CHAIRPERSON JAMES:

Dr. Brenner.

MR. BRENNER: Thank you, very much. I'll also give you a brief background. My initial interest in this was that when I was very young and naive, I had my theory of history and the University of Chicago at that time invited me and I wrote two books, one called History of the Human Gamble and the second, Betting on Ideas. Which today I would never have dared to write. And it is then that the subject of gambling a little bit as a side issue interested me.

Then since I was frequently asked to write about it, about ten years ago I put it together and Cambridge University published it called: Gambling and Speculation. Later it was translated to French and it came out in other countries as well.
I have not worked on the subject for the last ten years, I work now in business, in finance. But still the book is being reviewed here in The Boston Globe, in the London Times and The Wall Street Journal, and I guess I owe the invitation to that.

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

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

One, who plays in casinos, bingo, lotteries, are these the same or different people? Why some lotteries fail and others succeed? Is it true that the poorer are spending a greater fraction of their incomes on lotteries than the richer? Are gamblers overestimating the chance of winning? What do the winners do with the money? Why has gambling been
so frequently condemned and prohibited? What happened when it was prohibited? Who were the winners and the losers? Why was there confusion between gambling, insurance and speculation? How were casinos financed?

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

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

I find that frequently people when they do the research, they pay too much attention to words and not to content, and I give you an example. In many states, the revenues from lotteries go directly into the general fund, whereas, in other places, they are designated for hospitals, culture, education. And I
know that studies have done, is it true that when you introduce lottery, spending on education or culture has increased?

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

The second, it is true that tax revenues from gambling have been around, I think, between, the average is about 3.5 percent in 36 states here in the United States. So it is true that if the government was spending the same amount of money as before, and lotteries or gambling was prohibited, then you may think that spending, you have to raise that three percent from something else or you had to diminish your expenditures. So, in that sense, it is correct that if this industry was prohibited, then that government had
to either diminish expenditures or raise taxes and that would pose a problem.

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

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

Now, the reason that that financial arrangement was interrupted, and by the way, really the revenues of these entertainment complexes financed all
the R&D in that industry, the commission of new ballets and operas. The reason that an end was put to this arrangement was that after a revolution started in Belgium, against Napoleon, and the opera house, the rulers were afraid it was the most popular form of entertainment and so that people go to the casino rather than to the opera only, so they closed down the casinos.

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

So, in fact, a remnant of this arrangement survives in Monte Carlo, where the opera and the casino belong to the family. And it survives also in many of the French cities, if you go to De Ville and Avignon,
the casino is the center of the city, where you have both gambling and culture. In a way places that have prohibited casinos, the government, in a way, is taking a little bit over this role of allowing lotteries, allowing casinos and then saying that the tax money coming from the gambling industry will go to culture. So, it's almost like recombining in a kind of indirect way old, very private and much more successful arrangements, I would say.

Now, let me go back to the question of winners and losers, and here I would say we have to look at four categories for what we mean by winners and losers? So, let's look at the players, the taxpayers, the producers and the employees in the lottery business and producers and employees in other businesses. So, when we look at players, first, since I mentioned that lotteries are here to stay, I shall not mention the alternative is prohibition. Why the players are gaining relatively to a situation when the games are prohibited. But I shall compare to the situation where lotteries or the gambling industry generally is more competitive. The moment lotteries have more competition, they pay out more in prize money. For example, in a place where it is a monopoly and people
don't have access to other lotteries, then like every
monopoly, it pays out less in prize money. For
example, when lotteries just started, the prizes paid
out were about 40 or 50 percent. The moment the
competition intensified, then they pay out in prize
money about 70 percent. So, obviously the players
benefit if there is more competition because they get
more prize money back.

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

In England, the amount is only $135
dollars, half the world-wide average, and one of the
reasons is, and maybe some of you were told already,
that the government granted monopoly to Camelot and
they are not managing it very well, that's why Branson
is trying to get to manage it better and to distribute
more in money prizes and offer a greater range of
lotteries. So the players would benefit if there was
more competition.

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

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

Obviously, even when people are in
principle for competition, if it touches them and then
they will invent moral arguments to try to forbid it,
but why Disney.
What I found at the time was that you have to separate completely two types of games of chance. Some are played for entertainment, like casinos and bingo and others are played in the hope of getting rich. Those are the lotteries with the large prizes. And since antiquity, you do find this distinction that many times those who opposed gambling establishments, they, the opposition came from industries one way or another from the entertainment industry because they saw that if people would spend more hours playing bingo or in casinos or in pubs where gambling was allowed, then obviously they would spend less time somewhere else.

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

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

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

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

(Mlaughter)

MR. BRENNER: Anyway, it has to do, once
again, with time and if you look back at the history of
the church, the reason it attacked gambling and it
attacked also all types of entertainment, when bicycles
were invented, then they attacked bicycles, when trains
came in, then they attacked trains because they saw
that people would spend the weekends traveling rather
than going to church.
However, when they saw that they couldn't beat the competition, then they joined it and, in fact, frequently they asked to have the monopoly on bingo for example, and the first state to legalized bingo for religious purposes was the state of Massachusetts in 1931.

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

Thank you, very much.

CHAIRPERSON JAMES: Thank you, Dr. Brenner.