

# **The impact of gambling on social and economic environment in Nova Gorica**

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## **1. Introduction**

Gambling is a key component of the tourist offer in Slovenia. It is a highly value added industry. The average consumption of a gambling guest exceeds by 40 percent the consumption of an average guest in Slovenia (MIT, 2006). In 2003 the industry generated over 263 million Euro, of which 83 percent is accounted for by foreign visitors; in 2006 the total value added of the industry was 234 million Euro, and we have to add to that a GDP multiplier of at least 2.

Nova Gorica is the gambling capital of Slovenia, as 70 percent of Slovenia's gambling income is generated here (STO, 2003). Gambling started in Nova Gorica in 1984 with the first American-type casino in Europe. Since then, a lot has happened. In 2004 casinos and gambling saloons in Nova Gorica were visited by 1,4 millions of visitors, 90 percent of which came from outside of Slovenia (Urad za nadzor iger na srečo, 2005).

There is no doubt that gambling is of an utmost importance as an income generator for both Nova Gorica and Slovenia in general. The open question however is, what is the impact of gambling on the social and economic environment in. In the present paper we try to answer this question. Theoretical and empirical studies (originating mostly in USA) mostly stress the positive sides of gambling, such as lower unemployment, development of tourism, increase in tax income and the benefits player get as their utility increases with the vicinity of a casino.<sup>1</sup> The negative impact of gambling, as described in the literature, comprises increase in criminal activity, increased number of divorces and family breakups, gambling addiction and changed values in the local community.<sup>2</sup>

The present paper describes the first comprehensive study of gambling impacts in Slovenia. It is based on the Grinols (2004) theoretical ideas and classification of social costs and benefits of gambling and uses a similar approach as the National Gambling Impact Study Commission (1999) in the USA. The impact of gambling was assessed by using both primary and secondary data. The primary data consisted of 30 in-depth interviews with local opinion makers and a quantitative survey on 250 inhabitants of Nova Gorica. Secondary data were obtained from different sources – statistical office, statistical yearbooks and the police. The results are limited to the Municipality of Nova Gorica and are not meant as a study of the total

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<sup>1</sup> Grinols and Omorov, 1996; Rayan and Speyrer, 1999; Thompson, 1996; Thompson and Gazel, 1996; Thompson and Quinn, 2000; Hoover and Giarratani, 1984; Walker, 2003.

<sup>2</sup> Giacomassi et al., 2001; Frank et al., 1991; Leisieur and Anderson, 1995.

impact of gambling. The study was done in a very conservative manner, so it is possible that it underestimates the benefits and overestimates the costs. Nevertheless the results show that the Municipality of Nova Gorica has much more benefits from gambling than costs.

This introduction is followed by an overview of theoretical and empirical findings about the impact of gambling. After presenting the methodology the benefits and then the costs of gambling in the Municipality of Nova Gorica are presented. We conclude with some recommendations.

## **2. Theoretical and empirical research on impact of gambling on social and economic environment**

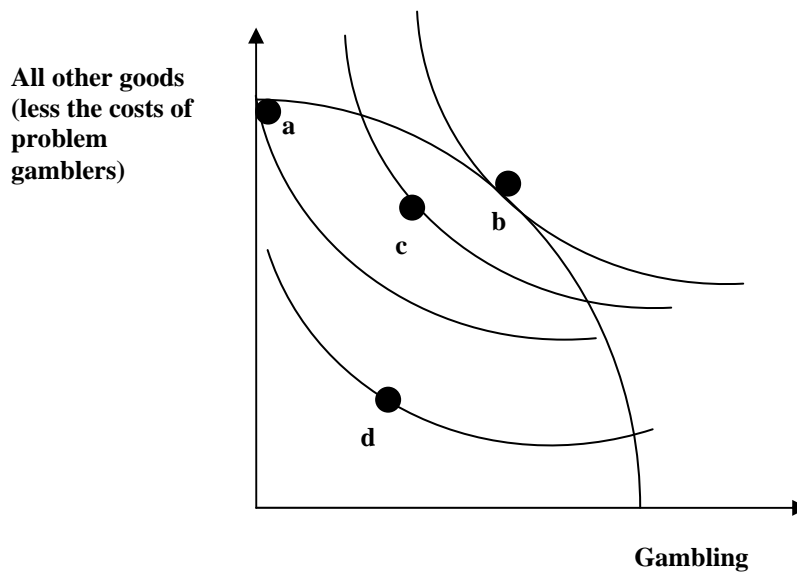
The gambling industry has seen a rapid development in the last 20 years. The rapid growth of the industry was triggered mainly by the legalization of these activities in many countries throughout the world. With the development of the industry two opposing poles have formed – the advocates and the opponents of gambling. The ideas about how does gambling impact the environment are still not fully developed; however, authors mostly agree that gambling usually brings along economic benefits as well as social costs.

As social costs most authors consider the costs that accrue because of problem and pathological gambling (Grinols, 2004, Collins and Lapsley, 2003, Walker, 2003). Research in the USA showed that in the 50 mile (approx. 75 km) radius around a major casino 2,4 percent of the adult population is identified as problem or pathological gamblers (Gerstein et al., 1999). Lesieur (2002) argues that players with a gambling problem spend 17 times as much money as players without a problem, while Grinols (2004) states that income from problem and pathological gamblers represents one third of the total revenue of a casino.

Markandya in Pearce (1989) divide the costs and benefits that gambling brings to a local community into costs and benefits, that accrue to an individual and costs and benefits of the society (*thus; Total costs (benefits) = private costs (benefits) + social costs (benefits)*). Private costs and benefits are the costs that accrue to an individual and are covered by an individual. The social costs on the other hand have to be covered by all members of the society. Let's take an example. We have a pathological gambler that loses all of her belongings in a casino. If she was completely informed of the possible losses, behaves rationally and was able to cover all the costs herself, then all the costs she incurred are her own, private costs. However, since the conditions are often not fulfilled, a major part of the costs of gambling falls onto the society. Private benefits are benefits for an individual, like winnings, satisfaction, higher income, if he works in a casino. Social benefits are benefits for the society, like economic development, higher tax, etc.

Walker and Barnett (1999) and Walker (2003) explain the social costs and benefits of gambling with an economic model using production and indifference curves. The model is shown in Figure 1.

**Figure 1:** Social costs and benefits of gambling



Source: Walker, 2003.

