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Illegal Gambling in New York

A Case Study in the Operation, Structure, and Regulation of an Illegal Market

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James L. Underwood
Acting Director

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ABSTRACT

This project constituted a first effort to demonstrate the possibility of carrying out systematic empirical research about the organization of illegal markets. Data were collected on Numbers and bookmaking and, to a lesser extent, loansharking in the New York area. These data, which included financial records of illegal gambling operations, informant interviews and police file information, were analyzed in terms of standard economic and organizational models. The results suggest that, at least for New York, the official assertions that the Mafia controls bookmaking and Numbers are incorrect. Even in the case of loansharking, where less complete data were obtained, it seems unlikely that there is any central control of the activity.

The study of Numbers showed that banks operated on a much smaller and more variable profit margin than is usually assumed. Cheating by clerks and managers, uneven betting distributions, difficulty of lay-off and problems in collecting balances owed by controllers all work to reduce the Numbers bankers' returns. Moreover there seems to be little territoriality, so that the banker has little bargaining power with respect to his collectors and controllers. While many Mafia members are involved in Numbers there is nothing to suggest that they can control entry or prices in this market; indeed there is evidence directly contradictory to this proposition.

In the case of bookmaking the evidence is even clearer. For telephone sports bookmaking, which seems to constitute the bulk of the bookmaking business, the profit margins are extremely low and bookmakers frequently have long-term financial problems. Their retailers, known as runners, often shift from bookmaker to bookmaker, under circumstances which deprive bookmakers, as a group, of their expected profits. Mafia members are active mainly as bettors and financiers. Even in the latter role they do not exert control over the bookmaking business, since bookmakers borrow from numerous sources other than the Mafia.

The principal recommendations concern police intelligence activities. The police have exclusive control of the information collection and analysis process with respect to racketeering. Despite this, they have never acquired, nor has there been political pressure for them to acquire, the appropriate skills for this task. One reason that they have focused their efforts on gambling in the past is that the relatively routinized and open nature of the racket makes it easier to acquire information about gambling than about any other racket. But they have acquired information only as an adjunct to actual enforcement and they have seen it primarily as a means for making cases. There has been no effort to use the intelligence process as a way to shape policy against organized crime, though bureaucrats and legislators are dependent on the police for the information which does ultimately shape those policies. A limited potential role for police intelligence is described.

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Professor Edward Banfield: Harvard University
Inspector Richard Dillon: New York Police Department
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The findings presented in this report, the analysis of the data and its presentation are wholly the responsibility of the authors. No individual or organization, merely by cooperating with us, can be said to have endorsed any of the findings and conclusions in this report.

SUMMARY

1. OFFICIAL DOCTRINE

In the early 1950's, the Kefauver Committee held hearings and produced a report asserting that illegal gambling was the major activity of organized crime and that the Mafia, a national organization of Italian-American gangs, had monopoly control over this activity. To this day, most criminal justice and regulatory agencies throughout the nation base their organized crime enforcement strategies on this assertion.

In preparing for the hearings, the Kefauver Committee recruited a large staff of lawyers and investigators whose main function was to interview local officials and representatives of interested groups, to learn their views of local problems, and to prepare them to testify for the Committee. The Committee did not test the assertions of local law enforcement officials as to who "ran" gambling in their towns; nor analyze the costs of operating these syndicates, the flows of money, or the profit margins. Officials from all part of the country testified that illegal gambling was very lucrative and a monopoly. The Kefauver Committee concluded that regional monopoly had become national, operated by the Mafia.

Citing "off the record but convincing statements of certain informants who must remain anonymous," the Committee reported that the hugh profits generated by Prohibition, along with modern transportation and communications, had enabled gangs to become larger and much more powerful, "covering much greater territory [and relying] on 'muscle' and murder to a far greater degree than formerly to eliminate competitors, compel cooperation from reluctant victims, silence informants and to enforce gangland ethics." The Committee attributed the widespread failure to suppress gambling to the corruption of politicians and law enforcement officials by organized crime.

The Kefauver Committee's focus on the administration of government, rather than on the nature of the criminal activity itself, became the model for virtually all subsequent efforts to deal with organized crime. In 1967 President Johnson's Commission on Law Enforcement and the Administration of Justice issued what is still the most cited Report on Organized Crime. It endorsed the Kefauver Committee view that the Mafia dominated organized crime and that illegal gambling was its major activity.

That Report also represents the first serious incursion of social scientists into the public debate on organized crime. But although one of the writers apparently had some access to FBI files and personnel, the papers added little to the publicly available knowledge of the subject.

The views of law enforcement officials have apparently not changed. In 1976, the Commission on the Review of the National Policy toward Gambling held hearings at which law enforcement officials, including federal authorities, for the most part reiterated the assertions that illicit gambling is tremendously lucrative, and that it is a major source of funds which organized crime operates as a monopoly in each city.

The conventional wisdom about gambling is not supported by the best publicly available source of information about organized crime. This source is the government-compiled transcripts of tapes from a "bug" placed in a room where Angelo DeCarlo, a major figure of the New Jersey Cosa Nostra, transacted various types of organized crime business from 1961 to 1964. (Zeiger, 1975) From DeCarlo's conversations with his associates three themes emerge: (1) The banks frequently had serious financial difficulties; (2) DeCarlo, although an important figure in the Mafia and heavily involved in Numbers, did not have monopoly control of the areas in which his banks operated; (3) The Numbers business seemed to generate only modest profits. The DeCarlo tapes include only a few references to bookmaking, none of which suggests that DeCarlo or his associates controlled such activities in their territory. They appear to have considered bookmaking an unnecessary and risky business.

The transcripts of the DeCavalcante tapes, made public by the FBI in 1969, deal with rackets in Philadelphia and have similar themes.

Prior Research

There exists a small body of academic writings on organized crime and illegal markets. Cressey (1969) wrote the single most widely cited work on organized crime, arguing, on the basis of law enforcement file material he saw but did not describe, that the Mafia dominated illegal gambling and related markets in the major cities of the nation. A counterpoint to that is the work of Chambliss (1978), based on extensive field research in Seattle in the 1960's, which described a non-ethnically based system of police-political-criminal relationships which led to control of various illegal activities, particularly casino gaming, apparently the major form of illegal gambling there.

Haller (1979) analyzed the development of Numbers and bookmaking in various cities during and after Prohibition. He argued that the bootlegging groups brought little that was new to the illegal gambling business, which had contained many substantial enterprises prior to their entry. Control was generally an

elusive goal. Block (1980), using the extensive materials contained in the files of various special prosecutors in New York in the 1930's, confirmed this finding. A detailed analysis of Dutch Schultz's entry into the Numbers business showed that he had been unable to affect the basic terms of the business, which were very favorable to the lower level agents.

Economists' writings on this subject have been essentially speculative. The most important of those writings is that of Schelling (1967), who suggested that organized crime's primary activity was extorting illegal entrepreneurs. The major empirical work is that of Anderson (1979), examining the activities of a single large Mafia family. Her evidence, drawn entirely from the files of unnamed federal agencies, led her to conclude that the family had quite limited powers in both illegal gambling and loansharking.

2. RESEARCH APPROACH

The assertion that gambling is subject to monopoly control suggests that an economic analysis of gambling "markets" should show certain kinds of financial behavior. For example, we should expect to find that profits accrue predominantly to that part of the activity which is controlled and that entry into the business should be restricted. No reliable data are available publicly which would permit analysis of illegal gambling as economic activity.

However, a study published in 1972 (Lasswell and McKenna, 1972) led us to believe that the New York City Police Department had kept a large volume of records seized in raids over a number of years. These offered an opportunity to obtain hard data about the Numbers business, viewed as an economic concern. We chose New York partly because that was where the data were; other police departments routinely destroyed these records when the relevant cases were disposed of. The other reason for choosing New York was its reputed role as the capital of the underworld. In response to the challenge provided by this, law enforcement agencies in New York have developed a well-deserved reputation for their anti-racketeering efforts.

The New York Police Department agreed to cooperate in providing us with records seized in their raids on gambling operations over the period of 1965-77. Even with that cooperation it proved a major undertaking to actually obtain these records, which were held, under various classification schemes, in five different Property Clerk's Offices scattered throughout the city. For example, though all this evidence had been slated for destruction the Police Department required that we obtain from the relevant District Attorney, for each set of records, a release stating that the records were no longer needed for any legal proceedings.

The Kings County (Brooklyn) and Nassau County District Attorney's offices also gave us access to their case records.

These agencies and others in the area also permitted us to conduct extensive interviews with their gambling specialists. They authorized these officers to share with us internal records and files; to assist us in interpreting the information we obtained, and to suggest where other relevant information might be found. We met a number of police informants who were involved with the rackets we were studying. We also tried to obtain access to wiretaps; in most instances we were unsuccessful for legal reasons. But even where we were successful, we found that a wiretap without a transcript is almost useless for research purposes, requiring a great investment of time for an uncertain return. Most wiretaps have only very partial transcripts.

We had intended to study all forms of illegal gambling. We soon learned that the police know very little about casino style gambling and we had no independent source of information for that. Even with respect to Numbers and bookmaking, about which the police know a great deal, there are important gaps in their knowledge, which result from the fact that they are concerned only with investigation for the purposes of prosecution and not with the informing of public policy. We have tried to repair those gaps, but it is difficult to do so without the authority of the police.

We abandoned our effort to ask broad questions about the structure and operation of the rackets we were studying. Instead we began the less heroic task of constructing a detailed description of the operations of the rackets. On the basis of details that we concluded were accurate and confirmed, we drew inferences about the organization of these rackets. We adopted the standard pragmatic approach of the social sciences, using a few facts to suggest some hypotheses which then suggested other data collection activities to test the hypotheses. The nature of the subject and the barriers to studying it have permitted us to do mainly qualitative testing, but we believe these have been sufficient to allow us to reach significant, if tentative, conclusions.

3. BOOKMAKING IN NEW YORK

History and Background

Illegal bookmaking in the United States is almost as old as Numbers. In the nineteenth century, bookmakers used Western Union facilities to obtain information on races throughout the United States, Mexico and Cuba. In 1904, in response to reformist pressure, Western Union abandoned the collection and dissemination of such information, and illicit wire services arose to replace it, supplying information to bookmakers at extortionate prices.

In 1950, the Kefauver Committee investigated the wire services and concluded, from rather weak evidence, that they were a national monopoly owned by members of the old Capone bootlegging organization. Almost certainly, many major bootleggers, including Capone, had been deriving substantial parts of their income from control of bookmaking, by means of wire services, in a given city or

section of a city.

Like Numbers, bookmaking until recently involved frequent face-to-face transactions in particular locations. Bookmakers could not remain in business without paying off the police. Racketeers organized and ran the pay-off systems.

Some time before 1970, bettors' interest shifted from horse races to sports events, whose results were routinely reported by the media. Telephone betting also became the usual mode. By eliminating the need for wire services and face-to-face transactions, these changes may have much reduced the role of racketeers and the need to pay off patrolmen.

We have concentrated, in our bookmaking research, on telephone operations and sport betting. Although traditional horse betting in face-to-face transactions still occurs, it is clearly a declining share of total wagering with bookmakers. The major investigative efforts of both local and federal authorities are largely devoted to the sports betting telephone operations.

Most bookmaking operations today are partnerships, managed by the partners and employing a very small number of clerical workers (rarely as many as 5) to record the bets and tally the results of the day's action. The bookmakers themselves decide how to shift the point spread, when to lay off bets, and what limits to impose on the size of bets and the extent of credit for each customer. Larger bookmaking operations also employ runners, branch bookmakers who invest no capital and receive half of the profits generated by their customers. Bookmakers, runners and customers settle their accounts, in most instances, in weekly "pay-and-collect" meetings.

Bookmakers take a variety of security measures, rotating business locations and using answering services, routing calls through another telephone, employing the new call-forward services, or simply rotating telephone numbers to protect themselves from bettors who try to lead the police to them.

Sports bet sizes vary greatly; e.g. on one game, one operator recorded bets ranging from $20 to $3,250. Sports bets are generally larger than horse race bets; a $500 horse bet is regarded as large in operations which routinely handle $2,500 sports bets. Many bettors make more than one bet on a given day, although bookmakers may set maximums for each individual bettor's total betting.

Most local newspapers, certainly the major ones in New York, publish estimated point spreads for the major sports. In addition, "sports services" provide point spread information sheets and access to a telephone service that reports daily adjustments of the spreads, weather in the game area and player injuries. Unanimity among these sources is rare; two-point discrepancies are common. The bookmaker determines the line (point spread) he will quote for the various games of the day and reports it to customers

who call him. Customers often shop around for quotations or try to persuade the bookmaker to change his line before placing their bets. This process causes the various bookmakers' lines to converge in the course of the day. But the initial divergence clearly indicates the autonomy of the individual operations.

A few bettors who have acquired expertise in betting on particular games can sell their point spread estimates to bookmakers, foregoing the opportunity to bet. Such arrangements suggest long-term relationships between expert players and bookmakers, although some experts peddle a false line to the bookmaker and then bet into it through other players called "beards." Some bookmakers adjust their lines continuously to maintain balance in the betting. Others do not, either relying on layoffs or taking no measures at all to limit their risk. It is clear from the career histories of many sports bookmakers that they are bettors themselves and regard bookmaking less as a business than as a way to bet with other people's money and on more favorable terms.

Laying-off, in sports bookmaking, is not a specialized function. Most bookmakers simply exchange bets with other bookmakers. Indeed, many bookmakers make no distinction between lay-off bets and other bets. We estimate, very speculatively, that approximately one-third of all betting is laid off.

Almost all sports bettors are allowed to bet on credit for a week at a time, and longer if the net flow between bettor and bookmaker is too small to justify a meeting. When bettors fail to pay their bets, bookmakers may merely telephone with reminders, lower the bettor's limit, or (rarely) charge interest until the debt is paid. Bookmakers very rarely turn their debtors over to loansharks. However, bookmakers themselves frequently borrow from loansharks. An informant reports that bookmakers may borrow as much as $100,000 cumulatively at interest rates between 1% (the loanshark prime rate) and 3% per week. We have found the names of bookmakers prominent on the customer lists of loansharks. The Mafia role in bookmaking arises largely from loanshark financing. But once a bookmaker has become a loanshark customer, the Mafia member has an interest in the financial well-being of the operation and sometimes takes measures to deter defaulting among bettors. We also have heard of a loanshark who arranged for a bookmaker's linemaker to misinform him so that he experienced heavy losses and had to borrow from the loanshark.

Bettors, runners and bookmakers sometimes shift or combine roles. A large bettor may pretend to be a runner placing bets for several other bettors. If he wins, he keeps his winnings; if he loses, he can claim half his losses as income for bringing in the bets. A bookmaker who lays off can do so as if he were a customer, passing along winnings or losses; or he can pretend to be a runner and get a positive income from each reinsured bet. Wiretap evidence suggests that bookmakers are aware of these problems but does not indicate how (or if) they try to solve them.

In bookmaking, both customers and runners seem to deal frequently with a number of operations. Moreover, the system of compensation for runners gives them an incentive to switch to a different bookmaker when they go into debt to their current bookmaker. The anonymity of telephone bookmaking gives the bookmaker little recourse against a defaulting runner. He may therefore resort to purchasing the services of racketeers to track down and pressure defaulters. Some bookmakers carefully screen customers and runners rather than deal with racketeers. Others may offer generous terms for debt repayment to reduce the runner's incentive to default.

Blacks and Hispanics are conspiciously absent from bookmaking, although a few Hispanic Numbers operators take some sports and horse betting. Sports betting is largely an upper middle class activity; also, Hispanics have little interest in football and basketball, though many are avid baseball fans. The growth of New York's black upper middle class and increasing black participation in major league sports makes black nonparticipation in bookmaking surprising.

Cheating seems even more widespread in bookmaking than in Numbers, taking forms that drain away or redistribute profits within the system. Clerical cheating is harder to monitor in bookmaking than in Numbers. In addition, bookmakers can collude with customers to cheat runners, and linemakers can collude with bettors to cheat bookmakers. Bookmakers generally tolerate clerical cheating, perhaps because it is hard to replace a cheating clerk with a clerk who will neither cheat nor turn informant (as may the fired clerk); because cheating is hard to prove without careful monitoring; because it is considered unavoidable, or because the clerk has loyal customers who may go with him if he is fired.

The expected return for a bookmaker handling sports bets is usually estimated at 4.4% of total wagering. But in fact, the bookmaker's gross profits are much smaller, because he must share some of them with his runners; because of clerical cheating or incompetence, difficulty or delay in collecting runners' or customers' debts, and because baseball betting is less profitable than football or basketball betting. In addition, bookmakers risk being "middled" -- highly informed players can exploit differences in bookmakers' lines on a given game so that the bookmakers are unable to lay off their bets at the original terms. Moreover, a bookmaker also incurs such expenses as labor (clerks are paid $250-400 per week and managing clerks $500), rent ($100 per week), and buying line information. A well-run operation should have a long-run return of 0.5% to 1% of total wagers.

None of the Numbers operations we studied handled more than $250,000 per week, but some bookmaking operations handled $1 million per week. At the same time, a large number of bookmaking operations handled less than $5 million per year. In 1967, the New York Police Department compiled a list of 58 separate

operations, none of which accounted for more than 10% of total estimated handle. Bookmaking operations are highly unstable. Financial and/or legal problems frequently lead to a bookmaker to end his entrepreneurial autonomy and become, at least temporarily, a runner for another operation.

Entry into the bookmaking industry appears relatively easy. Most bookmakers begin as heavy bettors, and few bookmakers are arrested for bookmaking before age 30. Bettors who run into debt often try to meet those bets by becoming runners, using their customers' losses to pay off their own debts. Runners, in turn, can easily become bookmakers, although they may find it difficult to obtain enough capital to maintain an independent operation with even a moderate amount of financial stability.

The bookmaking business is filled with opportunities for serious disputes over money. But most bookmakers seem to try to record transactions correctly. Some bookmakers, as well as some bettors, have taken to tape recording all of their telephone business so as to have an indisputable record. Some bookmakers and bettors are known to engage in various forms of fraud. Bookmakers and bettors seem to call upon organized crime figures, from time to time, to deter fraud, to prevent reprisal against fraud, or to mediate a dispute. These services can be expensive and sometimes oppressive.

If a wireroom is raided and the records impounded, custom requires the bookmaker to pay what the customers claim is due them. To penalize bookmaking, police try to publicize the raid to encourage false claims. A bettor who routinely bets $50 cannot plausibly make a claim for $1,000, but in a recent raid on a wireroom that handled about $100,000 per day, false claims cost the bookmaker $70,000.

Not all bookmakers are punctilious about honoring this custom. Bookmakers also take precautions to safeguard their records against the risk of a raid. This custom does not prevail in Numbers, or Numbers operators could easily be bankrupted by false claims. In fact, the DeCarlo tapes record DeCarlo instructing his clerks, in a Numbers bank where a popular number had won for the second day in a row, to answer the telephone pretending to be policemen on a raid so as to invalidate all of the winning claims.

The substantial evidence of close ties among the various bookmakers in the New York metropolitan area does not support the notion that any group has attempted to dictate the terms of business. Like all businessmen, bookmakers frequently exchange information and complain about the state of business, but they do not jointly set prices or attempt to coordinate credit, territories, or the treatment of entrants. Territoriality, in any case, would be difficult to enforce because the bookmaker's office may change county every two weeks, and he may never know the addresses of his bettors.

Our research turned up one effort by a group of 12 to 15

major bookmakers to change the odds offered for baseball betting and increase the bookmaker's margins. They announced this change at the beginning of the baseball season, and within three weeks it had affected business so severely that they abandoned it, although it had the lasting side effect of altering the system of compensation for some runners. The cartel effort failed because their bettors could find other bookmakers willing to offer the old terms.

The sports bookmaking business in New York is singularly free of violence except, in a few cases, to enforce payment of debts. Although police corruption seems less useful to sports bookmakers who use telephones than to old-fashioned horse-room bookmakers, some telephone bookmakers have tried to buy police protection. We also have encountered one instance of extortion by a gambling squad detective. Bookmakers seem to derive a sense of security from purchasing police protection. But our evidence does not suggest that police corruption is widespread or that it has a significant effect on the organization of the bookmaking market.

4. NUMBERS IN NEW YORK

History and Background

Lotteries, both legal and illegal, have been popular in American cities since the seventeenth century. In the eighteenth century, poor people who could not buy a whole lottery ticket bought either a piece of a ticket or an "insurance policy," costing a penny or two, on a particular number. During the latter half of the nineteenth century, many states outlawed lotteries without making betting illegal. In New York, groups of policy shop owners entered exclusive contracts with lottery operators in states like Louisiana to distribute the results of their drawings. Local politicians dominated these organizations ahd used their control of the police and the law courts to enforce monopolies. But these politicians tended to quarrel among themselves, and no monopoly lasted long. (Johnson, 1977)

Many of the immigrants who arrived toward the end of the nineteenth century shared a taste for lottery gambling. In response to popular demand, local operators abandoned their dependence on out-of-state lotteries and began to draw their own numbers. Politicians continue to be involved in these games and to try to establish monopolies.

