

CASE STUDY NUMBER 2:

BOOKMAKING IN NEW YORK

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INTRODUCTION

Illegal bookmaking, like Numbers, has a long history in urban America. Like Numbers, it also appears, in its current form, to be essentially an American, or at least Anglo-Saxon, phenomenon. Until the 1960's it appears that most of the betting handled by illegal bookmakers involved horse races. Since 1970, at the latest, most betting has been on sports events. The shift has significant consequences for the structure of the business, as we shall discuss later in the paper.

Descriptions of bookmaking in earlier eras are readily available.¹ All of them stress the anarchy that existed prior to the exit of Western Union from the business of providing racing results. Up till 1904, any bookmaker could lease a Western Union terminal and be assured of accurate and timely receipt of information on races throughout the United States, Mexico and Cuba. However, in 1904 reformist pressure forced the directors of Western Union to end the collection and dissemination of racing information.² As a result illicit wire services were established and used as a tool for organizing and extorting bookmakers in various cities.

The terms of the wire service generally involved payment to the service of a substantial share of the bookmaker's gross profits.

Efforts to establish a national monopoly in racing information were at the center of violent conflicts in several cities from 1904 to the early 1930's. For a period of ten years an effective monopoly was established but convictions of the leading figures led to renewal of the struggles.

In 1950 the Kefauver Committee began its investigation of organized crime in America, with the wire services and their operations as a major focus. The Committee concluded that there was a single national wire service, owned by members of the old Capone bootlegging organization.³ The evidence for the existence of a national monopoly at that time was in fact quite weak and the Kefauver thesis has never been established.

However there are numerous accounts suggesting that, throughout the first half of this century, bookmaking in major cities was tightly controlled at a local level. Many of the major bootleggers, such as Capone, Costello and

Genovese derived substantial parts of their incomes from control of bookmaking in some city or part of a city. Few of them were involved in the actual operation of bookmaking, though many were heavy bettors. The wire service was the main source of control.

Systematic corruption was also an important aspect of the business. Bookmaking then involved mostly face-to-face transactions between bettor and bookmaker. The operation had a physical location to which most players came; this created a regular traffic similar to that generated by a Numbers spot, and made it an obvious target for police enforcement. Continued operation generally involved regular payment to the police. Such payments were largely the function of racketeers, who worked cooperatively with police and political organizations to ensure the smooth operation of the business.

The shift to sports betting had two important consequences. First, it eliminated the need for wire services since the required information could be freely obtained from the media, which were prohibited by F.C.C. regulations from immediate dissemination of racing results. Secondly,

betting became a telephone business. In part this certainly reflected the spread of telephones in American life. But it was also a result of the particular features of horse-betting. Horse races are brief events, in contrast to the two or three hour contests which are the subject of most sports betting. There are many races run in a fixed sequence throughout the day. Most horse bettors bet on more than one race and like to know the outcome of their first wager before making their second. The only way they could have this information was by going to a wireroom where the results were posted on a blackboard. The wire-room is an irrelevance for the sports bettor.

The elimination of the specialized wire service and the fixed location for face-to-face betting both reduced the role of the racketeer. The supply of information was no longer a tool for control, and telephone betting was far less vulnerable to the routine efforts of law enforcement. It was no longer necessary to place the beat cop on a regular pad, and control of the police department became less important to the smooth operation of the bookmaking business.

While the change has been an important one, it did

not occur in an instant and its consequences are still not fully perceived in either legislation or commentary. There is still a tendency to assume that bookmaking could not continue to operate without at least the tacit cooperation of the police. Numbers and bookmaking are still lumped together as a single law enforcement problem, gambling, though they now represent two very distinct problems.

Before ending this historical discussion it is also important to mention another aspect of the business which has been fundamentally altered. During the horse betting era there existed a number of specialized lay-off operations which took bets from wirerooms throughout the nation. Biloxi, Mississippi and Covington, Kentucky are two places often associated with this activity. It is presumed that such specialized lay-off continued into the sports era and that any diminution of interstate gambling activity has been the result of federal law enforcement efforts which targeted precisely these establishments.

Yet the needs of these two kinds of betting for lay-off facilities are very different. Horse books took bets on races at tracks throughout the country, perhaps as many

as 100 races might be run on a particular day. Little information was available on many of them. Each involved approximately 10 horses. The probability that a bookmaker would find serious imbalance on some out-of-town race was high. Yet it might be exceedingly difficult to find another bookie in the same town with precisely compensating needs. Hence the need for a national lay-off center to which any bet could be relayed at short notice.

The sports bookmaker has a far simpler problem. On many days he will have no more than a dozen betting events, baseball season being a long period that meets this condition. Each event has no more than two outcomes. It is very likely that any imbalance can be met through local lay-off. National lay-off is probably only important on those few days (during the college basketball and football seasons) when there is a very large number of events, some attracting only a small number of bets locally.

I. THE BOOKMAKING BUSINESS

I.1 TERMINOLOGY

Illegal bookmaking in New York during the period of our study was primarily concerned with the results of sports events. Football, basketball and baseball provided the bulk of the betting; horse races provided a modest proportion and occasional bets were placed on hockey, and celebrity events, such as a heavyweight championship fight or major tennis match.

Most wagers are telephone transactions. No major bookmaker would permit customers to regularly come to his wireroom, which may well change location on a monthly basis. Some bettors may go to an agent of a bookmaker, who then phones in the bet, but even that is a relatively infrequent sequence. Payments are, of course, made at face-to-face meetings, commonly referred to as pay-and-collect, but they do not necessarily involve the bookmaker and may be quite infrequent.

A bookmaking operation may be owned by more than one person. In fact, partnerships appear to be the most common arrangement. Unlike Numbers, the partners will generally be active participants in the day-to-day management

of the operation. Occasionally a partner will have equity without management; this may occur if the equity was obtained as the consequence of debt problems. We shall hereafter use the term bookmaker for a person who is involved in management and also has an equity share.

Most bookmakers will also employ a small number of clerical workers, generally known either as clerks or figuremen. We have no record of any operation having more than six clerks working on a regular basis. A small number of clerical workers can process a very large volume of bets. The only specialization within the clerical function is between recording the bets and tallying the results of the day's action. Both require some skill, generally acquired through an apprenticeship. The major managerial skills, which are exclusively the functions of the bookmaker himself, are deciding how to shift the point spread, when to lay-off bets, what maximum size bet to accept and the extent of credit for each customer.

The point spread is essentially the odds announced for a given game. The simplest form is that for football. If Baltimore is favored over Cincinnati by 4 points, then a bet placed on Cincinnati will win if Cincinnati either wins the game or loses by less than four points. If Cincinnati

loses by exactly four points then bets on both sides are returned. The origin of the point spread for a particular game will be discussed in detail later.

Lay-off is a form of reinsurance. A bookmaker may accept a bet from a customer even though it adds an undesirable element of risk. He will attempt to eliminate this risk by placing the bet with another bookmaker. He accepts the bet originally to avoid losing the customer by denying him service. The problem in accepting the bet is that he may be unable, before the game begins, to find another bookmaker who is offering the same point spread and is willing to take the full amount of the bet.

A bookmaker establishes betting limits for each customer. These may be expressed in terms of the size per bet or the customer's total volume of betting per day. The objective is to control the riskiness of the bookmaker's portfolio. Differences between customers' betting limits represents the bookmaker's estimation of their variation in credit worthiness.

