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CHAIRPERSON JAMES:

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Dr. Brenner.

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MR. BRENNER: Thank you, very much. I'll

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also give you a brief background. My initial interest

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in this was that when I was very young and naive, I had

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my theory of history and the University of Chicago at

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that time invited me and I wrote two books, one called

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History of the Human Gamble and the second, Betting on

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Ideas. Which today I would never have dared to write.

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And it is then that the subject of gambling a little

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bit as a side issue interested me.

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Then since I was frequently asked to write

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about it, about ten years ago I put it together and

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Cambridge University published it called: Gambling and

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Speculation. Later it was translated to French and it

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came out in other countries as well.

1 I have not worked on the subject for the
2 last ten years, I work now in business, in finance.
3 But still the book is being reviewed here in The Boston
4 Globe, in the London Times and The Wall Street Journal,
5 and I guess I owe the invitation to that.

6 People have sent me over the last ten years
7 the material that was published and I would say all
8 that I have said more or less confirms what at that
9 stage I found on various aspects of gambling.

10 So, let me briefly just tell you what, at
11 the time, what were the questions that I was interested
12 in. The book really examines the history, the
13 regulatory environment around the world, not only in
14 the U.S. but in the U.K., Sweden, France, Norway and
15 the findings were pretty similar. So here are the
16 questions so that that can help you later if you want
17 to ask me anything specific.

18 One, who plays in casinos, bingo,
19 lotteries, are these the same or different people? Why
20 some lotteries fail and others succeed? Is it true
21 that the poorer are spending a greater fraction of
22 their incomes on lotteries than the richer? Are
23 gamblers overestimating the chance of winning? What do
24 the winners do with the money? Why has gambling been

1 so frequently condemned and prohibited? What happened
2 when it was prohibited? Who were the winners and the
3 losers? Why was there confusion between gambling,
4 insurance and speculation? How were casinos financed?

5 Now here, since the title of the session
6 here is Who Wins, Who Loses, I shall focus on that
7 question. And I just gave you the list so that if you
8 want to ask me anything much broader, then, I shall try
9 to answer to the best of my knowledge.

10 So when we ask the question, Who Wins, Who
11 Loses?, the question is relative to what? You must
12 have a benchmark in mind when you ask who are the
13 winners and losers. Now, frequently the discussion is
14 that winning and losing relatively to prohibition, and
15 I shall address that question. Then winning and losing
16 relatively to a situation when lotteries would be
17 completely private or privately run, that's another
18 alternative.

19 I find that frequently people when they do
20 the research, they pay too much attention to words and
21 not to content, and I give you an example. In many
22 states, the revenues from lotteries go directly into
23 the general fund, whereas, in other places, they are
24 designated for hospitals, culture, education. And I

1 know that studies have done, is it true that when you
2 introduce lottery, spending on education or culture has
3 increased?

4 Now I find that that line of research not
5 convincing, not interesting and indeed, they didn't get
6 any results and for the very simple reason because if
7 you look really at the sequence of events, the moment
8 revenues from lotteries are designated for particular
9 purposes, then you consider there is a similar decrease
10 in the general funds allocated to those same things.
11 So it is not true that the fact that you designate
12 something for a particular purpose, that the total
13 spending for that purpose will increase. So, that's
14 one thing.

15 The second, it is true that tax revenues
16 from gambling have been around, I think, between, the
17 average is about 3.5 percent in 36 states here in the
18 United States. So it is true that if the government
19 was spending the same amount of money as before, and
20 lotteries or gambling was prohibited, then you may
21 think that spending, you have to raise that three
22 percent from something else or you had to diminish your
23 expenditures. So, in that sense, it is correct that if
24 this industry was prohibited, then that government had

1 to either diminish expenditures or raise taxes and that
2 would pose a problem.

3 However, let me add in parenthesis that
4 this issue of linking gambling with culture and
5 education or hospitals, has a long history. For
6 example, the Vatican since the middle ages had a
7 lottery and it was that lottery that financed the
8 Vatican Museum.

9 The link between casinos and culture is
10 more interesting. I don't know how many of you are
11 aware of the fact that opera houses have been private
12 in Italy until the beginning of the 19th Century and
13 they were profitable. Now, the reason they were
14 profitable were that the Opera houses had casinos
15 attached to them and if you look, for example at
16 Stendalt's Biography of Rossini, the classical
17 composer, you will find a difference in his contract,
18 and that really he became rich not as a composer,
19 although he was one of the best known at the time, but
20 because he received a certain percentage of the
21 revenues from the table.

22 Now, the reason that that financial
23 arrangement was interrupted, and by the way, really the
24 revenues of these entertainment complexes financed all

1 the R&D in that industry, the commission of new ballets
2 and operas. The reason that an end was put to this
3 arrangement was that after a revolution started in
4 Belgium, against Napoleon, and the opera house, the
5 rulers were afraid it was the most popular form of
6 entertainment and so that people go to the casino
7 rather than to the opera only, so they closed down the
8 casinos.

9 Now, once the casinos are closed down, then
10 opera houses had to be subsidized by the state. Now,
11 this may sound surprising why an entertainment venture
12 cannot be on its own, but think for a moment about
13 movie theaters today, about 40 percent of their
14 revenues don't come from movie tickets but from soft
15 drinks and popcorn. So, suppose that the government
16 decided that that's bad for our health and closed them
17 down, the counters, then movie theaters would go, half
18 of them would probably go bankrupt, and then the
19 government would go into subsidizing those
20 entertainment ventures.