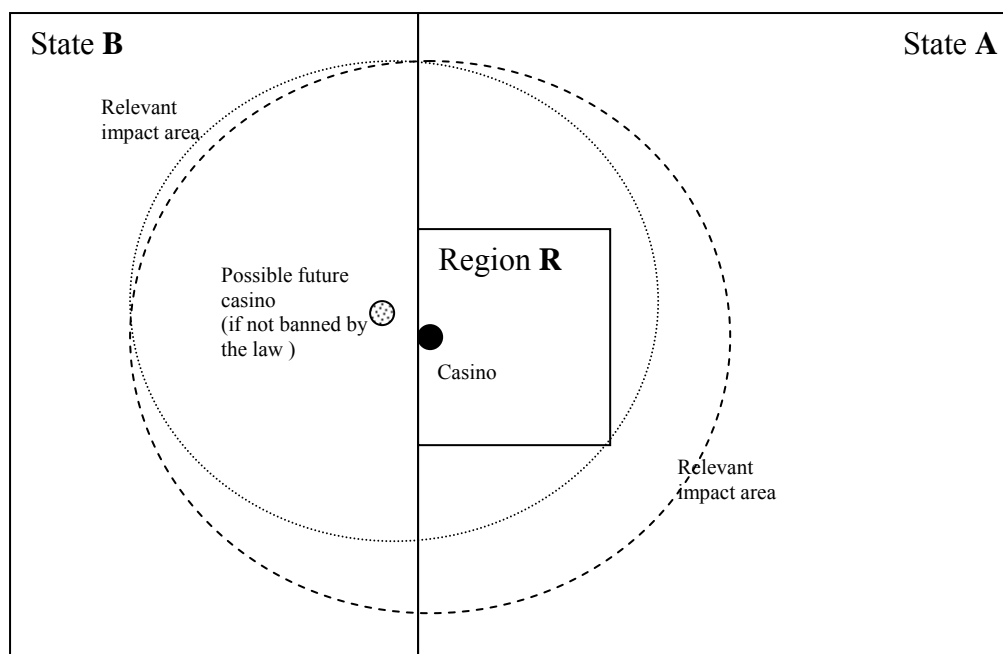
When in point *a* there is no gaming activity in the local community and the population spends all disposable income on other goods<sup>3</sup>. If gambling is legalized we move from point *a* to point *b*. In point *b* there is a different distribution of spending. The population allocates part of the resources that were previously allocated to other goods, to gaming. By doing that they reach a higher indifference curve, i.e. their utility is increased. If they could stay in point *b*, that would make an ideal situation. However, because of problem and pathological gaming and the social costs, connected with it, we move to point *c*. Part of the income is allocated to diminishing the negative impact of gaming, like increasing security, establishing therapy centres, etc. This leaves less resources to spend on gaming and other goods, thus the utility is diminished. The final effect depends on how big the negative impact is. In point *c* the utility is higher than in point *a*, however, one might find himself in point *d*. In this point the social costs of gaming are so high that it would be rational to ban the gaming in order to increase the utility.

When analyzing the impact of gaming one should be aware on the physical (geographic) borders of such an analysis. Let's take for example the situation in Figure 2. In the figure there is a region R lying in country A, that has a casino. Region R is a bordering region, so the casino affects not only the region and part of the country A but also parts of the country B. When region R or country A gives the concession for the casino, the impacts on country B will most probably be disregarded (unless there is a protocol signed between the two countries). Because the (social) benefits are divided between region R and country A, but the (social) costs are incurred by country B as well, it is rational for country B to built a casino itself (there could be other motives beyond rationality that prevent country B to do that). For

<sup>3</sup> We subtract from »other goods« the costs incurred because of the gaming addiction. Author mention costs of police, courts of law and therapy.

an objective analysis it is therefore necessary to take into consideration the whole area from which the gamblers come from. Otherwise, the costs of gaming are underestimated.

**Figure 2:** Relevant impact area of the casino, local and country borders



Source: Adapted from Gringols (2004).

## 2.1. Definition of social costs and economic benefits of gaming

We took the definition of social costs and economic benefits gaming brings for a local community from Grinols (2004). We upgraded the definition with other available literature.

Classification of social costs:

- *Crime* – Criminal activity is mostly connected to problem and pathological gambling and consequent debts. . Grinols (2004) and Walker (2004) connect gaming with different criminal activities, mostly violence (murders, robbery, rape, etc.), property damage (larceny, thievery, etc), economic crime (forgery, fraud, tax evasion, etc) and prostitution.
- *Treatment of problem and pathological gamblers:* NORC (1999) defines the costs of treating problem and pathological gamblers (PPG) in three categories: costs of physical treatment, costs of mental treatment and therapy. Authors estimate that PPG tend to get sick more often than the general population. They also estimate that the costs of mental treatment of a PPG are more or less equal to the costs of treating an alcoholic, the difference is in the probability of getting treated.
- *Family breakups* – The social costs incurred because of family breakups are again connected to the PPG. These costs include divorce costs, social services, etc. Grinols (2004) argues that the divorce rate between PPG is much higher than in general population.

- *Suicides* – Empirical studies show that the suicide rate between PPG is much higher than in the general population (Lesieur, 1992; 1998; Frank in drugi 1991; Lesieur and Anderson, 1995). However, methodologically it is hard to estimate the costs of it, given the difficulties in putting a price on a human's life.
- *Personal bankruptcies* – Grinols (2004) states that personal bankruptcies cause direct costs as well as legal ones. Giacomassi et al. (2001) argue that the bankruptcy rate is connected to gambling. We have to stress however that Slovenia doesn't have the institute of personal bankruptcy.
- *Business costs* – Among business costs because of gaming we find costs that PPG cause with lower productivity and higher absenteeism (Collins in Lapsley, 2003; Grinols, 2004; Lesieur, 1998);
- *Other costs* – Here we find the costs of diminished disposable income of population (Grinols, 2004). Other authors mention the costs of gaming regulation – gaming is often thought as an activity that should be monitored by state and tax authorities. Other costs include increased costs of living, diminished quality of life, etc.

Positive effects of gaming can be divided into the following categories:

- *Economic development* – One of the main arguments for gaming is that gaming has a beneficial influence on economic development. Economic development means an increase in income and welfare that leads to increased utility of all the members of society. The importance of export-oriented gaming is stressed by Grinols and Omorov (1996), Rayan and Speyrer (1999), Thompson (1996), Thompson and Gazel (1996) and Thompson and Quinn (2000). Hoover and Giarratani (1984) and Walker (2003) don't agree and claim that the positive effects of money inflows are often overestimated.
- *Lower unemployment*– Grinols (2004) claims that in the short run casinos have a beneficial effect on economic development, mainly through increased employment. However, there is no evidence that they decrease the unemployment in the long run.
- *Increased profits and taxes* – Besides the profits and taxes of the casinos themselves we have to take account of the nearby businesses. Casinos give business to lots of other companies – their suppliers (also the suppliers of capital, i.e. owners) and thus increase their profits. Consequently are higher also the taxes the state and local authorities collect. The more the business goes to local companies, the better off the local community is. (Grinols, 2004).
- *Benefits of closeness* – The benefits of closeness are greatest when the first casino is opened in a certain area. The benefits accrue to individuals that wish to gamble (see Figure 1; Walker, 2001; Walker and Barnett, 1999; Grinols, 2004).
- *Other benefits* – Other benefits include: promotion of local community (especially in the case of export-oriented gambling), increased real estate values, increased quality of life (higher income, closeness). Increased revenue from tourism is mentioned as a possible benefit (Grinols, 2004; Grinols in Omorov, 1996; Thompson, 1996) .

