

TESTIMONY BEFORE
THE NATIONAL GAMBLING IMPACT STUDY COMMITTEE

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INTRODUCTION

GOOD MORNING, LADIES AND GENTLEMEN. MY NAME IS TIMOTHY RYAN AND I AM THE DEAN OF THE COLLEGE OF BUSINESS ADMINISTRATION AT THE UNIVERSITY OF NEW ORLEANS. I APPRECIATE THE INVITATION THAT YOU HAVE EXTENDED ME TO TESTIFY BEFORE THE GAMBLING IMPACT STUDY COMMISSION.

AS AN ECONOMIST, I HAVE SPENT A GREAT DEAL OF TIME OVER THE LAST TEN YEARS STUDYING THE IMPACT OF GAMBLING, ESPECIALLY CASINO GAMBLING, ON THE ECONOMIES OF THE STATE OF LOUISIANA AND THE CITY OF NEW ORLEANS. IN 1989, I HEADED A RESEARCH TEAM AT THE UNIVERSITY OF NEW ORLEANS THAT LOOKED AT THE POTENTIAL IMPACT THAT CASINO GAMBLING COULD HAVE ON THE NEW ORLEANS ECONOMY. THAT STUDY WAS COMMISSIONED BY A CONSORTIUM OF LOCAL AND STATE BUSINESS ORGANIZATIONS. IN 1992, I, AND TWO OTHER LOUISIANA ECONOMISTS, DID A STUDY FOR THE MAYOR OF NEW ORLEANS ON THE IMPACT OF A SINGLE CASINO ON THE NEW ORLEANS ECONOMY. THAT

STUDY WAS COMMISSIONED BY THE MAYOR OF NEW ORLEANS. IN 1995, I HEADED A TEAM OF RESEARCHERS FROM SEVEN NEW ORLEANS UNIVERSITIES TO STUDY THE OVERALL IMPACT -- ECONOMIC, SOCIAL, CRIME, AND LAND USE IMPACT -- OF CASINO GAMBLING ON THE CITY OF NEW ORLEANS. THAT STUDY WAS COMMISSIONED BY THE CITY PLANNING COMMISSION. THE COMMISSION PUT A REQUIREMENT IN THE CONDITIONAL USE PERMIST THAT THE LAND-BASED AND RIVERBAOT CASINOES NEEDED TO OPERATE THAT THEY WOULD FUND A STUDY ANNUALLY ON THE IMPACT OF GAMBLING. THE INTENT OF THE CITY PLANNING COMMISSION WAS TO HAVE AN ANNUAL REPORT ON THE IMPACT OF GAMBLING ON NEW ORLEANS. THE BANKRUPTCY OF THE NEWE ORLEANS LAND-BASED CASINO HOWEVER HAS PUT THE EFFORT ON HOLD. JUST RECENTLY, IN JULY OF 1998, I WAS AWARDED A CONTRACT TO STUDY THE OVERALL IMPACT OF GAMBLING ON THE LOUISIANA ECONOMY. THAT EFFORT IS JUST STARTING AND I WILL DESCRIBE IT IN SOME DETAIL BELOW.

LOUISIANA GAMBLING IMPACT STUDY

The contract calls for the University of New Orleans, in partnership with other Louisiana public universities, to conduct comprehensive research on the total net economic impact of casino and video poker gambling on the Louisiana economy. The total net economic impact will include all benefits of gambling to the state of Louisiana and its citizens and all costs of gambling to the state and its citizens. In this study the following types of gambling will be analyzed: 1) riverboat casinos, 2) land-based casinos (if applicable), 3) Indian reservation casinos, 4) video poker outlets, 5) horse racing and 6) the lottery.

The objectives of the research are to identify and compare the full benefits and full costs of gambling to the state of Louisiana and its citizens.

Benefits could include:

1. Net new direct spending in the state due to gambling.
2. Net spending diverted from out-of-state gambling to Louisiana gambling destinations.
3. Net new jobs created (or jobs saved) by gambling.
4. Net new income created (or saved) by gambling.
5. Net new state tax revenues created (or saved) by gambling.
6. Net new local tax revenues created by gambling.
7. Net new visitors attracted to the state by gambling.
8. Other ancillary benefits created by gambling -- such as hotel and other related development.

Cost could include:

1. Spending diverted from other businesses (such as retail trade and restaurants) by gambling.
2. Increased government spending on regulating the gambling industry and enforcing gambling laws and providing other extraordinary governmental services to the industry.
3. Increased crime rates and related costs such as police and other criminal justice system expenditures.
4. Increased personal and small business bankruptcies and related personal and government costs.
5. Increased costs to business due to employee theft, employee absenteeism and reduction in worker productivity.
6. Increased social costs do to gambling. Social costs could include family problems, personal depression, and suicide.