In addition to bookmakers and clerks, operations may use sheetwriters, sometimes called runners. These are in essence branch bookmakers who do not invest capital. The

arrangements between the sheetwriter and the bookmaker are fairly uniform. The sheetwriter receives a proportion, generally a half, of the winnings of the bookmaker resulting from bets placed by his customers. He also shares in the losses, but is not responsible for paying them i.e. if his customers win in the first week a total of \$1,000, then the bookmaker will give the sheetwriter \$1,000 to pay them. This will give the sheetwriter a "red figure" of \$1,000. In the next week, let us assume that the sheetwriter's customers lose \$400; then the red figure will be reduced by that amount, to \$600. In the next week assume the customers lose \$2,000. The sheetwriter will pay the bookmaker the remaining \$600 of the red figure plus half the \$1,400 which represents the net winnings, a total of \$1,300. His risks are the same as the bookmakers but he invests no money. It should be added that there are some sheetwriters who handle very substantial customer accounts and are content to work as sheetwriters throughout their careers. If a sheetwriter has a very large number of customers he may be able to bargain for a 75 percent share of net profits rather than the standard 50 percent.

Two final matters should be discussed, both concerned with the security of the operation. On a weekly basis,

in most instances, accounts must be settled between various participants. These meetings are called "pay and collect". Sheetwriters will meet with their customers to settle accounts. Bookmakers will meet with sheetwriters and some customers ("house accounts") also to settle accounts. Bookmakers will meet with other bookmakers for the same purpose.

Bookmakers demonstrate a continuous concern with security. A large bookmaker will often have more than one location at which he regularly works, rotating between these locations frequently. In order to maintain contact with customers, he employs a variety of devices to enable him to work through the same telephone number while relocating. The simplest system involves use of an answering service. Customers call in to an answering service, which simply takes a message stating that the persons wants to be called back at a given number. The bookmaker will, during the prime hours, check in with the answering service for messages every few minutes. This procedure has the advantage of preventing the police from placing a wiretap on his phone through the cooperation of a bettor. All the bettor will be able to provide the police is the number of the answering

service. The disadvantage of this system is that it requires the cooperation of the answering service which will certainly determine that their customer is indeed a bookmaker. More importantly, it is cumbersome for the bettor, who has to wait for the return call.

Other security systems involve "cheeseboxes". These are devices which permit the bookmaker to use a third phone to mediate between his phone and the customer's. If the police obtain the number through a customer, it will simply lead them to an empty room containing only a telephone, which has an untraceable connection to the bookmaker's phone. The problem of the cheesebox is its technical unreliability. Bookmakers are also beginning to use the call-forwarding services which the Bell System is offering to the general public.

I.2 SIZE OF BETS

The most striking characteristic of the distribution of bets in the operations we have looked at is the great range of bet sizes. The same operation that handled a bet of \$3,250,

also recorded on the same day for the same game a bet of \$20. An operation that regularly took \$2 bets on horse races also handled a bet of \$400 on a race. If there are operations which impose a high minimum on the individual bet size, and there are constantly assertions that such operations exist, we have not come across them. All operations we have seen so far handle bets covering at least two orders of magnitude.

Bets for sports events do tend to be substantially larger than for horse races. Horse bets of \$2 are not uncommon, while \$10 is probably the minimum bet for most sports bettors. Similarly, we have observed no horse bet larger than \$700, while sports bets of more than \$2,000 are not uncommon.

Many bettors, of course, make more than one bet on a day. As we have mentioned, maximum limits may be imposed on single day's action for each bettor. If such limits exist, they must be fairly high, for we have found in all large operations betting slips totalling at least \$5,000 for a single bettor on a given day. A customer's betting limit may be changed from time to time. For example, in one operation, the clerk took a bet of \$500 from a bettor. The bookmaker

called in to say that the bettor was restricted to \$300 maximum. The clerk was required then to call the bettor back and give him this instruction.

This same operation also showed another interesting trait. When it experienced some temporary financial difficulties, as the result of problems in collecting money owed, it imposed a new and lower limit on the size of individual bets by all customers. From a general \$1,000 limit (apparent) it moved to a \$300 limit.

1.3 INFORMATION AND POINT SPREADS

In order to accept bets on sports events the bookmaker must make a decision as to the appropriate point spread or odds. This is his key decision. If the point spread is very far from the correct one (and we shall discuss later what "correct" means) then he will receive many bets which he is unable to balance or to lay-off. No amount of later correction will solve the problem.

Point spreads appear in a variety of media. Most local newspapers, certainly the major ones in New York, publish estimated spreads for the major sports. There are numerous "sports services" which openly advertise the sale of weekly sheets listing point spreads. For a higher price, the subscriber can also obtain access to a telephone service from these same organizations, which gives him, on a daily basis adjusted spreads and the most current information, such as weather and injuries.

None of these sources has unique authority. If that were so, then we would expect to find that source being uniformly quoted throughout the market. In fact, it is not uncommon to find a set of spreads covering a modest range, at the time that business opens. The Rams may be quoted as favorites over the Cowboys at anything from 6 points to 3 points. There are undoubtedly times when there is essentially unanimity about the proper spread, but a margin of three points is not uncommon.

Players are intensely aware of this. A bookmaker's day opens with a series of telephone calls concerned with determining the line. He may start by calling his source, who

quotes him spreads for the various games of the day. He will then receive calls from customers who want to know what line he is quoting. They will record his line and then call back later to place bets. It is apparent that they will call a number of bookmakers for line quotations before making their decisions. Occasionally they will argue with the bookmaker that his line for a particular game is inappropriate.

The awareness of bettors and their willingness to invest the time needed to shop around for their best deal ensures that, over the course of the day's betting, the lines of various bookmakers tend to converge. Some bookmakers are stubborn and refuse to change the line in reaction to highly unbalanced betting. Such bookmakers are likely to face financial disaster fairly quickly. But the initial dispersion and the convergence over time are very strong pieces of evidence for our most important conclusion, which is that each bookmaker is essentially autonomous, and not subject to central control. The variation in spreads offers bettors the opportunity to "middle" bookmakers; no cartel would permit this.

What is the actual source of a bookmaker's point

spread? We have mentioned the legal sources. There are others. A small number of players are known for their expertise in particular types of betting. One may be known for his understanding of college basketball, another for his understanding of baseball. This reputation is both an advantage and a disadvantage. Its advantage is that it can be used to sell opinions; bookmakers may be willing to pay for the player's opinion. The disadvantage is that the bookmaker may be unwilling to permit the player to bet, given his better judgment. A compromise sometimes solves the problem and establishes the bookmaker's line.

The expert player is given the opportunity to make the opening bet on each game. The bookmaker may take his initial spread before the bet, from the newspaper or use his own opinion. The player has the option to place a bet up to a certain size at that initial spread. After placing (or refusing) the bet, he then has to give his own opinion as to the appropriate spread. The bookmaker will then start to accept bets from other players. He may not use exactly the spread that the expert suggests, but he will certainly use that at least to adjust his own opinion.

