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A Trade Based View on Casino Taxation: Market Conditions

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Abstract

This article presents a trade based theory of casino taxation along with empirical evidence found from Macao as a typical tourism resort. We prove that there is a unique optimum gaming tax in a particular market for casino gambling, argue that any change in this tax is engendered by external demand shifts, and suggest that the economic rent from gambling legalization should be shared through such optimal tax between the public and private sectors. Our work also studies the tradeoff between economic benefits and social costs arising from casino tourism, and provides some policy recommendations for the sustainable development of gaming-led economies. The theoretical arguments in this article turn out to be consistent with empirical observations on Macao realities over the recent decade.

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Notes

1. Social cost arising from problem gambling is divided into two parts. The first part is borne by local society as shown in Fig. 4 while the second part is exported to tourists' home communities. Usually, the first part is much less serious than the second one, and will not be the focal point in our study. While the first part can be remedied by gaming tax financed compensation to local

society, the second part, if too large, may trigger trade partners' retaliation that in turn hurts the local economy and society very badly. Thus public policy in the casino resort must attach great importance to curbing the second part of social cost as discussed below in our paper.

2. In Fig. 6, only the trading origin \(O_{T} \) on the left-hand side is explicitly drawn while the consumption origin \(O_{C} \) on the right-hand side is omitted to make the graph neater.

3. Following the Chow test result, a policy dummy for the intercept or the slopes or both is supposed to be incorporated into new regressions for estimation to be more precise as done in Gu et al. (2013). However, we will not elaborate on estimation along this line since we are interested not in magnitudes of any estimates but only in their signs that are just enough to indicate the applicability of our theoretical assertions to Macao gaming realities.

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