### **3. Methodology and data**

When computing the social costs and economic benefits of gaming in the Municipality of Nova Gorica we leaned mainly on the classification of costs and benefits proposed by Grinols (2004). The methodology for measuring the impact was adapted from the National Gambling Impact Study Commission (1999) from USA. For studying the impact we used both primary and secondary data.

Secondary data was mainly obtained from the Statistical office of Slovenia (SORS), statistical yearbooks and statistical data bank (<http://www.gov.si/bsp>). To study the crime in the municipality we used the crime statistics data that we got from the General police directorate. We studied the data using the time series and cross-section comparison. In some cases we combined the two approaches. A drawback of the research is that the time series doesn't allow us to compare the data before the first casino was opened. Thus we lean on comparison with other municipalities with and without casinos.

Primary data was gathered through qualitative and quantitative research. For qualitative research we conducted 30 in-depth interviews with local opinion makers and interest groups representatives. We interviewed local politics, representatives of NGO-s, representatives of the casino and gambling saloons, police and others. The interviews were conducted with the held of a structured questionnaire.

Quantitative research data was gathered using a CATI telephone survey. 250 respondents were asked questions on how they see gaming and its impact on the Municipality of Nova Gorica. 56 percent of respondents were from the city, the rest from nearby villages. There were 50 percent of women in the survey, the average age of respondents was 41 years. More than half of the respondents have finished high school, one third more than that. On average they earned 750 Euros per month.

The questionnaire was comprised of several blocks of questions. Most questions were measured on a five point scale. In the analysis we used descriptive statistics as well as some hypothesis testing, namely t-tests and chi-square tests.

The present analysis limits itself on estimating the costs and benefits of gaming the Municipality of Nova Gorica. To get a complete picture we would have to include other parts of Slovenia and also other countries, in particular Italy. The results are however relevant also for future use on estimating the effects of gaming to a limited area with export-oriented gaming facility.

#### **4. Negative impacts of gaming**

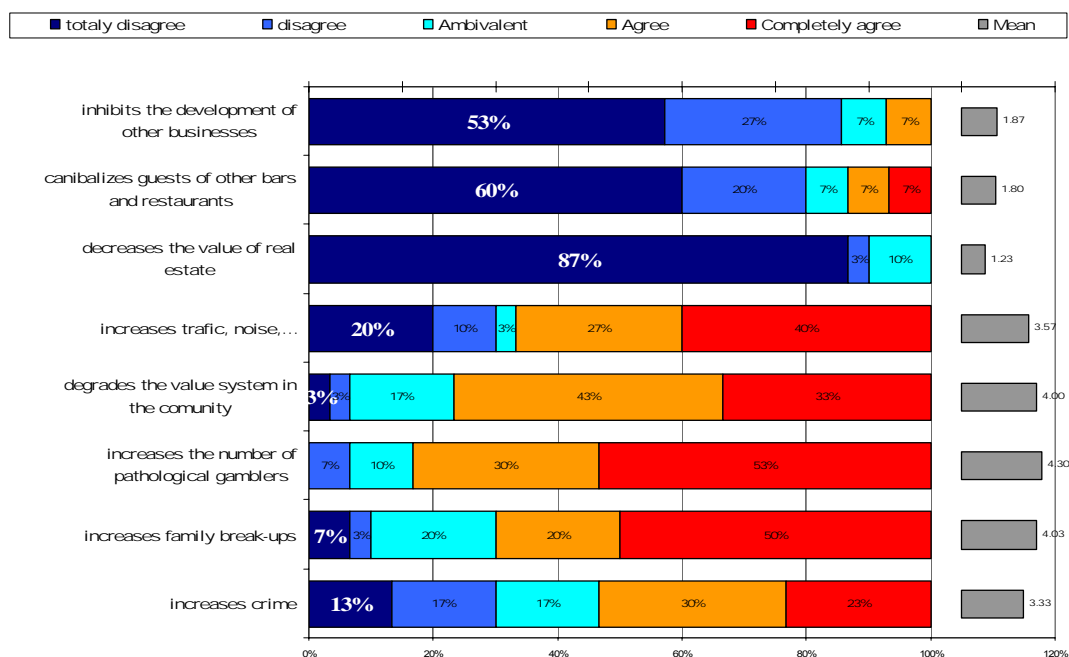
The negative impact or the social costs of gaming are mainly attributed to problem and pathological gamblers (PPG). Since there is no official statistic on the number of PPG in the country or the municipality, it is impossible to estimate the total costs, caused by the PPG. Thus we tried to estimate as best as we could the negative impact using primary and secondary data.

As Figure 3 shows, between 70 and 80 percent of the population agrees that the presence of gaming in the community increased the number of PPG, that the system of values was degraded and that the number of family break-ups increased. We could verify only the family break-up claims by using secondary data (Appendix P7). Although the number of divorces increased in the period, the trend of increase does not exceed the general trend in Slovenia.

The opinions about the impact of gaming on crime differed. Half of the respondents thought that it is the case that gaming increased criminality, where they mentioned larceny, prostitution and traffic in illegal substances. The other half (including representatives of the police) thought that gaming did not increase the crime. The statistical data on crime show an increase in crime per capita, however, this increase is smaller than the average in Slovenia (Figure P5 in Appendix). If we look at different groups of criminal activity we may notice that in almost all groups the number of criminal acts per capita is smaller than in other comparable municipalities (Figure P6 in Appendix). One exception is the drug related crime, which is the second highest in Slovenia. Slightly above average is violence, however murders and sex crime is far below the average. The latter is the type of crime mostly mentioned in the related literature to increase because of the impact of gaming. Based on this data there is no evidence to suggest that gaming had an effect on increased crime in Nova Gorica.

Two thirds of the respondents estimates that there was an increase in traffic and noise in the city because of gaming. They don't think that gaming damages other local businesses and cannibalize guests from local bars and restaurants. They do however mention that it's hard to get employees, since casinos need a lot of labor and they pay better than most other businesses.