Agreements such as these are indicative of certain kinds of stability in bookmaking. The bookmaker must have some detailed knowledge of his bettors, though that knowledge may not include the player's real name, where he lives or what he does. The relationship between the player and the bookmaker must also be a long-term one. Otherwise it will be in the expert's interest to peddle a false line and then bet it through other players known as "beards". Undoubtedly this occasionally does occur, but the kind of long-term relationship described above seems to be a common one.

The adjustment of the line is an important aspect of bookmaking and one which we do not fully understand at this time. It is not the case that every bookmaker adjusts the line continuously so as to maintain balance in his betting on a given game. Some bookmakers do have complex systems to achieve this goal. Many take into account who is placing the bet in making the short-term decision to adjust. Some, as mentioned earlier, do not make adjustments at all. This group divides into two distinct sub-groups. One compensates for imbalance by frequent lay-offs. The other simply accepts all bets at the stated line.

In large part this reflects, we believe, variations in both the sophistication and risk-attitudes of bookmakers. Some bookmakers, perhaps even the majority, are bettors who have become so involved in the activity that they have made it a business. In the course of turning from bettor into bookmaker they also move the terms of betting in their favor, i.e. instead of betting \$11 to win \$10, they now bet \$10 to win \$11. Such persons may still want to take large risks; their line represents an opinion about the outcome of the game rather than an estimate of the proper "price" to ensure a profit. Some bookmakers are simply very unskilled entrepreneurs who do not set up information systems that enable them to establish effective control so as to make proper line adjustments.

I.4 LAY-OFF

As mentioned earlier, the laying-off of bets is a central feature of all bookmaking. Even with the adjustments of the line, the bookmaker may find himself with an undesired

imbalance of betting on a particular game. It is essential that he be able to find another bookmaker who is willing to take some of his bets at short notice.

Our most important finding in this respect is that lay-off is not a specialized function. Most bookmakers will accept bets from other bookmakers, and that is all there is to lay-off. Bookmakers who handle larger volumes of betting are more likely to be called by small bookmakers than vice versa. But we found no evidence that there was any operation which served solely as "the bookie's bookie". Indeed, it is hard to see the rationale for any such specialization.

In many instances, it appears that the bookmaker taking the lay-off will be unaware of the nature of the bet. For his accounting there is no reason to distinguish between a lay-off and other bets. He is, of course, interested in the identity of the person placing the bet. Some bettors are better informed than others and their action may be taken as an indication of where the "clever money" is going. But again, we stress that there is nothing in laying off to single it out from other forms of betting.

How extensive is lay-off betting? The percentage of a book's wagering that is laid-off is clearly a function of the size of the book, the risk attitude of the bookmaker, the pattern of betting, and the quality of his line. One very large operation, located in Nassau County though taking most of its bets from New York City, did not lay-off any bets during a three month period of observation. Other books, smaller but still not insignificant, may lay off as much as half of their betting. We estimate, very speculatively, that approximately one third of all betting is re-bet at some stage.

There are some police officers that claim to have found an operation that specialized in laying-off for others. According to this version, the operation, located in central Manhattan, performed the following function for a number of wirerooms. Each wireroom could call in and announce that it had a certain bet that it wanted to get rid of; e.g. \$5,000 on the Rams -6 over the Cowboys. The service would then call a number of other rooms and try to place some of this money with each of them. In effect, it saved each bookmaker the task of placing a series of telephone calls and of ensuring that he maintained current

telephone numbers for other operations. Such a service clearly has an economic justification. However, the direct evidence for its existence is weak and we have only come across a claim for one such room, operating in the early 1970's.

The difficulty of laying-off should not be minimized. In the case of horse betting it can be particularly troublesome. A bookmaker in Queens was called by another bookmaker and asked if he could handle \$400 on a horse in a Delaware race. The bookmaker asked the expected price and was told 15-1. He agreed to make some calls and see how much of the bet he could place. Eventually, after three calls, he was able to place some \$200; he accepted \$100 himself and then called back the original bookmaker and told him he would have to deal with the rest himself.

The lack of specialized lay-off operations has considerable significance for the question of control in bookmaking. In the standard accounts, one of the major tools for exerting control in bookmaking is the provision of lay-off facilities. No operation, it is asserted, can

get beyond a certain size without requiring access to a facility that is prepared to take large bets at short notice. These facilities are few in number and are owned by racketeers. Through them these racketeers are able to allocate franchises and determine prices. We find absolutely no evidence for this in New York.

1.5 PRICES

The most important observation about pricing in bookmaking is simply that there seems to have been almost no variation over the last fifteen years. For many years now the standard terms for sports bets (basketball and football) have been 11 for 10. The player is required to put up \$11 in order to win \$10. Very small bettors may be required to wager \$6 to win \$5 but none of the records we have reviewed have indicated this. Baseball betting, while more complicated, reflects the same constancy.

The vast bulk of betting, at least 80 percent of sports bets, is on single games at the terms given above. However, there exists more complex bets which appear to be

recent innovations in the business. A player can bet a "teaser". A number of games will be lumped together, at the player's discretion, and he will be given a certain number of additional points (at the bookmaker's discretion) to play with. For example, let us say the Rams are favored over the Cowboys by 6 and the Vikings over the Redskins by 10. The bookmaker will give the player an additional 8 points so that if he wants to bet on the Redskins and the Rams, he can bet on the Rams winning by 2 and the Redskins plus 14. If both these events occur, then he wins \$10 for his \$11 stake. In fact, it has been calculated by one observer that these bets, contrary to common perception, are substantially more favorable to the bookmaker than the conventional single game bet. Inasmuch as these bets are now an increasing portion of the handle, the prices have moved in favor of the bookmaker.

Note should be made here of the impact of the decline in horse betting. The return to the bookmaker from horse betting, as an expected share of the total wagered, is far higher than for sports bets. If his betting mirrored the pattern at the track, then the bookmaker would receive approximately an 18 percent share of

the wagering, that being the percentage retained by the track before allocating money to the winners. The expected return to the bookmaker on sports bets ignoring various commissions and payments we shall discuss later, is only 4.4. percent for single game bets.

Of course, if horse bets promise a larger return to the bookmaker, on the average, they also involve greater risk. The bookmaker can not fully balance his books, since he has only rough prior estimates of the prices for various horses. A small imbalance in his books on a single race, if that imbalance involve a successful long-shot, can lead to a substantial loss. Lay-off, as mentioned earlier, can be very difficult. The decline in the share of horse betting has reduced both the riskiness and, in a crude sense, the profitability of bookmaking.

1.6 CREDIT

The extension of short term credit is one of the central features of contemporary bookmaking. Almost all

bettors are allowed to place bets on a credit basis and making proper judgments as to the amount of credit a bettor should receive is a key to the success of bookmaking operations.

Credit is rarely extended to the bettor for more than a week, as a matter of policy. If the net flow between the bettor and the bookmaker at the end of the week is very small, then no settlement may be made, so as to avoid the inconvenience of a meeting. Otherwise the bettor and the bookmaker expect to settle accounts on a given day each week.

Sometimes bettors are required to put up collateral. We have been told this by two participants but do not know enough to be able to say anything about its generality. Certainly if a bettor has a poor reputation, the bookmaker may require him to advance some money. Some operations may require such deposits from each new bettor.

Of course, some bettors fail to meet their obligations. These failures are the stuff of which movies such as The Gambler are made. Responses vary. Some bookmakers are fairly slack, particularly with long term customers and merely

call with reminders. Some lower the bettor's limit until the debt is settled. Others, but few, will charge interest until the debt is paid.

