



# Casino tourism, economic inequality, and housing bubbles



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## HIGHLIGHTS

- Potential links among tourism, inequality, and housing are addressed for an integrated analysis.
- Faster gaming expansion based on VIP operation leads to higher income inequality.
- Both growing income and rising inequality are responsible for soaring housing bubbles.
- Market failures necessitate policy intervention to ensure social equity and sustainable tourism.

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## ABSTRACT

Potential linkages among tourism, inequality, and housing are addressed for an integrated analysis in this paper, with Macao treated as a typical case. Casino tourism, albeit performing as a major key to local economic growth, is ultimately vulnerable to external shocks to gambling demand, as evidenced by the current sharp downturn in Macao. We find that faster gaming growth leads to higher income inequality while at the same time both factors are responsible for soaring housing bubbles, which constitute the very source of social tensions as in Macao. Casino tourism if not well managed may not be a panacea for all development goals. The implication for policy derived from this study is that Macao must deal with underlying issues rather than apply palliative measures. Its market failures may necessitate government interventions to ensure social equity and sustainable tourism.

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## 1. Introduction

Casino tourism has spread in many regions for decades despite various debt and economic crises. Casino revenue grew at 18.3% a year on average during 2010–2015 in the Asia-Pacific region (PwC, 2015). Casino gaming is increasingly deployed as an effective way to boost tourism development and economic growth (Eadington, 1999a; Walker, 2009). The impressive success of Las Vegas inspires other U.S. jurisdictions to turn to gambling legalization to deal with budget deficits and high unemployment (Eadington, 1999b). The phenomenal growth of Macao also arouses other Asian cities to utilize gaming tourism to make fortune. It took only three years for Singapore to become the world's third largest gaming hub after its ban on gambling was abolished in 2010 (Barlowe, 2013).

Macao's tourism development started with liberalizing its gaming sector in 2002. It overtook Las Vegas in 2006 in terms of casino revenue and has since become the world's largest gambling resort. Its gaming industry raked in USD45.2 billion in record revenue in 2013, seven times as large as that of Las Vegas (Schwartz, 2015). Macao used to be much less developed than Hong Kong, yet Macao's GDP per capita starting to dwarf its Hong Kong's counterpart in 2006 became increasingly higher due to its dramatic growth in gaming tourism at 28.2% a year in 2002–13. Macao was ranked in 2014 as the world's third wealthiest place in average terms, with GDP per capita reaching USD 96,037 (World Bank, 2015). By contrast, Hong Kong was only ranked as the 23rd with USD 40,169.

Unfortunately, such resounding success has not been well received by the majority of the Macao population according to various surveys and social studies (Zheng & Hung, 2012). Observably, various side-effects emerge from fast growth in casino tourism. On the list of problems are the Dutch disease (Mieiro, Ramos, & Alves, 2012), social costs of compulsive gambling (Fong, Fong, & Li, 2011), locals' hostility towards migrant labor,

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economic inequality (MB, 2011), price inflation, property bubbles (MB, 2014), and unsustainable growth, as also seen in other tourist destinations (Blake, 2008; Lee, 2009). The listed problems, with adverse impacts on the wellbeing of local people, have been largely overlooked in Macao since its government seems complacent only about high casino revenue and strong GDP performance.

It is necessary to deal with these problems if welfare for all people is to be improved, yet two orthodox notions need to be addressed first. One notion is that a free economy tends to produce inequality because it cares for efficiency not fairness. Inequality rose in Macao by 6.6% a year on average in 2003–2013. This situation is viewed as a natural outcome in the take-off stages of economic growth as implied by Kuznets's curve (Deng, 2013). The other notion is that a housing market may act for an efficient economy as a fair game with winners and losers in varying degrees. Macao housing with ten-fold price hikes in less than ten years up to 2014 is regarded as a good opportunity to get very rich very fast (MDN, 2014). Such hikes have benefited some people but hurt many others.

The two notions are socially problematic in Macao for two reasons. First, its economy, albeit growing fast, is not domestically efficient since such growth relies on foreign investment (Copeland, 1991; Lee, 2009) while much of its own saving is left underused with negative returns in real terms (Chen, 2015). Such inefficiency contributes directly to rising inequality. Kuznets's curve usually turns from upward- to downward-sloping once per capita income reaches the average level of advanced economies, yet Macao still climbs up, not down, that curve after its GDP per capita rose well above that level many years ago. Second, Macao's housing market is not a fair arena where everyone is equipped equally to play the economic game. A city council member is reported to own 376 expensive real estate properties in Macao and other places (SCMP, 2015). By contrast, many families cannot afford to buy local apartments but have to move to a neighboring city (i.e., Zhuhai) with lower-priced housing units.

