I'm going to ask as I introduce each of the panelists if they would come forward and take their seat at the table. We're going to proceed immediately this morning to our expert panel on lotteries entitled: "Who Wins and Who Loses". EXPERT PANEL ON LOTTERIES: WHO WINS AND WHO LOSES?

CHAIRPERSON JAMES: Alan Karcher, Mr. Karcher is an attorney in private practice, who from 1973 to 1990 served as a member of the New Jersey House of Representatives during the period in which New Jersey decided to allow gambling. Mr. Karcher authored a book titled Lotteries, published in 1989.

Good morning and welcome.

MR. KARCHER: Good morning.

CHAIRPERSON JAMES: And, let's see. The next person we have is Reuven Brenner. Mr. Brenner is a Professor of Economics at McGill University and is recognized internationally for his expertise on gambling issues. Professor Brenner has published
extensively and is one of a very narrow field of economists who are expert in the area of gambling.

Thank you for being here this morning and welcome.

MR. BRENNER: Thank you.

CHAIRPERSON JAMES: Samuel DePhillippo, and I apologize, I think I slaughtered your name yesterday. I did a little better today and by tomorrow I'll have it down.

MR. DePHILLIPPO: I've had worse things said.

CHAIRPERSON JAMES: He's served as the Executive Director of the Massachusetts State Lottery Commission since 1995 and, again, personally, thank you for all of your help in putting this meeting together, and we appreciate all you've done. With nearly a quarter century of sales and marketing expertise, he has oversight of one of the nation's most well known lotteries.

I will also take this opportunity again to inform each panelist that under the supplemental rules of the Commission, testimony before the Commission shall be conducted and be considered to be under oath. The Commission may question witnesses, who maybe
represented by counsel if that's your choice, at all
Commission proceedings.
We will begin with you, Mr. Karcher, and thank you so much for being here.

MR. KARCHER: Thank you. Let me begin by saying that my interest in the subject stemmed out of really, it grew out of an interest in taxation and attempts, often futile, to persuade my colleagues in the New Jersey Assembly that we ought to concentrate on progressive ways to raise taxes rather than regressive ways.

I had occasion after a brief stint, four years as Speaker of the House in New Jersey, to come up here to Boston, the Boston area and be at Harvard as a Fellow at the Kennedy School, and it was during that time that I started to put a pen to paper on what I thought was going to be a magazine article and grew into a 120 page book. The written statement that I have submitted to the Commission is constituted by the conclusions of that book.

Let me make some observations. Number one, lotteries are here to stay. It is part of human nature, it is ingrained in human nature. People like to gamble, they like to gamble in all forms. We, in New Jersey, have realized one thing, I think, after a very long and extensive period of trying to suppress
gambling. What we did in 1897 was ban all forms of gambling constitutionally. What we found the result to be was counterproductive to the efforts to suppress gambling. Rather, illegal gambling became the major source of funding organized crime.

Ultimately, New Jersey had to re-legalize gambling or decriminalize gambling, almost as a matter of self-defense, so that the organized crime element would not have a monopoly on the revenue from gambling. We in New Jersey, of course, have a tendency to move in a pendulum type fashion so we swung from an absolute ban on gambling to being one of the states that has the most extensive legalized gambling that there is.

Let me make these other observations about the lottery in particular and my area of interest in it. For those who buy tickets and lose regularly, it is an effective tax rate of 100 percent. There are few taxes that anyone would tolerate in our society of anything approaching that magnitude. Yet, we have no qualms about having a tax rate that for the vast majority of players is at an effective rate of 100 percent.

Using all the euphemisms that are used in the lottery industry, such as the fact that it is not a
tax, it is the take out, I always thought that was a
great euphemism, the take out of the lottery. Still,
the studies I've seen and I looked at them more
intensively ten years ago, but I don't think they've
changed much, the effective rate, when you take the
aggregate of all money gambled in the lottery pool, and
you take into account the take out by the state and
then all applicable other taxes, about 85 cents out of
every dollar gambled winds up in some government's
coffer, whether it be the federal government, the state
government, the local government, et cetera, et cetera.
About 85 percent of every dollar gambled winds up being
consumed in some kind of tax.

I want to also take one other moment to
address the question about who wins and who loses, and
I say this almost anecdotally, I live now in Princeton,
New Jersey. Princeton is a wonderful place, the home
of an incredibly fine institution, that was built
primarily with lottery funds. Princeton University has
that history and it was, much of the campus was
destroyed in the Revolutionary War by British Troops.
It was rebuilt by the use of a lottery.

Princeton is also a very affluent
community. So, when I say anecdotally, I went and
searched for lottery outlets in Princeton. Princeton ranks as one of the ten top median incomes in the state. There is no lottery outlet in any main section of Princeton, New Jersey. To find the lottery outlet, one has to go to that section of the community which is demographically much poorer and much different than the area near the campus.

The same is true throughout New Jersey. There is an absolute inverse ratio between the wealth of the community and the number of outlets. In the ten richest towns in New Jersey, there is probably one agent for every two or three thousand people, where you find in the cities, the ghettos and the realms of the inner cities, you find one agent for every 300 people.

There is a saturation of lottery outlets and agents that in my judgment verges on racism. This is a calculated, planned saturation of a certain market, an absolute ignoring of other markets. I think as long as we have that, we have to be troubled by who wins and who loses, and I look forward to answering questions that you might have.

CHAIRPERSON JAMES: Thank you.