One response which seems to be very rare is to turn the bettor over to a loanshark. This would almost certainly occur only in a situation in which the debt has been around for a long time and has become so substantial that the bettor cannot reasonably be expected to stay as a customer. Since the interest payments to the loanshark will be a very substantial added burden, the bookmaker is unlikely to receive bets from that customer for some time.

I.7 IDENTIFYING PARTICIPANTS

While we have talked so far as though bettors, sheetwriters and bookmakers all occupy clearly defined positions within an operation, there is in fact a considerable merging of roles. The sheetwriter may be a bettor or also another bookmaker.

Consider a bettor, who makes relatively large bets with a particular operation. He has an incentive to pretend to be a sheetwriter, placing bets on behalf of a number of bettors. If he wins his bets he keeps all his winnings. If, over the course of a season, he loses to the bookmaker, then, in his role as a pseudo-sheetwriter, he can claim half of his losses as income for bringing in the bets. He reduces both his expected loss and the variance of his income.

Similarly, a bookmaker who lays off can do so as though he were a customer; he will neither make nor lose money on that particular bet. Alternatively, he can try to appear as a sheetwriter, which then gives him a positive expected income from each reinsured bet.

There is indeed some evidence (from wiretaps) that bookmakers are aware of this problem. Whether they make serious efforts to screen sheetwriters and to force those that are really customers to accept that role is hard to determine.

The role of sheetwriter can be layered, so to

speak. A sheetwriter with a very high volume of bets may demand a 75-25 split of the proceeds, with corresponding arrangements concerning red figures. He may also have sub-sheetwriters, who get half the net winnings, with the primary sheetwriter splitting the other half with the bookmaker. We know of no instance where the arrangements work in terms other than quarter or half sheets.

I.8 MOBILITY

In our analysis of the Numbers racket one of the prime elements for concluding that there was no effective cartel was the evidence of mobility between operations on the part of both collectors and controllers. Mobility is an even more pronounced characteristic of the sales agents of bookmakers.

There is no evidence to suggest that Numbers collectors and controllers do business with more than one

Numbers bank. Nor, given the simplicity of the product, is there any clear motivation for doing so. In bookmaking, on the other hand, there is every reason to believe that both customers and sheetwriters frequently deal with a number of operations. Moreover, the sheetwriter may leave a bookmaking operation in circumstances which would prevent mobility on the part of a Numbers controller.

Controllers can only change operations if they have settled their outstanding debts with their Numbers bank. On this, opinion is unanimous. Sheetwriters are most likely to leave precisely when they are in paper debt to their bookmaker. The accumulation of a red figure, provides an incentive to shift their customers to another operation to which he has no notional debts. Any winnings with this new operation are then shared immediately between bookmaker and sheetwriter.

If the accounting system provides an incentive for mobility, why does it not also provide bookmakers collectively or individually with an incentive for developing means of hindering the mobility of sheetwriters? Here we are forced to make reference to the peculiar anonymity

that is a permanent feature of telephone bookmaking in New York. Many individuals will deal with each other over a period of years on a regular basis without knowing each other's name or address. One prime informant, in regular contact with at least twenty other bookmakers, was sure of the names of only three or four of those. For the rest he had only working names (Charlie Flip, the Hunchback, Alex the Greek, etc.). He had a telephone number at which he could reach them and a regular place at which he would expect to meet them for settling financial accounts. If any participant wanted to cut off contact, he could simply change his telephone number and not show up at the regular meeting place. These would probably be seen as only minor inconveniences in a world where changes are part of the protective routine.

This, of course, also provides a motivation for connecting oneself with the mediation services offered by Organized Crime. While the sheetwriter may be able to make it difficult for the bookmaker to physically locate him for the purpose of debt collection, the bookmaker can undoubtedly use others to identify him for the purpose of having a

representative of a mediator pressure the sheetwriter to pay his debt. The bookmaker could of course hire his own collection force, but that is a risky move, for that force may be difficult to control. The mediation system has a reputation for stability which all participants are likely to value.

The debt problem is rarely so well defined. A bookmaker may not force his sheetwriters to forego all profit over a period of time in order to pay back the accumulated debt. Instead, some part of the collection may be used against his debt, while the rest is used to ensure that the sheetwriter does have an ongoing income. This also serves the purpose of lessening the incentive of the sheetwriter to move his customers to another operation.

I.9 ETHNICITY

A striking feature of our review of bookmaking

evidence from both the police and informants is the total absence of either black or hispanic personnel at any level of the operations. None of those identified as major bookmakers are black or hispanic. This, of course, is in sharp contrast with our findings concerning the ethnicity of Numbers operators.

It is not unknown for hispanic Numbers operators to also take some sports and horse betting. The captured records of Numbers banks controlled by hispanics and apparently staffed solely by hispanic controllers and collectors do have such slips. Whether these are taken as accommodation for regular Numbers bettors and simply given then to a non-hispanic bookmaking operation is impossible to tell. It is also possible that the police are unaware of hispanic bookmakers and that these have little contact with non-hispanic operations; perhaps this lack of contact is the result of language difficulties.

If in fact there are no black or hispanic operations the explanation may simply be the fact that sports betting is essentially an upper middle class activity and there are few hispanics that can be so designated. It is also true

that they are less involved with most of the sports on which betting takes place, particularly football and basketball. They are, on the other hand, heavily represented amongst baseball fans, just as they are amongst major league baseball players.

The lack of black operations cannot be quite so simply dismissed. There are no language problems, there is a growing upper middle class amongst blacks in New York and they are heavily involved in all three major league sports, particularly as basketball players.

1.10 PROFITS

We have stated earlier that the expected return for a bookmaker handling sports bets is usually estimated to be 4.4 percent of the handle. In fact there are numerous factors which ensure that the flow of gross profits to the person listed as the bookmaker is a great deal smaller than this.

There are at least four major reasons for the smaller margin. First, any large bookmaking operation will be heavily dependent on sheetwriters or runners. These will receive at least half of the gross profits generated by their accounts. An operation handling perhaps \$500,000 per week, with 200 customers betting regularly might have 30 sheetwriters accounting for 175 of the customers. Only the remaining 25 bettors would be treated as "house accounts", handled directly by the bookmaker or his salaried employees. Clearly there is an incentive for the house to try to steal accounts from sheetwriters; we have seen little evidence of them, perhaps because the bookmaker is loath to alienate a sheetwriter who can always transfer his customers elsewhere.

The second factor limiting the bookmaker's income is clerical cheating or incompetence. We have strong evidence in a number of cases of clerks colluding with players to cheat the bookmaker. This is particularly likely with large operations or incompetent bookmakers. We stress again that the level of competence is far from uniform. One of the largest operations during 1973 was run by a bookmaker unable to check the calculations of his own clerks, who systematically stole large amounts from him

We even have an instance of a clerk who worked for a certain bookmaker for many years and had apparently cheated him throughout that time, without punishment.

Third, the bookmaker has difficulty collecting money owed by sheetwriters. This mirrors the problem we discovered in the Numbers business, where controllers often maintained large balances with the bank; in effect, interest free loans. The greater mobility of sheetwriters make this an even more severe problem for bookmakers than for Numbers bankers. In one operation the bookmaker was forced to borrow \$25,000 (est.) from a loanshark at the same time as various sheetwriters owed him over \$100,000.

