

1 CHAIRMAN JAMES: Dr. Ryan.

2 DR. RYAN: Thank you. Madam Chairman, committee
3 members, my name is Timothy Ryan. I'm Dean of the College of
4 Business Administration at the University of New Orleans, and I
5 don't know whether I should admit it or not but I am a professor
6 of economics.

7 I have been involved in looking at the gambling
8 industry in the State of Louisiana for about ten years and
9 embarking on a major study to paralleling this national study for
10 Louisiana. And the comments have been right. There are major
11 differences between studying gambling and the impact of gambling
12 at a local level or state level and at the national level.

13 But the State of Louisiana has more forms of gambling
14 than any other state, with video poker, lottery, horse racing,
15 off-track betting, riverboats, land-based casino maybe. It is a
16 fertile ground to look at some of these issues and we're going to
17 do it.

18 We will certainly -- our study is due to be complete
19 at the end of March and we will certainly forward a copy to the
20 Commission to whatever you may be able to learn from that.

21 Let me try -- I agree most of what Professor Thompson
22 said in terms of, you know, his simple model of looking at the
23 economy and economic growth and most economists do. And I know
24 that's a strange statement, that most economists agree on
25 anything, but they do.

26 If we look at a closed system, a closed economic
27 system, so we -- for the time being, let's ignore exports and
28 imports of dollars and so forth from foreign countries and we'll
29 come back to that -- that the system can only grow measured by

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1 the traditional measures of productivity, Gross Domestic Product,
2 however you want.

3 The dollar value of goods and services can grow if
4 we, in our economics terms, push our production possibility
5 frontier if we increase land labor or capital or the resources
6 imbedded in that. Gambling probably doesn't do any of those
7 things. So from a closed system, it's not a new technology.

8 A lot of people criticize Bill Gates but -- and I do,
9 too, every time I turn on my computer and have to deal with
10 Windows 95 problems, but what Bill Gates and people like Bill
11 Gates have done is created a new technology that has allowed
12 everybody to be more productive, and that has pushed our
13 productivity and that has created true economic growth.

14 In the gambling industry, you see investments. I
15 mean, you can't look around this community and not see
16 investment, investment. And you say, well, that must have pushed
17 that production possibility frontier. That must have created
18 economic growth for the whole nation.

19 But that's again too simplistic. You have to look at
20 where those dollars came from, as Professor Thompson said,
21 where -- what other things have we lost in the economy, where the
22 dollars have come from to make those investments, and is that net
23 new investment?

24 That hasn't been studied, to any extent that I'm
25 aware of, at the national level. At the local level it has, and
26 quite often it's positive. If you look at what's happening in
27 the Gulf Coast of Mississippi, it's hard to say that there's not
28 a net increase in capital formation which pushes the production
29 possibility frontier of this economy forward.

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1 The national level, it's very, very difficult because
2 though in the long run those dollars that are invested in this
3 industry come out of some industry. There's nothing wrong with
4 that. That's not bad; that's not something we should regulate;
5 that's not something, with all due respect, that we should
6 develop a national commission on.

7 That's the market. That's how markets work. There
8 is an ebb and flow. Industries, people want to buy certain goods
9 and we have a increase in demand for those goods and we have a
10 reduction in demand for other goods.

11 Now, if we want to get and say, well, let's define,
12 as a society, our social welfare to include jobs. Let's not look
13 at productivity or the traditional measure of economic growth as
14 was indicated earlier.

15 Let's look at jobs. We can do that if we can find a
16 consensus that that's what we want to do, that instead we're
17 going to measure output by just how many jobs we create. That
18 may throw economic growth theory sort of on its ear but that's
19 okay and there's nothing wrong with that.

20 And as we, as a society, define our social welfare as
21 being improved when we create new jobs even if that might not
22 create new productivity in some other area of the economy, then
23 we can do that and that's very appropriate for us to do.

24 I don't know how we could ever reach consensus on
25 that so I think that argument, we can debate that. We can debate
26 that probably as long as we live. I don't think we'll ever find
27 an answer to that.

28 Some people are going to say, well, you measure
29 economic growth simply by the traditional measures of

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1 productivity, Gross Domestic Product and so forth, and others are
2 going to say, well, no, that is too simplistic. We've got to
3 look at people and we've got to look at the welfare of people and
4 job training and so forth.

5 But in the long run, we are going to achieve those
6 objectives by letting the market work. So I think it's almost a
7 truism in economics that -- almost, not quite -- almost a truism
8 that if we're looking at a closed system that gambling cannot and
9 will not create net economic growth over the long run even in
10 this dynamic sense.

11 It might create, if we could look at the gambling
12 industry, it's a form of recreation essentially. You know, we
13 had little fun give and take about golf but the reality is that
14 can -- those forms of entertainment can be productivity enhancing
15 because if I get stressed out on my job, I have to have a couple
16 of weeks vacation once a year or I go crazy and I'm not very
17 productive.

18 So I have to get out and relax and maybe play golf or
19 maybe gamble, if that's -- so that is, and can add to your long
20 run economic growth if that's what people want to do. Now, you
21 obviously have to look at that, the negative side, which I'll
22 talk about in a second.