At the beginning of the twentieth century, Numbers in its present form became the favorite game of New York's burgeoning poor black community. During the Prohibition era, bootleggers used their local political connections and bootlegging profits as capital to move into the Numbers business. They forced the experienced black operators to join them or go out of business. The role of violence in the process is not fully known. Economic pressure (lack of capital) may have been sufficient to eliminate competition. Even in this period, white racketeers had limited power. (Block, 1980)

Operation of the Numbers Racket

The Numbers game is a form of lottery in which the bettor is permitted to choose his own number and the amount of money he wishes to bet. The bettor may bet on one digit (for an 8 to 1 payout), two (60 or 70 to 1), or three (500 or 600 to 1). He places his bet with a collector and generally is given a receipt showing the number and the amount of the bet. The collector has a copy of the receipt, and passes it or another copy to an agent who takes the bets from the collector to the bank. A bettor can buy a number either at a spot, such as a candy store, or from a runner, a person who covers a particular route each day. A few operations now retail by telephone, using a recording machine, which makes law enforcement efforts substantially more difficult. Collectors are retailers. Most bettors neither know nor care about which controller or bank employs their collector. Many collectors similarly do not know which bank their controller works for. Because of this segmentation of knowledge, the collector, the most exposed and vulnerable racket participant, can be arrested without disrupting the bulk of the daily operation of the bank.

Controllers are middle management, between collectors and the bank. Controllers seldom have direct contact with their collectors. Generally, they employ on a salaried basis pick-up men who obtain the betting slips from the collectors, deliver money to the controllers, and bring money to collectors who must pay off winning bets. Controllers are rarely caught with betting slips, but pick-up men must deliver to controllers, probably on a daily basis, adding machine ribbons recording transactions with each collector and the bank.

A bank may be a location where certain accounting services are provided or ownership of the right to a share of the profits generated by a set of collectors and controllers. As service locations, banks employ clerks (usually female relatives of other employees) to keep books. The operator of the bank on a day-to-day basis is considered highly vulnerable to arrest, theft, or kidnapping and is rarely the sole or majority owner. Owners generally try to minimize direct contact with the bank. The division of entrepreneurial decision making between owner and operator seems to vary from bank to bank.

The winning number is determined by the betting at a specified racetrack. The result is sometimes based on the last three digits of the total handle for the day. Numbers operators must learn the winning number as soon as possible. Today, it is usually a three-digit number drawn from the winning prices on the third, fifth and seventh races. Many bettors bet on a single digit, but may want to bet on a second digit after obtaining the result of their first bet. Hence, speed is important. But the Federal Communications Commission prohibits the broadcasting of race results generally until half an hour after the race is over. Racetracks do not have public telephones. Numbers banks therefore rely on an agent inside the track to keep them informed. Of course, one agent can

provide information to more than one bank. We do not know how many information services supply the number to the banks in the New York area, but no banker, even a new one, has difficulty obtaining the number speedily at a reasonable price.

Participants in the Numbers business make elaborate efforts to conceal the location of the bank and protect the security of the work. These measures seem to be aimed not only at police but also at thieves. Many banks have heavy doors that the police have to break down.

Employees can easily cheat Numbers operations, and many do. A clerk simply inserts a betting slip with the winning number after the number has been announced. The precautions taken against such cheating vary from bank to bank but are generally not strict.

Financial Flows

Our data did not permit us to determine the revenues generated and income received by individual collectors. Banks keep records only of their dealings with controllers. The banks do record payments to the collectors in the form of "hits" (wins). Although these payments are intended for players, minus the tip, the collector may also retain a significant additional portion of the hit.

The data did permit us to conclude that most banks are smaller than Numbers have generally been thought to be. A bank handling $5 million per year, a figure roughly comparable to the annual sales of a large urban supermarket, is large by New York standards of the early 1970's. The largest bank we studied handled $17 million per year. The profits from such banks were modest in absolute terms and highly variable. Moreover, bankers often had difficulty in collecting revenues from the controllers. The controllers, on the other hand, derived large and stable incomes ($25,000 - 30,000 per year in 1971) from their function, with little attendant legal or financial risk.

Banks controlled by Mafia members or close associates were somewhat larger than those controlled by blacks or Hispanics. But the net profits of the owners of Mafia banks were lower than those of other bank owners.

Given payout rates of 600 to 1, a small number of cut numbers at payout rates of 400 to 1, and commission rates no higher than 35 percent, bank profits should have been approximately 6 percent of handle. In fact, the average profit for the total handle in our sample was less than 4 percent. The profits of black banks averaged 30 percent, Mafia banks as a group actually showed losses, and Hispanic banks were somewhere in between. These findings are puzzling, unless the police deliberately raided only profitable black banks and failing Mafia banks, which seems unlikely.

Having learned that employee cheating might have a significant effect on bank profits, we tried to test the hypothesis that larger banks were less profitable than smaller banks. We reasoned that many employees would be less closely supervised than few. However, we found a positive (though statistically not significant) correlation between size and profitability.

Unexpectedly, we found that controllers routinely owe substantial amounts to their bankers. In some banks, these debts were paid once a week; in others, they continued for months, despite the banker's recorded efforts to collect. For the sample as a whole, the debts amounted to 2.77 times the average daily handle. For Hispanic banks, they were 4.67 times the daily handle, and for black banks 2.66.

We tried to determine whether or not the owner (or successive owners) of a given bank or set of controllers and collectors could maintain the bank's size and general composition over a period of years, but we turned up very few instances in which we could be sure that two raids at different times had been on the same bank. We also tried to analyze bank stability in terms of short-term profitability. The less stable the bank in this sense, the more capital it requires to avoid the risk of bankruptcy. In the bank for which the longest profitability data were available (on a weekly basis over 17 weeks), the handle fluctuated between $177,000 and $261,000 and gross profits between plus $74,000 and minus $81,000.

For each bank in our sample, we calculated the highest one-day loss during the same period and measured it against the controller's average daily handle (see Table 1). We found that for a sample of 53 controllers, 27 experienced one-day losses (accruing to the banker) of at least twice their average handle. In short, a banker handling $10,000 per day had a non-trivial probability of losing as much as $20,000 on a given day.

In our sample of 53 banks the average bank handled about $2 million per year in wagers, producing gross profits of about $100,000 for the banker. If the banker paid about $30,000 in office staff salaries (two clerks at $150 per week and an office manager at $250 per week), about $5,000 in rent, another $5,000 for legal fees, office equipment, supplies and other incidentals and perhaps $7,500 for financing (maintaining a capital reserve of $15,000 and paying 1 percnet per week interest -- which appears to be the prime rate for criminal borrowers), then he netted about $52,500. Such an income is substantial but does not suggest that the average Numbers bank provides the capital base for a vast criminal empire.

Betting Distributions and the Riskiness of Banks

Unevenness in the distribution of bets increases a bank's needs for capital reserves, unless it can lay off bets with other banks, cut payout rates on popular numbers, or increase payout

TABLE 1

Maximum Losses for a Sample of 53 Controllers

Average Handle	Number of Observations	Maximum Loss	Ratio of Maximum Loss to Average Handle
1930	9	-2556	1.33
1355	9	-1661	1.22
1078	6	-400	0.37
2759	6	-4696	1.70
458	6	-144	0.31
2553	6	-1164	0.49
1041	6	+265**	--
680	17	-4332	6.37
614	11	+145**	--
407	11	-124	0.30
776	18	-1101	1.41
1028	6	-241	0.23
483	26	-2829	5.98
1712	6	-128	0.07
1402	8	-1294	0.93
1093	41	-2145	1.96
1440	47	-3120	2.16
508	46	-7105	13.98
1773	23	-1604	0.90
1982	34	-12051	6.08
1593	39	-5026	3.15
1889	42	-20681	10.67
1308	11	-5792	5.80
484	46	-1920	3.96
1667	9	-1118	0.67
270	38	-5810	21.52
184	69	-1021	5.55
1634	26	-7802	4.77
1100	21	-2843	2.58
2056	39	-8495	4.13
2996	15	-2160	0.72
1110	5	-886	0.79
634	6	-5579	8.67
2447	74	-13763	5.62
2040	73	-4445	2.17
26579	68	-59020	2.22
1217	13	-2745	2.25
1161	6	-465	0.40
533	24	-361	0.67
299	16	-609	2.03
459	16	-2804	6.10
877	44	-1691	1.92
454	29	-769	1.69
2721	59	-3026	1.11
801	12	-3143	3.92
391	16	-1525	3.90
233	12	-287	1.23
1768	64	-26032	14.72
990	11	-108	0.13
3498	40	-8728	2.49
362	35	-1193	3.29
5527	88	-12050	2.18
11337	47	-689	0.06
Means: 1990.57	27.45	-4919.87	3.34

**For two banks in the sample no losses were recorded during the period of observation; the lowest daily revenue is recorded as a positive item here and permitted to adjust the average.

rates on unpopular numbers. But if the same numbers are consistently popular or unpopular with the entire betting population, bankers cannot use laying-off to reduce their risk. We divided the Manhattan banks in our sample into three "social areas": black, Hispanic and other, (since there was evidence that ethnicity affected number preference) and identified the ten most popular numbers in each area. We also confirmed an earlier report (Rados, 1976) of bias toward lower numbers. The ten most popular numbers in each area overlapped only slightly, but all thirty numbers received disproportionately heavy play in each area, limiting opportunities for laying-off. We also examined cut numbers -- those to which, because of their popularity, bankers assign a lower payout rate. We found that the typical cut (400 to 1 rather than 600 to 1) was insufficient to bring the banker's exposure on such numbers into line with the rest of the distribution. The effect of skewed distribution on the need for capital reserves may significantly reduce the ability of controllers to set up their own banks; access to capital may be the most important prerequisite for becoming a banker.

Apart from the perennial favorites, other numbers may suddenly become popular (e.g., 715 on the day when Hank Aaron hit his 715th home run) and win, with adverse consequences for the banks, additional to the long-run problem identified above.

Control

Our evidence suggests that Numbers today is far less centrally controlled than it is widely believed to be and probably once was. We have found, for example, that neither banks nor collectors have exclusive rights to work particular territorities. An indication of the density of Numbers retailing was provided by a former Numbers pick-up man, operating in a particularly active area of lower Manhattan. He found four different banks operating in a two block area. Similarly, two policemen described a bar which served as a stop on the route of four runners associated with different banks. Although some sections of Harlem are said to be organized on a block basis so that new collectors risk violence if they try to operate without the established collector's consent, in most of the city, the only barrier to becoming a collector is finding a controller who will accept the bets.

Regional variations in pricing also seem to indicate decentralization, some parts of the city show many of the characteristics of central control which may be related to ethnic and social homogeneity and stability. In others, there seems to be substantial variation.

It is widely believed that the bank determines the payout rate for winning bets, but discrepancies between bank records of payouts and informants' accounts of actual payouts have led us to believe that, at least in some locations, collectors adjust the bank rates. Where collectors have their own territory, bankers may set the payout rate so as to maximize the bank's profits.

But where collectors compete for bettors, they may do so by raising payout rates. Alternatively, they may offer lower payout rates than the bank gives them and pocket the difference. Rather than monitor market conditions and bettor payouts, the bank may simply offer a uniform rate to its collectors and let them determine their bettors' rate. This arrangement is similar to that between retailer and supplier in a number of legitimate industries, in which the wholesale price is uniform and wholesaler suggests a retail price, but the retailer is legally free to adjust it to local conditions. If this arrangement in fact prevails in Numbers, then banker-collector relations cannot be understood as those of a boss to an employee. Further evidence of collector autonomy is the widespread practice among collectors of holding back bets of less than 10 cents. Bankers make no systematic efforts to determine whether or not collectors are holding back bets, although the practice reduces their profits.

In general, the role of violence in Numbers operations seems to have been considerably exaggerated. Threats of violence are common, but such threats are a part of rhetoric of this milieu. Actual incidents of violence in the Numbers business, in recent years, have been very few. Those of which we learned generally concerned some form of cheating and not efforts of bankers to expand their territories.

Conclusion

Our analysis of the Numbers business, relying heavily on a sample of financial records from Numbers banks, suggests a very different view from that presented previously. The banks appear to be modest sized operations yielding a substantial, but variable, income for the banker. The results do not justify the claim that Numbers might provide the stable source of capital accumulation for the growth of large scale, multiple enterprise, criminal empires.

Even more strikingly, all the evidence suggests that the Numbers business is one in which bankers compete for the services of collectors and controllers. The view that this is a controlled activity is, for most of New York, highly questionable. The major incentive for involvement by bankers in the Numbers business may be that it provides a source of patronage and information but our research did not permit us to examine this hypothesis in any detail.

5. ENFORCEMENT OF GAMBLING LAWS

Numbers and bookmaking in New York have not existed in a vacuum. The police have devoted a great deal of effort to the suppression and regulation of these activities. Indeed, one of the major reasons for studying them is precisely the importance that they have had for police organized crime control efforts. Our analysis of bookmaking and Numbers suggested that the police had, at least in the early 1970's, relatively little influence

on either the operation or the structure of these markets. To understand that, it is necessary to describe the nature of the police gambling enforcement effort.

Police Gambling Enforcement Efforts

In 1949, what became known as the Harry Gross investigation produced revelations of widespread police protection of bookmakers. The New York City Police Department (NYPD) created several city-wide gambling squads independent of the precinct, division and borough units that had traditionally been responsible for enforcing the gambling laws. At this time, in theory, a police officer who observed gambling in public was required to make a report of the condition and to effect an arrest if possible. In practice, however, uniformed officers made arrests only for nuisance gambling (dice games on the sidewalk), and divisional plainclothesmen concentrated on organized illegal gambling. When the new central units were created, the divisional plainclothesmen remained responsible for enforcement against local conditions, while the central units responded to complaints of police corruption. They were supposed to operate in secret, but, in fact, they usually gave advance warning of raids. Corruption remained widespread among the plainclothesmen, who regularly made arrangements with gamblers to be arrested at convenient times or to provide stand-ins to fill the officers' arrest quotas without inconveniencing the bookmaker.

In the early 1960's, another corruption scandal led the Department to create the Gambling Enforcement Inspection Review Board (GEIRB). It was responsible for monitoring vice conditions, recommending new strategies, and supervising personnel selection. The Board introduced new reporting procedures but, like the squads, had little impact on the integrity of gambling enforcement. In this corrupt environment, a handful of honorable men sought to do their jobs effectively, directing their efforts against both corrupt colleagues and the gamblers themselves. These men became the core of a new enforcement effort after the Knapp Commission hearings.

The Knapp Commission, created in September 1970, sought to investigate charges of malfeasance and misfeasance throughout the police department. Although the Commission did not establish that police corruption had been worsening, it did have a broad impact on the entire operation of the police department, and in gambling enforcement it led to two important changes. First, uniformed patrolmen were explicitly prohibited from making vice arrests, although they were still required to report on observed vice conditions. The purpose of this change was to discourage bribery or extortion by patrolmen. Second, the traditional plainclothes command structure was abolished and succeeded by a centralized vice control unit, the Public Morals Division, which was part of the Organized Crime Control Bureau. Elaborate procedures and perhaps as much as 10 percent of the total manpower of this unit was devoted to corruption control.

In the next five years, the number of men assigned to gambling enforcement declined precipitously, and with it the number of gambling arrests. By 1976, gambling enforcement was clearly a low priority for the New York Police Department, as it seemed to be generally for the criminal justice system. Apparently, aggressive administrative measures had succeeded in shattering the extensive corruption networks that seem to have emerged during the Prohibition era, but only by greatly reducing the extent of the enforcement effort.

Enforcement Strategies

In dealing with Numbers, the police can choose to attack either the branch or the root: either to harass street vendors, necessarily using considerable manpower but taking visible action against visible lawbreakers; or to attempt to build cases that would lead to the arrest of those with operational control of Numbers banks, punishing those most deserving of punishment. Before the Knapp Commission, the New York Police generally went after the branch. In the 1940's, they established a Known Gambler file of people arrested for gambling. Each KG was assigned to a plainclothesman who kept track of him. When the public called for arrests, the officer rounded up his KG's. But most plainclothesmen protected their KG's, when it was convenient to do so, in exchange for information and money. As a result, knowledgeable officers tended to be corrupt and honest officers ignorant. In this way, the police effectively maintained control over public gambling and could respond with great speed to complaints of flagrant Numbers actively, although few New Yorkers were unable to place bets when they wanted to.

In the early 1960's, the police decided to attack the root. The GEIRB ordered the divisions to create teams of men who would locate and arrest policy banks. The only arrests for important gambling figures prior to 1970 were made by these teams. Their reports contain the best data on Numbers in police files. They also illustrate some of the problems of gambling enforcement. For example, locating a policy bank requires a substantial investment of manpower and time, produces relatively few arrests, and involves, unless manpower is increased, a relaxation of street harassment. Gamblers respond to this strategy by relocating or dividing their banks or by having other bankers take over their work for a specified time and fee.

After the Knapp Commission, the police completely stopped street harassment. Their effort has been directed against large banks. But today, some spots post odds and winning numbers flagrantly, attracting large, noisy crowds and double-parked cars. Department policy prevents uniformed officers from responding to these situations with anything more alarming than traffic summonses. The nongambling public, observing public gambling and police inaction, has blamed these conditions on corruption. As a result, the police have had to resume street harassment.

Corruption

Before the Knapp Commission, Numbers operators and handbooks (the bookmaking equivalent of runners) could not function unless they purchased protection from all the patrolmen in a given territory. In the late 1940's, a small-time Brooklyn bookmaker named Harry Gross became an intermediary between several hundred Brooklyn handbooks and the gambling police. He was arrested and convicted for bookmaking, but the exposure of the protection system in which he worked led to prison sentences and suicide for a number of police officers and drove the mayor out of office. The investigation was believed to have uncovered a vast and well organized gambling ring. In fact, very few of Gross' colleagues handled anything larger than local action at a corner bar; they had united only in response to police demands for payoffs. Since Gross did not control them, bookmaking went on as usual after his exposure.

There was another case in the early 1960's that was less sensational but which had greater consequences on both police and gamblers. The desk lieutenant in the city's most important gambling squad was the coordinator and bookkeeper for a citywide corruption ring that warned gamblers of impending raids in return for payments keyed to the officer's importance and seniority. Members of most of the city's plainclothes units participated. (All the officers indicted were ultimately acquitted.) The overthrow of this central brokerage led to the decentralization of police corruption. The Knapp Commission found some plainclothes units entirely corrupt, but little corruption in headquarters or even borough offices.

The Knapp Commission and the Koutnick cases revealed that gamblers paid the police fees for the protection of specific places, but that there was no protection for banks. Operators who did not pay protection were given the choice of doing so or being raided. Some police became involved in day-to-day gambling operations, guarding money transfers and enforcing local collectors' monopolies by suppressing competition. Some informants and police report that controllers assigned their collectors to territories within specific divisions so that they would not have to pay protection to two police divisions. Since the Knapp Commission, numerous local Numbers operators have tried to organize precinct pads, and some have complained that intense competition is preventing any single operator from achieving enough volume to run a profitable operation.

Prosecutors and Courts

Despite New York's preeminence in the field of organized crime prosecutions, in the past thirty years, New York district attorneys have generally treated gambling cases as low level, routine prosecutions to be disposed of as expeditiously as possible. Until 1963, New York had no felony gambling statutes, but even after these were enacted, prosecutorial interest in gambling did not increase significantly. Since the mid-1970's, the District

Attorney of New York has refused to agree to wiretap applications for gambling operations. Suburban prosecutors are more favorably disposed toward such applications, perhaps because the major gambling investigative units in the suburbs consist of police detailed to work in the district attorney's office.

Judges have been even less eager to treat gamblers harshly. From 1964 to 1969, less than 2 percent of those convicted following arrest on felony gambling charges received prison sentences. Some judges object to sentencing gamblers in light of the state's encouragement of betting through OTB. Suburban judges, like suburban prosecutors, are more willing to sentence gamblers.

Federal Enforcement

Following passage of the Organized Crime Control Act in 1970, which expanded federal jurisdiction to large intrastate illegal gambling operations, the federal Strike Forces against Organized Crime made gambling the center of their enforcement activities. Some early cases featured as many as 50 defendants, the result of citywide raids. When many of these cases proved unsuccessful in court, federal authorities adopted as their slogan "quality rather than quantity."

The goal of federal efforts was to incarcerate major organized crime gambling operators. However, a comparison of names of a sample of 197 gambling defendants in federal court with the NYPD Known Gambler (KG) list of 5,000 turned up only 29 names that were on both lists. The KG list includes many minor figures but it also includes the names of the major racket figures. In theory, the federal list should include many such figures, but in making raids federal authorities arrested everyone whom they could identify as working with the operation, including many whom local authorities would have ignored because they were too unimportant. These numerous arrests led to relatively few incarcerations.

From a vigorous start in 1970, peaking in 1971-72, federal enforcement efforts declined steadily. By 1978, gambling had the lowest priority of the crimes that federal Strike Forces might investigate. A Strike Force official ascribed this shift to dissatisfaction with the sentencing rates for convicted gamblers, which were much lower in federal courts than those for marijuana, narcotics and larceny convictions. There have been no official statements to justify this policy shift.

Gambling Enforcement and Wiretapping

Court-authorized wiretapping originated as a legislative response to public concern with organized crime. The primary use of such wiretaps has been to investigate gambling offenses and remains so, although the number of wiretaps has been declining since 1973. New York and New Jersey accounted for the overwhelming majority of such wiretaps, although the imbalance is less pronounced now that it was in the early 1970's. The use of

wiretaps has declined apparently because gambling wiretap cases are legally complex, rarely succeed in reaching major organized crime figures, and produce relatively mild penalties for those convicted.