Finally, baseball betting appears to be substantially less profitable than football or basketball betting. An arithmetic example will make the point clear. Let us suppose that the bookmaker estimates, correctly, that the Cubs have a 60 percent chance of winning a game against the Mets. In the traditional manner, this means the Cubs ought to be 7 1/2 to 5. The bookmaker will list the game as Cubs 7 - 8 over the Mets. The Cubs bettor will have to put up \$8 to win \$5, the Mets bettor \$5 to win \$7. If the Cubs win, the bookmaker takes in \$13 and pays out \$13. If the Mets win, he pays out only \$12 of the \$13. In five

games the Mets will win twice and he will retain only \$2 of the \$65 bet. The margin is only 3.08 percent. If the game were 8-9, his margin would be even lower.

Contrary to most impressions, baseball betting totals nearly as much as football betting. This reflects the long season, and the fact that the games are fairly uniform throughout the days of the week. We see this in the records of the operations we have reviewed and it is also a finding of the Quayle survey of New York betting.⁴

We should also mention the problem of bookmakers being "middled". There are some highly informed players who are able to exploit differences in bookmakers' lines on a given game. In effect, some bookmaker finds himself unable to lay-off. How important this is we cannot determine, at this stage.

All these comments so far have dealt with gross profits before expenses. What in fact are the expenses incurred by bookmakers? Labor is undoubtedly the major one. Clerks are treated as reasonably skilled workers. It is unlikely that a clerk would receive less than \$250 per week and \$400 is not unheard of in the current market. If

the operation is large enough to merit a separate managing clerk he might receive as much as \$500 per week. An operation handling \$500,000 per week would have at least three clerks and a supervisor, representing a payroll of at least \$1,200 per week and perhaps \$1,500.

In addition the bookmaker must rent at least one set of premises. We have heard that charges of \$100 per week are standard for the use of someone else's apartment or basement, which is a typical arrangement. The bookmaker will also probably pay a similar amount for line information of one form or another. A total for weekly expenses of \$2,000 is probably generous. For a well run bookmaking operation of the size mentioned previously this does not represent a substantial drain on the cash flow, since it amounts to less than 1/2 of 1 percent of the total handle.

II. THE BOOKMAKING MARKET

II.1 THE SIZE OF THE MARKET

How large is the illegal bookmaking market in New York? In order to evaluate our own information it would be exceedingly helpful to have at least a rough estimate of the volume of wagering, the number of operations and the number of persons involved. In fact, there exist only dubious estimates of the first, and no meaningful estimates of the second and third figures.

The most important estimate of the volume of illegal betting in New York is that of the Fund for the City of New York. This estimate was based on a survey of 2,500 adults in New York City, carried out by the Oliver Quayle Organization in 1972. The survey used a technique common in commercial and political polling, namely quota sampling. While adequate for certain purposes, it poses serious problems for purposes of evaluation and is particularly prone to error when the interview deals with a sensitive subject.⁵ Gambling is likely to be so regarded, particularly by persons heavily involved in gambling.

Nonetheless, it is worth looking in some detail at the Quayle survey results, if only because they have gained such wide currency. We restrict our attention to heavy bettors, defined as adults betting more than \$500 per annum on the three major sports (football, baseball and basketball). These bettors, in the survey, account for the vast bulk of betting with bookmakers. Of an estimated \$188 million bet with bookmakers on football, for example, heavy bettors account for \$182 million.

The Quayle survey estimated that a total of \$428 million was bet on sports with bookmakers in 1972. An additional \$260 million was bet either with friends or in the form of pool cards. Of the bookmakers' handle, football accounted for \$188 million, baseball for \$121 million and basketball for \$118 million. The share of football is a good deal lower than usually suggested while the share of baseball is somewhat higher.

While almost 25 percent of the population was estimated to have placed at least 2 horse bets in the previous year, only 4.5 percent of the population was classified as heavy bettors. Of these, 67 percent said

they either never or almost never bet by telephone. Only 14 percent said that they always or almost always did. This produces a figure , in 1972, of 36,000 telephone bettors. It is this population on which our data most directly bears. It should also be noted that 24 percent of the heavy bettors in the survey said that they almost always bet on credit, which is consistent with the estimate of 14 percent telephone bettors.

The Quayle survey also covered the illegal horse betting of sports bettors. The estimated volume was \$84 million. However, no data was gathered on the horse betting of persons who were not also sports bettors, so that this figure is a lower bound estimate of total horse betting with bookmakers.

The other estimate specific to New York is that compiled by the Hudson Institute, using data supplied by the New York Police Department.⁶ The NYPD claimed to have identified operations handling a total of \$926 million in sports bets. The Hudson Institute increased that figure by 50 percent to reflect those operations that the police did not apprehend. Estimates were also provided for the

number of operations (61) and the number of runners (1500).

Our own experience with NYPD procedures makes us exceedingly sceptical of the validity of these figures. One of the critical issues is the autonomy and identity of operations. The NYPD lists a large number of operations, concerning which they obtained information at different times. In some cases we have reason to believe that what is labelled as two operations is actually one operation which has succeeded a raided operation and been reorganized with some minor changes in personnel. Similarly, the NYPD, in estimating the volume of the totality of operations ignores money that is laid-off between operations. If a third of the money bet by customers of an operation is re-bet, then the estimate from adding money wagered with all operations will be an overestimate by one third. Finally, we have noticed a strong tendency, an understandable one, on the part of police officers to exaggerate the size of operations that they apprehend.

We should note the existence of two estimates of the volume of illegal wagering at the national level, both of which have received considerable currency. One was

produced by the Survey Research Center of the University of Michigan, under contract with the Commission on the Review of the National Policy Toward Gambling. The SRC survey, which is certainly the soundest, technically, of the surveys done on gambling, produced an estimate of illegal betting with bookmakers of \$2.35 billion (sports) and \$1.37 billion (horses) in 1974. These figures are far lower than any of those suggested by official sources.

Two criticisms have been aimed at the SRC estimate. One is that it is at variance with police estimates; that is not a criticism which we believe to have merit. The other is far more important. In the SRC sample (1,764 adults) the average annual wager of sports bettors amounted to only \$623. The highest amount wagered annually by any respondent in the survey was less than \$30,000. Critics have claimed that the survey missed the major class of sports bettors, in terms of contribution to handle, namely the very heavy bettors. There clearly are people who bet \$500 per game during the football season and bet on four or five games each week; their annual wagering may be in excess of \$50,000. The survey did not reach this group and reasons can easily be given for this, in terms of their sensitivity to interviews on

this illicit behavior.

The critical question is the size of this population group. If there are 100,000 persons who bet \$50,000 per annum each, then the SRC estimate is only 40 percent of the correct value. If there are only 10,000 such persons, then the estimate is off by only 15 percent. Given that the total sample was only 1,764 it is not at all improbable that a population group even as large as 100,000 might be missed.

Our own data are not particularly suitable for looking at this question. We do have records of operations in which there are numerous individuals who bet more than \$1,000 per week for most of the year. However, we have deliberately aimed at obtaining records from larger operations in which we would expect to find the larger bettors. It is impossible for us to estimate the size of the various bettor groups. All we can say is that we seem to be sampling from populations that are not represented in the SRC survey. Later in the project we will conduct some analysis of individual betting levels.