21 So, in fact, a remnant of this arrangement
22 survives in Monte Carlo, where the opera and the casino
23 belong to the family. And it survives also in many of
24 the French cities, if you go to De Ville and Avignon,

1 the casino is the center of the city, where you have
2 both gambling and culture. In a way places that have
3 prohibited casinos, the government, in a way, is taking
4 a little bit over this role of allowing lotteries,
5 allowing casinos and then saying that the tax money
6 coming from the gambling industry will go to culture.
7 So, it's almost like recombining in a kind of indirect
8 way old, very private and much more successful
9 arrangements, I would say.

10 Now, let me go back to the question of
11 winners and losers, and here I would say we have to
12 look at four categories for what we mean by winners and
13 losers? So, let's look at the players, the taxpayers,
14 the producers and the employees in the lottery business
15 and producers and employees in other businesses. So,
16 when we look at players, first, since I mentioned that
17 lotteries are here to stay, I shall not mention the
18 alternative is prohibition. Why the players are
19 gaining relatively to a situation when the games are
20 prohibited. But I shall compare to the situation where
21 lotteries or the gambling industry generally is more
22 competitive. The moment lotteries have more
23 competition, they pay out more in prize money. For
24 example, in a place where it is a monopoly and people

1 don't have access to other lotteries, then like every
2 monopoly, it pays out less in prize money. For
3 example, when lotteries just started, the prizes paid
4 out were about 40 or 50 percent. The moment the
5 competition intensified, then they pay out in prize
6 money about 70 percent. So, obviously the players
7 benefit if there is more competition because they get
8 more prize money back.

9 Now to speak, just to mention the magnitude
10 of the numbers, it doesn't matter whether you look at
11 the U.S., Sweden, France, Norwa<À England is an
12 exception, and I shall mention why, the average amount
13 spent on lotteries is about \$250 a year. That's about
14 \$20 a month. Now these are the gross expenditures. If
15 you take into account that more than half is coming
16 back in form of prizes, then the net outlay, it's only
17 about \$100 a year.

18 In England, the amount is only \$135
19 dollars, half the world-wide average, and one of the
20 reasons is, and maybe some of you were told already,
21 that the government granted monopoly to Camelot and
22 they are not managing it very well, that's why Branson
23 is trying to get to manage it better and to distribute
24 more in money prizes and offer a greater range of

1 lotteries. So the players would benefit if there was
2 more competition.

3 Now what about the taxpayers? Obviously,
4 the taxpayers benefit because as I mentioned at the
5 beginning, if gambling was more restricted, then people
6 play less, or if less range of lottery is offered, then
7 people play less, so the government revenues are
8 smaller and the government wants to maintain the same
9 level of spending, then it has to increase tax on
10 something else so the other taxpayers would suffer.

11 Now, the producers and employees in the
12 lottery business or in gambling in general, again, the
13 more competition there is, the more you create jobs in
14 that particular industry. Now, what about producers
15 and employees in other business? What you find is that
16 there is frequently opposition. For example, when
17 Florida wanted to introduce gambling, the opposition
18 came from Disney and from the horse racing
19 establishment. Now, that shouldn't be surprising.

20 Obviously, even when people are in
21 principle for competition, if it touches them and then
22 they will invent moral arguments to try to forbid it,
23 but why Disney.

1 What I found at the time was that you have
2 to separate completely two types of games of chance.
3 Some are played for entertainment, like casinos and
4 bingo and others are played in the hope of getting
5 rich. Those are the lotteries with the large prizes.
6 And since antiquity, you do find this distinction that
7 many times those who opposed gambling establishments,
8 they, the opposition came from industries one way or
9 another from the entertainment industry because they
10 saw that if people would spend more hours playing bingo
11 or in casinos or in pubs where gambling was allowed,
12 then obviously they would spend less time somewhere
13 else.

14 Just as a curiosity let me show you why
15 sometimes you must look a little further behind. In
16 the 14th Century, Edward, the King of England, passed a
17 law prohibiting Gambling establishments, on the grounds
18 that it diminishes the military ability of the
19 Englishman. Now, this struck me as very strange until
20 I looked more quickly into the Act and it came out that
21 at that time, one of the favorite past times of people
22 was archery, and it was the "military lobby" who said
23 that if you open gambling establishments, then people

1 will practice less archery and that would be terrible
2 for the English military ability.

3 So, I would say I understand why Disney
4 opposes it, because if you look at what the
5 transformation that Las Vegas went through, it really
6 became a kind of entertainment complex not just a
7 sleazy place but almost for the family.

8 About other businesses, who else can be
9 affected? Now, most of the opposition, the moral one
10 came as you might have heard from religious groups, and
11 that also has a very long story. Now, the interesting
12 thing--

13 CHAIRPERSON JAMES: And you have about two
14 minutes to tell it.

15 (Laughter)

16 MR. BRENNER: Anyway, it has to do, once
17 again, with time and if you look back at the history of
18 the church, the reason it attacked gambling and it
19 attacked also all types of entertainment, when bicycles
20 were invented, then they attacked bicycles, when trains
21 came in, then they attacked trains because they saw
22 that people would spend the weekends traveling rather
23 than going to church.

1 However, when they saw that they couldn't
2 beat the competition, then they joined it and, in fact,
3 frequently they asked to have the monopoly on bingo for
4 example, and the first state to legalized bingo for
5 religious purposes was the state of Massachusetts in
6 1931.

7 Just the last one minute, the only problem
8 that many people mention is addiction. What I found at
9 the time and these findings have been coming in all the
10 countries, all over history, that's a very small number
11 and if you want more details on that, I'll come back
12 later.

13 Thank you, very much.

14 CHAIRPERSON JAMES: Thank you, Dr. Brenner.