Gambling Enforcement and Organized Crime

Major city police departments are expected by the public and the media to keep informed about rackets. Our evidence indicates that racketeers do not directly control Numbers or bookmaking, but that they do have a continuous involvement in these activities, sometimes as bettors, sometimes as financiers. Major gambling investigations yield useful information about the relationships among persons in the rackets. If this information contributes to, for example, loansharking and extortion cases, then serious gambling investigations are justified even if they do not lead to incarceration on gambling charges. But they may be serving only to feed the public's and media's curiosity. A review of a sample of past gambling investigations could provide evidence of the extent to which such investigations have led to the making of non-gambling cases. We were unable to gain access to the data necessary for such a review.

Gambling enforcement seems to have little direct effect on organized crime. Heavy enforcement against bookmakers may actually be counterproductive, forcing some otherwise solvent bookmakers to resort to loansharks for financing. The police might usefully focus on bookmakers already in debt to loansharks as a means of getting at the loanshark, but we doubt that current police intelligence systems would support this kind of specialization. Enforcement against Numbers may be even more counterproductive, because it generates police corruption and benefits those bankers who can establish the best connections with corrupt police administrators, generally those most closely associated with organized crime groups.

The public has a right to expect the police to take action against those who become rich by flouting the law. A gambler enforcement effort built around limited goals of equity and intelligence, targeted against major operations might be more successful in enlisting the active cooperation of prosecutive agencies than past efforts have been.

Organized crime may be a major problem in the United States today, but gambling enforcement has failed to solve it. Numbers and bookmaking are integral parts of urban life in this nation, and the efforts of police to enforce the laws against them have benefited neither the police nor the public. We might argue for the legalization and taxation of privately operated Numbers and bookmaking, but while they remain illegal, the police must devote some effort to combating them. At the same time, the public should be made aware of the limited goals of this enforcement. We believe that effective information gathering and analysis can do much to remove from the police a burden that they

should no longer have.

6. INFORMATION GATHERING AND ANALYSIS

Most major police agencies have an intelligence unit. In theory this unit serves as a central point for the collection and analysis of information about, amongst other matters, organized illegal activities. Intelligence units are the most plausible point at which to begin the process of improving decision making in the area of law enforcement against organized crime.

The enforcement of laws against illegal gambling, as suggested in the previous chapter, serves a number of functions. One that the police have viewed as very important (Fowler et al, 1978) is that it is a major weapon against organized crime, particularly the Mafia. While our research certainly suggests that Mafia members are intimately involved in gambling, often as financiers or bettors, it is not consistent with the claim that gambling enforcement can serve as a major source of convictions or severe financial losses for the Mafia. Indeed, in as much as it creates financial difficulties for bookmakers generally, gambling enforcement may expand the Mafia's influence in the business. That is not to say that we can recommend a correct strategy against organized crime: we know too little about its activities. What we believe possible, and shall attempt in this chapter, is to suggest how the intelligence units should be altered to generate information and analysis so that better policies can be formed.

A preliminary to that is a description of the setting in which intelligence units operate. For it is critical to understand both the primacy of the police in this area and the difficulties under which intelligence units operate.

Police Intelligence Functions

The police are given almost sole responsibility for the collection of intelligence information. This is true at every level of government, local, state and federal. Prosecutors are essentially customers of police intelligence information. The primacy of the police represents, in part, a sensible response to the comparative advantage that the police have in collecting information. Routine police enforcement activities generate a great deal of relevant information, while prosecutors gather relatively little extraneous to the making of particular cases.

There are, however, three problems that arise from this division. First, intelligence units themselves are essentially clients of enforcement activity. They learn mostly about the activities that other police choose to give attention. The police have paid great attention to gambling, relative to other organized criminal activities. That choice is to some extent a response to the rather open and routinized nature of most illegal gambling activity. Numbers, in particular, involves large numbers of people forced to operate on a regular schedule with quite

formalized bookkeeping. As a result the police have acquired an enormous body of disparate information about literally thousands of individuals. The information was not collected for the purpose of creating an organized crime strategy, but to enable them to make gambling arrests when there was a public concern about the issue. Nonetheless, it provided much of the information that the intelligence units had to work with.

The intelligence unit then tends to serve the role of ratifying basic strategies. If other units provided information about illegal gambling, then intelligence units were likely providing policy makers analyses of illegal gambling. The intelligence unit's ability to refocus organized crime strategies by looking at the full range of activities of the target groups was limited by its dependence on information from enforcement units.

The second problem arises from their location in a semi-military organization, which does not permit lateral entry. Police intelligence units have in large part adapted military intelligence terminology and approaches, though the nature of the problem and available resources are very different. Undoubtedly this is partly due to the fact that so many people have served in the military, and often in no other large organizations. However the lateral entry prohibition, which requires everyone to enter the police force at the lowest level, limits the pool of skills on which the police can draw. While this has an impact on many aspects of police work, it is particularly significant in areas where sophisticated analysis is potentially important. Lacking formal skills it is unsurprising that most intelligence units function simply as collectors of information. It is rare to find a filing system which does more than collect information on individuals.

The third problem arises from the relationship of informants to their police contacts. The relationship is a personal one, though it arises in the course of police activity. Repeated scandals in major police departments, sometimes involving allegations that informants have been punished as the result of corruption within the police department, create an understandable reluctance on the part of both the informant and his contact to put much information in files. The result is that police departments command far less information than do its members collectively. Moreover, when a knowledgeable officer retires his knowledge, and usually his informants, are lost to the department.

The consequence of these three characteristics of enforcement and intelligence is that so-called intelligence files consist largely of unanalyzed information about individuals involved in activities which the police already regard as important. The policy question is what can be done to change this? It should be clear from the prior discussion that the problems are rather fundamental ones arising from the nature of police work and its organization. Any recommendations that seriously address the problem will have consequences for other aspects of police behavior.

The Limits of Analysis

We have said that police fail to analyze the information they collect. Our obligation then is to suggest what analysis might achieve. Having only limited knowledge about what information the police do collect, there is a somewhat speculative element to our assertions on this matter.

Our research itself suggest some of what might be done. The kind of market analysis that we did, does not in fact require a great deal of sophistication. Much of the difficulty we confronted arose precisely from the fact that we were not police and simply could not obtain much of the information routinely available to an enterprising police unit if it seeks that information. Having assembled the data it is possible for the police analyst to present to policy makers meaningful estimates of the flows of money within the two markets. That information would enable the policy maker to raise serious questions about the direction of current organized crime control strategies.

As we have already suggested, gambling is the easiest of the activities to analyze in this fashion, because it is the one for which the police can get information most easily. We believe, on the basis of incomplete information, that such analysis should also be possible for some other activities, particularly heroin dealing where enforcement routinely generates relevant information and, potentially, good quality informants. Loansharking and other narcotics markets may be more difficult to study in this fashion because the activities are not so routinized and open.

The alternative approach for intelligence purposes is to focus attention on the criminal groups of interest. What seem to be their major sources of income and power? Such information can only be obtained through informants, whose recruitment is a function of other enforcement activities. It is worth pointing out once again that one consequence of gambling enforcement is to produce informants who are particularly knowledgeable about the gambling activities of organized crime. More enforcement activity against other activities that appear to be important to organized crime will produce more information about their involvement in these activities. We ourselves simply know too little about the nature of such activities as extortion and labor racketeering to be able to say what analysts might be able to accomplish.

There is however another general point about which we can talk with some authority. The narrow focus of intelligence units and organized crime control has clearly limited the use to which informants have been put. Time and time again we have been told of informants who have been debriefed only on a narrow range of activities, where later it emerges that they were knowledgeable about much more. The same appears to be true with electronic surveillance material. Transcripts are frequently quite cursory summaries, providing enough information for the case in hand but failing to record the rich material about related criminal

activities which would be invaluable for a true intelligence function. In at least one unit the introduction of civilian analysts into the "plants" has led to much more fruitful use of wiretap information.

CONCLUSION

The location of intelligence units in police agencies and the restricted access provided to prosecutors, arise out of the understandable concerns that police have about prosecutor loyalties. The prosecutor of today is the defense lawyer of tomorrow. Individual police are very explicit in stating their mistrust of prosecutors, seeking to limit the information available to them to that necessary for prosecuting a specific case. The fact that District Attorneys are elected officials, in most states, serving counties while the Police Commissioner is an appointed official for a city also creates tension. It is hard to realistically propose changes that would, within existing political and career constraints, much change the relationship between police and prosecutors.

The recruitment of highly trained specialists into the middle level of police departments, which is essential if intelligence units are to be more than collection units, seems more feasible. It is a matter of ideology and practical union policies that such recruitment has not already occurred. We can only hope that our suggestions will add to the general impetus for such a change.

Finally, there is the issue of the relationship between intelligence and enforcement. Recent scandals concerning political intelligence programs of the FBI and various other law enforcement agencies have heightened traditional concerns about the police carrying out activities other than those with a direct case orientation. The concern is undoubtedly a sound one. However, if organized crime is a serious problem in modern America, then the police must be given the authority, direction and resources to carry out meaningful intelligence work in this area.

CHAPTER I

EXPLORING OFFICIAL DOCTRINE

1. DEVELOPMENT OF THE ORTHODOXY

The Kefauver Committee is the original source of the views which have determined the organized crime enforcement strategies of most criminal justice and regulatory agencies throughout the nation over the last quarter century. The Committee, which functioned from 1950 to 1952, made two major findings. First it asserted that illegal gambling was the major activity of organized crime. Secondly, it claimed that the Mafia, a national organization of Italian-American gangs, had monopoly control over this gambling activity. (Kefauver Committee, n.d.)

All the elements of this view of organized crime were part of the American scene prior to Kefauver, but the Committee combined them in a powerful and new way. For the first time gambling was seen as a nationally organized racket. Prior to Kefauver, illegal gambling had often been the source of much local political turmoil (cf. Richardson, 1970), frequently associated with city and county political machines and police graft, but it was not viewed as being important to large-scale conspiracies. Prostitution (vice), bootlegging and other liquor rackets, as well as extortion were given much more prominence than gambling in discussions about criminal organizations.

Ethnic and even "national" conspiracies were not invented by Kefauver; the "Whiskey ring" and other "trusts" had often been accused of creating national monopolies. But prior to Kefauver no government body had given one ethnic group primacy in criminal conspiracy nor had anyone ever ascribed to it the national control allegedly exercised by the Mafia. The existence of the Mafia in America was first announced at the turn of the century (Albini, 1971; p.159) and during Prohibition its prominence and publicity increased. Tom Dewey made his reputation by convicting Lucky Luciano of being the leader of prostitution in New York and a leader of the Mafia, the dominant element in the nefarious dope rackets. But Dewey did not argue that Luciano was the head of a national conspiracy.

The Kefauver Committee's assertions about interstate gambling conspiracies dramatically changed public perceptions of criminal organization and illegal gambling in America. The televised hearings in New York City which featured Frank Costello's intertwined fingers twisting for hours on end while he evaded the

Committee's questions drew the largest national television ratings to that date (Moore, 1974; p.184). Estes Kefauver, the Chairman of the Committee, became a national figure with prospects of attaining higher office.

The Committee's investigation focused on the national wire service, which provided bookmakers with the results of horese races throughout the country as well as in Mexico and Canada. The Committee drew several general conclusions about the nature of national criminal conspiracy from its analysis of the structure and operation of the wire service. Three are worth citing:

> "There is a sinister criminal organization known as the Mafia operating throughout the country with ties to other nations." (p.175)
>
> "Criminal syndicates in this country make tremendous profits and are due primarily to the ability of such gangs and syndicates to secure monopolies in the illegal operation in which they are involved." (p.174)
>
> "Gambling profits are the principal support of big-time racketeering and gangsterism. These profits provide the financial resources whereby ordinary criminals are converted into big-time racketeers, political bosses, pseudo businessmen and alleged philanthropists." (p.175)

How did the Committee go about forming these conclusions? What kinds of information did it gather? The answer to these questions raise serious doubts about the validity of its approach and the reliability of its analysis. The Committee recruited a large staff of lawyers and investigators, whose main function was to establish contact with local officials and interested groups, learn their views of local problems and then prepare them to testify for the Committee. The Committee staff initiated no collection of new information, nor did it independently test the assertions of local law enforcement officials.

It was assumed that the answers offered by local officials to questions about who "ran" gambling in their towns were correct. No effort was made to analyze the costs of operating these syndicates, the flows of money or the profit margins. It was asserted on all sides that illegal gambling was a very lucrative monopoly. Since knowledgeable people from all parts of the country seemed to agree, the Committee decided that it must be so. The assertion that the local criminal monopolies were linked in a national conspiracy was based on the role of the wire service and the friendly personal relations between prominent organized crime figures in different cities.

The Kefauver Committee set a poor precedent with respect to sources, which has been followed by succeeding groups. It asserted that "off the record but convincing statements of certain informants who must remain anonymous" (p.130) proved to its satisfaction the existence of the Mafia. The need to use confidential

informants is undeniable. One can reasonably require though that the informants be asked detailed questions, their responses validated as far as possible and some of this detail be provided in the Report. This is not to say that the Committee's assertions are false, simply not proven.

But suspicion about its use of informants is increased when one takes into account the judgement of a historian of the Committee, that "its record in judging statements on the Mafia in open sessions is not such as to establish confidence in its critical abilities on this issue." (Moore, 1974; p.132)

The Committee recognized that its new finding of a national criminal conspiracy required an explanation. It said that "new types of criminal gangs have emerged during Prohibition. The huge profits earned during that era, together with the development of twentieth century transportation and communication, made possible larger and much more powerful gangs, covering much greater territory." (p.126) The Committee also found that these "modern gangs and syndicates rely on "muscle" and murder to a far greater degree than formerly to eliminate competitors, compel cooperation from reluctant victims, silence informants and to enforce gangland ethics." (p.126)

The Committee also had an explanation for the apparent importance of government to suppress illegal gambling or even limit the criminal monopoly. The sovereignty of the people, which had been clearly expressed in a variety of statutes and laws, was being undermined by the corruption of politicians and law enforcement officials by organized crime interests. The Committee went so far as to say that any elected official who claimed his office on the basis of a public expectation that he would not rigidly enforce gambling laws was probably in the pay of criminal interests. In effect the Committee was claiming that the public was opposed to gambling and that the only way to persuade the voters of the desirability of an "open gambling" policy was by using gambling money for electioneering.

The Kefauver Committee's legislative consequences were not important. In 1951 Congress enacted excise taxes on gambling and cited the Kefauver Committee to support its claim about the size of the base on which these taxes would be levied. But the purpose of these taxes was to raise revenue for the Korean War and not to fight organized crime.[1] The findings of the Committee were an end in themselves and produced no significant legislative or administrative changes.

We stress the work of the Kefauver Committee for two reasons; it established the post-War image of organized crime and it set the standard of proof for public discussion of the issue.

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1. In fact these taxes were used extensively by IRS in the 1950's and 1960's to make criminal cases. (cf. Duncan, 1977)

Succeeding official bodies, at the Federal level, not only have drawn the same conclusions but have gone about their work in the same manner. They too assumed the validity of broad conclusionary assertions by local law enforcement agencies, except where these agencies were obviously corrupt.

The Kefauver Committee made a number of conclusionary statements about the impossibility of establishing honest forms of legal gambling which essentially eliminated any discussion of legalization for the following fifteen years. Senator John McClellan, in a series of hearings that extended over a decade, did much to solidify the Kefauver arguments. While the most significant of these hearings dealt with labor racketeering and narcotics, the McClellan Committee did also undertake a major investigation of illegal gambling and its relationship to organized crime. Its conclusions were essentially identical to those of the Kefauver Committee. "According to major Federal, state and local law enforcement officials who have made studies and who are known to the subcommittee staff, organized crime in the United States is primarily dependent upon illicit gambling, a multi-billion dollar business, for the necessary funds required (sic) to operate other criminal or illegal activities or enterprises." (McClellan Committee, 1962)

The President's Commission on Law Enforcement and the Administration of Justice in 1967 provided the most influential endorsement of the Kefauver conclusions. Its influence arose from the prestige of its membership and the quality and size of the Commission's staff which included numerous highly respected officials and researchers. The general standing of the Commission, which influenced policy and perception of the general law enforcement issue for the next decade, carried over to its brief Task Force Report on organized crime. That Report has provided the standard citation for all reports on organized crime issued by state and local bodies since then.

The Commission, while reaffirming the views of the Kefauver Committee, added a great deal of detail about the Mafia. It stated that there were 24 distinct families but that there was a single "commission" which governed relations between those families. It laid out the general structure within them. Concerning gambling it was very clear. "Law enforcement officials agree almost unanimously that gambling is the greatest source of income to organized crime." (Task Force Report, p.2) "In large cities where organized criminal groups exist, very few of the gambling operators are independent of a large organization." (p.2)

The Commission, in fact, did little more than the preceding Senate Committees did. Initially the Commission decided not to include organized crime amongst its subjects of inquiry. (Kelly, 1978) It was only included after the FBI argued that organized crime represented a threat to national security concerning which the public had too little awareness. Having decided to create a Task Force for the purpose, the Commission assigned only one staff member to it, with a total budget of $30,000 for investigative

purposes. The major paper produced by the Task Force, that of the well known criminologist Donald Cressey, was prepared with little financial support by the Commission.

The Task Force based its empirical conclusions on the same type of material[2] used by the Kefauver and McClellan Committees, namely the broad conclusionary statements of law enforcement officials. Indeed, the footnotes to the Task Force Report are quite explicit on this point. There are frequent citations of the findings of the two Committees, plus references to the opinions and public statements of law enforcement officials. The only scholarly citation is from a doctoral dissertation written 27 years earlier, Carlson (1940).

The most recent source of information on law enforcement views about the relationship of illegal gambling and organized crime is a series of hearings held by the federal Commission on the Review of the National Policy toward Gambling to receive the views of local, state and federal law enforcement officials. At these hearings only the District Attorney of Philadelphia disagreed with the old consensus that illegal gambling was controlled by organized crime and was its leading source of revenue.[3] The Superintendent of the Illinois State Police asserted "There is absolutely no doubt in my mind but that organized crime derives much of its profit from gambling operations." (9/23/75) In Detroit the head of the Criminal Division of the Wayne County Prosecutor's office said "There is little doubt in our minds that the moneys gathered by illegal gambling are eventually used by mobsters to finance other reprehensible forms of organized crime. For example, narcotics trafficking". (6/25/75)

It is interesting to note that none of these statements was backed by any evidence or analysis. The Illinois State Police Superintendant, quoted above, justified his statement by saying "To support that contention I simply remind you that the growth of organized crime reveals that they move into areas where the big money exists. Gambling is such an area and the potential is great". In the one case where a police chief did present some evidence as well as a conclusion, the evidence was barely consistent with that conclusion. In Detroit the police chief cited a study which found some 56 separate bookmaking operations in the metropolitan area handling a total of only $14 million per annum. While this does not determine whether organized crime controls illegal bookmaking, it does suggest that any such control yields small amounts relative to the reputed income of organized crime groups in such a large metropolitan area.

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2. The research carried out by the Commission is discussed in Section 2 of this chapter.

3. The District Attorney, alas, did not provide any justification for his view.

The Commission took testimony not only from state and local officials but also from federal authorities. Since these are the most recent direct statements on the questions of organized crime and gambling, it is worth quoting the 1976 testimony of the Department of Justice and the FBI. "We in the FBI consider gambling to be the backbone of organized crime. The underworld Syndicate exists to control gambling, loansharking, narcotics and other criminal enterprises on both a national and on an international basis." (5/10/76) The Department of Justice (Criminal Division) asserted that gambling is "the cash register of organized crime. This is the source from which the monies are generated into and in support of...other illegal activities." (5/11/76) The Department's statement explicitly endorsed the continuity of belief since the Kefauver Committee.

The Gambling Commission in its Report did not deal extensively with the relationship between organized crime and illegal gambling, but it stated that the "Commission specifically rejects the notion that traditional organized crime controls all illegal gambling or that all illegal gambling provides revenues for the other illegal activities." (Gambling Commission, 1976; p.171) The Commission meant specifically the families of the Mafia when it referred to traditional organized crime. However, the Commission did accept the notion that, in many cities, illegal gambling was controlled by a criminal syndicate and that substantial enforcement efforts should be made against these operations.

While it rejected the idea of a national monopoly, the Commission re-asserted an older view, that gambling was controlled by local and regional syndicates. The only evidence cited by the Commission in reaching its conclusion concerning Mafia control was "confidential information provided to the Commission by illegal operators who requested to remain anonymous." (p.179) Once again a public commission relied upon secret and unverifiable conclusionary assertion to support its own conclusion.

The Crime Commission of 1967 asserted that loansharking was the second most important activity of organized crim. References in the footnotes included a number of statements before the McClellan Committee, a New York State investigation of loansharking, and information provided to the Commission on a confidential basis. This is slender evidence for such a portentous claim, but it has been repeated, without additional data, constantly since 1967.[4]

Our concern about the quality of the information underlying the orthodoxy is not simply intellectual quibbling. The orthodox account has persisted and developed despite the availability of

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4. It is curious that the Kefauver Committee, which did make comments on a number of rackets apart from gambling, made no reference to usurious lending.

substantial evidence which is inconsistent with it. Indeed the best publicly available source of information about organized crime is seriously at variance with some of the critical points in the standard account of organized crime. It is important to consider this material in some detail.