The other national estimate that is frequently

cited is that of the U.S. Department of Justice presented before the Commission on the Review of the National Policy Toward Gambling. The estimate was that illegal wagering with bookmakers totalled between \$22 billion and \$29 billion, of which 85 percent was sports wagering. While the estimate was made public in 1974 it was based on data gathered in 1971 and 1972, during the course of the major federal effort against illegal gambling, known as Operation Anvil.

The estimate was generated in the following manner. Estimates were gathered on the volume of betting handled by each operation on which the federal authorities had gained information, either through surveillance or arrest activity. In New York these figures were summed and compared to an estimate of the total volume of illegal wagering, which was generated from the Quayle survey. It was seen that the federally known operations accounted for 2.5 percent of this estimate. Hence it was assumed that this was true throughout the nation and that the total volume of wagering was 40 times the amount known to federal authorities.

Critical to this estimate then is the development of the estimate of the volume of illegal wagering in New York.

The Department of Justice focused on "the proportion of legal to illegal horse race wagers published in the [Quayle] survey, which showed illegal books getting 37.8 percent of the market."⁹ The volume of illegal horse wagers in New York was assumed to be 37.8 percent of OTB's handle. Since in fact Quayle had only estimated that horse bettors who were also sports bettors bet 37.8 percent of their horse action with bookmakers, this assumption went well beyond the data. Pure horse bettors, who certainly accounted for most of the OTB handle, assuming the Quayle estimates are accurate, are far less likely to do their betting through bookmakers since they do not use the bookmakers' other, and more important, service, sports wagering.

There are numerous other failings in the technique used by the Department of Justice. For example, the assumption that the federal authorities have a uniform degree of knowledge of illegal gambling throughout the nation is implausible. Since much of their knowledge during these years, 1971/1972, was based on electronic surveillance, cities with a higher per capita rate of surveillance are likely to be cities in which their knowledge of gambling is more complete. New York had an extremely low rate of wire-

tapping compared to other major cities; hence the federal authorities probably knew of a smaller fraction of New York gambling. A Congressional Research Service study of the Department of Justice estimates stated "Because the range of error cannot be specified, the usefulness of their conclusions is in doubt." 10

We believe, in light of these estimates, that a reasonable minimum estimate of the bookmaking market in New York is \$500 million per annum. We doubt that the upper bound should be set above \$1.5 billion.

II.2 SIZE AND STABILITY OF OPERATIONS

Bookmaking operations tend to have larger and less stable volumes of wagering than do Numbers banks. In contrast to Numbers, where we found no operation handling more than \$250,000 per week, we have records of bookmaking operations handling as much as \$1 million per week. There is some doubt though as to whether such large operations are able to sustain themselves at that level for more than a few months.

The size distribution of operations is probably sharply skewed, with a large number of small operations, each handling less than \$5 million per annum. The figures from the Department of Justice concerning the operations they surveilled or raided in New York during Operation Anvil are consistent with this. Table 2 gives the size of these operations and the split between sports and horse betting where it was available. It should be noted that the Department of Justice's jurisdiction was basically restricted to operations handling more than \$750,000 per annum and that the aim was to reach larger rather than smaller operations. Hence, the Table does not include a sample from the population of small operations.

Additional evidence as to the low concentration in the bookmaking business is provided by the listing of operations and personnel compiled by the New York Police Department in 1967. The list detailed 58 separate operations, none of which accounted for more than 10 percent of the total estimated handle. Our own information on certain individuals in the bookmaking business at the time suggests that NYPD tended to assume that some operations which merely did business with each other were in fact just branches of the one operation. Hence the list probably

TABLE 2

New York City Bookmaking Operations Known to the
Department of Justice, 1971, 1972 (000's)

<u>Sports</u>	<u>Horse</u>	<u>Weekly Gross</u>
13	7	20
225	25	250
x	x	100
x	x	1050
x	x	70
x	x	38
		577
-0-	53	53
-0-	10	10
120	30	150
x	x	58

Each line equals activity of one known bookmaker

X indicates amount unknown

overestimates the degree of concentration.

One of the most striking characteristics of bookmaking is the instability of operation size. A bookmaker who is handling \$100,000 a day in bets one month, may be working as an agent for a vastly smaller operation the next month. While there are a few names which frequently recur in the police listing of major operators, there is considerable evidence that this represents a lag in the information gathering process of the law enforcement agencies. A few examples will illustrate the instability and its sources.

Bob Rittman (pseud.) became, in early 1972, one of the largest bookmakers in the city. He would accept any sized bet on any event, he made relatively little effort to screen new customers and he refused to lay-off any bets. It is estimated that his operation may have handled \$1-200,000 per day during its peak period. It is not known how long it took Rittman to build up his business to this size, but two years before the observation was made, he was working as a partner in a much smaller operation.

During his peak period, Rittman was losing very large sums of money. At one stage he claimed to have lost \$50,000

in one week. He approached a skilled "figure man" for help in dealing with his losses. That figure man discovered that a substantial part of the losses were the result of repeated arithmetic errors on the part of Rittman, who had difficulty performing the relatively complex calculations that are necessary to determine the result of an individual's wagers during a day. While the errors were randomly distributed between those in favor of the bettor and those in favor of the bookmaker, only errors in favor of the bookmaker were reported in the normal course of events. In addition, some of Rittman's clerks were cheating him. Rittman was unwilling to take any long-term measures against either of these problems and gave up his own operation soon after, merging a few of his major accounts with another bookmaker, for whom he then worked as a runner.

Willy Younger is a very well known bookmaker, generally believed by the police to be one of the most important in the city. His criminal record extends back to 1945 and includes a total of 10 bookmaking arrests. Over the last twenty years he has been arrested on an almost annual basis. Most of the arrests led to nothing more than a small fine (generally less than \$250) and confiscation of his records. Not even the confiscation was automatic since

corrupted police were willing, throughout most of the 1950's and 1960's, to sell the records back.

In 1972 a change in attitude and law led to the threat, and eventually the serving, of a prison sentence following a 1971 conviction. In light of this threat, Younger made arrangements to turn most of his customers over to two other operations. A small number of customers he retained as accounts to be serviced, through him, by other operations. On entering prison he would give up all his accounts, but could reclaim them after serving his sentence.

Martin Slobotkin and Robert Thinn ran a medium-sized bookmaking operation in 1972. They employed one clerk, worked in the wireroom themselves and aggressively recruited customers. Both were involved in other illegal activities, generally involving loanshark financing of hidden ownership in various small businesses. These other activities generated considerable losses and a need for immediate cash flow. As a consequence they took very large risks and lost heavily.

In summary, there are probably three sources of instability for bookmakers. One is poor entrepreneurial control, either in the form of extreme risk-taking or failure

to control cheating by employees. Another is the efforts of law enforcement, both through incarceration and disruption of operation. The third is simply the difficulty of obtaining capital for an enterprise in which total control of risk is extremely expensive and for which there are only limited sources of supply of capital.

II.3 ENTRY

Despite the instability of operations and roles in the bookmaking industry, it appears that those who enter it stay for a long time. It also appears that entry is essentially unrestricted.

