San Diego County, California v. John Duffy, the Sheriff of San Diego County, California*.

10. Indian Gaming Regulatory Act [U.S. Statutes at Large, 102:2467-69,2472,2476], 17 October 1988.

11. Ibid.

12. Information provided by Minnesota Gambling Control Board.

13. *Minnesota Gambling 1993* (St. Paul, MN: Minnesota Planning, May 1993).

14. Minnesota Regional Economic Model, Inc. 1992 projections, Minnesota Department of Tourism.

15. Minnesota Department of Human Services.

16. For some specific examples of investments from gaming revenues, see *High Stakes: Gambling in Minnesota* (St. Paul, MN: Minnesota Planning, March 1992), 41-42.

17. Senator Charles A. Berg, "Gaming and Cities," *Minnesota Cities* (November 1991), 6.

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21. This assertion was substantiated through a discussion with senior executives of Nor West Bank in Minneapolis, July 1993.

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22. Tim Giago, "Gaming Convention Shows Need for More Tribal Participation," *Grand Forks Herald*, 3 July 1993.

23. See, for example, "Casino Gambling Creating Boom in Rural Minnesota," *Lincoln Valley County Journal*, 25 March 1992; "Reports Say Casino Reducing Unemployment, AFDC," *Mille Lacs County Times*, 25 March 1992; "Tribal Casinos among State's Top Employers," *Red Wing Republican-Eagle*, 5 March 1992.

24. *High Stakes: Gambling in Minnesota*.

25. I am indebted to Karwyn Meyer for her assistance in obtaining and coding the data.

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28. *Minnesota Gambling 1993*.

29. Rachel A. Volberg, "Gambling and Problem Gambling among Native Americans in North Dakota" (report to the North Dakota Department of Human Services Division of Mental Health, 23 April 1993).

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