CHAIRMAN JAMES: Dr. Ryan.

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

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

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

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

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

If we look at a closed system, a closed economic system, so we -- for the time being, let's ignore exports and imports of dollars and so forth from foreign countries and we'll come back to that -- that the system can only grow measured by
the traditional measures of productivity, Gross Domestic Product, however you want.

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

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

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

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

That hasn't been studied, to any extent that I'm aware of, at the national level. At the local level it has, and quite often it's positive. If you look at what's happening in the Gulf Coast of Mississippi, it's hard to say that there's not a net increase in capital formation which pushes the production possibility frontier of this economy forward.
The national level, it's very, very difficult because though in the long run those dollars that are invested in this industry come out of some industry. There's nothing wrong with that. That's not bad; that's not something we should regulate; that's not something, with all due respect, that we should develop a national commission on.

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

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

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

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

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

Some people are going to say, well, you measure economic growth simply by the traditional measures of
productivity, Gross Domestic Product and so forth, and others are
going to say, well, no, that is too simplistic. We've got to
look at people and we've got to look at the welfare of people and
job training and so forth.

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

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

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

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

I've never seen a study that looks at this and answer
to the question, do we get net new investment, do we get net new
economic growth? The answer is probably no or it's going to be
very minimal. But as I think several of the speakers have said today, that really shouldn't matter.

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


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

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

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

In terms of looking at the net growth impacts on the United States, if the dollars that go into the gambling industry,
domestic dollars, would have gone into some other industry that
has a more export component or import component in this case, then there could be a net positive growth factor for gambling.

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

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

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

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

Those are the negative externalities that Professor Thompson was referring to. And we have to look at those.
Clearly gambling is an addictive activity and it's been documented, whether it's .9 or 1.6 or .3 or whatever it is -- and you can put the numbers to it and come up with some relatively large costs that are a drag on society that move our economy within that production possibility frontier that just create what we call dead weight loss in economics. They're dollars that don't go toward any positive productive use.

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

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

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

Maybe that needs to be done so that we can confirm that but the real question in my mind looks at what are those other costs, whether it's crime, whether it's reduced productivity, worker productivity, whether it is those social costs that were referred to family problems, suicide, depression, or the cost of treating those illnesses by society.
That's really where we focus our attention. I was always taught -- and I'm not sure, as an economist, that I understand this so it really makes sense -- but I was always taught that two wrongs don't make a right. And if we say, well, look, we've got industries that create a lot of externalities on society, the alcohol industry and the gambling industry -- I mean, and the tobacco industry, well, then it's okay to have another one that does that.

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

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

CHAIRMAN JAMES: Thank you very much.