**Figure 3:** Perception of negative impact of gaming on the Municipality of Nova Gorica



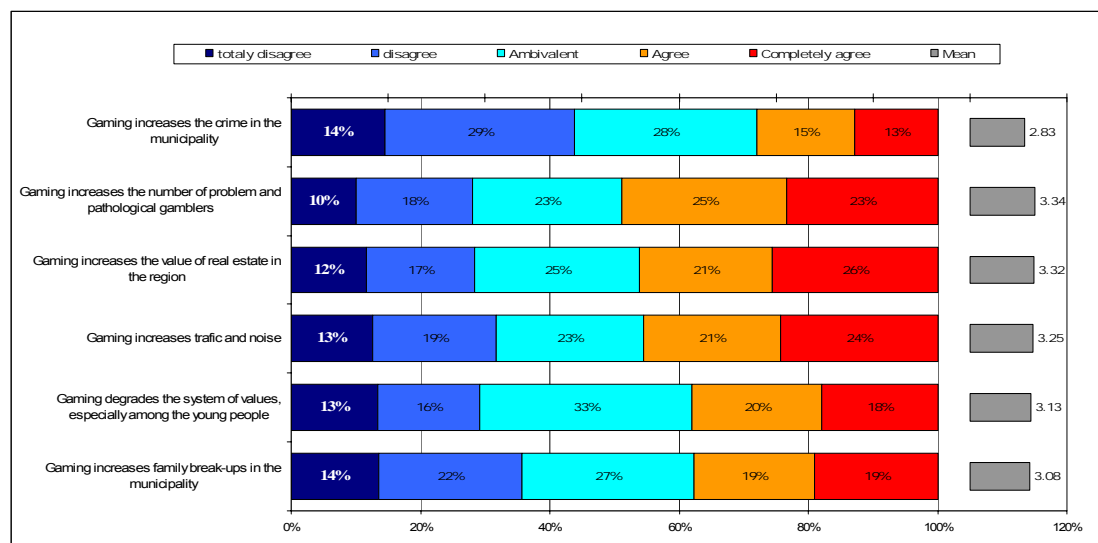
Source: Interview data, 2005.

Similarly as the local opinion makers the general population of Nova Gorica thinks that gaming increases traffic and noise, only one third of them doesn't agree. The closer someone is to casinos, the more they think that noise and traffic is a problem.

A third of the respondents don't have an opinion about the impact of gaming on to the value system in the community. Of those that have an opinion most think that gaming has a negative impact on the values. Older respondents also think that gaming causes family break-ups. They also agree that gaming increases the number of PPG. Since there is no official statistics about PPG, we estimated from the frequency of visits to the casinos and gambling saloons that there is at most 2-4 percent of the population in the municipality of Nova Gorica that has developed problem or pathological gambling. It is highly possible that the actual percentage is much smaller.

Interestingly people do not feel that the crime has increased because of gaming – only 28 percent of respondents think it has increased and 43 percent feel it hasn't. Of those that feel the increase in crime most (one half) mention an increase in larceny and burglary. One third think that drug related crime is the most problematic, the rest mention violence, prostitution and other criminal activities.

**Figure 4:** People's opinion about the negative impact of gaming



Source: Interview data, 2005.

## 5. Positive impact of gaming

Qualitative research showed that the local opinion makers mostly agreed that gaming has brought the local community much more positive than negative impact (figure 5). They agreed that gaming has increased the life standard of the local population and prevented unemployment. Secondary data showed that Nova Gorica has one of the lowest unemployment rates in Slovenia (second only to Ljubljana; see figure P1 in appendix). However, low unemployment does not prove that gaming had a positive impact on the local

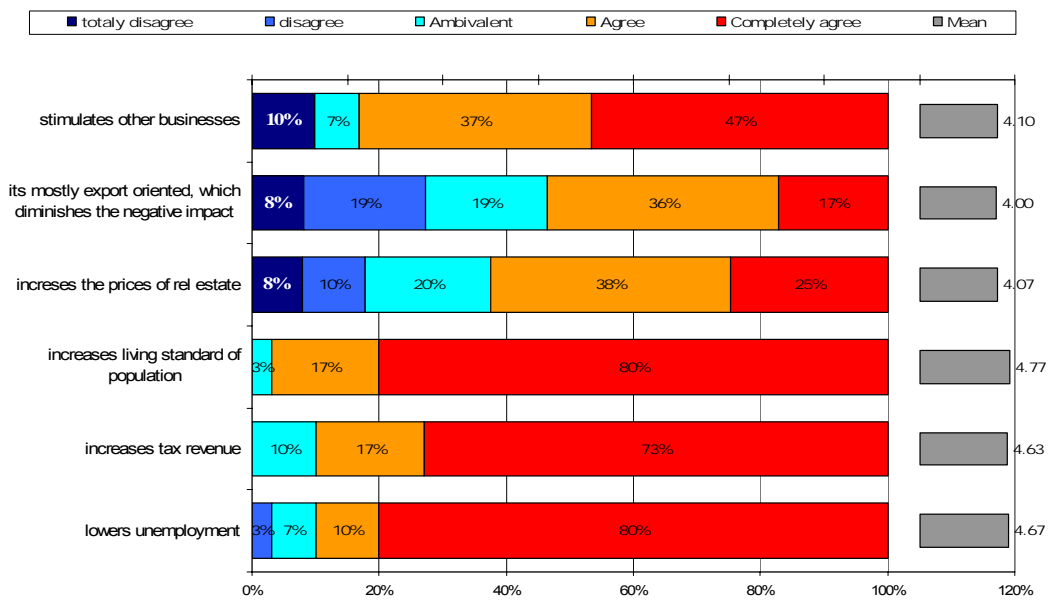
community, since instead of gaming other businesses could have developed. However, since casinos and other gaming facilities on average pay higher wages, they have a positive impact on welfare of local population. When comparing the average wage in Nova Gorica to other municipalities and Slovenian average we can notice that wages in Nova Gorica are second only to wages in Ljubljana. Gaming facilities to a certain extent have to pay higher wages due to less favorable working hours and due to kind of work employees perform. Because of the demonstration effect other businesses have to pay higher wages as well. This results in overall higher wages despite gaming industry directly employing less than 10 percent of the workforce in the municipality.

Local opinion makers also agreed that casinos increased tax revenue, which stimulated the development of the local community. Secondary data back that claim, since the Municipality of Nova Gorica has one of the highest per capita budgets in Slovenia (Figure P3 in appendix). The concession fee therefore increases the welfare of the inhabitants of Nova Gorica. The concession fee amounted to 62 million Euro in 2004 and we have to add to that the extra personal income tax because of the above mentioned higher average income. However, most respondents thought that the money from the concession was not spent well in order to stimulate the development of tourism and tourist infrastructure.