During a period of more than three years, starting in 1961, the Federal Bureau of Investigation conducted electronic surveillance on a major Mafia figure in New Jersey, Angelo DeCarlo.[5] The surveillance included a "bug" placed in a room in which DeCarlo and many of his associates transacted a great deal of business. A large number of discussions covering every aspect of organized crime activity were overheard during the three year surveillance.

In the course of a trial of DeCarlo, his lawyers demanded the release of the surveillance. Apparently to the surprise of the defense, the government complied and released several thousand pages of transcripts. Although not all of the information was publicly released, it was soon possible to obtain transcripts of numerous conversations between DeCarlo and his associates.

We shall not attempt a full scale analysis of the transcripts.[6] Instead we shall focus on a few critical points concerning the organization of gambling and the relationship of organized crime to gambling.

DeCarlo had an interest in various Numbers banks located in towns throughout northern New Jersey. He spent a good deal of time with his close associates discussing the finances and management of these banks. Three themes run through these seemingly endless conversations. First, the banks frequently had serious financial difficulties. A Union City Numbers bank was forced to go out of business when, on two successive days, one of the most popular numbers "came up."[7] The total loss was apparently $30,000; DeCarlo regarded that as so significant that he closed the bank, paying off various agents and creditors in the process. At other times DeCarlo expressed an interest in selling some of his banks for quite modest sums, such as $150 per week.

The second point relates to the question of territorial control. Despite DeCarlo's standing in the Mafia and despite the

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5. An excellent summary of these tapes is contained in Zeiger (1975).

6. The only detailed published analysis in support of the official views is that Linehan (1976) of the DeCavalcante tapes. That analysis does not deal with the issue of the Mafia's power in illegal markets.

7. It is interesting to note that this number, 310, is also the most popular number in our data on New York betting patterns. See Appendix B.

extent of his involvement in the Numbers business, he did not control the areas in which his banks operated. It was acknowledged at various times in the conversations, that there were independent Numbers bankers in some cities where DeCarlo and his associates were operating. In Newark, a city in which he had a direct interest, there were independent black-owned Numbers banks which refused to pay tribute to Mafia groups. More importantly, when DeCarlo tried to lower the payout rate from 600 to 1 to 500 to 1, he found that he could not obtain the cooperation of enough banks to carry through the change without a substantial loss of business. Even in that time and place, New Jersey in the 1960's, when it was reputed that the Mafia had established an extraordinary degree of influence in state and local politics, the evidence showed that the Mafia did not control the Numbers business.

Third, all the discussions in the transcript suggested that the profits from the Numbers business were very modest. When DeCarlo started a new bank in Union City, operated by one of his closest associates, everyone was pleased when the volume of betting reached $1,400 per day, which yielded, given the payout rates and commissions to runners, approximately $200 a day in gross profits to the banker. It is implausible to believe that a business in which a $30,000 loss is sufficient to cause bankruptcy and the presence of five clerks in a main bank caused a heavy drain on profits, could be the "backbone" of the finances of important underworld figures.

The DeCarlo transcripts are singularly silent on the subject of bookmaking. Its occasional mention in conversation indicated that it was only a minor interest to DeCarlo and his associates. There was certainly nothing that suggested the group controlled horse or sports bookmaking in their areas of influence. The transcript suggested that DeCarlo viewed bookmaking as a risky business which should be avoided. At several points there were discussions of the maximum size bet that any bookmaker in their towns would accept. In Hoboken, for example, they believed that no bookmaker would take more than $30, while in Newark the maximum bet was believed to be $100.

These examples do not constitute conclusive evidence that the official version of organized crime is incorrect. The tapes refer to one group of racketeers at a particular time. However, they do suggest that a good deal of contradictory evidence has been ignored in the official views.

2. THE MAFIA AND CONCEPTS OF ORGANIZED CRIME

The Kefauver Committee and its successor political bodies failed to produce convincing evidence for the existence of the Mafia or to show that any such group had dominance over illegal gambling. Nonetheless, it is impossible to carry out research about organized crime and illegal gambling without dealing with the questions of the Mafia's existence, its uniqueness and the proper use of the term "organized crime." Before describing prior research and our own study approach, we should briefly

consider each of these matters in turn.

First, we are convinced that the evidence for the existence of the Mafia is strong. In our own experience all informants in gambling, loansharking and related activities assert its existence. They do more than that. They can identify many of the members and state their family affiliation and hierachical position within the Mafia. There is a considerable consensus on these matters i.e. a number of informants independently volunteer the same information about a particular individual. They can all give examples of times when family affiliations have been brought into play in the settlement of a dispute or the execution of a deal.

To that we add the considerable evidence available in the two New Jersey Mafia wiretaps mentioned earlier. Both the DeCarlo (Zeiger, 1975), and DeCavalcante (Zeiger, 1973) tapes provide a great deal of information about the Mafia and its workings. No doubt it is possible to explain these away, as Smith (1975) has done. But to do so requires considerably developing an explanation about FBI malfeasance that is less plausible than the transcript excerpts themselves. Teresa (1973) and de Maris (1980) have added further detailed plausible accounts. There does exist a criminal organization of Italian-origin American males, called the Mafia.

That is not to say that we have a good understanding of its workings. We know nothing of the entry method; how is it decided who is to become a member and what exact form does the initiation take? Even more importantly we do not know what obligations members have to each other. Do Mafia "soldiers" have to pay a fixed share of their illegal incomes to their superiors? Do they need permission from those superiors to enter particular ventures? What are the reciprocal obligations of these superiors? We have the answers to none of those questions. We can do little more than affirm the Mafia's existence and describe the basic structure and membership of its units.

This leads us to the second question. Is the Mafia unique? We think that answer is yes, but admit even less certainty about this than about the structure of the Mafia itself. There are serious epistemological problems here. We are largely clients of police for our information about organized criminal groups. The police believe that Italian criminal gangs are far more important than any other ongoing groups. Whether or not they are correct, this belief ensures that they collect far more information and recruit more informants about these groups. In effect, the belief is self-reinforcing if the Mafia actually exists.

We are inclined to believe that the Mafia is unique in certain dimensions which we shall discuss in the next pages. Certainly we have found nothing to suggest that any other group commands such general respect from participants in the illegal markets we studied. None ever referred to other groups which might compete directly with the Mafia for the allegiance of bookmakers or loansharks seeking protection against possible extortions. Moreover, non-Mafia members, frequently appeal to Mafia members

for such protection. One possible exception seems to be Cuban criminal gangs which show a considerable autonomy and a willingness to react with coordinated violence against Mafia efforts to intimidate them. However, our evidence on this is fragmentary and tentative.

The important unique features of the Mafia are its longevity, the durability of the basic units over more than one generation and ability to provide dispute settlement services both to its members and to non-members. That latter is potentially an important source of power for the Mafia in markets where there are no contracts and many potential disputes. That it does not permit the Mafia to extract the profits that would come from monopoly control of the illegal gambling markets is something of a puzzle.

Having said that we must stress again the limited uniqueness of the Mafia. There appear to be a major operator in each market that we have studied who have managed to avoid being extorted by any Mafia members. Though it may not be possible to enter the Numbers business in certain parts of the city without permission from some Mafioso, that is not true for bookmaking or loansharking and may not be true even for Numbers in much of the city. Membership in the Mafia is not always sought even by Italian criminal participants in these activities.

There do exist other ethnically homogeneous groups in the criminal economy. Certainly there are broad based black and Hispanic gangs which have considerable power, autonomy and durability. We know too little about them, an ignorance that we suspect is shared by the police, to be able to say much more than that. They certainly have not attempted to compete with the Mafia in any sense, outside their own communities. They appear to lack the inter-city connections that the Mafia families have, though individual members of these groups may have such connections. I.e. whereas an individual Mafioso may be able to use his organizational affiliation to arrange a meeting with a Mafioso in another city the Hispanic criminal will have to rely on his personal relationships for any connection in another city.

This leads us to the final issue, that of definition. Definition depends on objective. That definition of organized crime which captures the popular perception of the phenomenon is likely to be very different from that which provides an operationally workable target for criminal prosecutors. Our concern is more with the latter than with the former. We seek to provide a definition which enables us to determine the extent to which the markets we have studied are central to the groups which organized crime legislation ought to be concerned with suppressing. Clearly the Mafia is one such group but the black and Hispanic groups referred to above also qualify.

For these purposes we propose the following definition. A group will be called an organized crime group if:

1. its members are involved in a number of criminal

enterprises together, covering a variety of activities.

2. maintain their association over a period of years.

3. have established hierarchial positions within the group.

4. make use of violence and/or corruption to protect their criminal enterprises.

5. have non-violent means of settling disputes within the group.

Not all of these should be regarded as independent attributes. For example, the use of non-violent dispute settlement is probably unobtainable if the group has not existed for some years. The definition is discursive and descriptive rather than analytic.

Nonetheless, it does distinguish a set of criminal gangs which represent greater threat to order in this country than do criminal gangs generally. Stability enables the gang to acquire a "reputational asset" which is more than the sum of the reputations of the individual members. Certainly the label "mafia" has distinctive value to the members in particular contexts. While the reputation may decline over time, one reason for singling out these gangs is precisely the possibility that the reputation becomes of increasing value and gives the members additional income and power.

The requirement that the gang be involved in more than one line of criminal activity may be unnecessary. Any gang that can command the other attributes will no doubt have an incentive to enter a variety of markets since it can reap more than competitive returns from doing so. However, it is a useful attribute for the purposes of investigative targeting.

Non-violent dispute settlement is an attribute essential to the successful continuation of enterprises which are founded, in part, on violent behavior by the members. Violent conflicts in illegal markets are difficult to end; factions form easily and there is no external force to coerce the parties to reconciliation. Thus if the gang is to continue over the years there must be strong prohibitions on violence between members and mechanism provided to permit some other means of resolving the disputes that inevitably arise. Again the attribute provides a guide for investigators; a group which shows such internal disciplinary procedures may well be powerful enough to substantially negate the influence of the government. The same statements can be made for the use of hierachy as an indicator of gang strength.

The concern with violence and corruption as organizational attributes is the simplest one to justify. A gang that neither attempts to intimidate its enemies with occasional use of force nor protect itself through payment to corrupt public officials is obviously far less of a threat to public order than one that does. In fact it is hard to believe that a gang can last for any length

of time and continue to recruit members if it does not occasionally demonstrate both these attributes.

Now let us anticipate a little the findings of the research presented in the following chapters. We argue that the evidence about Numbers and bookmaking is inconsistent with centralized control of those markets. We do not deny that there are some operations, at least in Numbers, which are large, hierarchical, make use of corruption to protect territories (at least in years past) and use command relationships to settle internal disputes. But we do not believe that these should be labelled as "organized crime." Why? Because the enterprise has very narrowly defined goals. Its members, if they are involved in other criminal activities, do not make use of the organization's resources or reputation to carry out these other enterprises. The enterprise indeed does not command the unique loyalty of its members. Membership in it is regarded as purely economic, as employment or agency relationship.

Nonetheless, as one reviewer of an earlier version of this Report pointed out, there is something troublesome intellectually about our conclusion that "organized crime" does not "run" Numbers and bookmaking, while at the same time our evidence shows that there is complex interdependence between participants in each of these activities. It is particularly of concern that in the bookmaking markets there is a rather smoothly functioning credit system, something that emerged quite late in the development of legal markets, suggesting such a high level of coordination that "organized crime" seems a necessary label.

On the other hand our research also suggests that bookmaking is a rather self-contained activity. Bookmakers have only a slight involvement in other coordinated criminal activities. While historically it may be true that bookmaking provides a source of income and power for persons involved in the direction of a variety of criminal enterprises, sports bookmakers now appear as gamblers themselves, with more than a purely pecuniary interest in the activity. While we can only speculate about self-images, our own impression is that they regard themselves as more akin to venture capitalists than to loansharks and heroin dealers. Society may wish to suppress bookmaking for various reasons but suppression of organized crime or of emerging criminal confederations does not plausibly rank high in the list of reasons.

3. PRIOR RESEARCH ON ORGANIZED CRIME

Our discussion of official views focused on two claims. The first is the supposedly unique character and power of the Mafia, the second is the centralized control of illegal gambling. Academic researchers have attacked the first of these statements with considerable vigor, but with little knowledge. The second statement had been subject to no challenge. The energy of researchers had been devoted simply to explaining why the Mafia might be expected to dominate gambling and some related markets.

The President's Commission supported five papers on organized crime. The most prominent was that of Donald Cressey. Hired by the President's Crime Commission in 1967 as a consultant, he produced a book which is the most detailed and sophisticated statement of the standard view on organized crime in America (Cressey, 1969). In his original paper for the Commission, Cressey stated that "since the McClellan Committee hearings law enforcement officers have shown conclusively that "families" of criminals of Italian and Sicilian descent either operate or control the operation of most of the illicit businesses--including gambling, usury and the wholesaling of narcotics--in large American cities, and that these "families" are linked together in a nationwide cartel and confederation" (1967a, p.33). He went on to make various claims as to power and wealth of the Mafia, or La Cosa Nostra as he referred to it. Concerning illegal gambling, Cressey asserted "the profits are huge enough to make understandable the fact that any given member of La Cosa Nostra is more likely to be a millionaire than not." (1969, p.75). Cressey also undertook to describe the "code of conduct" of the Mafia, though he lacked any specific information on it. Instead he assumed "that the relationship of prisoners to their governors...resemble(s) the relationship of organized criminal to the governmental officials of their domain. On the basis of this argument, or assumption, we used 'the code' of prisoners as an aid in the formulation of 'the code' of norms governing the gross conduct of organized crime." (1967b, p.110).

At no stage did Cressey provide a clear description of the nature or extent of the data on which he based his conclusions. He stated that he read "materials submitted to the Commission" and "other, more confidential materials" in addition to interviewing "knowledgeable policemen and investigators" (1967b, p.103). Yet he was willing to make statements that required extremely detailed and complete information. For example his assertion that "any given member of La Cosa Nostra is more likely to be a millionaire than not", if taken literally, can only be based on information about the net worth of a random sample of La Cosa Nostra members, a type of data which our own experience suggests is not likely to be found from the kinds of sources that Cressey used. Similarly, Cressey seems to have been willing to believe that police and investigators have the capability to carry out very demanding pieces of analytical work. "The members of (La Cosa Nostra) control all but a tiny part of the illegal gambling in the United States," (1967b, p.104) is not simply a matter of observation. It requires, as we shall see in the following chapters, careful collection and analysis of data which are not typically available to law enforcement agencies.

We have emphasized Cressey's work because of his stature in the criminology profession and the fact that he conducted his research under the most favorable auspices in terms of access to documents and investigators. His inability or unwillingness to provide a clear account of the basis for his various conclusions has greatly reduced the authority of his work.

The state of criminological research on organized crime prior

to 1974 is nicely summarized in an article by Galiher and Cain (1974). They analyzed the sources cited in 20 criminology textbooks written over the previous two decades. They concluded that "authors of criminology textbooks have purveyed the common belief in the conspiratorial threat by organized crime usually without indicating the limitation of their sources." (p.74) Their explanation for this was simple. "Since social scientists have largely limited themselves to secondary sources of data, particularly government documents, in their analysis of organized crime, they could not be expected to give an independent challenge to such sources." (p.73)

The only significant empirical study by a criminologist of organized crime and gambling is that of Chambliss (1978). In contrast to Cressey, Chambliss is extremely explicit about the sources of his information. Indeed, one of the most interesting aspects of his work is the description of his field work (a brief and engaging account of which is contained in Chambliss, 1974). He spent a number of years developing an extended network of informants at various levels of society and politics.

The result of Chambliss' research was a description of a complex political criminal network that dominated Seattle politics for more than two decades. Corrupt public officials, including both police and elected officials, controlled a number of illegal activities, resorting to intimidation, abuse of authority and blackmail to maintain their power. Amongst the activities controlled were some of gambling. Numbers was not one of them, since it is not played much in that region of the nation (cf. Kallick et al, 1977, Table 10-2-1), while bookmaking received little attention in Chambliss' account. Casino style games and some slot machine-like devices were important sources of the syndicate's revenues. Chambliss provided ample detail on the extent and sources of the syndicate's control of these forms of gambling.

Chambliss' work, which is marred by a rather moralistic presentation, is of considerable significance. First, he showed the possibilities of extended field research even on a topic as threatening and actually dangerous as the pervasive corruption of an established political machine. Second, he provided a relatively detailed description of an almost omnipotent criminal political gang, capable even of arranging the blackmail of a rival through a Las Vegas trip, yet certainly unrelated to the Mafia. Chambliss is vague about the ethnicity of the participants but there is no suggestion of homogeneity, let alone that it was Italian dominated.

Chambliss did not attempt to describe the various markets in which the syndicate operated. He could provide little information on the scale of profitability of activities. His objective was the mapping of political criminal relationships and his method of collecting information, namely interviewing of a network of informants, made it difficult to develop quantitative data.

The remainder of the sociological literature on organized crime and gambling reports speculations or historical data; Chambliss stands alone as the generator of new data. Haller (1979) has analyzed the development of control over Numbers and bookmaking in various cities, with particular attention to Chicago. His concern is closely related to ours. What was the nature of control in illegal bookmaking and Numbers and what role did these markets play in the development of the Mafia? The historical record shows a great deal of variation between cities during the period 1920-40. In some the Mafia appears to have taken control of existing Numbers operations; in others neither the Mafia nor its associates entered the market. With respect to bookmaking, the wire service, which supplied bookmakers with racing results, provided an important instrument for control.

The materials available to Haller, newspaper reports and files of various investigative agencies, did not permit him to describe the financial structure of illegal gambling. Landesco (1929) did provide some such data but there are such glaring inconsistencies that it is difficult to take the numbers seriously. Nor could Haller or Landesco give any indication of the importance of illegal gambling to the incomes or powers of the Mafia and associated groups.

The most recent historical work on illegal gambling and organized crime is that of Block (1980). Using materials in the files of former District Attorney Tom Dewey, Block provided the first detailed account of the difficulties encountered by white gangsters in their efforts to take over the black policy operations in Harlem in the early 1930's. In particular, efforts by "Dutch" Schultz to lower the payout rate to customers and raise his own share of revenues from the Numbers business failed in the face of determined resistance by lower level agents. This is highly consistent with our our own findings concerning the contemorary Numbers game.

Economists have written little on either organized crime or illegal gambling. Schelling (1967) wrote a short conceptual paper for the President's Commission which introduced several very important ideas. He perceived the direct victims of organized crime as criminal entrepreneurs rather than their non-criminal customers. Organized crime appeared to be a parasitic on bookmakers etc. extorting them through monopolization of some service that they needed for their own enterprises. Thus he saw the wire-service, apparently controlled by the Mafia, as a device for taxing bookmakers. Schelling also tried to suggest the characteristics of an illegal activity which led to it coming under the control of organized crime.

Schelling's paper was a theoretical, suggestive effort. He appears to have had no access to data other than that available from the public record. He provided an outline for future research rather than a finalized explication of contemporary organized crime.

Two other papers have dealt with organized crime as an economic phenomenon. Buchanan (1973) argued that society may be mistaken in treating organized crime as an evil distinct from crime itself. If monopoly in conventional markets restricts the output of goods and services, then monopoly in the markets for illegal goods and services may restrict the output of those goods and services, which is a desirable outcome. Buchanan claimed no detailed knowledge concerning illegal markets and made conventional assumptions about monopolization of gambling, narcotics etc. He did try, like Schelling, to clarify the sources of monopoly. These included corruption, violence and capital.

Rubin (1973) writing in the same volume as Buchanan dealt with the same issues in a little more detail. He argued that there were characteristics of violence, corruption and provision of capital to illegal enterprises that lead to monopoly power in each of these "input" markets. An official corrupted for one activity can be more cheaply corrupted for a second. Not only does this provide an incentive for the emergence of monopoly in individual markets, it also provides a means by which the one organization may acquire control over a series of markets which are regulated by the same law enforcement authority. In the case of violence, the argument is more complex and relies on the assumption that use of violence in an illegal market leads to increased law enforcement. That provides an incentive for the emergence of concentrated markets in which a small number of firms take this cost into account when considering the use of violence. Finally, it seems plausible (though our own research throws doubt on this) to assume that there are few sources of capital for illegal entrepreneurs and hence that those capitalists acquire some degree of control over their borrower-entrepreneurs.

Again Rubin, like Schelling and Buchanan, relied on the public statements of police and law enforcement agencies for descriptions of major illegal markets. Some of his assertions went beyond these. "Violence is used essentially for the maintenance of monopoly power, that is for the prevention of entry." (p.162). This is a statement with important analytic implications, for which we can find no specific source. Indeed, our own data suggest it is not true for the major gambling markets. Rubin set out in fact to describe how rational criminal entrepreneurs and extortionists should behave and then made the questionable assumption, as economists are prone to do, that this is how such persons actually behave.

One other analysis of the economics of organized crime deserves mention. Anderson (1978) studied an Italian organized crime group in a major Northeastern city. Her data came from the files of an unidentified Federal law enforcement agency, supplemented by interviews with various law enforcement officials. The aim of her study was to test various assertions, particularly those of Schelling, concerning the role of organized crime.

Anderson's treatment of illegal gambling was relatively brief but she provided some interesting statements, revealing the kind

of detail that we have aimed to provide in New York. For example she noted that Numbers banks have persistent problems with cheating by clerks, a matter of some significance to understanding both the economics and the social organization of the business. Moreover, she sensibly used conventional economic tests to challenge assertions about the powers of organized crime. Thus the findings that lay-off service was provided to unaffiliated Numbers banks suggested to her that entry may not be controlled and that her subject group had limited power over the Numbers market.