In order to measure the costs and benefits, the study will:

- ! Collect and analyze all available secondary economic data by location that is relevant to the operations of casinos. That data would include, but not be limited to: employment, personal income, state and local tax revenues, and state and local government budgets.
- ! Conduct intercept surveys at the various casino sites to gather information on the visitors to casinos in the various locations such as:
 - 1. Primary purpose of trip (gambling, other pleasure, business/convention, other)
 - 2. Length of trip
 - 3. Frequency of visits
 - 4. Spending in the casino
 - 5. Spending elsewhere in the community/elsewhere in Louisiana
 - 6. Basic demographics (residents/nonresidents).
- ! Conduct telephone surveys of Louisiana residents to gather information on casino and video poker visits by locals. The data that will be collected will include:
 - 1. Annual number of visits to casinos or video poker outlets;
 - 2. Annual resident spending on casinos;
 - 3. Source of gambling funds;
 - 4. What type of gambling is preferred; and
 - 5. Where do they gamble?
- ! Work with casinos and other gambling companies to examine any marketing or other data they collect on patrons.
- ! Survey local businesses in each of the MSAs with gambling and in the non-metropolitan areas affected by Indian casinos to determine the impact of casino gambling on:
 - 1. Sales
 - 2. Costs
 - 3. Profits
 - 4. Business climate
 - 5. Employee performance.
- ! Contract with national or local expert(s) to conduct a study of the prevalence of problem and pathological gambling among Louisiana residents by location and compare these results with findings of the March 1995 study conducted by Rachel Volberg. The areas studied in this part of the study would include, but not be limited to: social costs (family problems and so forth) created by gambling addiction; personal bankruptcies created by gambling; and business costs such as absenteeism and embezzlement caused by gambling addiction.

- ! Review number and nature of calls to various problem gambling "hotlines" around the state; quantify changes since the inception of riverboat and other forms of gambling.
- ! Analyze the impact of gambling on net state and local government revenues taking into account any losses in other revenues streams that may occur.
- ! Estimate additional required expenditures on law enforcement, infrastructure improvements, etc. as a result of gambling activities in the state.
- ! Report results to legislature.

GAMBLING ON A NATIONAL LEVEL

I WILL NOW TURN TO ADDRESSING THE QUESTIONS POSED BY THE COMMISSION OF THIS PANEL. BEFORE TRUNING TO THE SPECIFICS, ONE VERY IMPORTANT POINT MUST BE MADE. THE ANALYSIS OF THE IMPACT OF GAMBLING AT A LOCAL LEVEL IS MUSH DIFFERENT THAN THE ANALYSIS OF THE IMPACT OF GAMBLING AT A NATIONAL LEVEL. AT A LOCAL LEVEL, GAMBLING CAN CREATE ECONOMIC GROWTH PRIMARILY THROUGH THE CREATION OF NEW VISITORS TO THE LOCAL MARKET. THIS IS ALMOST IMPOSSIBLE AT THE NATIONAL LEVEL. CLEARLY IF NEW GAMBLING ATTRACTS NEW INTERNATIONAL VISITORS, GAMBLING WILL CREATE ECONOMIC DEVELOPMENT AT THE NATIONAL LEVEL AS WELL. REALISTICALLY, THIS IS PROBABLY MINOR. THUS, FOR THE MOST PART, GAMBLING DOES NOT CREATE ECONOMIC GROWTH AT THE NATIONAL LEVEL (ALONG WITH ECONOMIC GROWTH COMES NEW JOBS, NEW INCOME, NEW WEALTH AND NEW SPENDING).

SOME FURTHER DISCUSSION OF THIS POINT IS IN ORDER TO UNDERSTAND THE POTENTIAL IMPACT OF GAMBLING ON ECONOMIC DEVELOPMENT OR GROWTH. FROM AN ECONOMIC THEORY POINT OF VIEW, ECONOMIC GROWTH -- WHICH CAN BE MEASURED BY AN INCREASE IN GROSS DOMESTIC PRODUCT -- OCCURS WHEN THE OVERALL PRODUCTION OF GOODS AND SERVICES INCREASES. WHAT CAUSES AN INCREASE IN THE PRODUCTION OF GOODS AND SERVICES IS A NET INCREASE IN ONE OF THE FACTORS OF PRODUCTION -- LAND, LABOR AND CAPITAL. EXAMPLES OF THE KINDS OF THINGS THAT CAN INCREASE THE FACTORS OF PRODUCTION ARE: DISCOVERY OF NEW RAW MATERIALS (PART OF THE "LAND" FACTOR) SUCH AS A NEW OIL FIELD, INVESTMENT IN HUMAN CAPITAL (PRIMARILY THROUGH EDUCATION), INVESTMENT IN NET NEW CAPITAL EQUIPMENT, AND THE DISCOVERY OF A NEW TECHNOLOGY TO INCREASE PRODUCTIVITY.

