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5   I'm going to ask as I introduce each of the

6   panelists if they would come forward and take their

7   seat at the table. We're going to proceed immediately

8   this morning to our expert panel on lotteries entitled:

9   "Who Wins and Who Loses".   EXPERT PANEL ON LOTTERIES:

10 WHO WINS AND WHO LOSES?

11   CHAIRPERSON JAMES: Alan   Karcher,   Mr.

12 Karcher is an attorney in private practice, who from

13 1973 to 1990 served as a member of the New Jersey House

14 of Representatives during the period in which New

15 Jersey decided to allow gambling. Mr. Karcher authored

16 a book titled Lotteries, published in 1989.

17   Good morning and welcome.

18   MR. KARCHER: Good morning.

19   CHAIRPERSON JAMES: And, let's see.   The

20 next person we have is Reuven Brenner. Mr. Brenner is

21 a Professor of Economics at McGill University and is

22 recognized   internationally   for   his   expertise   on

23 gambling issues.   Professor Brenner has published

1 extensively and is one of a very narrow field of

2 economists who are expert in the area of gambling.

3   Thank you for being here this morning and

4 welcome.

5   MR. BRENNER: Thank you.

6   CHAIRPERSON JAMES: Samuel DePhillippo, and

7 I apologize, I think I slaughtered your name yesterday.

8 I did a little better today and by tomorrow I'll have

9 it down.

10   MR. DePHILLIPPO: I've had worse things

11 said.

12   CHAIRPERSON JAMES: He's served as the

13 Executive Director of the Massachusetts State Lottery

14 Commission since 1995 and, again, personally, thank you

15 for all of your help in putting this meeting together,

16 and we appreciate all you've done.   With nearly a

17 quarter century of sales and marketing expertise, he

18 has oversight of one of the nations most well known

19 lotteries.

20   I will also take this opportunity again to

21 inform each panelist that under the supplemental rules

22 of the Commission, testimony before the Commission

23 shall be conducted and be considered to be under oath.

24 The Commission may question witnesses, who maybe

1 represented by counsel if that's your choice, at all

2 Commission proceedings.

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1   We will begin with you, Mr. Karcher, and

2 thank you so much for being here.

3   MR. KARCHER: Thank you. Let me begin by

4 saying that my interest in the subject stemmed out of

5 really, it grew out of an interest in taxation and

6 attempts, often futile, to persuade my colleagues in

7 the New Jersey Assembly that we ought to concentrate on

8 progressive ways to raise taxes rather than regressive

9 ways.

10   I had occasion after a brief stint, four

11 years as Speaker of the House in New Jersey, to come up

12 here to Boston, the Boston area and be at Harvard as a

13 Fellow at the Kennedy School, and it was during

14 that time that I started to put a pen to paper on what

15 I thought was going to be a magazine article and grew

16 into a 120 page book. The written statement that I

17 have submitted to the Commission is constituted by the

18 conclusions of that book.

19   Let me make some observations. Number one,

20 lotteries are here to stay. It is part of human

21 nature, it is ingrained in human nature. People like

22 to gamble, they like to gamble in all forms. We, in

23 New Jersey, have realized one thing, I think, after a

24 very long and extensive period of trying to suppress

1 gambling.   What we did in 1897 was ban all forms of

2 gambling constitutionally. What we found the result to

3 be was counterproductive to the efforts to suppress

4 gambling.   Rather, illegal gambling became the major

5 source of funding organized crime.

6   Ultimately, New Jersey had to re-legalize

7 gambling or decriminalize gambling, almost as a matter

8 of self-defense, so that the organized crime element

9 would not have a monopoly on the revenue from gambling.

10 We in New Jersey, of course, have a tendency to move in

11 a pendulum type fashion so we swung from an absolute

12 ban on gambling to being one of the states that has the

13 most extensive legalized gambling that there is.

14   Let me make these other observations about

15 the lottery in particular and my area of interest in

16 it. For those who buy tickets and lose regularly, it

17 is an effective tax rate of 100 percent. There are few

18 taxes that anyone would tolerate in our society of

19 anything approaching that magnitude. Yet, we have no

20 qualms about having a tax rate that for the vast

21 majority of players is at an effective rate of 100

22 percent.

23   Using all the euphemisms that are used in

24 the lottery industry, such as the fact that it is not a

1   tax, it is the take out, I always thought that was a

2   great euphemism, the take out of the lottery. Still,

3   the studies I've seen and I looked at them more

4   intensively ten years ago, but I don't think they've

5   changed much, the effective rate, when you take the

6   aggregate of all money gambled in the lottery pool, and

7   you take into account the take out by the state and

8   then all applicable other taxes, about 85 cents out of

9   every dollar gambled winds up in some government's

10 coffer, whether it be the federal government, the state

11 government, the local government, et cetera, et cetera.

12 About 85 percent of every dollar gambled winds up being

13 consumed in some kind of tax.

14   I want to also take one other moment to

15 address the question about who wins and who loses, and

16 I say this almost anecdotally, I live now in Princeton,

17 New Jersey. Princeton is a wonderful place, the home

18 of an incredibly fine institution, that was built

19 primarily with lottery funds. Princeton University has

20 that history and it was, much of the campus was

21 destroyed in the Revolutionary War by British Troops.

22 It was rebuilt by the use of a lottery.

23   Princeton is also a very affluent

24 community. So, when I say anecdotally, I went and

1 searched for lottery outlets in Princeton. Princeton

2 ranks as one of the ten top median incomes in the

3 state. There is no lottery outlet in any main section

4 of Princeton, New Jersey. To find the lottery outlet,

5 one has to go to that section of the community which is

6 demographically much poorer and much different than the

7 area near the campus.

8   The same is true throughout New Jersey.

9 There is an absolute inverse ratio between the wealth

10 of the community and the number of outlets. In the ten

11 richest towns in New Jersey, there is probably one

12 agent for every two or three thousand people, where you

13 find in the cities, the ghettos and the realms of the

14 inner cities, you find one agent for every 300 people.

15   There is a saturation of lottery outlets

16 and agents that in my judgment verges on racism. This

17 is a calculated, planned saturation of a certain

18 market, an absolute ignoring of other markets. I think

19 as long as we have that, we have to be troubled by who

20 wins and who loses, and I look forward to answering

21 questions that you might have.

22   CHAIRPERSON JAMES: Thank you.

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