The weakness of her study arose both from the limitations of the sources and the nature of her exposition. She had access to some police reports of informant interviews. However she seems not to have met with any informants herself. Our own experience suggests to us that police recording of informant interviews is highly selective, to the point of being misleading, a matter we discuss at some length in Chapter VI. Informants also provide contextual information which is critical to an understanding of other data sources. Thus Anderson reported, without comment, that one member of the organized crime group ran a Numbers bank which handled only $50 per week in bets. There can be few banks which would employ even a collector who handled such a small volume of wagering; certainly no operation could function autonomously on that volume.

The exposition also reflects a lack of appreciation for the value of contextual information. While she makes statements on the right issues, at least with respect to Numbers and loansharking, she fails to provide any guide to the information underlying her assertions. Nonetheless, the study is one which contains many interesting statements, consistent with our own data and conclusions.

4. CONCLUSION

Official views about organized crime and its control of the major forms of illegal gambling have been consistent for over a quarter century. At no stage has any effort been made to present them in a form which would permit any outsider to test their validity. The little fragmentary information that has been publicly available, such as the DeCarlo wiretaps mentioned earlier, is inconsistent with the official views.

Despite this there has been no effective challenge of these views. Academics have attacked inconsistencies in the official account of the Mafia but have failed to generate a convincing alternative. Moreover, we believe that the attacks by academics have focused on the wrong issue, the name and longevity of the major Italian organized crime groups rather than the distribution of power in illegal activities. The scholarly research on both organized crime and illegal gambling has been limited and provides little additional data.

CHAPTER II

SOURCES AND METHODOLOGY

1. INTRODUCTION

On the basis of our review of the official and academic literatures, it seemed that systematic research on organized crime and its relationship to illegal markets should begin with the major forms of illegal gambling. Numbers and bookmaking in particular have occupied a dominant position in both rhetoric about and policy against organized crime. We also decided to study loansharking. That decision was based less on the occasional official statements about its importance to organized crime than on the hypothesis that to understand the illegal economy it was critical to study the role of financing.

To test the validity of the official doctrine about organized crime and gambling it was necessary to collect new data. That was only possible with the cooperation of law enforcement agencies. While it may have been feasible in the past to collect information about illegal activities through private citizens organizations, as was the case with the Illinois Association that initiated the work that resulted in Landesco's landmark study of organized crime in Chicago,[1] the increasing professionalization of law enforcement and, perhaps, increased complexity of the phenomena being studied make it impractical now. The researcher who strikes out on his own will inevitably be forced to rely on narrow networks of informants. Sutherland's The Professional Thief, Chambliss' Box Man and Klockars' The Professional Fence are all admirable books that have been generated by field research outside of law enforcement agencies. However, they have limited power to deal with the kinds of official doctrine which we wish to test.

Having decided that there was no choice but to seek the cooperation of law enforcement agencies, we faced two problesm. The first was obtaining that cooperation, the second was determining what these agencies could provide to us. In the first task we were greatly helped by the active support of the New York State Select Committee on Crime. Its General Counsel, Jeremiah McKenna, had previously carried out, with the Committee's support, a study of Numbers and heroin distribution in Bedford Stuyvesant, an area

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1. It is unclear just how much data Landesco did gather beyond that available from the police and prosecutors' offices.

in Brooklyn (Lasswell and McKenna, 1972). It was that study in fact which helped justify the selection of New York as the site to test official assertions about illegal gambling, for it had shown the existence of a large body of research materials, in the form of confiscated gambling records, not available in other cities.

The active support of the Committee enabled us to obtain entry to most state and local agencies in the metropolitan area, access which we would certainly have had more trouble obtaining as mere researchers. It did not help us with the federal agencies, all of whom denied us access to either personnel or records, despite active assistance by the National Institute of Justice. In particular we made two efforts to obtain assistance from the FBI. On both occasions the request was denied; the first time on the grounds that the Bureau could not provide such information without breach of laws concerning confidentiality, the second time on the grounds that cooperation would require resources which they preferred to use elsewhere. Other federal agencies were similarly uncooperative.

Having obtained cooperation we then had to find out what each agency knew and where the information was held. Both proved to be difficult to determine. Sometimes everyone in the agency would be certain that the agency had a certain type of information but no one would be able to actually locate it. In one case it took us almost three years to track down some data that everyone confidently asserted was there for the asking. In other instances a completely unexpected piece of information would turn up, despite everyone's denial of its existence.

We quickly learned that prosecutors' offices had meager intelligence information, at least in New York City. These offices have a relatively small number of investigators assigned to them and maintain somewhat distant relations with the critical units within the New York Police Department, a separation we shall discuss at more length in Chapter VI. The D.A.'s files are essentially closed case files and that is certainly the manner in which they are maintained. To obtain gambling case materials it was necessary to read through an index of all cases, listed chronologically, and try to extract from the index a listing of the cases that involved gambling charges. A full description of some of the problems in obtaining case materials, even after this identification, is contained in the Appendix to this Chapter.

Having discovered the limitations of prosecutors' files we then focused our attention on the New York Police Department, from which we obtained variable but substantial cooperation. In the following section we describe the nature of the materials the NYPD made available to us. Here we should simply mention those that we were unable to obtain. Intelligence files, maintained by the Intelligence Division, were always withheld, though we believe that we obtained a good understanding of what those files contained from discussion with police officers who used and contributed to them. When we began the research, in late 1975, the NYPD had just been sued by a number of organizations and

individuals for improper collection and distribution of information on them; as a result the Department was understandably cautious in dealing with us.

In suburban jurisdictions we obtained substantial cooperation from the Nassau County and Suffolk County District Attorneys. In both cases gambling and loansharking cases were originated by police units located inside the D.A.'s office, reflecting the less significant role played by street patrol in these suburban areas. In New Jersey the State Police provided exemplary cooperation, proving to be the most sophisticated collectors of intelligence information. The Essex County Strike Force (Newark) also provided some valuable information.

In the remainder of this chapter we deal with two matters. The following section describes the types of data that we were able to obtain, as well as the limitations of each type. The third section then deals with the method by which we used the information to form our conclusions, and explains the format we have chosen to present it.

2. DATA SOURCES

A. Files

The New York Police Department (NYPD) is a large (30,000 employees) and complex organization which devotes substantial resources to gathering what is usually called "intelligence" information. Both the acquisition and classification of this information present problems to the researcher.

The fundamental problem is the narrow focus of the police (and associated prosecutorial agencies) in their definition of their function. While there is much discussion of crime prevention, the major function of the police, in their own eyes, is the detection of crime. Success is measured less in terms of impact on the cost of crime than in the number of offenders successfully apprehended. Kornblum (1976) provides a good description of how this kind of bias impacted on gambling enforcement in the NYPD.

Intelligence files contain information about who is doing what with whom. Information about the nature of organizations, prices in transactions, the frequency of transactions, etc., are included only by accident; no emphasis is given to their collection. Files are generally classified by name only, and a folder will typically contain simply reports of where the individual works, lives and plays, whom he associates with, what he does with them, and specific criminal incidents (such as homicides, thefts and bribery) in which he might have been involved. Analysis of these files by intelligence analysts within the NYPD do not often provide more than identities of networks of criminals. For example, a mid-1960's report on Numbers operations contains only a listing of the sets of persons involved in each major organization, their position within the organization and a very crude estimate of the total volume of wagering provided by the organization. The report

does not include any discussion about the stability of the operation, its relations with other banks or profitability. Nor did any officer claim that such a report was elsewhere in the files.

Nonetheless, these files must provide a starting point for any research. There is no alternative method for identifying the major figures in the rackets. Yet, it is also important to guard against misinformation inserted in the files by corrupt police.

Throughout the 1950's and the 1960's the NYPD was plagued by pervasive and systematic corruption in gambling enforcement. Since corruption had been made a very public concern by the Harry Gross scandal of 1950, which had led to the resignation of the Police Commissioner, the Department adopted very elaborate defensive measures to avoid the appearance of corruption. Extensive and complex reporting requirements were established, creating enormous files on illegal gambling.[2]

The corrupted policeman was then faced with a delicate problem. The Department's reporting requirements forced him to provide information, but the complex organization also meant that he could not be sure that he was the only officer required to report on a particular matter. Hence, insertion of false information might lead to revelation of his corruption. How precisely each officer resolved this problem we cannot ascertain. However, it did force us to treat certain kinds of file information with great care.

An example of this problem was the list of arrested gamblers. During the height of gambling corruption in New York, the NYPD arrested many thousands of persons on Numbers and bookmaking charges. Many of those arrested were probably "stand-ins" i.e. persons who agreed to "take the pinch" in return for a small payment. The arrangement was worked out by the gambling operator who had been warned in advance by his police ally that the raid was impending. Some of these stand-ins were accredited with important roles in gambling operations. After puzzling over this problem for some time we decided that we could not in fact determine the identities of persons in the middle-level positions in gambling organizations.

The most useful file materials turned out to be the affidavits filed in connection with wiretaps applications or search warrant

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2. For example, the NYPD required that every person involved in illegal gambling be listed in the Known Gambler (KG) Files and that information about him be updated every three months. This latter requirement quickly converted into a pro forma surveillance of the residence of each person in the KG file. Names were to be deleted from the file as individuals ceased to participate in gambling. Caution on the part of police, concerned with possible allegations as to corruption, ensured that no name was ever deleted. A good description of both the KG files and the Harry Gross scandal is contained in Kornblum (1976).

requests. These often contained detailed observations on gambling operations which were of some value in describing work routines and role interactions within gambling operations. Similar details were occasionally provided in arrest reports, though most such reports provided only the barest minimum of description.

On a number of occasions we made efforts to obtain the records of wiretaps from particularly interesting investigations. Generally these were, for proper legal reasons, not available for research purposes. On the few occasions that we were able to obtain access to the wiretaps they proved of limited interest. Wiretap logs are kept for case-making purposes and fail to highlight the most interesting conversations; they focus on names rather than operating and financial details. Most critical is the fact that few wiretap investigations produce wiretap transcripts. The researcher is forced to listen to lengthy recordings of routine betting transactions in order to find the few interesting conversations. And most interesting conversations between bookmakers seem to take place at face-to-face meetings rather than on the phone, the result of a natural discretion during a period when most wiretaps were placed on gambling operations.

B. Confiscated Records

Any serious gambling enforcement effort involves raids on the central accounting offices of the gambling organizations. Such raids invariably yield quantities of financial records, since the prime function of these offices is precisely the handling of such records. These records constitute the most objective data on the finances of gambling operations.[3]

Throughout the period covered by our research (ca. 1965-77) the NYPD carried out numerous raids on both Numbers banks and bookmaking operations. The fact that corruption was rampant throughout at least the first half of the period seems to have had little effect on the extent of such raids, though the essence of corrupt enforcement is protection of the counting houses and their records. This can be at least partly explained by the complexity of the NYPD gambling enforcement effort. The corruption may, however, have had an impact on the selection of targets. In general there is some question whether the data yielded by the raids should be viewed as a random sample usable for development of population statistics. In Chapter IV we present a defense of our use of the data for this purpose in the case of Numbers banks.

The raids on Numbers banks yielded far richer data than did the bookmaking raids. The latter rarely led to seizure of

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3. This is not to say that such records are completely objective records. Clerks may set out to cheat bookmakers and bookmakers may cheat runners. Both these cases, discussed in Chapter III lead to the creation of records which misrepresent the actual experience of some participants in the operation.

financial records covering the basic internal flows of the operation for more than a few days, though they produced large quantities of betting slips from which that information could be obtained through a very tedious procedure. Numbers banks on the other hand often contained quite complete records of the internal finances of the bank over a period of some weeks, including the flow of moneys between the bank and its agents. These are extensively analyzed in Chapter III.

The records were also extremely helpful in developing hypotheses which could be informally tested using other data. For example, the records of bookmaking operations indicated that the bookmaker often had to advance large sums to his agents in order to finance the winnings of customers. This led to a questioning of informants about the handling of such balances. Informants asserted that balances constituted a continuing problem for many bookmakers and cited instances of agents leaving bookmakers precisely when they had large outstanding balances, a critical factor in our argument concerning the lack of central control in the illegal bookmaking market in New York.

C. Interviews with Police and Prosecutors

A small number of honest policemen became career specialists in gambling enforcement. Their honesty and expertise rarely led to promotion but did give them considerable autonomy and prestige. With four of these specialists we maintained long-term contact. They were willing, once the contact had been authorized, to provide us with a great deal of guidance. For example they tried to identify the major Numbers bankers operating in particular areas of New York City, an effort which took a considerable amount of time. They introduced us to the various kinds of materials available within the NYPD. Even when it became clear that we interpreted these materials differently from them, they continued to be of assistance. Moreover they introduced us to others in the Department who could provide additional, useful information. A particularly interesting gambling raid might lead to a phone call suggesting that we try to interview one of the policemen involved in the raid.

These police officers also provided extremely useful file information. Each of them kept extensive private files, since the NYPD, by the mid-1970's, had little interest in long-term intelligence on gambling rackets. For example, one of them maintained a listing of all Numbers banks raids. For each raid he tried to identify, through analysis of the records and interviews with those arrested, who owned the raided bank. While there was reason to question the reliability of some of the list, it provided an important lead for us in our search for confiscated records. All four of the experts were very generous in providing us with access to these files.

Prosecutors proved less helpful. Few of them had developed any long-term expertise in gambling and they tended to be far less well informed on details of the operations. There were two

very important exceptions to this observation, both in the New York (Manhattan) District Attorney's office. Each of these provided us with valuable details on the cases they had prosecuted. It is interesting to note also that both of these prosecutors had unusually close relations with the police with whom they had worked and were able to introduce us to some well informed investigators.

Finally, it should be said that, despite their expertise, none of the police had a consistent view of the operation and structure of the markets with which they deal. They too made assertions about monopoly control and profits that were quite inconsistent with the information that they themselves possess. The standard account is not simply official propaganda; it represents the strongly held views of many of the best informed police.

D. Criminal Informants

The only meaningful source of information, on many of the matters with which we are concerned, is the criminal participant. Very little can be learned about inter-personal relationships, economic or otherwise, except from informants. Fortunately, the informant is an enduring feature of the criminal world, both here and in other countries.

There are almost no scholarly works on the role of the informant in the police and criminal worlds.[4] The nature of the relationship between an informant and his employers makes it a difficult one to research. Police, for the purpose of recruiting informants, often have to work outside the law; they must, in effect, issue at least limited licenses, conniving at the continued criminal activity of their informants.[5] They also provide payments to many informants, payment which are hard to audit. It is understandable that police are generally reluctant to permit researchers access to their informants, few of whom probably are interested in cooperating with the researcher except in return for money.

Despite this, we were able to obtain access to seven

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4. Two studies of police provide substantial discussions of the role of the informant in police work, particularly vice enforcement; Rubinstein (1973), Skolnick (1966). Wilson (1978) provides more formal material on the role of the informant in the work of the FBI and the Drug Enforcement Administration.

5. At least one of our informants seems to have run a bookmaking operation with the knowledge of a number of law enforcement agencies. The various undercover operations run by the FBI in recent years have often permitted some criminal participants to continue their activities with the consent of those authorities. For a discussion of one such incident see The New York Times (2/19/80; p.1).

professional[6] informants on a continuing basis. One served as a source for over three years. One was available for only a few weeks but during that period provided the most intense and candid interviews about his criminal life. One informant, after working for the project for some months, had to be dropped because of his instability. The four others all worked for many months, providing information on at least a weekly basis. We also had occasional contacts with a small number of other rackets participants.

Each informant was introduced to the research project by a law enforcement officer, generally a policeman, two were provided by a prosecutor who himself had unusually close relations with the police. One had worked, in effect, as an undercover operative for the police, while the others had primarily served as passive sources of information for the officers to whom they reported, though occasionally undertaking specific activities on behalf of the police. None of them were important figures in the rackets, but all had close contacts with a number of important underworld figures. Each of them had worked in the rackets for most of his adult life. Some made large sums of money during their career, but only one had managed to retain any significant capital. All of them were willing to serve as informants for very modest sums money, but money which was clearly important to their continued economic survival.[7] All but one were currently employed in a criminal activity at the time that they served as informants. Their involvement tended to be of a routine clerical or unskilled nature.

Only one of the informants might be regarded as almost totally trustworthy. He was an unusual and talented bookmaker who was placed in the federal Witness Protection Program at the time that he provided information. This was a period when he was attempting to create a new career for himself and was shedding himself of an earlier life.

The materials provided by this informant were unique in both their volume and detail. While working with the NYPD in connection with the criminal prosecutions for which he was an informant, he also wrote notes on all the bookmakers and loansharks with whom he had had contact. Since he was an exceptionally gregarious and likeable person, this list contained over 100 names.

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6. The term professional is not intended to imply that informing was their main source of income. Very simply, each of them had provided information to various law enforcement agencies for a number of years and assumed they would receive some degree of assistance from the agents that they had dealings with, in the case of serious legal difficulties.

7. One informant, the only economically successful one, refused to accept money. More educated than the others, his motivation for providing information seems to have been an interest in talking about his skills with someone who might have the training to appreciate them.

Because we have placed considerable reliance on these notes in our analysis of bookmaking and loansharking it is appropriate that we explain why we place so much faith in his reports. First, there is great consistency in his narrative. If an incident involved four different people, the notes of those four individuals reflect a consistent account of that incident. The notes were handwritten and, given their volume, it is difficult to believe that he was able to create such a large volume of consistent fabrication. Second, some of the incidents were confirmed by other sources. Third, the accounts are realistic in terms of the nature of the detail available to him. Concerning those to whom he was close, he was able to provide a wealth of detail. For others he could provide only fragments.

In addition to these notes, the informant also participated in interviews extending over a number of days. Some of the interviews went over the same materials as those covered in his notes. Again there is no significant inconsistency. These interviews also added some very interesting material in the form of extended narratives of the history of some operations, particularly a bookmaking partnership and a check-cashing agency used by bookmakers, covering a period of years.

While we placed considerable faith in this informant, all the others either withheld information or occasionally manufactured it. Obviously this latter creates more serious problems for the researcher than for the policeman. The police can take steps to verify critical pieces of information, for example through surveillance. That is less feasible for the researcher, since surveillance requires a certain degree deception and greater physical risk.

For example, we were never able to acquire totally reliable information about the payout rate for Numbers in those neighborhoods with which our informants were familiar. Every time we sent two informants to obtain the figures for the same set of locations, we received contradictory data. It might seem a trivial matter for a researcher to obtain this information directly by placing a bet himself. In fact the neighborhoods we were interested in were places in which outsiders were regarded with considerable suspicion; a Numbers bet is apparently not something that a vendor offers to complete strangers.

On the other hand the nature of our questions and the fact that we did not request the informants to engage in more hazardous activities or provide them with bonuses for particularly exciting pieces of information, helped us a great deal. We, unlike the police, were concerned with the routine of the operations they participated in. While we were always happy to hear bits of gossip about the leaders of the rackets world (and were always rewarded with warning of impending wars) it was not the focus of our interviews with them. Very simply, we believe that we were protected from the most egregious misinformation by the apparent (and real) innocuousness of our interest.

That still left us with the problem of verification. It would be highly irresponsible to rest descriptive assertions about the conduct of criminal enterprises on the unsubstantiated word of a single paid informant. The very length of our study, the fact that we had a reasonable number of informants from similar backgrounds, together with a certain amount of access to police reports and material seized in raids, enabled us to obtain a modest amount of verification for the most important observations that are presented here.

One example of such verification concerns efforts to change the means of compensating bookmakers' agents (runners). An informant told us that a major bookmaker had moved from a profit sharing system to a simple commission on the volume of wagering. As it happened, that bookmaker's premises were raided within a few months of the report. We were able to review the records seized during the raid and verify that, indeed, some of the bookmaker's agents now received a percentage commission.

There is a final note to be added about informants. All our informants had well formed views about the structure of the rackets in which they participated and the role of the Mafia. In general they assigned great powers to the Mafia, even though this might be quite inconsistent with their own experiences. One informant claimed that the late Carlo Gambino had received "25 percent of everything in the rackets," despite the fact that he himself constantly engaged in various fencing operations without making payments of any kind to Mafia agents. The only way to obtain meaningful information from these relatively unsophisticated informants was to focus on incidents in which they had themselves participated, or about which they had direct knowledge. Otherwise one was likely to be flooded with the romantic myths of the underworld, which are not dissimilar to the myths of police agencies.

Exposition

The presentation of the interview materials, together with material extracted from the few wiretap transcripts we reviewed, wiretap application requests and occasional police informant records, presents serious expositional problems. We have decided to follow the practice of ethnographers in the presentation of field data (cf. Rubinstein, 1973) even though the data are very different from particular observation materials. In other words the data are inserted to provide a specific illustration of a general point. For example a statement about the often ephemeral nature of partnerships in bookmaking is then followed by two examples of different types of short-term partnerships. The source of the examples will be given in a general way; informant interview, wiretap transcript, police interview etc. The examples also provide useful contextual material, critical to an understanding of the workings of the market ganerally.

3. METHODOLOGY

The major objective of this study is to test certain statements about the organization of illegal gambling markets. Official

doctrine is that Numbers and bookmaking are controlled by the Mafia, criminal groups that have interest in other criminal activities. Their control, it is asserted, rests on violence, corruption and access to illegal capital.