The path to this business, in contrast to Numbers, is participation as a bettor. Most bookmakers, though not all, are involved as heavy bettors before they acquire any business interest in bookmaking. It is useful to note here that the criminal records of most bookmakers show their first bookmaking arrest no earlier than 30, though they might have other arrests at an earlier age.

Young, heavy bettors are particularly likely to acquire substantial debt problems. A standard way of meeting those debts is to become a sheetwriter, actively recruiting other customers for the bookmaker and using their losses to pay off one's own. From the sheet-writing role to bookmaking, as we indicated previously, is a short step.

We have found no evidence to suggest that a bookmaker can be restrained from setting up his own operation. A sheetwriter's autonomy is unquestioned and if he wants to handle his customers bets himself there is very little that his prior bookmaker can do to prevent this. The bankruptcy or raiding of an existing operation can apparently spawn some new independent operations as sheetwriters are forced to either handle their own action or to find a new and more stable operation.

Perhaps the most important barrier to entry is capital. A sheetwriter, precisely because of the terms of his relationship to the bookmaker, is not thrown into contact with loan sharks. It may not be a simple matter to acquire the capital necessary to assure even a modicum of financial stability for an independent operation. We intend to probe this financing aspect in detail later in the project.

II.4 DISPUTE SETTLEMENT

Bookmaking is a business which is particularly dependent upon the existence of a high degree of trust among the participants. There are numerous transactions occurring throughout the day, often through third parties; these may involve substantial sums of money. A single bet of \$1,000 is not uncommon, while a single day's betting by a player of \$5,000 is not rare. Almost all of these transactions are executed over the phone. Clearly there is room for frequent and important disagreements over money.

In fact, there is little evidence that such disagreements are important. Considerable care is taken to ensure that each transaction is properly recorded. Each bet is routinely read back to the bettor, with the more nervous ones regularly calling in at the last moment before the games to ensure that all their transactions, which might have taken place over two or three phone calls, are correctly recorded. Genuine errors are made, showing up later in the records as "credit" to the bettor; these seem in general, as in the Numbers business, to be miscalculations rather than failures to record the bet accurately.

Disputes are, of course, not unknown in the business. Some bookmakers have taken to tape recording all of their telephone business so as to have an indisputable record when disagreements occur; some bettors do the same. Not all bookmakers are regarded as equally honorable. Some bookmakers, for example, will not pay off bets on the day that their wireroom is raided; others will. Some bookmakers are widely regarded as dishonorable. For example, we have been told of a bookmaking partnership which frequently defrauds some of its customers by dissolving the business without paying off their debts to these people. Apparently this partnership had dissolved itself several times to shed debt and then returned to business several months later.

This form of fraud perpetrated by bookmakers on their customers could just as easily be done by customers to bookmakers. The prevention of these practices may explain one function of organized crime figures in bookmaking. A bettor may, for example, have no intention of paying the bookmaker if he loses, depending on his connections with Organized Crime to prevent the bookmaker from making a serious effort to collect the money. For a bookmaker who is not connected to Organized Crime, this is potentially a serious problem,

for he may not have access to impressive violence to collect the debt and certainly has no other recourse.

This problem may account for the observation that some bookmakers make regular payments to Organized Crime figures for unspecified services. These payments do not tend to be large. \$150 per week is the largest that we have been able to identify. This then ensures that the Organized Crime figure will lend his protection in the event of cheating along the lines just described. The concept of a "sit-down" is not just a figure of speech or of popular entertainment. It is not uncommon for two Organized Crime figures to mediate a dispute between two persons who make regular payments to them, basically for this service.

The rules governing these dispute settlements are elusive. To some extent there is an effort to determine the formal correctness of the claims of each of the principals. A refusal to pay a rightful debt stemming from a straight forward transaction will probably receive short shrift. More complex transactions will lead to more sophisticated distinctions. E.g. a joint effort to cheat a third party, originated by one of the principals without full explanation to the second princi-

pal of some fine point, may be arbitrated in favor of the first principal on the grounds that the second principal should just have been smarter. But sometimes power simply prevails. The second principal may have a more important mentor who forces the other party to accept his decision.

The dispute settlement system can become oppressive to its clientele. One minor bookmaker, who worked mainly as a handbook, i.e. in face to face contact with his customers, shifted areas of operation. He had been making \$50 per week payments to the leading organized crime figure in his territory. He now had to make similar payments to the leading figure in his new area and felt that he should not have to continue his previous payments. In the course of a meeting between the two leaders, probably a meeting held to discuss a variety of business matters, the two agreed that the bookmaker should continue both payments. He reluctantly accepted their decision.

II.5 CENTRALIZATION AND CONTROL

We believe that the material presented here all suggests that bookmaking in New York is subject to no central

direction or control. The small market share of even the largest operations, ease of entry and financial instability are all inconsistent with the notion of monopoly or cartel control. Further, we find nothing to suggest that control is exercised through access to information or lay-off facilities. While this conclusion is strongly at variance with the orthodoxy, we believe that it is highly plausible given the great anonymity of this telephone business.

While there is a great deal of evidence for close ties between the various bookmakers in New York (viewed as a metropolitan area not just a city), there is nothing to support the notion that any group has attempted to dictate the terms of business. It is clear from wiretap transcripts and the reporting of informants that, like all businessmen, bookmakers spend a great deal of time exchanging information and complaining about the state of business. However, the basic prices in the industry, namely the 11 for 10 bet and the odds in baseball betting, are not the subject of discussion.

Of course, cartels are not concerned only with price setting. They may also cover such matters as credit, territoriality and treatment of entrants. Again, we reiterate that we find no evidence that these matters are the subject

of coordinated efforts by a dominant group of bookmakers. Some bookmakers are tighter in their treatment of credit than are others, though most seem to be much less tough in practice than they claim to be. Substantial debts remain outstanding while the customer continues to bet. Territoriality makes no sense in an industry where the bookmaker's office may change county every two weeks and in which the bookmaker is unlikely to know the location of his bettor's homes.

APPENDIX I

Offtrack Betting

In 1970 the city of New York created a public corporation to offer offtrack betting facilities (OTB). The prime objective of OTB was to provide additional revenue to governments in New York, both state and city. Secondly, it was intended to help fight illegal gambling.

Great controversy has raged concerning the success of OTB in achieving both its objectives. While it now handles very large volumes of wagering, there has also been a substantial decline in handle at the tracks of New York State. Since OTB was introduced, attendance at the thoroughbred tracks, Aqueduct and Belmont, has declined by one third, on a daily basis. Similar declines have been recorded in handle, after accounting for inflation.

Of course, since 1970 more has occurred than simply the introduction of OTB. Take-out rates have risen somewhat; new forms of wagering, that compete with horse betting, have been introduced; there are new tracks in the region and there has been some decline in the economic wellbeing of the area. All have potentially important negative effect on track handle.

The reason for discussing the track-OTB interaction is that it had considerable bearing on an important decision taken in 1974. That was the decision to impose a 5 percent surtax on OTB winnings. This was intended to give some advantage to the tracks as well as increase total revenue to governments from wagering. Of course, it also had an effect on the relationship between betting with bookmakers, since they offer track odds.