23 So what we have is if we have a closed system so we
24 don't let dollars flow out, we don't let dollars come into the
25 system, in all likelihood we don't have a definitive answer. I
26 don't; I don't think anybody.

27 I've never seen a study that looks at this and answer
28 to the question, do we get net new investment, do we get net new
29 economic growth? The answer is probably no or it's going to be

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1 very minimal. But as I think several of the speakers have said
2 today, that really shouldn't matter.

3 That's -- if we would do that, we probably wouldn't
4 allow Wal-Mart's to exist if that was our objective because Wal-
5 Marts -- people in small towns don't like Wal-Mart's because they
6 put all the -- they put out of business all the little hardware
7 and the little five and dimes and all the little stores that we
8 grew up with and shopped at.

9 Why do they put those out? Because people want to go
10 to Wal-Mart. Does Wal-Mart create any net economic growth?
11 Probably not. But is there anything wrong with that? No.

12 Now, let's talk about opening the system now, which
13 is realistic. Let's talk about the impact of gambling when we
14 open the system. Then we have to answer the question, where do
15 the dollars come from? Do they come from foreign players? That
16 creates a net economic growth for your region.

17 Now we make the analogy to the Biloxi area, to New
18 Orleans area, any other -- Las Vegas, any other regional economy.
19 If we get more dollars coming in from outside of this system,
20 then leave the system because of gambling or the alternative.
21 That's the question that's never been answered to anybody's
22 satisfaction.

23 Where do the dollars come from that go into the
24 gambling industry? And that is an important question. Do they
25 come from, you know, somebody buying a Lexus? Although we like
26 consumer sovereignty, we think that we ought to allow consumers
27 to spend their money where they want.

28 In terms of looking at the net growth impacts on the
29 United States, if the dollars that go into the gambling industry,

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1 domestic dollars, would have gone into some other industry that
2 has a more export component or import component in this case,
3 then there could be a net positive growth factor for gambling.

4 In all likelihood, again, common sense tells us in
5 absence of those studies that that's probably not going to be the
6 case. Most of the dollars that go into the gambling industry
7 probably come from the other forms of recreation or
8 entertainment: going out to eat, going to football games.

9 We've seen decline in attendance at many sporting
10 events, at high school and professional level when gambling has
11 come in, and so forth and so on. So we have to look at that
12 question and that has not been addressed at the national level.

13 Now, that then gets us to the ultimate, the cost.
14 We've talked about the economic benefits and the growth benefits.
15 Now we have to ask ourselves the question, well, what about those
16 costs, those activities that take dollars out of the productive
17 area of the economy to what we call defensive, protective
18 measures?

19 We're going to keep having the dollars flowing, but
20 if we're taking dollars out of productive use of resources and
21 putting those toward protecting ourselves from crime, for
22 instance, or a business or protecting itself from an employee
23 theft because some of their employees have a gambling addiction
24 and they then increase their employee theft activity, their
25 productivity goes down, if we, as a society, have to put
26 resources to protecting against that, then we lose.

27 Those are the negative externalities that Professor
28 Thompson was referring to. And we have to look at those.

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1 Clearly gambling is an addictive activity and it's
2 been documented, whether it's .9 or 1.6 or .3 or whatever it
3 is -- and you can put the numbers to it and come up with some
4 relatively large costs that are a drag on society that move our
5 economy within that production possibility frontier that just
6 create what we call dead weight loss in economics. They're
7 dollars that don't go toward any positive productive use.

8 We have to look at that because there are other --
9 we're, I think, grappling with a much more fundamental issue than
10 gambling addiction with alcohol addiction, with tobacco addiction
11 in this country.

12 Now, it looks like maybe with tobacco addiction that
13 the court system is going to try to solve that problem although
14 we're not sure. But there's a tremendous amount of legislation
15 that has been proposed and is on the books and will be proposed
16 with respect to both tobacco and alcohol addiction.

17 So the question -- I think the fundamental question
18 for a group such as this is to look at -- we could probably hire
19 a whole department of economists to look at this question that --
20 not talking about the social costs but just the economic growth
21 benefits, and they could go out and do studies and gather data
22 and probably come up with what we know now, in that it's pretty
23 much a wash from a national point of view.

24 Maybe that needs to be done so that we can confirm
25 that but the real question in my mind looks at what are those
26 other costs, whether it's crime, whether it's reduced
27 productivity, worker productivity, whether it is those social
28 costs that were referred to family problems, suicide, depression,
29 or the cost of treating those illnesses by society.

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1 That's really where we focus our attention. I was
2 always taught -- and I'm not sure, as an economist, that I
3 understand this so it really makes sense -- but I was always
4 taught that two wrongs don't make a right. And if we say, well,
5 look, we've got industries that create a lot of externalities on
6 society, the alcohol industry and the gambling industry -- I
7 mean, and the tobacco industry, well, then it's okay to have
8 another one that does that.

9 I don't know that we can answer that question that
10 simplistically. I think we need to look very carefully at that
11 part of the equation. I know later on today you're going to talk
12 about crime and then tomorrow we talk about addictive gambling.

13 But from an economist, that's where the action is, in
14 terms of the net economic impact of gambling, in terms of the
15 national perspective as opposed to a local perspective. Thank
16 you.

17 CHAIRMAN JAMES: Thank you very much.

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