Stated in this fashion we are dealing with a variant of what is called, by economists, industrial organization. The orthodoxy is an assertion that the Numbers and bookmaking markets do not function like competitive markets, joined with a claim concerning the identity of the groups that have power in these markets and the source of their power. We attempted to collect data bearing on structure[8] and conduct[9] in these markets to test the first component of the orthodoxy. At the same time we also collected data on the involvement of the Mafia in these markets, in order to be able to make some statement about the nature of their role, regardless of whether we found the market to be competitive or otherwise.

We stress the approach of industrial organization because it deals with the issue of power in economic relations through the use of objective data. A competitive market is one in which each seller (bookmaker or Numbers banker) is a "price taker" i.e. he cannot raise the price for his service above that of other sellers without precipitous loss of customers. A classic example of such a market is the wholesale wheat market; if a farmer asks for a higher price for his wheat than the one prevailing at that time he will be unable to dispose of his crop. In such a market all sellers earn only a competitive rate of return on their investments of time and capital. If we were to find that the Numbers or bookmaking market conformed to this model we would raise substantial question about the importance of these markets to the Mafia, since they could earn no more from investments in these activities than from investments in similarly risky illegal businesses.

A possible explanation for this might be that the Mafia does not involve itself in illegal gambling but in selling services, such as capital or protection, to illegal gamblers. That was Schelling's suggestion concerning the wireservice in Miami. By monopolizing that market for an essential input, the Mafia could reap the equivalent of monopoly profits from the bookmaking business, even though that business was competitive (cf. Vernon and Graham (1971) for the conditions under which this result Thus we look closely at the input markets for the two forms of gambling.

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8. Structure includes the number of sellers, the percentage of the market supplied by the largest producers, the presence or absence of barriers to entry, geographic dispersion of sellers and buyers. For a full exposition of all the dimensions of structure see Scherer (1970; Chapter 1).

9. Conduct, arguably determined by structure, includes pricing policies and coordination among sellers. Ibid.

How does one determine whether a market is competitive? There are certain elements of a market which will ensure that it functions so as to eliminate any excess profits. The important conditions are a large number of sellers of an undifferentiated good to a large number of sellers with no impediments on the flow of information. However these conditions are rarely met in exactly that form.

Even substantial deviation from these conditions may still assure that suppliers are subject to long-run discipline with respect to prices and profits. Indeed, there are conditions under which a relatively small number of sellers with differentiated products may not be able to earn long-run "monopoly" profits. It would take us too far afield to consider those cases, particularly as there is little reason to use them in our empirical work.

The conditions concerning number of suppliers, product homogeneity etc. are structural conditions. We obtained considerable information on these. However, the theoretical framework in which these are used to make predictions about conduct and performance is implicitly one in which force does not play a role. The possibility that the visible hand is stronger than the invisible is considered in Reuter (1980; Chapter 3). Here we wish only to say that in light of the possibility that large numbers do not constrain profits where physical coercion can be used to overcome economic barriers to coordination, it is important to gather more direct evidence on conduct. Thus we examine the evidence concerning actual profitability, to the extent the data permitted, as well as evidence on coordination.

There is a second part of the orthodoxy, which we have given less stress here though it is also very significant. Not only is illegal gambling dominated by the Mafia, it is also asserted to be the most important source of income for the Mafia. To examine that assertion we would need very different data. By looking at illegal gambling markets we can say only what role the Mafia plays in gambling; we cannot deal with the converse. For that we would have to acquire data about the full range of activities in which the Mafia is involved. Inevitably this research gave us some glimpses of their other activities, but not enough to be able to deal with gambling's relative importance.

The secretive nature of the activities being studied made it difficult to use many of the techniques developed for analysis of conventional markets. For example, we do not have quantitative data on the rate of return for invested capital, the growth rate of enterprises, the minimum investment needed for entry or any of the other standard measures used for evaluating market performance. We were constrained to work with data that were always fragmentary and usually qualitative. Further, we could not always predict what data would be available. This meant that we could not follow the orthodox method of specifying a formal model and then estimating its parameters with quantitative data. Since this obviously had an important effect on the nature of our analysis we should expand a little on the qualitative and unpredictable

characteristics of our data.

The data are qualitative not only in their presentation, but also in their collection. An assertion contained in Chapter IV, and one which plays an important role in our conclusion concerning market structure, can serve as an example. The statement is that runners, the sales agents of bookmakers, are most likely to leave a bookmaking operation precisely at a time when they are in nominal debt to that operation. Ideally this statement would be based on a sample of the employment histories of runners, including their level of indebtedness at different points in time. Instead the statement is an impressionistic conclusion drawn from the anecdotes of informants, buttressed by some records from raided bookmaking operations. In the text an effort will be made to present the basis for such statements, together with an expression of the strength of the evidence.

The data collection process also had an uncontrollable element to it. Some data that we had hoped to obtain, even in the last months of the project, never became available. For example, we always had some reason to believe that we might obtain a large sample of the long-term accounting records of bookmaking operations; it finally became apparent that the Police Department either had not obtained many such records or had filed them in such a way as to make their recovery impossible. On the other hand, we obtained unexpectedly good quality information about the relations between bookmakers and loansharks from an informant. Such unpredictability made a formal model of limited utility in directing the data collection process.

Lacking a formal model, how then did we proceed? In particular, how did we decide what data elements were worth recording and analyzing? For some time there were, in fact, no decisions to be made. Obtaining access to police officers and records, as well as recruiting informants, all took many months, during which period there was little data forthcoming. But once negotiations had progressed beyond the initial phase, there was a great deal of information available to us, and selection became imperative.

The selection was certainly guided initially by the microeconomic paradigm. Any information about the standard variables such as size of enterprises, prices and profits was diligently recorded. We made considerable effort to obtain detailed data on pricing. Some time went, rather unsuccessfully, into efforts to estimate the size of the various markets, hopefully a preliminary to calculation of the relevant concentration ratios. We also tried to schematize the activities of the police as regulatory agents in order to guide collection and analyze the effects of police activities on the structure of the markets.

While all this was of some use, the critical data elements, in terms of conclusions about market structure and conduct, came from non-standard applications of conventional market models. Consider again the example of mobility of employees between different enterprises within a given market.

In conventional markets this is not an indicator that is used to classify the market as competitive or non-competitive. If there did exist an agreement not to employ persons who had previously worked for another company in the same industry, that would certainly constitute evidence of a collusive agreement. For example, such an agreement characterized certain sectors of the international chemical industry before World War II, and was one component of a complex market allocation scheme. However, such agreement seem to be extremely rare; at least few are reported in the economics literature.[10]

In the absence of such collusive agreements, there is a body of law which governs the ability of agents or employees to move between companies. An employee with access to patentable information may be restrained from shifting to another firm in the same industry.[11] Similarly, an employee may be constrained, in certain circumstances, from taking customers with him to another firm.[12] These are contraints which do not depend on explicit agreement between competitors but can be enforced in court of law.

In illegal markets there are no such applicable laws. A bookmaker cannot apply to a court to restrain an agent from stealing his customers. If there is an explicit arrangement between the various bookmakers restraining their agents from transfers, at least in circumstances that affect the property rights of the first employer, then such movement will be inhibited; whether it is eliminated depends on the extent of enforcement and the reputation for violence of the various employers.

If there does exist a cartel of bookmakers, then presumably it would attempt to restrict the movement of agents between cartel members when such movement transfers assets from the bookmakers, as a group, to the agents. Absence of such restrictions, together with evidence that agents do frequently make shifts resulting in transfer of revenues to them, indicates that cartel control, if it exists at all, is weak.

The process of inference here is an untidy one. We did not lay out a formal model, from which we might derive mobility of agents as a test for structure. The observations were presented to us by informants in the course of interviews which did not, initially, focus on this matter. Nor, indeed, is the conclusion

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10. A good, if dated, survey of such agreements is contained in Stocking and Watkins (1946).

11. This restriction can be enforced only if it is specified in an employment contract. The restriction will be enforced by the courts if it is reasonable as to coverage and duration.

12. Again this restriction requires contractual specification and cannot be too broad in scope or unreasonable in duration.

a theoretically unassailable one. It is likely that there are some assumptions about environment under which rational cartel members might not attempt to formulate and enforce an agreement to restrain the movement of agents. For example, cartel members may not wish to disclose the identity of their agents, even in order to prevent their mobility, because such disclosures would provide information about their size that they wish to limit in its dissemination.[13] Cartel members, even in well run legitimate cartels, are no doubt always aware of the potential for cartel disintegration and the introduction of competitive rather than cooperative arrangements between them.

The answer to this objective is to note the relatively limited nature of the inferences that we are drawing. We do not deny that there may exist a cartel, only that if it does exist it has a weak influence on the conduct of the market. The explanation may be the one given in the previous paragraph or it may be that no cartel has been formed. We shall try to adduce direct evidence which bears on these alternatives.

There is a more elaborate justification for our approach, which is best provided by Hebert Simon in his discussion of alternative approaches to the theory of the firm. (Simon, 1979) "The case studies of organizational decision making,...represent the natural history stage of scientific enquiry. They provide us with a multitude of facts about the decision-making process - facts that are almost uniformly consistent with the kind of behavioral model that has been proposed here. But we do not yet know how to use these facts to test the model in any formal way.... We must not expect from these data generalizations as neat and precise as those incorporated in neoclassical theory." (p.508)

In the study of illegal markets we are indeed at the "natural history stage." The work here is an effort to generate data relevant to understanding the organization of a certain class of illegal activities. The standard microeconomic paradigm has been used both to guide the data collection process and to help draw conclusions on the questions of major interest.

The final methodological problem to be discussed is the domain of generalizability of the data and arguments presented here. The data all come from New York City. There are obvious arguments that the sheer size of New York, together with the essentially local nature of most criminal activity and its regulation, makes the results inapplicable even to other major American cities.

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13. If one member of the cartel is a police informant, information about size could be used to select enforcement targets. Note that unless the cartel members disclose names of agents in advance there is always the possibility of abuse of the privilege of reclaiming an agent.

There are three dimensions of generalization which ought to be considered; time, place and the nature of the service. Each creates its own problem. Time is a "conceptual dummy variable." We can enumerate various factors that may have changed over time and which render doubt on the validity of our conclusions except as they pertain to the period of approximately 1965 to the present. The structure of local politics, for example, has undergone great change, with the federal government reducing the discretion of local political organizations and, hence, striking at the traditional power base of ethnic criminal gangs. Similarly, the growth of powers of federal law enforcement agencies at the expense of local authority may have reduced the ability of any set of criminals to make use of the former monopoly power of the local police.

In terms of "place" we have already commented on the problem raised by New York's size. Certainly we would appear to be dealing with purely urban phenomena; density provides a critical element of anonymity. Older cities, having long established ethnic political factions allied with criminal gangs, may well differ from the newer cities of the west, often with more bureaucratic and less political local governments.

Finally, consider the most interesting dimension; service or good. Can a study of the structure, conduct and performance of markets for bookmaking and Numbers shed light on the determinants of the same dimensions of heroin distribution and the fencing of stolen property? We believe that while there may be important idiosyncratic elements to each market (Numbers is played predominantly by lower income ethnics, bookmaking is a telephone business, heroin has peculiarly high criminal penalties attached to its distribution), there are many elements of the analysis which carry over to a broad class of criminal activities. Roughly this class may be defined by the routine nature of the transactions, the lack of a plaintiff if the transaction is properly executed, the need for at least partial specialization by participants within the supply system and the concomitant development of service enterprises.

APPENDIX TO CHAPTER II

APPREHENDING THE DATA

The extensive collection of accounting records and raid data which we assembled with the assistance of the New York City Police Department contained a great deal of information pertinent to a proper understanding of illegal gambling in New York and its relationship to organized crime. In addition to the information which an analysis of these records has produced, a discussion of how they were acquired may provide other researchers with useful knowledge about some of the problems which can be anticipated when doing research with files of criminal justice agencies.

At the end of April 1976 after several months of informal discussions with numerous detectives and gambling intelligence specialists of the NYPD we were convinced that it was possible to assemble a large collection of evidence seized in gambling raids on Numbers operations from all parts of the city dating back to the early 1960's. In early May 1976 Mr. Joseph Annucci, a research associate, who had considerable knowledge about many aspects of the criminal justice system in New York, began formal discussion with the liaison officers directed to deal with our requests. After several meetings it was agreed that Mr. Annucci could meet directly with the Property Clerk who had physical possession of the records we wanted to examine.

Almost a month passed before we could schedule a meeting with the Inspector and Captain in charge of the NYPD Property Clerk's office. They gave us a complete description of the procedures used in storing evidence. They indicated to us that although there is only one Property Clerk's office for the entire city, each borough actually had a separate system for the storage and maintenance of evidence used in its courts.

More troubling to us was the news that much of the evidence relating to gambling cases from the early 1960's had been destroyed. The destruction had been carried out in compliance with a recent directive ordering the destruction of all gambling evidence no longer required in court, part of a larger effort to relieve the chronic overcrowding of available facilities. In response to our request the Inspector issued an order to all borough offices suspending the further destruction of gambling evidence, until it was determined what use it might have in our research.

Once the evidence was secured from destruction we had to develop a set of criteria for a sampling from the massive amount

available and also identify particular pieces of evidence which had special interest for us. The storage system used in all the borough offices was uniform. The seized evidence was placed in an envelope and marked with several identifying numbers: (1) the precinct of arrest; (2) the precinct property voucher number; and (3) the Property Clerk's storage voucher number. These envelopes were then stored sequentially by storage voucher number. If the evidence was voluminous, for example if a Numbers bank's records were seized the materials were placed in suitcases and stored in a separate part of the Property Clerk's office. Each envelope or suitcase had a matching voucher sheet which was maintained in a file by the Property Clerk. The voucher sheets listed the following information: (1) name or names of persons arrested; (2) the name of the arresting officer, the date of arrest, the address of the person arrested; (3) the arrest number; (4) the precinct of arrest and (5) the precinct property voucher number and (6) the Property Clerk's voucher number.

The Manhattan office had already destroyed significant amounts of raid data seized before 1968. Three large cartons containing evidence from 800 policy, bookmaking and dice cases from the years 1964 to 1968 - all that remained - were given to us without any procedural formalities. These materials had been cleared for destruction and were saved only because the Property Clerk's office had more pressing tasks to deal with.

For the years 1969 to 1972 the Manhattan office had used what they termed the "gray envelope processing system". Members of our staff had to examine more than 4,000 voucher sheets for this period in order to determine which cases would be of potential interest to us.

We used the following criteria for the selection of cases: A voucher that listed controller ribbons, bank statements and tally sheets among the evidence was selected.* Although these terms were often used in an imprecise fashion (to our disappointment) they were an indicator of "work" either from a "controller" or a "bank". We also selected any case that listed as a prisoner an individual whom we could identify as an important Numbers operator. In addition, we selected all evidence from specific precincts which had been selected for detailed analysis. Two members of our staff worked for one week with members of the Property Clerk's office examining these 4,000 vouchers. From these we selected 1,500 cases. The Property Clerk permitted us, on the basis of a subpoena issued by the New York State Senate Select Committee on Crime, to take these 1,500 vouchers to our office in order to make copies of them.

Although all of the evidence we selected was authorized for destruction, the Property Clerk was not permitted to give us any of the evidence without a release from the District Attorney's

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* These terms are explained in Chapter IV.

office. The District Attorney of Manhattan informed us that he too could not release any evidence to us until he obtained proof that it was from a closed case - that the evidence would not be required in any pending court matter. We argued in vain that since all of the materials we were requesting had already been approved for destruction, it could be presumed that the court records had already been checked. Nonetheless we had to undertake the entire process anew.

The following conditions had to be fulfilled to obtain the release of the evidence. The name of each prisoner listed on a voucher sheet was checked by hand in the card catalog index of the Supreme Court for the two years from the date of arrest, to determine whether or not an indictment had been obtained. If no indictment showed in the index the District Attorney was satisfied that the case had been disposed of in Criminal Court and the evidence could be released for our use. If an indictment was brought, the District Attorney required to know if the case was still pending; if the case was no longer pending, he required information on the disposition and the date it occurred. If the disposition involved a felony conviction, the District Attorney required us to make a search of Court records eighteen months from the date of conviction to be certain that there was no pending appeal. If it was a misdemeanor conviction only a six month search was required.

Approximately 1,500 vouchers were examined individually and then given to an Assistant District Attorney. He had to read each voucher, stamp it with the seal of his office, and sign it. These 1,500 vouchers were then turned over to the Property Clerk's office which could then begin to locate (no simple matter it turned out) and assemble the raid material for release to us.

Before turning the evidence over to us the Property Clerk's office had to search every envelope to make sure that it contained no money or evidence not relevant to gambling. This phase of the information gathering process required three weeks to complete.

While the search for the money was going forward we began to research cases since 1972. We discovered immediately that a new system had been introduced in that year requiring us to use an entirely different procedure for the selection of cases.

In 1972 the Police Department established seven Public Morals District units as well as a Central Gambling Unit with citywide jurisdiction. Each of these units maintained its own arrest ledger books. Each of these ledgers had to be separately subpoenaed by the Committee in order for us to read it. No longer surprised, we noted that each unit employed a slightly different system for recording its arrest. The quality of the recordkeeping was variable. If a clerk described in specific terms the evidence seized, it was easy to determine if the case was of interest; but in many instances we found that the clerks did not describe the evidence at all. We had to then rely mainly on the names of the persons arrested to determine whether the

operation was of any significance to our research.

Since we had to use real names in selecting many cases it was essential that either the Project Director or Mr. Annucci be directly involved in this arduous and boring processing. It was not possible for anyone lacking knowledge of the individuals involved in the gambling rackets to make these determinations. Therefore, two members of our staff as well as one police intelligence officer examined each of the ledger books. For each case we selected, we had to record the names of the defendants arrested; the date of arrest; the arrest number and the precinct of arrest. Once this information was collected we had to establish contact with the Criminal Records Office (C.R.O.) of the Police Department which has the responsibility for the maintenance of all arrest reports.

The ledger books of the Public Morals Units did not give a complete listing of voucher numbers. These are essential for determining the status of a case. The voucher numbers were usually kept in the personal file of the arresting officer. We learned to our dismay that because of routine transfers most of the men and their files had moved on to other assignments. We were obliged to turn to the C.R.O. for this data.

The C.R.O. is one of the busiest units in the Police Department. In order to protect the constitutionally-guaranteed privacy of individuals, criminal history records can be obtained only with specific legal authorization. After extensive negotiations with the C.R.O. it agreed to provide us with an average of twenty arrest reports each week. The cases we selected had to be listed by year; as well as in numerical order by precinct and by arrest number. This was done first for Manhattan and Brooklyn; and then for the Bronx and Queens.

The C.R.O. and the Police Property Clerk's office both gave us the fullest cooperation possible considering the arcane regulations under which they operate. While the figure of twenty arrest reports per week might appear modest, it must be recalled that the C.R.O. must deal with hundreds of requests daily for arrest reports which are required immediately for the processing of an arrest or for use in court preparation. In order to minimize the demands we were making upon the Police Property Clerk's office, we agreed to submit to it a single list for each borough. Because of the constraints imposed on us by the C.R.O. the month of August 1976 was spent in assembling complete lists for Manhattan and Brooklyn. These lists included the names of all defendants, the data of their arrest, the precincts of arrest and the precinct voucher number. When we delivered the list to a borough office a clerk had to match the precinct voucher and a Property Clerk's storage voucher number in order to locate the voucher sheets. Then the evidence envelopes could be assembled. When the voucher sheets were assembled for Manhattan the District Attorney's office again had to clear the cases for our use. This process was completed for Manhattan in early September. We selected 150 cases from Manhattan from 1972 to 1975. These cases represent all of

the major gambling raids conducted by the Police Department during this period. Each one of these is a large bank; the evident was both very substantial in quantity and of significant value for our purposes.

In order to obtain cases from Brooklyn, we had to employ another set of procedures. The Brooklyn Property Clerk's office kept all gambling cases made in the years 1971 and 1972 separate from all other cases. This evidence was stored in individual envelopes whose jackets contained precise descriptions of their contents. Despite a shortage of manpower the Property Clerk assigned an officer to examine the entire set of gambling cases for those two years and to pull the Numbers cases whose evidence consisted of controllers' ribbons, bank statements and tally sheets. This process required six weeks to complete. Once this was done, the assigned officer had to assemble the corresponding voucher sheets and deliver them to us for photocopying. A four year list was assembled including the cases for 1971 and 1972 and the Public Morals' cases for 1973 and 1974. The Court docket number of each case had to be obtained by laboriously hand-checking records in the Brooklyn Criminal Court. When the information was obtained and the lists assembled, they were sent to the District Attorney's office for clearance. The District Attorney's office kindly permitted members of our staff to do the research on all of the cases. We spent several weeks in the Brooklyn Courthouse clearing the records. Because Brooklyn court procedures differ from those used in Manhattan, in addition to clearing the cases through the Criminal Court docket, we also had to examine the grand jury index and the Supreme Court index to make certain that no appeals had been filed. Again, it must be recalled that we are discussing materials whose destruction had already been approved by the courts, the District Attorney's offices and the Police Department. Despite this we had to research each of these cases in order to determine that none of the evidence could be required for any legal purposes.