What impact has OTB had on illegal bookmaking? The consensus of persons involved in the business, either as participants or as enforcement experts, is that it merely accelerated a trend that had been noted for some time, namely the decline of horse wagering as a percentage of total bookmaking handle. The growth of professional sports and their televising had already produced a massive increase in sports wagering, and tracks have become less important in American recreation generally since 1960. OTB, by providing relatively convenient facilities for telephone betting (though without credit), permitted those bookmakers not interested in horse betting to refer their customers to OTB for their horse wagering.

Not all bookmakers responded in this fashion. Some bookmakers used OTB for lay-off purposes. Prior to 1974 this

was a costless and convenient process. Others attempted to cultivate OTB customers, working in a neighborhood of OTB parlors and offering customers the advantage of short term credit. It is impossible for us to make any determination of the frequency of these various responses with the data currently or potentially available to us.

The introduction of the surtax in 1974 did have an impact on OTB handle. It declined by 25 percent of the quarter immediately following the surtax. This decline was not compensated for by an increase in track handle. Also significant was a dramatic decline in the percentage of OTB handle processed through telephone accounts. From 6 percent of the total this fell to 2 percent. Telephone bettors tended to have high average wagering and the fact that they had telephone accounts suggested that they were particularly likely to find bookmakers' services attractive. There certainly is reason to believe that the surtax might have led to the resurgence of betting on horses with bookmakers.

It also had another impact. It was no longer costless for the bookmaker to use OTB for lay-off purposes. The 5 percent surcharge meant that, if the horse won, the bookmaker would have to provide 5 percent of the winning bet from

his other revenues. This may have led bookmakers to place agents at the track, as in the pre-OTB era. It may also have led them to continue to decline horse betting, given that additional cost.

All that we can state at this stage is that, contrary to our expectations, we have found most operations taking a modest amount of horse betting. Lacking any benchmark data we cannot say whether it represents an absolute decline or increase as compared to the pre-OTB era. Large bets appear to be uncommon though. A \$50 window at the bookmakers whose records we have seen would not be a busy one. It does seem unlikely that illegal bookmakers in New York any longer account for a large share of the total betting in the region.

APPENDIX II

Loansharking

We argued in our paper for the seminar in December, 1976 that loansharking might be as fundamental to the rackets as banking is to the upperworld economy. While our research in this area is still in its early stages we are inclined to be even more emphatic about the centrality of loansharking.

There exists no standard official account of the structure of loansharking in New York, or indeed in any other city. It is assumed that it is an activity that lends itself to racketeer domination as much as any other, and that it is in some ways very carefully controlled. However, the dearth of cases at all levels of jurisdiction has handicapped the development of a detailed standard account. Even in New York City, where loansharking has been recognized as a major illegal activity for some decades, the Police Department only set up a specialized squad in the early 1970's. There is general agreement that loansharking cases are difficult to originate, effectively investigate or prosecute.

Concerning the operation of loansharking, there is a moderately well developed orthodoxy. Loansharks are

assumed to depend on reputations for violence, though it is generally agreed that they rarely need to make actual use of force. The loanshark is asserted to prefer loans which are made without a fixed repayment schedule, so that his portfolio turns over as slowly as possible. Late payments are immediately penalized, and it is asserted that the loanshark is always aiming to obtain control of his client's business.

At this stage we have had the opportunity to interview a small number of informants, including two policemen who worked as undercover agents in two loansharking operations, and review some wiretap material. This is not sufficient for any firm conclusions. However, the material we have reviewed does suggest that the standard account is oversimplified and overemphasizes the violent aspects.

It appears that there are two basic types of loan, "vig" and "knockdown". The former are loans with a fixed weekly interest charge. The principal must be repaid in a single lump sum. "Knockdown" loans involve a specified schedule of repayment, including both interest and principal; e.g. a \$1,000 might be repaid in 13 weekly installments of \$100.

"Vig" loans are generally regarded as more predatory. Loansharks who make such loans will tend to be more aggressive in assessing penalties for late payments. These loans are also made by more experienced and larger loansharking operations. Precisely because of the aggressive nature of these loansharks, it is not surprising that the police, who learn about loansharks mostly through customer complaints, believe that they are the dominant group in the business. Knockdown loans are less likely to produce loanshark threats against customers and hence complaints to the police.

At this stage we have four tentative conclusions.

First, there is strong evidence for specialization by loansharks. Some deal with legitimate businessmen only, some with illegal entrepreneurs. One medium level loanshark specialized in fur dealers, though he might make loans to other small businessmen. Some specialize in lending to gambling operators.

Second, those that we have looked at are not predatory in the sense that is usually claimed. They lend money to customers whom they expect will pay off and eventually return as customers again. The loanshark is not attempting to gain control of the customer's business. That is not to

say that predatory loansharks are unknown or that the ones that we have learned about have never acted in a predatory fashion. But it does suggest that the predatory mode is not the dominant one.

Third, collection very rarely involves violence, or even the threat of violence. Loansharks are interested in making credit assessment in the manner of legitimate lenders. Often they secure substantial collateral for the loan, though it may be of an illiquid form. Sometimes the borrower will have to produce a guarantor. In many cases the loan is very short term, less than a month, and collection is simply not an issue. Repeat business is the backbone of those operations we have studied. A good faith effort to make payments will probably guarantee the borrower against harassment particularly if he has made substantial payment of interest before he starts to have repayment problems. We have no estimate of the bad debt ratio, but certainly there is an understanding on the part of lenders that these are high risk loans and some will fail.

Finally, there is little to suggest that entry into the loansharking business is controlled by any dominant group. Certainly the police do not systematically restrict entry;

police action against loansharks is very rare and the nature of the business does not make for systematic corruption as in the Numbers business. Lack of territoriality also makes effective constraint more difficult. The generally small role for active violence in collection also suggests that existing operations would have difficulty making overwhelming threats against potential entrants.

There are many aspects of the business that we still do not understand. What is the source of loanshark capital? To what extent is the industry segmented by size of loan? How responsive are the terms of loans to aggregate supply and demand? How does the industry interact with legitimate financial markets? These are questions that we hope to examine over the next year.

FOOTNOTES

1. Henry Chafetz, Play the Devil (Crown: N.Y. 1960)
2. Mark Haller, "Bootleggers & American Gambling 1920/1950 Appendix I, Gambling in America," Commission on the Review of the National Policy Toward Gambling, (Washington: GPO 1976) 102-143
3. W.H. Moore, The Kefauver Committee and the Politics of Crime 1950-1952 (Columbia, Mo.: U. of Mo Press 1974) Chap. 4
4. Fund for the City of New York, Illegal Gambling In New York (N.Y. 1972)
5. Very briefly, in quota sampling the interviewer is instructed to obtain a certain number of interviews from a particular mix of persons (e.g. 3 males and 2 women) in a given area. No record is made of who refuses interviews. Some population groups are difficult to contact or interview. If these groups differ from the rest of the population in the dimensions of interest (e.g. betting behavior) the survey results will have an unknowable bias.
6. Hudson Institute, Increased Legal Gambling in New York Volume III, Report to The New York State Gambling Commission, 1973
7. Maureen Kallick, et al. "Survey of American Gambling Attitudes and Behavior" in Appendix 2, Gambling in America Final Report of the Commission on the Review of the National Policy Toward Gambling (GPO, Washington, 1976)
8. Gambling in America, (GPO, Washington, 1976) Appendix 3, May 15, 1974, p.15
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