The real situation in Macao is that most people, albeit made better off by tourism growth, have benefited from it less than the local elite under *laissez faire*. Income inequality and housing bubbles have risen with market failures to such an extent that these problems can no longer be neglected (Guan, 2015). Macao seems long on pursuit of economic efficiency but short on passion for social equity. Public policy allows the special interests to make use of the gaming and property markets to increase their economic benefits yet at the expense of ordinary citizens. Resulting social tensions are being stored up, as manifested by violent protests on streets every year and angry demonstrations in front of government headquarter buildings (MB, 2012). It is therefore necessary for Macao to take care of deep grievances among the underprivileged and the widespread discontent of locals (Zeng, Forrest, & MeHale, 2013). Our work is set to address related issues and provide some policy recommendations.

Although a few studies have discussed Macao's casino tourism growth (Siu & Eadington, 2009), there is a need for more in-depth research on related problems arising from such growth. This paper may be the first such attempt in the literature by focusing on three interrelated issues, which embrace all problems listed above. These problems can be classified into three issues: gaming-biased vulnerable expansion, high income inequality, and large housing bubbles. Polarized opinions appear in existing studies with two distinct strands: (i) advocating casino tourism by exhibiting its economic benefits in capital formation, job creation, and tax revenue generation (Walker, 2009); (ii) looking into various side-effects of casino gambling through social value and public opinion (Grinols, 2004). We bring together these two strands of radical views for a neutral analysis of costs and benefits from the social and

economic perspectives.

Our analysis is performed through regressions on a theoretical basis. We use the method of system estimation to raise econometric efficiency since the three issues are related to each other. We show that Macao can no longer rely on bankruptcy and corruption among gambling visitors but rather needs to sustain tourism prosperity through responsible gaming, that Macao should not continue to ignore income inequality by focusing only on efficiency if its social fabric and economic stability are to be maintained, and that its housing crisis is due to a fundamental oversight in acknowledging the role of rising inequality in market distortion. The task of this paper is to derive policy implications from empirical studies based on economic modeling. Our results suggest that Macao must deal with the three underlying problems rather than just apply palliative measures (such as small welfare transfer to citizens) (MN, 2015). High inequality should be moved beyond the Kuznets curve turning point, the dysfunctional market must be fixed up to put housing development on a sustainable footing, and long-term policy needs to be implemented to bring the economy back on a diversified growth path.

The rest of the paper proceeds as follows. Section 2 presents a brief literature review. Section 3 provides stylized facts and economic modeling. Section 4 contains data description and methodology discussion. Section 5 supplies empirical evidence found from Macao. Section 6 concludes.

## 2. Literature review

This section presents a brief review of the related literature along with a short discussion on main problems arising from casino tourism in Macao. These problems have emerged not only in Macao but also in other tourist resorts, and hence the literature review can be helpful for policy adjustment due to the general nature of the problems. It is interesting to discuss the links between economic growth, income inequality, and housing markets in these resorts.

The first link discussed in the literature is between tourism development and income inequality. Many tourism studies have emphasized positive economic impacts from such development (Brida, Cortes-Jimenez, & Pulina, 2014; Britton, 1982; Hudman, 1978; Williams & Shaw, 1988). Some recent studies have promoted commercial gaming for local economic growth by deemphasizing the related social costs (Eadington, 1999a; Thompson & Stream, 2006; Walker, 2009). Tourism research has now been shifted towards distributive justice. A rising number of authors call for the fair distribution of social burdens as well as economic benefits of tourism expansion among different groups in local communities (Brohman, 1996; Grinols, 2004; Merrett, 2004). Related studies come up with substantial evidence found from such countries as East Africa, Brazil, Thailand, and Spain (Blake, 2008; Blake, Arbache, Sinclair, & Teles, 2008; Incera & Fernandez, 2015; Wattanakuljarus & Coxhead, 2008). New evidence shows that tourism can have positive effects on all income groups but the lowest income households benefit less than their higher income counterparts, and that tourism may provide less income for the poor than other labor-intensive export activities. Thus tourism expansion actually worsens income inequality or even becomes detrimental for poverty alleviation. Even in the U.S., tourism-dependent counties are found to have greater income inequality than non-tourism-dependent ones, and inequality has increased faster in tourism-dependent counties than for the entire nation (Lee, 2009). Macao's situation is more serious because its tourism has ever grown faster than that of any other places and because such growth was promoted through problematic VIP gambling (Fong et al., 2011). Yet there has been no formal study to address high and rising inequality in Macao as the world's largest casino city in

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