CHAPTER III

BOOKMAKING

1. HISTORY AND DEVELOPMENT

Wagering on athletic and racing events has a long history in America. Throughout the nineteenth century, many major political figures were known for their interest in horses and wagering. A racing meet between the best Northern horse and the best Southern horse attracted 65,000 in Long Island in 1823; it is claimed that bets as large as $50,000 were placed.[1]

Most of these wagers appear to have been social; i.e. between bettors without an intermediary. Since almost all betting was at the track, and races involved only two horses, the bookmaker could provide only a minor convenience relative to social betting. As national communications developed, thus permitting bettors to rapidly find out the result of races held in other cities, and as races grew shorter in length and larger in field, bookmakers became more central. Parimutuel wagering, which became available in Europe in 1865, was not widely adopted in this country until 1920, in part as a result of the political influence of the bookmaking lobby.[2]

By the turn of the century, bookmakers were both extremely prominent in city politics and highly organized. Race tracks were supported primarily by the rental fees of bookmakers, who, in New York, formed themselves into an Association modeled along the lines of the New York Stock Exchange. It is reported that the price of a seat was the same for the Turf Association and the Stock Exchange in the 1880's, approximately $7,000.[3] With a national circuit of over 100 tracks, operating for different

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1. The best account of the history of gambling in this country, and the source of these statements, is Chafetz (1960).

2. On this, see Johnson (1977; pp. 36-41).

3. Just as interestingly, Haller (1977) reports that bookmakers were sufficiently well organized that "for a short time in the late 1880's bookmakers in the Midwest and East attempted to form two regional associations to bargain collectively with the race tracks." (p.105)

periods of time during the year, and a substantial Irish working class population with a traditional interest in horses, there also grew up a large offtrack betting industry in a number of major cities.[4]

This industry was dependent on an information network. Obtaining prompt and accurate information concerning the results of races at the various tracks was necessary in order to ensure that bettors did not "past-post" and that bettors knew the results of their bets on the first race before they had to make a decision about later races. Until 1904, this information was provided by general purpose telegraph companies, with Western Union gradually acquiring dominance in the market. Western Union posted agents at each track, who then sent the information to the nearest office, generally by telephone.

Throughout this period, as later, the bookmaking industry was wholly illegal. Indeed, most racetracks were of dubious legality since they depended on revenues directly and indirectly generated by gambling. Western Union had been under pressure for some time to end its participation when, in 1904, it announced that it would no longer collect or disseminate race results.

This was, of course, highly significant for the organization of the bookmaking industry. A new illegal service had to be created now to replace Western Union. Like Western Union, it was a monopoly.[5] Unlike Western Union it did not sell the information at a uniform price to all willing buyers. Mont Tennes, a major figure in both bookmaking and illegal casinos in Chicago, established the General News Service, which dominated the business nationally for some decades. Tennes was succeeded by Moe Annenberg, who had previously acquired substantial newspaper interests. Annenberg moved to extend the monopoly by also acquiring the major racing newspapers and various other racing information.[6] His influence ended in 1940 with his conviction on charges of tax evasion.[7]

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4. Ibid., p. 106.

5. John Payne, of Cincinnati, seems to have achieved a monopoly, though it lasted only five years, within six months of the Western Union withdrawal (Haller, 1977; p.107).

6. Annenberg wrote "We in the racing field, own three quarters of the globe and manage the balance." (quote in Haller, 1977; p. 123).

7. Annenberg was also threatened with indictments under antitrust statutes for his monopoly of racing information. Moore (1974) asserts that this was the reason that "Annenberg apparently simply walked out of his organization." (p. 27)

This monopoly of racing information was the focus of much of the Kefauver Committee's inquiry into illegal gambling. The Committee's concern was whether there was indeed a national monopoly used to control local bookmaking in various cities. Here we simply note that the wire service did provide, in the period from 1904 to approximately 1960,[8] an organizing focus for the illegal bookmaking business. Denial of access to the wire service could effectively prevent entry into the business. Who had that power is, for these purposes, a secondary matter.

However, there was another source of control over bookmakers in many cities during this era, namely corruption of the police. Indeed perhaps the most important conclusion of the Kefauver Committee was the pervasiveness of gambling corruption. Since customers could only find out the results of their bets at the bookie's premises, the "poolroom," there was a regular flow of persons to those premises. Moreover, the premises had to contain certain equipment which was difficult to conceal and which was unambiguous evidence of bookmaking activities.[9] Hence it was necessary to obtain the cooperation of law enforcement for continued functioning. The Kefauver Committee found that, in the cities it studied, such cooperation appeared to be purchased[10] and that only the Mafia and its associates could make these purchases.

Organizations sprang up then which jointly supplied two essential inputs, timely information and protection from the law. Not enough material is available to determine whether, in any major city, separate organizations supplied the two factors. It should be noted that customer prices were uniform throughout the country. All bookmakers paid "track odds," (subject to an

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8. Determining when the racing wires went out of business has proved an unsatisfying task. The 1962 hearings of the McClellan Committee (U.S. Congress, 1962) suggest that there still remained a few small scale information services, which seemed to operate a rather expensive and unprofitable telephone service. The subscriber called the office of the wireservice, which was located in a single city. No informant reports suggest that even such attenuated services still exist.

9. Boards listed results and prices, while the more elaborate contained ticket windows of the type also found at race tracks. The film The Sting offers an excellent description of the physical setting.

10. In some cases the inference was not clear, or at least the purchase involved more exchange of political favors than of money. The account of the Committee's castigation of Governor Thomas Dewey, who rose to fame as a rackets prosecutor, for his failure to enforce gambling laws in Saratoga, is particularly interesting in this regard, (Moore, 1974; p. 193).

upper limit on the odds for long-shots) though, with track take-out rates of over 10 percent, it was certainly possible to offer lower prices with a convenient formula.

The shift from horse betting to sports betting,[11] which is now, in terms of the volume of wagering, the dominant form for most illegal bookmakers, had important consequences for the organization of the market. The provision of timely reporting services was no longer a potential monopoly. Broadcast media were under no restrictions in providing immediate information concerning the results of sports events.[12] Further, the spread of telephones and the fact that sports events were not played in a fixed chronological sequence, as horse races, meant that most bettors were content to transmit their bets by telephone. The police were no longer in a position to routinely extort bookmaking establishments. Finally, the need for inter-city layoff was much reduced, since the bookmaker had many fewer events on which he took bets. Sports events have only two possible results and for most of the year the bookmaker has less than 50 events per day; throughout the horse racing season the bookmaker might take bets on over 150 races, each of which has approximately ten possible results. All these changes suggest that one must consider the possibility that the organization of the bookmaking industry may have changed since the Kefauver Committee.

2. THE BUSINESS: PRODUCTS AND PRICES

There are two broad classes of betting handled by the operators about whom we obtained information, either from informants or records. Horse racing, once the dominant subject of wagering, is still a significant contributor to the betting volume of some operators. The other form of wagering is sports betting; this has clearly replaced horse betting as the major source of business in most telephone operations. Some of the larger operators take sports bets only. Sports wagering is restricted to a small number of team sports. These are football

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11. It is worth noting here the implications of the famous Black Sox scandal of 1919. Rothstein was prepared to spend $80,000 to fix the World Series. This suggest that even then there must have been a substantial volume of wagering on baseball, at that time certainly the most popular national spectator sport. For a detailed account of the incident see Asinof (1963).

12. The Federal Communications Commission prohibits the broadcast of racing results except with a half hour delay. There is an exception for one race per day. The prohibition, which was instituted in 1934, is intended to make it more difficult for bettors who might be tempted to place a second bet after hearing the results of his first. Of course it also helped create a market for the illegal wire services during the 1930's and 1940's when radios became widely available.

(college and professional), basketball (college and professional) and baseball (professional). There is little wagering on the other major professional team sport, hockey, and almost none on any individual sports, except for a very few special events such as the world heavyweight boxing title.

Most sports bets are on the outcome of a single game. Typically, for basketball or football, one team is given a handicap of a certain number of points, called the "spread." Assume the Los Angeles Rams are handicapped by 8 points in their game against the Chicago Bears. This means that the person who wishes to bet on the Rams wins his bet only if the Rams win by more than eight points. If the Bears win, or lose by less than eight points, then the bets on the Bears are paid. If the Rams win by exactly eight points then all bets are returned to the bettors; in order to avoid this, the spread is frequently a half point value, such as 7 1/2.

Baseball betting is slightly more complex. Assume that the Yankees are playing the Boston Red Sox and that the bookmaker believes that the Yankees have a 60 percent probability of winning this particular game. This is expressed as odds relative to 5; 7 1/2 to 5. It is written as the "Yankee 7-8"[13]. The Yankees bettor will have to put up $8 to win $5, while the Red Sox bettor puts up $5 to win $7. The Yankees bettor wins if his team wins the game, loses if they lose. Occasionally, if one team is an overwhelming favorite, the favored team will be given a handicap of one or two runs as well. The Yankees bettor will win his bet, on the same monetary terms as given above, only if his team wins by more than one run or two runs, depending on the spread quoted.

In the case of basketball and football the bettor is required to risk $11 in order to win $10. This price is so universal that it is never quoted to customers. Indeed, no observer remembers a time when the price was different. It is easy to estimate the bookmaker's expected gross return on such betting. Assume that there is one $11 bet on each side; regardless of the outcome (assuming the spread is quoted as a half point) the bookmaker will take in $22 and pay out $21. His margin is 4.4 percent of total wagers.[14] Imbalance in the betting

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13. Obviously this is a very stylized version. The final price is almost always expressed as two numbers between 5 1/2 and 9 1/2, differing by 1. Each price encompasses a range of probabilities. For example "7-8" covers probabilities from 7/12 (.583) to 8/13 (.615) for the favored team to win.

14. The convention that bookmakers return bets in the case that the difference in scores is the same as the spread is an odd and expensive one. It is impossible to calculate a priori how often this will occur since this depends on the accuracy of linemakers. One assumes that it occurs more frequently as a

affects only the variability of the bookmaker's share, not its average.[15]

The calculation is more difficult in the case of baseball. Assume the figures in the example quoted above. When the Yankees win, the bookmaker takes in $13 ($8 from the Yankees bettor and $5 from the Red Sox bettor) and pays out $13. When the Red Sox win, he takes in $13 and pays out $12. In five games he can expect, if he has made the odds correctly, that he will have three games in which the Yankees win and two in which the Red Sox win. Out of $65 bet he will retain $2; a margin of 3.1 percent. This margin will obviously vary according to the odds quoted.[16]

In recent years more complex forms of betting have been introduced. These are generally multiple game bets. Our observations suggest that they do not constitute a major portion of total wagering, but it is said that certain bookmakers make more of a feature of these bets than do others. Our sample of records is too small to rule out the possibility that they are a significant portion of total wagers for some bookmakers.[17]

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14. [continued] season progresses and the strengths of teams becomes more predictable. An alternative convention, which a cartel would surely achieve early in its career, is the return of all bets, less the commission. I.e. the bettor who puts up $110 to win $100, owes the bookmaker the $10 commission if the final score exactly meets the spread. It might even be possible for a well coordinated group to impose the rule that the bookmaker retains the bets, in the case of a tie.

15. This assumes that the line is "correct" i.e. that the probability of each outcome is 50 percent.

16. This is what is known as the "20 cent line." There is another line, the "dime line," which is available to more sophisticated bettors making larger wagers. The line offers an even narrower margin to the bookmaker and requires specification of the pitchers, though the latter certainly ought not be intrinsic to the line.

17. In addition to multiple game bets, often with complex rules giving the player some points to move at his discretion in return for a lowering of the pay-out ratio, there is an increasing amount of betting on the total score of the game. The player wagers $11 to win $10 that the score will be above a given total. He can also bet on it being below. Ties lead to a return of the money. There is also evidence of some bookmakers taking bets at half-time on the second half of a game. The product mix is becoming more complicated. It is difficult to estimate the bookmaker's profit margin on the multiple game bets.

For horse bets, bookmakers pay the same prices as the tracks, subject to a bookmaker-designated upper limit. The limit varies according to the type of bet and the track at which the horse is running. The limit is higher for local tracks and for thoroughbred racing than for tracks in other metropolitan areas[18] and for standard bred racing (trotters). The limit is also higher for "exotic" wagers, such as exacta (picking the first two horses in a race in the correct order) and daily double (picking the winners of two specified races). The differences in the limits are responses to two variables, volume of betting and reliability of information. Out of town and night (trotting) races attract smaller volumes of betting; this increases the risk associated with any given bet, since the probability of generating other bets on the race is smaller than for day races at local tracks. It is also believed that trotting races are most likely to be fixed. This is not so clear for out-of-town races, but the reliability of the bookmaker's information about fixing is lower; hence, the lower pay out rates. The limitations are not uniform for different bookmakers. The bettor is also likely to face a more stringent upper limit on the size of his bets for these forms of racing, for the same reasons.

> A wiretap on a small Queens bookmaking operation included a discussion of the limits on out-of-town horse bets. Though some of the bettors thought that the bookmaker should pay a maximum of 20 to 1 on first place horses, 8 to 1 on "place" (second place) horse and 4 to 1 on "show" (third place) horses, the bookmaker said that he would pay no more than 15, 6 and 3. Despite this the operation's betting included a high proportion of horse wagers.
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> The seized records of a very large bookmaking operation yielded different figures a few months later. The maxima for local tracks in this operation were 50, 20 and 10. For out of town tracks the figures were 20, 8 and 4. On "exotic" bets at local tracks the maximum was 75 to 1; for out of town tracks it was 50 to 1.

It is difficult to determine the expected profits (as a percentage of total wagers) for horse betting. Most tracks retain

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18. It is interesting to note that New York bookmakers seem to list only East Coast races. We found no records of bookmakers taking bets on the major California tracks. This is apparently in contrast to the situation that existed at the time of the Kefauver Committee, and reduces the demand for national lay-off facilities such as those that used to exist in Covington (Kentucky) and Biloxi (Mississippi). Why bookmakers have narrowed the set of horse betting opportunities, despite the widespread availability of a publication providing national information (The Daily Racing Form) is unclear.

18-20 percent of the handle in calculating payout rates.[19] However, the bookmaker, by setting a limit on the odds that he will pay, affects three changes in his expected retention rate. First, if he receives the same pattern of betting as does the track, then he increases the amount he retains since he pays out lower-than-track odds to those who bet on low probability winners. This is likely to be a minor factor since few long-shots win. Second, by setting the limits the bookmaker provides an added incentive for the long-odds bettor to place his bet at the track; this changes the mix of betting received by the bookmaker in a way whose consequences for income is difficult to predict. However, it is likely that this second effect is also a small one; long-odds bettors are relatively insensitive to the expected pay out rate beyond a certain point, well below the bookmaker's limit. This is consistent with the higher percentages retained by the tracks from the pools for long odds wagering (exacta and daily double).[20]

The third effect, a higher proposition of "insider" betting, is potentially the most important, given the value of insider knowledge in the horse racing business.[21] Consider a bettor who has access both to a bookmaker and to track betting facilities. He has a piece of information that substantially improves his ability to predict the odds. In particular, he knows that a horse which is generally believed to have a one in three

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19. The rates vary both by state and by form of betting. The most interesting observation is that the New York bookmakers continue to pay track prices rather than the lower prices offered by the New York Offtrack Betting Corporation (OTB). The state has required, since 1974, that OTB tax winning bets an additional 5%, which can have dramatic effects on the prices paid for low-odds horses. E.g. a horse that would pay $2.40 for a $2 bet at the track will pay only $2.20 at OTB, cutting the bettor's margin in half. The bookmakers, by continuing to offer track odds, enhance their relative attractiveness to bettors who play favorites.

20. For example, in 1975, the take-out rate at New York tracks for straight (i.e. single-horse) wagering was 17%, plus breakage (a rounding of prices downward to the nearest dime per dollar). For "exotic" (i.e. multiple horse) wagering, the take-out rate was 25% plus breakage.

21. Figlewski (1979) found that OTB bettors, in contrast to bettors at the track, fail to make full use of the information contained in published expert opinion. His explanation is that the OTB bettor, facing a higher price in the form of a higher take-out rate, is less likely to invest in information and calculation. It is also possible that insider information is available to the track bettor, but not to the bettor at OTB.

probability of winning in fact has a one in two chance. It is clearly to his advantage to place his bet with a bookmaker, since that will leave the pay-out rate undepressed by his information. Since those involved in the racing business are likely to be able to place bets with bookmakers,[22] this represents a substantial additional risk to the bookmaker.

We lack sufficient information on bookmakers' horse racing profits to say anything about the significance of this effect. Certainly it is an important explanation for the reluctance of bookmakers to handle very large wagers on horses. Many knowledgeable bettors use "beards," i.e. other persons not known to be connected with the track, for such bets. During the 1940's and 1950's there were operators who ran "hot-horse" services, i.e. provided information to bookmakers about horses for whom there was some uncertainty as to the reliability of public information. Such services apparently no longer exist.[23] A bookmaker who is unsure about a particularly large bet may choose to incur the additional expense of laying off a portion of the bet at a track so as to depress the pay-out rate on the remainder.[24]

3. TRANSACTIONS AND ROLES

There are four positions in the bookmaking business; bettor, runner, clerk and bookmaker. The bettor's role is obvious. The runner occupies an intermediate position between the bookmaker and customer in large operations. He introduces the bettor to the bookmaker's operation and guarantees the financial reliability of each side to the other. He will also handle the transfer of money between bookmaker and bettor. The clerk is, as the name suggests, the person who transcribes and records transactions. The bookmaker is the individual who makes critical decisions, setting the terms of the bets and the limits on the size of bets. He also provides capital to cover expenses and losses.

A single individual can occupy all four positions at one time, though he will have to have an involvement with at least three different operations. While it is uncommon for a clerk to also carry out the other three functions, these other three are

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22. Anecdote on the link between bookmakers and track personnel is strong. Many bookmakers used to be regulars at the track and probably purchased information from stablehands, jockeys, etc.

23. One wiretap on a bookmaking operation included a reference by a bookmaker about the maximum price he would pay on a "hot horse" if the bettor informed the bookmaker, after the latter accepted the bet, that the horse was "hot".

24. Lay-offs may also be made at OTB. However, the higher take-out rate at OTB makes that a less desirable strategy.

frequently combined. An individual may work as a runner for one bookmaker, place bets on his own account with a second and also accept bets from other individuals whom he handles as a bookmaker.

> Jerry was a regular and heavy bettor with many bookmakers over a period of years. He was then approached by a sometime bookmaker named Phil to enter into a partnership with him. The partnership prospered until Phil went to jail for over a year on gambling and bribery charges. Jerry continues to bet, even though he has stayed in partnership with various other bookmakers. He does not handle his own pay and collect as a bettor, using a non-bettor for that. He does handle pay-and-collect for his bookmaking. He does not work in his own wireroom, nor does he work as a runner. [Bob]

> Harry was a longtime bookmaker. He was very cautious, never holding excess money on one side but laying it off to numerous other bookmakers.
>
> In addition he sold these bookmakers line information, as well as acting as a runner for some of them. Following conviction and sentence of probation, for gambling, he gave up these roles and became a loanshark, lending substantial amounts to other participants in the gambling business. [Bob]

The most critical role is that of runner. To a large extent the analysis of structure can be conducted simply through a study of his functioning. We know nothing about the origins of the runner and our research on bookmaking in other cities (Appendix C) suggests that the runner role may not exist in other cities.

In most operations the customer calls the bookmaker's operation directly.[25] He does not call the runner, though he

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25. From time to time there has been much use of call-back systems. The bookmaker either hires a regular answering service, or sets up a person whom the bettors call but who merely takes their telephone number. The bookmaker calls into the answering service and finds out who has called. He then calls them. The purpose of this is to insulate the bookmaker in case one of the bettors is an informant. No wiretap order can be obtained since the bettor cannot provide information on the relevant phone number. The system is a cumbersome one, since it requires that the bettor either have more than one line or keep his phone open for a few minutes. One heavy bettor who made regular use of 5 to 10 bookmakers refused to deal with a bookmaker who would only permit call-back betting. The use of call-back may be an

must give the runner's identification when placing the bets. The bookmaker may have some customers of his own, called "house accounts," whom he services directly or through a salaried agent.

The transactions are almost always based on short term credit. The bettor and runner settle up on a weekly basis. Occasionally there may be an agreement to settle only when the net indebtedness reaches a certain level. There are, at the other extreme, a few reports of bettors, with poor past records in such matters, having to deposit money with the bookmaker in advance.

> Richard was a relatively small but regular bettor with a bookmaker, whom he never met. He bet almost every day; the bets ranged between $50 and $100. A professional man, he told his runner, Danny, that he wanted to minimize the number of transactions involving exchange of money. The agreement was that a payment would be made whenever the balance exceeded $500. Over a period of about two years they met approximately once every three months when one side or the other owed $500 or more. [Richard]

> Terms are not always enforced. Tobias was a heavy and successful bettor, who lost about $200,000 one week. He told his bookmakers that he could not pay and they would have to accept an agreement whereby he paid any future losses and they kept 15% of any winnings in the future. It appears that he was able to persuade them to agree to this. [Bob, colleague of Tobias]

> Ray was an undercover policeman working for a small-time Mafioso. He introduced a heavy bettor that he knew to a bookmaker connected to the Mafioso. The bookmaker did not know Ray well so he required the bettor to place $2,000 in an escrow account. At the end of the first week the bettor won $6,000. The bookmaker refused to pay. The bettor then offered the Mafioso $4,000 if he would collect the $8,000 owed to him. [Ray]

Responsibility for the movement of money between customer and bookmaker is the runner's, except in the case of house accounts. The runner, in effect, serves as a grantor for the bettor. He can demand that the bettor be refused service for failure to settle. If the bookmaker is slow in making payments the runner can transfer the customer to another bookmaker.