84 percents of the respondents agreed that gaming stimulates other businesses in the municipality, although representatives of the local commerce chambers disagreed. Secondary data give a mixed picture about this influence. On one hand we can notice a slight increase in the total number of businesses in tourism and retail, compared to diminishing numbers elsewhere in Slovenia (Figure P4 in appendix). However, there is a lot of room for developing tourist offer in the region, especially if we consider that Nova Gorica has one of the lowest per capita number of tourist businesses in Slovenia (Figure P5 in appendix).

Slightly less than two thirds of respondents agreed that the price of real estate increased because of gaming. Respondents also mostly believe that the negative impact of gaming is considerable smaller because of its export orientation, although representative of social services disagree on that. Other positive impacts mentioned were promotion of the region, achievement of higher recognition, increased investments into sports and culture and keeping the city lively.

**Figure 5:** Perception of positive impact of gaming on the Municipality of Nova Gorica



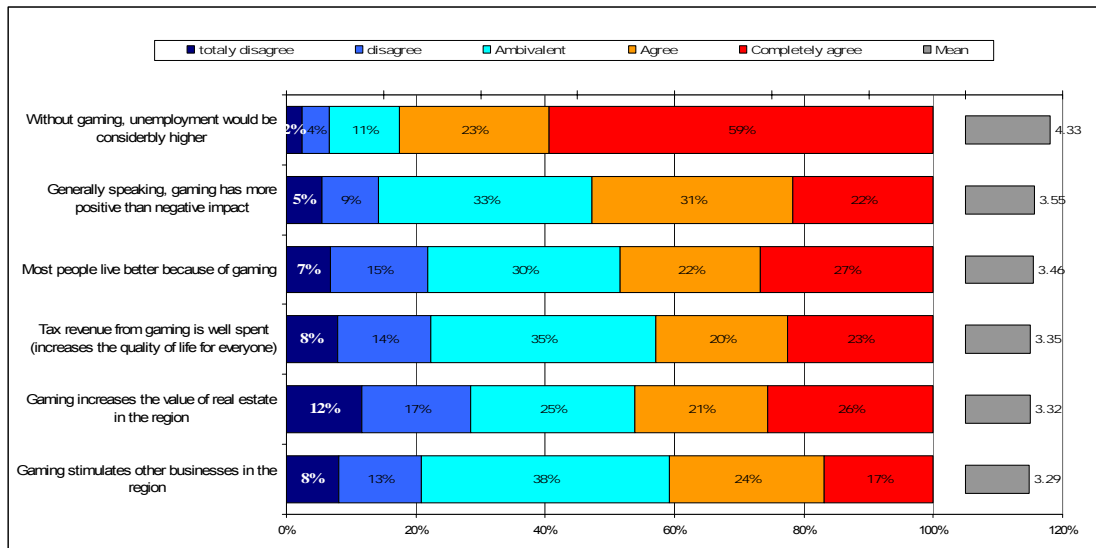
Source: Interview data, 2005.

The population of Nova Gorica shares the opinion of the local opinion makers. As shown in Figure 6 people agree most with the claim that gaming lowered and prevented unemployment. More than half of the interviewees agree that gaming brought more positive than negative impacts to Nova Gorica. This claim is backed up also by the secondary data.

Less than half of the respondents agree that people live better because of gaming, almost a quarter disagree. The closer people live to a gaming facility, the less they agree with the higher quality of life claim. More people agree than disagree that the money from the concession fee is well spent, although a lot of respondents didn't take apposition on that. Interestingly people from nearby villages tend to agree with this more than people living close to gaming facilities. People from the vicinity of casinos agree more that the prices of real estate rose because of gaming.

Most people don't know about the impact of gaming on local businesses, those that have an opinion mostly agree that it has a positive impact.

**Figure 6:** People's opinion about the positive impact of gaming



Source: Interview data, 2005.

Based on the opinions of inhabitants of Nova Gorica about the positive and negative impacts of gaming we can conclude that people in did notice most of the effects, described in the literature. The secondary data and opinions of local policy makers back this impression.

## 6. Concluding remarks

The gaming developed in Nova Gorica on the grounds of American type casinos that bring entertainment for the masses. The main actor in the development of gaming in Nova Gorica is the company HIT that in the city operates two casinos with a wide gaming and additional offer. The gaming in Nova Gorica is mostly export-oriented, as foreigners reach more than three quarters of all visitors in gaming saloons and nearly 95 percent in casinos. The development of gaming in Nova Gorica coincided with the development of gaming around the world. The development of gaming has seen a need to study its impact, therefore theoretical ideas on the study of gaming impact began to appear. If we sum up the conclusions of other research on the impact of gaming we may notice that mostly they find that gaming brings along economic development and increased welfare. It brings along also (social) costs, mostly connected to the problematic and pathological gamblers.

On the positive side, gaming has brought Nova Gorica huge economic development. Local opinion makers as well as general population agree with that, and statistical data confirm this too. People feel that they live better because of gaming. Gaming multiplicatively influences other businesses as well. Local policy makers mostly agree on that, as does that share of public that has an opinion on that. Statistical data do neither confirm nor deny this. One of the top benefits of gaming is the tax revenue it brings to the state and the municipality. Local opinion makers as well as the public do believe that this money is of extreme importance for the local community. There are however doubts among them whether the money from gaming tax and concession is being put to good use. The revision of municipal budget shows that when using this money the municipality follows the law provisions, which are however very broad.

On the social cost side of the gaming impact increase in crime is often mentioned in the literature, mostly violent crime (murders, robbery, rape), crime against property (larceny, thievery,...) and economic crime (fraud, forgery, tax evasion). Crime is often connected to problem and pathological gambling. Research shows that the official statistic doesn't show an unusual increase in crime in Nova Gorica, quite the opposite. The general public agrees, since they don't think that there is more crime in the municipality because of gaming. On the other hand the local policy makers mostly think that crime has increased because of gaming, in particular they mention drug related crime, violence and prostitution.

Social costs are also connected to degrading of values and family break-ups. The representatives of local interest groups agreed that both are present in Nova Gorica, especially among younger people. The general public opinions on this issue are divided. The official statistic shows an increase in the divorce rate, but it would be hard to attribute that to the development of gaming.

Literature connects most of the negative impacts of gaming with problem and pathological gamblers. Local policy makers as well as the general public agree that the number of pathological gamblers increased in the community and many have given anecdotic evidence of it. Official data on problem and pathological gamblers do not exist. We tried to estimate the number from the frequency of visits to the casino and concluded that at most 2-4% of the local population is addicted to gambling. This number is comparable to other studies on the subject.

When comparing costs and benefits of gaming for Nova Gorica we can see that in general benefits outweighs the costs. Most of the respondents, both the opinion makers and the general public agree with that. One of the main reasons for this overwhelming prevalence of benefits is the export orientation of gaming in Nova Gorica. Benefits are mostly concentrated locally, while the costs are spread to a wider area.