THE PROCESS OF ECONOMIC GROWTH IS A DYNAMIC ONE. CONSIDER THE FOLLOWING EXAMPLE. IF WE AS CONSUMERS REFRAIN FROM CONSUMPTION (IN OTHER WORDS, SAVE MORE) NOW, GDP IS LIKELY TO DECREASE. IF BUSINESSES USE THOSE INCREASED SAVINGS TO INVEST IN CAPITAL, GDP IN THE FUTURE WILL INCREASE.

USING THE ABOVE DEFINITION OF ECONOMIC GROWTH, MANY ACTIONS CAN CAUSE ECONOMIC GROWTH. CLEARLY, INVESTMENTS IN

EDUCATION, TECHNOLOGY, NEW CAPITAL EQUIPMENT, EXPLORATION CAN AND WILL CAUSE ECONOMIC GROWTH. WHAT ABOUT OTHER THINGS LIKE HEALTH CARE AND TOURISM. IT IS CERTAINLY POSSIBLE THAT INVESTMENT IN THE AREAS CAN CAUSE SOME ECONOMIC GROWTH. THE ROLE OF HEALTH CARE IS TO PRODUCE A HEALTHLIER AND THEREFORE PRODUCTIVE SOCIETY. IF MY HEALTH IMPROVES, SO TOO MAY MY PRODUCTIVITY. EVEN TOURISM WITH THE COUNTRY CAN CREATE ECONOMIC GROWTH. IF I AM STRESSED OUT, I AM NOT LIKELY TO BE VERY PRODUCTIVE. A NICE VACATION VISIT TO SOME OTHER PART OF THE UNITED STATES COULD CERTAINLY REDUCE MY LEVEL OF STRESS AND INCREASE MY PRODUCTIVITY. (CLEARLY THE REVERSE OF THIS IS TRUE, IF MY LEVEL OF STRESS INCREASES MY PRODUCTIVITY CAN DECREASE.)

WITH THAT UNDERSTANDING OF WHAT CAUSES ECONOMIC GROWTH OR DEVELOPMENT, IT IS RELATIVELY EASY TO ANSWER THE QUESTIONS, "CAN GAMBLING CREATE ECONOMIC GROWTH?" IN GENERAL, IGNORING THE INTERNATIONAL TOURISM EFFECTS MENTIONED ABOVE, THE ANSWER IS, "PROBABLY NOT!" GAMBLING DOES VERY LITTLE TO CAUSE THE KIND OF INVESTMENT DISCUSSED ABOVE. IN FACT, SOME MAY ARGUE THAT IT CAN REDUCE WORKER PRODUCTIVITY BY INCREASING STRESS, ABSENTEEISM, PERSONAL BANKRUPTCY AND THE LIKE.

MANY WOULD RESPOND TO MY ANSWER, "WELL, WHAT ABOUT THE BILLIONS OF DOLLARS THAT THE CASINOES ARE INVESTING IN NEW FACILITIES THROUGHOUT THE COUNTRY?" THOSE INVESTMENTS ARE, IN GENERAL, NOT NET NEW INVESTMENT DOLLARS. THESE ARE DOLLARS THAT WOULD HAVE BEEN SPENT IN THE ECONOMY IN SOME OTHER INDUSTRY AT SOME TIME. THE SAME THING IS TRUE OF MANY PARTS OF ANY ECONOMY -- SUCH AS RETAIL TRADE. IF A NEW RETAIL FACILITY IS BUILT IN THE COUNTRY, IT IS VERY UNLIKELY THAT TOTAL RETAIL TRADE WILL GO UP -- A NEW FACILITY WILL NOT INCREASE TOTAL DEMAND FOR GOODS AND SERVICES. THUS, EVENTUALLY, HOLDING EVERYTHING ELSE CONSTANT, SOME OTHER RETAIL TRADE FACILITY WILL CLOSE OR WILL NOT BE BUILT OR A SMALL AMOUNT OF SALES WILL BE SIPHONED OFF SEVERAL EXISTING FACILITIES. THUS, IN THE LONG RUN, NO NEW ECONOMIC GROWTH WILL BE CREATED. IN THE SHORT RUN, THERE COULD BE SOME EXCESS CAPACITY AND IT WILL LOOK LIKE THERE IS SOME ECONOMIC GROWTH BUT THIS IS ILLUSIONARY.

BASED ON THIS LOGIC, THE POSED QUESTIONS CAN BE ANSWERED FAIRLY SIMPLY.