This study focused only on the impacts of gaming to the Municipality of Nova Gorica. The impact of gaming stretches beyond the borders of the municipality, the costs affecting mostly the neighboring regions of Italy that provide most of the visitors. In the future more research on the total impact of gaming is needed, including these regions as well as the effects of gaming on other businesses. A statistic on problematic and pathological gamblers needs to be put in place and a more coordinated effort to help those gamblers needs to be established. Recognizing the problems gaming brings and fighting them systematically is crucial for a sustainable development of gaming in any region.

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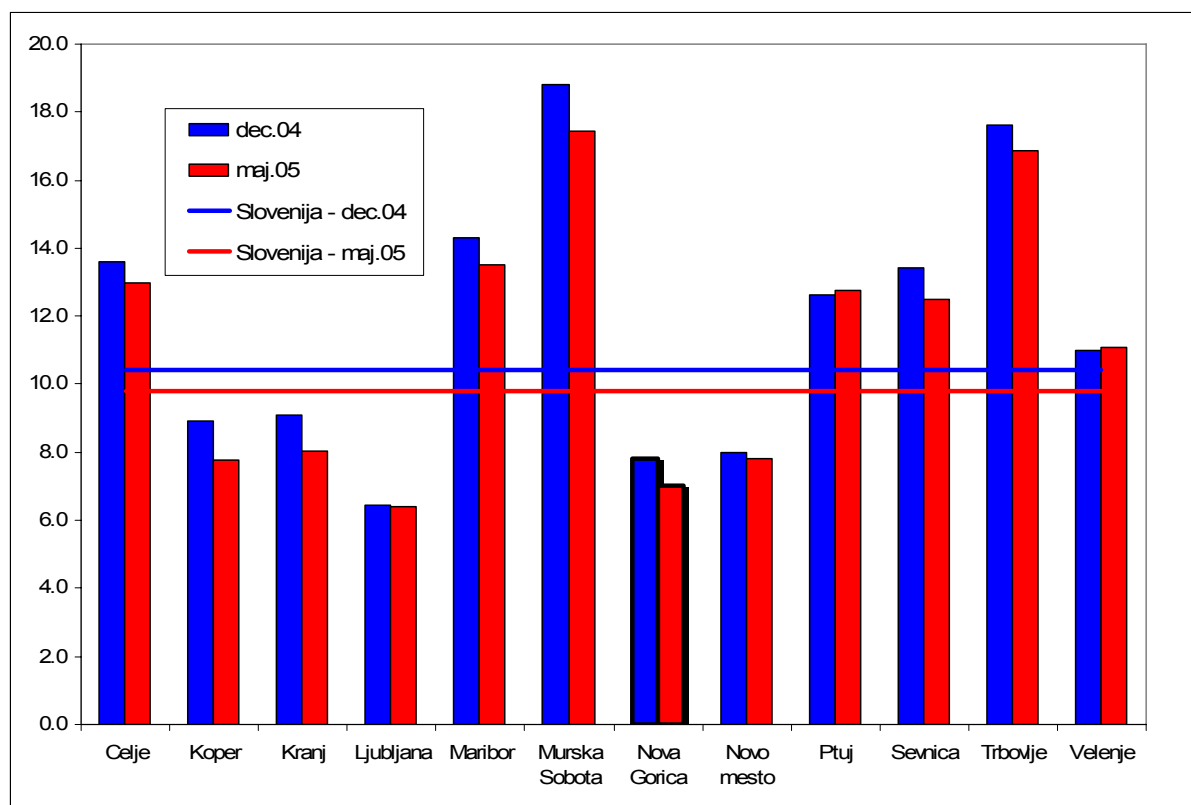
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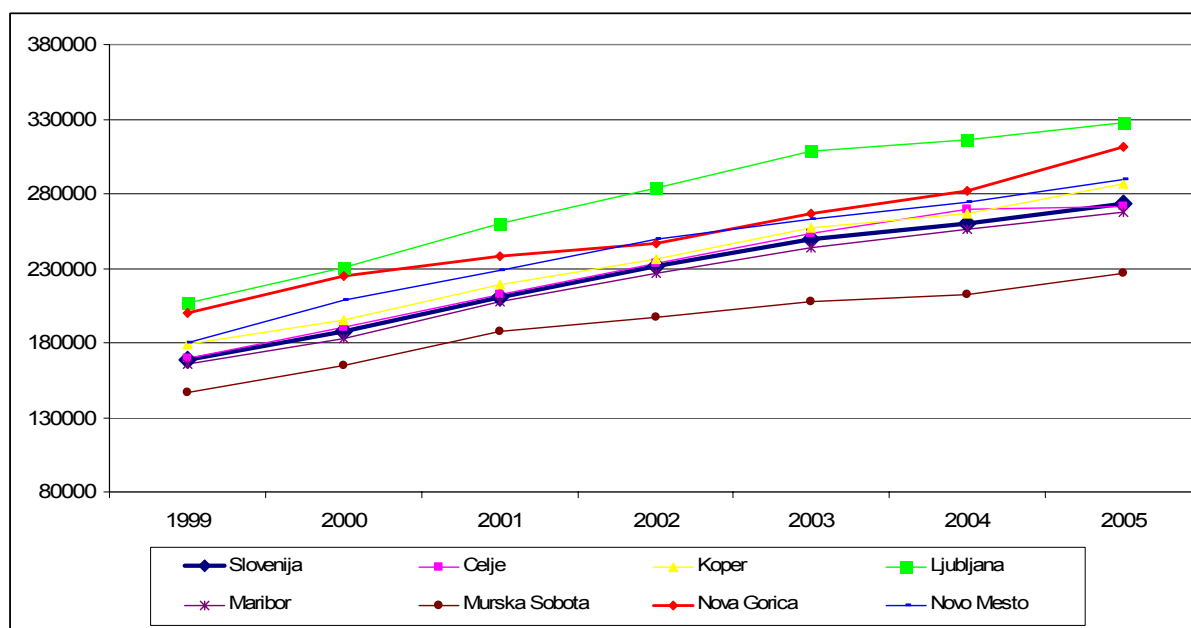
## APPENDIX

**Figure P1:** Registered unemployment in Slovenian regions



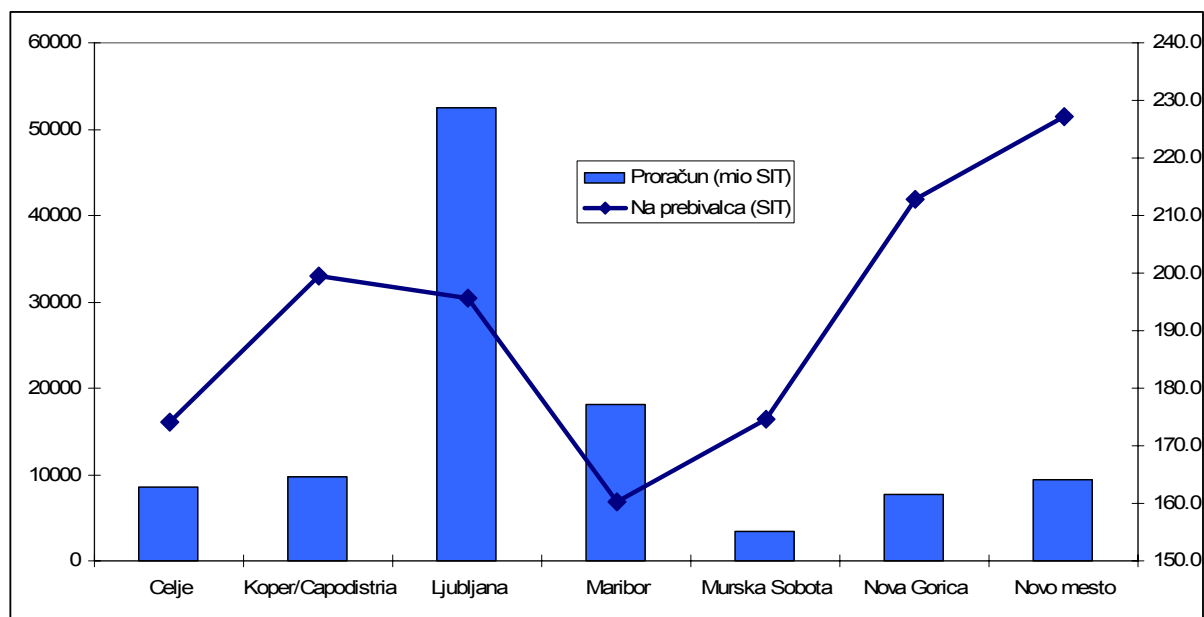
Source: Zavod za zaposlovanje RS in SURS, 2005.

**Figure P2:** Average monthly wage in Slovenia and some municipalities, may 1999-2005, current prices



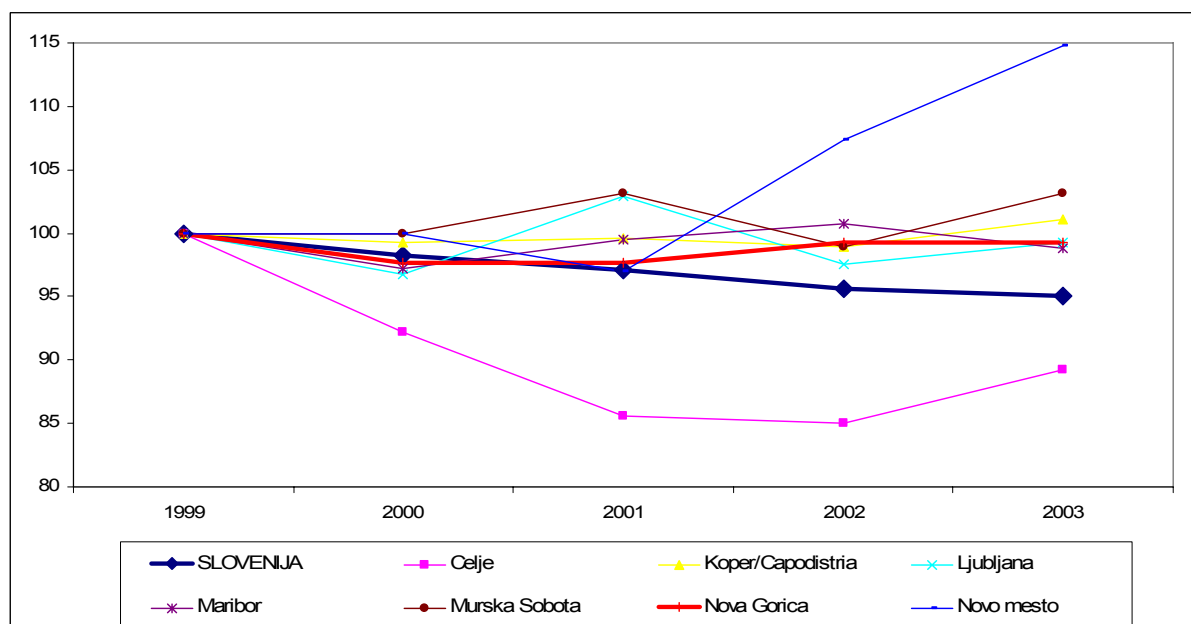
Source: SURS, 2005.

**Figure P3:** Per capita budgets in some of the municipalities



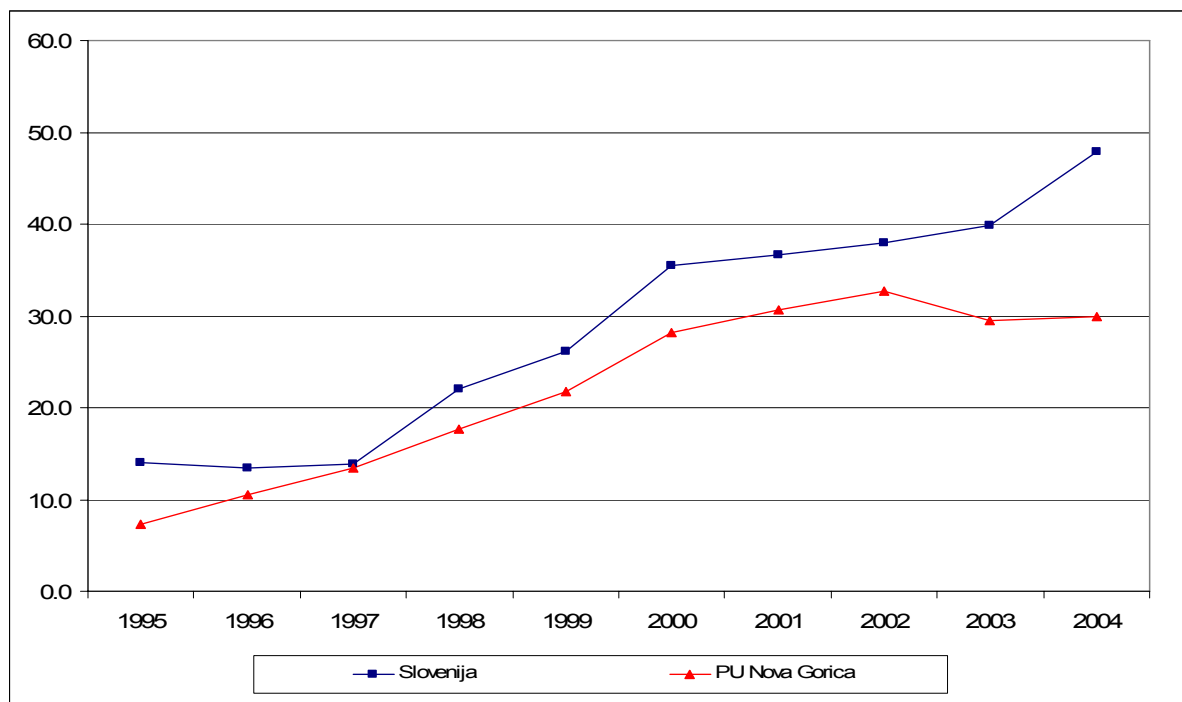
Source: Proračuni mestnih občin, dostopni na spletnih straneh posamezne občine, 2005.