Q. IS THE NET ECONOMIC IMPACT OF GAMBLING ON THE NATIONAL ECONOMY POSITIVE OR NEGATIVE? WHAT IS THE IMPACT ON EMPLOYMENT? INCOME? ON SAVINGS AND INVESTMENT? ON ECONOMIC GROWTH?

A. FOR THE REASONS DISCUSSED EARLIER, THE NET ECONOMIC IMPACT OF THE GAMBLING INDUSTRY ON THE ECONOMY IS PROBABLY NEGATIVE. THE REASON IS THAT THE NET POSITIVE IMPACTS ARE VERY SMALL AND THE NEGATIVE IMPACTS (THE ECONOMIC COSTS OF THE SOCIAL IMPACTS) DO EXIST. AT THIS POINT, IT SHOULD BE EMPHASIZED THAT THIS IS NOT UNCOMMON. MANY INDUSTRIES DO NOT PRODUCE NET ECONOMIC BENEFITS BUT ARE STILL IMPORTANT PARTS OF THE ECONOMY.

Q. DOES A NET POSITIVE IMPACT FOR A REGION OR THE COUNTRY AS A WHOLE REQUIRE AN INFLOW OF MONEY FROM OUTSIDE? IS THIS A ZERO-SUM GAME FOR STATES AND COMMUNITIES? FOR THE COUNTRY?

A. IT DOES NOT **REQUIRE** AN INFLOW OF MONEY FROM OUTSIDE TO CREATE ECONOMIC GROWTH BUT IT SURE HELPS. AS INDICTAED EARLIER, A NET INCREASE IN LAND, LABOR OR CAPITAL WILL CREATE ECONOMIC GROWTH. IF NONE OF THESE ARE PRESENT, THEN IT REQUIRES MONEY FROM OUTSIDE TO CREATE ECONOMIC GROWTH. AS INDICATED, THIS IS MUCH MORE LIKELY FROM A LOCAL POINT OF VIEW COMPARED TO A NATIONAL POINT OF VIEW.

Q. HOW LARGE IS THE MULTIPLIER EFFECT? THE SUBSTITUTION EFFECT?

A. THE MULTPLIER EFFECT AT THE NATIONAL LEVEL WILL BE MINIMAL BECAUSE OF THE SUBSTITUTION EFFECT -- IN OTHER WORDS, DOLLARS FOR GAMBLING COME FROM SOME OTHER SOURCE OF SPENDING OR FROM

SAVINGS. THE LONG-RUN, NET MULTIPLIER IS THEN VERY LOW OR NEGATIVE. FROM A LOCAL POINT OF VIEW, THE MULTIPLIER EFFECT CAN BE POSITIVE BASED ON MONEY FLOWING IN FROM OUTSIDE THE COMMUNITY.

Q. WHAT IS THE ECONOMIC COST OF THE SOCIAL IMPACT OF GAMBLING? CAN THIS BE QUANTIFIED?

A. THE ECONOMIC EFFECT OF THE SOCIAL COST ARE MEASURED BY LOWER WORKER PRODUCTIVITY, MISSED WORK TIME, EMPLOYEE THEFT, PERSONAL BANKRUPTCY, INCREASED DIVERSION OF RESOURCES TO HANDLE THE INCREASED SOCIAL PROBLEMS, AND THE LIKE. YES. THEY CAN BE QUANTIFIED BUT ARE DIFFICULT TO IDENTIFY. THIS IS A MAJOR TASK OF THE RESEARCH THAT WE ARE DOING IN LOUISIANA. GENERALLY, THEY ARE CONNECTED TO PROBLEM GAMBLING.

Q. HOW IMPORTANT ARE GAMBLING REVENUES TO GOVERNMENTS AT ALL LEVELS?

A. AT THE FEDERAL LEVEL, THEY ARE INSIGNIFICANT. AT THE LOCAL LEVEL, IN SOME COMMUNITIES, THEY ARE CRUCIAL AND IN SOME COMMUNITIES THEY ARE NICE BUT NOT ESSENTIAL. ONE ASPECT OF GAMBLING THAT I HAVE NOT MENTIONED IS THAT GAMBLING IS A VERY HIGHLY TAXED INDUSTRY. THUS COMPARED TO ALTERNATIVE FORMS OF SPENDING, THE GOVERNMENT GETS A HIGHER SHARE OF GROSS

REVENUES. FROM AN ECONOMIC POINT OF VIEW, THIS COULD BE GOOD
OR BAD DEPENDING ON YOUR VIEW OF THE PRODUCTIVITY OF THE
GOVERNMENT SECTOR COMPARED TO THE PRIVATE SECTOR.

THANK YOU FOR INVITING ME AND I WILL ANSWER ANY QUESTIONS.