**Figure P4:** Index of the number of businesses in tourism, 1999=100



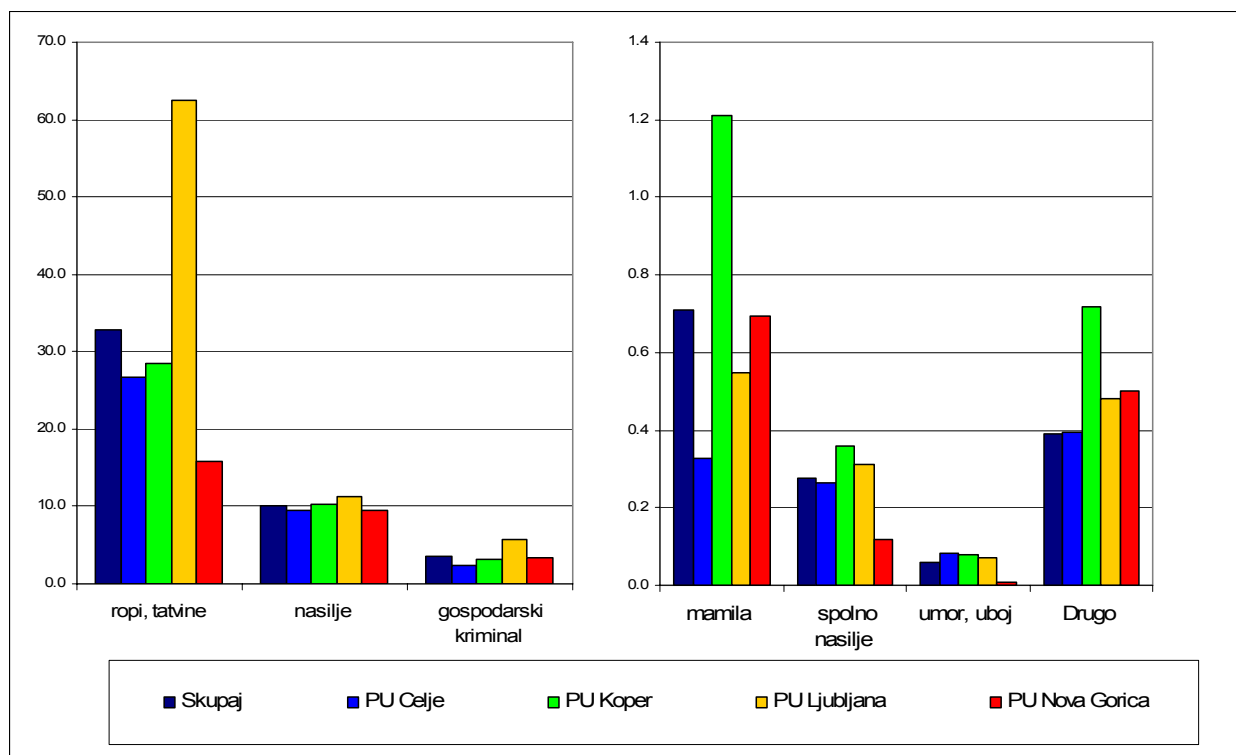
Source: Statistični letopis, 2005.

**Figure P5:** Criminal acts per 1000 population in Slovenija and Nova Gorica



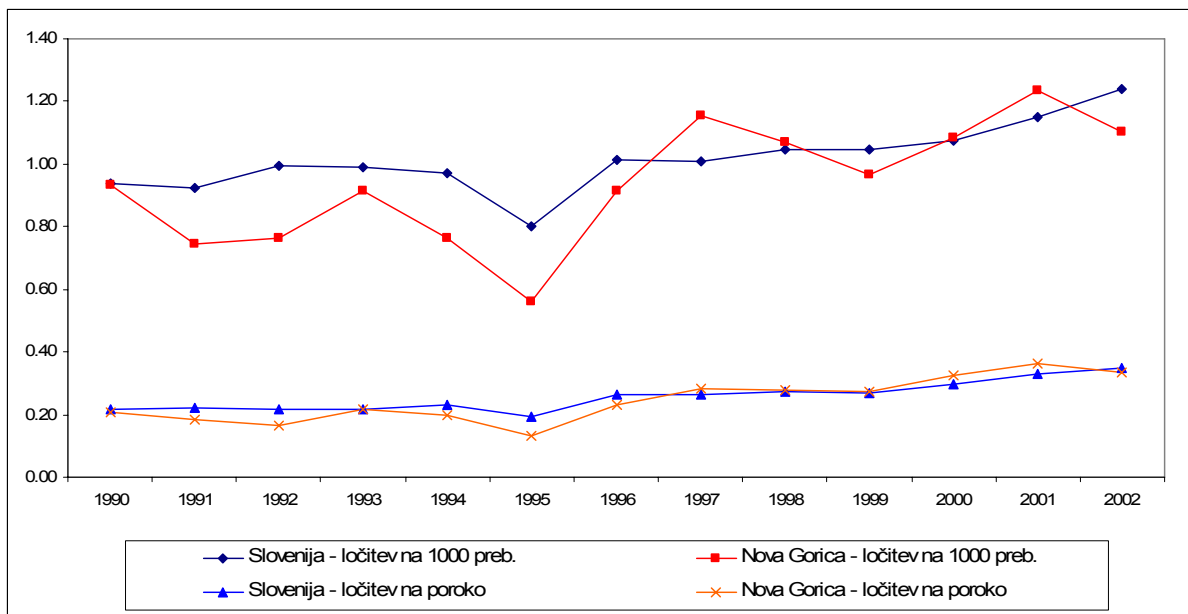
Source: *Generalna policijska uprava, 2005.*

**Figure P6:** Criminal acts per 1000 population, by type of crime, 2004 (attention, different scales)



Source: *Generalna policijska uprava, 2005.*

**Figure P7:** Divorce rate per 1000 and per marriage, Slovenija and Nova Gorica



Source: BSP, 2005.