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25. [continued] indicator of the extent to which bookmakers are concerned about law enforcement efforts. The introduction of call holding devices has reduced the disadvantage of call back systems.

Vinny was a small businessman who bet regularly on his own account and acted as a runner for two close friends of his who were much heavier bettors. Three bettors who had Mafia connections and who lived in his neighborhood found out that he was a runner and started to use his services. After winning the first few weeks they lost a substantial sum. They refused to pay. The bookmaker knew their identities and knew that the runner had been manipulated. Nonetheless he demanded that Vinny produce the money to cover both their losses and the accumulated red figures. Vinny went to a loanshark to borrow the money. On a second occasion he was victimized by a false claim that the wireroom operator validated; again he had to borrow the money from a loanshark. [Bob, friend of Vinny]

Jimmy ran a large bookmaking operation. One runner acquired a red figure of over $500,000 over a period of some months. Concerned that the runner might start to move his accounts, Jimmy offered the runner an arrangement whereby he could keep a fraction of customer losses, using the rest of them to reduce the red figure. The runner agreed to this arrangement and did not, at least in the short-run, move his customers. [Jake, colleague of Jimmy]

In some operations the runner even has control over the betting limits of a customer. In a Nassau bookmaking wiretap a better called in and identified himself as "John for 97". He then asked if 97 had notified the room that his limit was now $1,000.

A single clerk can handle a large volume of bets. An operation handling $100,000 per day will probably only require three clerks in the "wireroom" (as the operating room is known) at any one time. With seven day per week operation and various forms of leave, the operation will probably have a pool of five clerks. Clerks are salaried employees of the bookmaker, though the latter may act as clerk for his own operation and, if he is in a partnership, charge the salary against the profits of the partnership. In 1977 a clerk's salary was approximately $400 per week.

There is a great deal of variation in the efficiency of wirerooms in utilizing clerks. The wireroom known as the "Big Store", widely regarded as the largest in the city for many years, apparently operates with no more than one clerk and the bookmaker in the wireroom. This probably reflect the bookmakers uninterest in moving his line and/or laying off. He also takes only very large bets, so that a large volume may be generated by a small number of bettors. On the other hand the NYPD, in 1979, raided a wireroom which had ten clerks on a weekly roster.

They handled a volume no larger than that reputedly handled by the Big Store. And there are clerks whose jobs represent something close to patronage. One wireroom handling less than $50,000 per day in bets has four clerks, at least two of them seem to have their jobs because the mafioso who runs the room regards them as "family" retainers, given easy jobs rather than pensions.

The runner receives a percentage of the profits generated by his accounts. The share is almost uniformly one half, though it is possible that some runners effectively receive only one quarter through the interposition of intermediaries. The runner is not responsible for providing capital to pay losses. This money is the bookmaker's who then ascribes to the runner what is known as a "red figure." A numerical example will indicate the concept and its importance.

Assume that a runner has just joined a bookmaking operation. In the first week the runner's customers win $2,000. The runner then obtains $2,000 from the bookmaker and disburses it amongst his customers. Note that not all his customers may have won in this week, but the bookmaker is only interested in the net flow between himself and the runner. The runner's red figure is now $2,000. Assume that in the next week the customers lose $1,200. The runner collects $1,200 from them and transmits it to the bookmaker. His red figure is now $800. Assume that in the third week the customers lose $3,000. The runner collects this $3,000 from them and pays the bookmaker the current red figure, $800, plus half of the remainder, $1,100. The runner retains $1,100.[26]

Given that the runner cannot control the riskiness of the aggregate of his customers' transactions, it is not uncommon for the red figure to become a substantial amount. The bookmaker may balance his own books, which are the aggregation of a number of runners; accounts with some of those agents having red figures in the week are compensated for by the profits of others. What is critical is to see that the use of red figures gives runners an incentive to take their customers to other bookmakers. The net result is to transfer income from bookmakers, as a group, to runners.

In the previous example, consider the runner's situation at the end of the first week. If his customers lose, he will

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26. Runners are supposed to settle accounts with the bookmaker, on a weekly basis. If the runner fails to pay what he owes at the end of a week, then of course his red figure is substracted from the amount that he is to turn over to the bookmaker. I.e. assume that in our example the customers lost $1,000 in the first week, so that the runner should have paid the bookmaker $500. If he fails to do so, and his customers win $2,000 the next week, then he will receive only $1,500 from the bookmaker.

receive income only after the first $2,000 of their losses. On the other hand, if he takes his customers to another bookmaker, he will receive half of their losses immediately. This presents a significant and continuing problem within the industry; runners have access to more than one bookmaker and are likely to transfer their accounts precisely when their red figure has become large with a particular bookmaker.

The problem is serious enough that there is even some evidence of change in the compensation system. One bookmaker has persuaded some of his colleagues to move to compensation based on volume. His suggestion is that runners be paid one percent of their customers' gross on football and basketball. For baseball they would receive one percent of losing bets; given that less than half of all baseball bets are expected to lose, the runner would receive less than 1/2 percent of total wagers. A number of major bookmakers have made this modification. Significantly, informants say that this change has been made only for runners who had large red figures and whom they believe likely to leave their organizations as a consequence. The red figures have been set aside.

> Shortly after we were first told of this change by an informant, the NYPD seized the records of a large bookmaking operation. Those records showed that some runners received a flat commission while the rest were paid according to the traditional arrangement. The original informant, in his most recent operation, has been able to persuade all but two of his runners to accept the commission arrangement.

The fourth participant is the bookmaker himself. His role is defined by the assumption of risk, not by active participation. In fact, it is unusual for successful bookmakers to take passive roles. The bookmaker will either actually spend a great deal of time in the wireroom or will remain in constant communication with it. While it is possible to delegate to a manager the decisions about point spread and betting limits for individual customers, these are usually made by the bookmaker himself. He will also meet with each of the runners, except in large operations where he may delegate to a senior clerk some part of that function.

Partnerships appear to be common. In some cases the purpose of the partnership may be to minimize cheating by giving the clerks some equity interest in the operation as a whole.[27] The assets brought to the partnership are not always financial; one partner may contribute capital, a second peculiar skills in

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27. This is not to say that partners do not cheat each other, but the incentives for the standard forms of cheating are reduced.

moving the line and the third a particular good set of customers. We have evidence of a partnership with as many as five partners; most have only two.

> Partnerships vary a great deal in size, stability and motivation. Milty was a successful bookmaker who faced a prison term. He wanted to ensure that his bookmaking operation continued while he was in jail. He borrowed $40,000 from a loanshark, Murray, the week before he was due to go in. Murray then had to continue the operation in order to be able to collect his money. Murray was a heavy bettor but did not know how to run a wireroom. He entered into a partnership with Joe, an experienced bookmaker/bettor. Even with this introduction of professional skill the operation lost money. Murray then handed it over to yet another bookmaker, Marty. [Bob, later partner of Milty]
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> In a second case the partnership arrangement was also initiated following an arrest. Philly was an inexperienced bookmaker who had been arrested while running a large wireroom. Though he was trying to fix his case he was concerned that he might be incarcerated. He wanted to ensure the continuation of his income from the operation. The partnership involved five persons, who were to share equally in profits and losses. Jim brought a set of customers and particular line-making skills to the partnership. Ruby, primarily a loanshark, provided some capital but did not participate in the actual operation. Bob clerked. Gerry brought in some large customers and handled pay-and-collect for them. Two weeks later the partnership broke up, amicably, for reasons we do not know. Phil and Gerry became partners. Bob went into partnership with one of the clerks. Jim agreed to lay-off with the two new partnerships. A final meeting was held at which the accounts were reviewed and disbursements made. [Police files on undercover operation]

Identities

Who becomes a bookmaker? The question is an important one for the organization of the market, since commonalities of background, upbringing and attitudes can do much to promote conspiracy. It is certainly true that much of the cohesion of the Mafia derives from the rather narrow base, in terms of neighborhood and sub-national origin,[28] from which members are recruited.

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28. It appears that Mafia members in New York are all descended from Southern Italian and Sicilian families. While many commentators have drawn sinister inferences about international conspiracy, it is worth noting that ethnic neighborhoods

There are at least two distinct groups within the population of bookmakers and runners. The first, which perhaps used to be more important during the days when bookmakers handled mostly horse race betting, consists of persons with little education and close personal relationships to Italian organized crime groups. A review of the criminal records of 20 of these individuals shows a few youthful arrests for violent crimes, but after about the age of 25 all their arrests are for gambling violations. They may have an involvement in other crimes, not indicated by their arrest histories, but informants mention only their possible involvement with loansharking, about which we shall say more later. There seems to be three ethnic groups represented: Irish, Italian and Jewish.

A second groups seems to be increasingly important. The members tend to be reasonably well educated. Indeed, one is completing his Ph.D. in English at a major university, financing his way to genteel poverty through evening work in a wireroom and the servicing of a few accounts as a runner. One wireroom is run entirely by stockbrokers, rather literally moonlighting. The new educated group seems to be predominantly Jewish. It is also important to note that there are ethnic groups that appear not to be represented at all amongst the bookmaking population. We have neither met nor heard of any bookmaker or runner who is black or Hispanic, though the NYPD did recently raid an Hispanic Numbers bank which also handled a significant volume of horse betting.

Almost all the bookmakers for whom we have been able to obtain career information started out as bettors. The transition from bettor to runner is an easy one. It may be motivated by difficulty in obtaining money to pay off a series of losing bets. The bookmaker recruits new customers through runners. An established customer is always acceptable as a runner bringing in new customers. If the operation is extended it may even be willing to ask the customer with a payment problem to take over servicing of some existing customers, though not necessarily on the standard half-sheet agreement.[29]

The transition from runner to bookmaker seems to be a more difficult one. Indeed, there are some runners who never make

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28. [continued] in New York often consisted of families all descended from one town or region. This, together with the dominance of Southern Italians and Sicilians in the early waves of migrants from Italy, may explain the sub-national pattern. Community within New York and points of origin may be difficult to distinguish. cf. Ianni (1972, Chapters 1 to 3)

29. This statement was made by some knowledgeable police officers. We were unable to find any actual examples. However our information on the careers, as opposed to criminal arrest histories, of most participants is very sketchy.

the transition, for reasons which may reflect their attitude to risk taking or their profligate consumption habits. One runner was reputed to have customers generating more wagering than all but a handful of bookmaking operations but he never was willing to change his role.

We believe that the critical observation here is that bookmakers are bettors themselves. Their career path suggests only that they have been bettors; further observation shows that they are contemporaneously bettors and bookmakers or runners. One hypothesis which seems plausible, though scarcely testable, is that bookmakers are bettors who prefer gambling at favorable terms (10 to win 11 rather than 11 to win 10). To assume that bookmakers are conventional, risk-averse entrepreneurs, as they are often depicted in official accounts, is to ignore the most obvious common characteristic of the group. As one bookmaker explained to an informant: "At the end of the day I go down to Mulberry Street[30] and the first question they ask is, 'How much have you got riding on the game? I can't say that I don't care how it comes out."

There are two aspects of bookmaker risk taking which are worth illustrating. On the one hand many bookmakers are unconcerned with the balance of their books on a particular game. They have an opinion about the correct odds and are willing to take a position on the basis of that. Bob, one of our principal informants, was at one stage in partnership with Marty, whom he and others have described as an old-time bookmaker. Marty believed that the "Western" line, which originated in Las Vegas, was correct and should not be altered to reflect the betting patterns of New York bettors. The consequence was that they often had imbalances of as much as $35,000 on a single game. Unsurprisingly the partnership experienced dramatic fluctuations in its financial fortunes.

The other type of risk-taking that is relevant here is simply the proclivity of bookmakers to simultaneously act as bettors. A bookmaker, perhaps because he is in a partnership with a more cautious operator, may choose to do his betting separately from the wagering involved in that operation itself. Another one of our major informants often withdraws from the bookmaking business for a season to act purely as a bettor. Even when he is acting as a bookmaker, always in partnership with others, he continues to bet heavily. This is confirmed by a number of police who also agree that he may make more money through his betting than through his role as bookmaker. His motivation for entering that role is difficult to ascertain but it may help to maintain his contacts in a world where he is

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30. Mulberry Street is the heart of Little Italy, the original center of Mafia groups in New York and still a major congregating area.

otherwise a rather isolated figure.

There is one other aspect of bookmaking as an occupation which should be mentioned at this stage. Unlike many other rackets, the most senior position is the most demanding in terms of the commitment of time. A bookmaker, if he is to control cheating by clerks or partners, must actually participate in the workings of the wireroom for at least 15 hours per week (a two hour session every day of the week during most of the year). Though it is possible to hold a regular job while running a bookmaking operation, the demands of the position do provide a serious constraint on other criminal activities. This certainly is one reason that racketeer participants in bookmaking do not operate their own wirerooms.[31]

> Given the fragmentary nature of our information about careers it is difficult to give either statistical brief or exemplary material that provides adequate backing for this summary statement. We present four careers about which we have relatively good information to suggest both the varieties and the patterns.
>
> Marty, referred to in earlier discussion of risk-taking, provides a good example of the old-fashioned betting careerist. He began taking bets at the age of 18 and boasts that he has never worked in his life (though a policeman did report in recent years seeing him in a manual work situation, part of a work-release program). He is related to some prominent Numbers bankers who have rescued him from financial and related troubles from time to time. His own gambling instincts have led to numerous underworld bankruptcies. When he made a lot of money recently he gave up his role as a bookmaker and used the accumulated winnings to finance his own betting. In a few months he went broke and had to go to work for his relatives' Numbers bank. [Bob, partner of Marty]
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> At the lower end of the market we have the example of Giuseppe. The son of a long-time city worker he has been involved in gambling most of his adult life. He worked in Miami in the early 1950's for the major bookmaking organization there, S and G, made notorious by the Kefauver Committee. He then devoted most of his efforts to various schemes

31. We conjecture, on the basis both of informant discussions and gangster biographies, that the major racketeer serve primarily as broker of illegal transactions. One return to that function may be an equity interest in illegal enterprises but that will not necessarily involve an operating role.

> involving stolen or forged securities. He apparently made a great deal of money from this, most of which he gambled away at the track. After serving a long prison sentence he returned to gambling, running a small horse book in Brooklyn, near his family home. He and his partner closed the operation after Giuseppe served three months on gambling charges. Since then he has tried various criminal ventures, mostly involving fencing of stolen goods, but earns his steady income as a skilled clerk in a Mafia run room. He continues to bet. Every day he bets at least $2, and often $12, on his "steady" number. In addition he likes to bet heavily at the track when he has the money. [Giuseppe]
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> Jerry is a transitional figure. Though not young he is well educated. As a college boy he worked in the local bookmaking operation as an assistant marking up odds and results. After an unsuccessful career in financial markets, including an indictment on fraud, he became involved in bookmaking, with the assistance of a racketeer relative. He has become very skilled technically, as bettor, manager and operator. He appears to have minimal involvement in any other criminal activity. [police interviews, plus files]
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> David may represent the newest group. He started as a regular bettor, on sports events only. He was then offered an opportunity to learn the business by working as a clerk for an experienced operator. After the operation was raided he decided that he was unwilling to take that risk, since he had another career outside of gambling. He has become a runner for two operations now and continues to bet himself, often in partnership with more experienced bettor. [David and partner]

4. ENTERPRISES AND THE MARKET

Perhaps the most striking feature of individual bookmaking operations is simply their small size in terms of full-time participants. Until 1978 there were no reports, either from police records or informants, of wirerooms with more than three clerks in them at any one time. In the last two years there have been three reports of operations employing as many as 10 clerks. In one, which was raided, there seemed to be a roster of some 15 clerks, with a maximum of 10 in the room at any one time.

As mentioned before, a single clerk can write a very large volume of wagering, as is true for a stockbroking clerk. One highly skilled bookmaker was observed by an informant writing, on his own, $50,000 in sports wagering in a single two hour session. The reputedly largest operation in the city,

perhaps handling as much as $2 million per week during its peak periods, involves only the bookmaker and one part-time clerk for weekends.

Obviously, the productivity of a clerk depends on the size of the individual wager. Sports bets, in the operations about which we have informations, range from $25 to $5,000. On special events, particularly the Super Bowl, higher limits may be set. All operations seem to set some lower limit, both in terms of individual wager and total amount bet per week. These lower limits are not very restrictive. A large operation might tell its customers that it will not handle wagers of less than $50 and expects a minimum weekly volume of $500. Only in the reputedly largest operation is there apparently a serious floor; the minimum wager is $500 there.

The averages and limits for horse wagering are very different. Many, if not all, operations will handle horse wagers as small as $10. A horse wager of $500 will be regarded as a serious decision and may be refused or automatically laid off. Given that the bookmaker has more difficulty controlling his risk in horse wagering, since he does not know the odds for each horse at the time he takes the bet, this greater caution is not surprising. There is also far greater concern about insider information giving the bettor an advantage over the bookmaker.

> A Queens bookmaker, Bob, received a call from Clancy, a bookmaker with whom he did regular business. Clancy wanted to place $1,000 on a horse at Saratoga. Bob said that he did not know if he could accept the bet and checked with his partner Jimmy. Jimmy suggested that Bob contact another bookmaker, who then agreed to take $300 of the bet. Two more bookmakers were contacted; one said that he closed at 2 p.m. while the other agreed to take only $200. Bob called Clancy back and told him that they could accept only $700 of the original $1,000 bet. [wiretap]

Individual operations look considerably larger when one considers the number of runners involved. An operation with three clerks may involve 50 runners, each handling from 2 to 10 bettors. The largest for which we have detailed information on customers and runners had a total of 80 runners with approximately 300 customers. However, it should be noted that there is a serious risk of double counting here. The same bettor may be placing bets to the one operation through more than one runner, perhaps in order to evade the bookmaker's limit on wagering per customer.32

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32. There are other motivations for doing so. A bettor may wish to be able to conceal his true opinions by betting through a "beard," i.e. a nominee. This may be the strategy making optimal use of one's own reputation. Assume that the bettor is

> Joe was a heavy bettor who was viewed with some suspicion by various bookmakers as a potential informant. One runner whom Joe apprroached was particularly concerned. He made Joe produce a lot of evidence, in the form of "references", of his reliability. He then gave Joe the telephone number of the bookmaker that he worked for. To Joe's amusement, it turned out to be a bookmaker whom he was already using under another name, through a different runner. Joe was a man of many names. Sometimes he would forget which one he was using with a particular operation. He might then have to ask the clerk of the operation, who knew his voice well from many previous calls, "Who am I?" [Joe]

It may be useful at this stage to put together some figures to describe the structure of a large bookmaking operation in New York in the mid-1970's. Three clerks, servicing 200 customers through 50 runners, might handle a total of $1 million per week during the latter part of the football season. The handle during the rest of the year may be half of that. The total handle for the year then would be approximately $30 million. That translates into an average handle per customer of $150,000. It is helpful to remember that the bulk of betting is on events which give the bookmaker an expected margin of less than 4 1/2 percent, so that the expenditure per customer is only about $6,000 per annum.

It is impossible to give more precise figures than these concerning the size of the largest enterprises in the market. Nor, alas, can we provide any tighter estimate of the number of such operations. However, we may be able to produce some reasonably strong statements as to the concentration of the market, a conventional measure of the degree of monopoly. It is unlikely that the four firm concentration ratio for bookmaking in New York is more than 35 percent. For that figure we must now turn to the available data on the size of the New York market.

None of the available estimates on the size of the market is very convincing. The most serious effort at estimating the New York market centered around a household survey of illegal gambling behavior (Fund for the City of New York, 1973) carried out in 1972. That survey, which dealt with Numbers as well as sports wagering, estimated that total sports wagering with

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32. [continued] known for the quality of his opinions on professional football games. Every time he places a bet, the line moves 1 point in his direction, i.e. if he bets on the Bears minus 3 the bookmaker will move the game to Bears minus 4. He may then choose to make two bets, the second being a far larger bet through his nominee on the other team, which is his true choice.

bookmakers, by residents of the City of New York (an important qualification since the city seems to house most of the bookmakers used by suburban residents) was $428 million. The only figure given on horse wagering was the extent of such wagering by sports bettors, estimated to be $38 million. Since there is some reason to believe that heavy sports bettors are not also horse bettors,[33] this last figure is not very informative.

The survey on which these estimates were based was not of high technical quality. In particular, the sample design, which used voting figures to weight the sample by political jurisdiction within New York City, probably imparts an upward bias to the estimates. Voting, like sports wagering, is almost certainly positively related to income.[34] Further, since a quota sampling technique was used, we have no meaningful information about non-response rates or profiles, potentially significant when one is dealing with a subject as sensitive as gambling.

Two other estimates have been made by law enforcement authorities. One, by the U.S. Department of Justice, is dependent on one figure from the survey just discussed and involves some highly implausible assumptions about law enforcement.[35] The other, by the New York Police Department, was based on data that

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33. As mentioned earlier in the chapter, many of the larger bookmakers specialize in sports wagering only. This suggests that their customers are not major horse bettors, since they would then seek bookmakers who accepted both forms of wagers. Most betting slips, recording all the bets called in by a bettor at a single time, include only one form of betting.

34. The point is most easily made through a numerical example. Assume that there are two equal size districts in New York. In the first district 60% of households have income over $25,000. These households have a probability of 80% of voting and wager an average of $250. Households with less than $25,000 income, which constitute 40% of the first district population, have a probability of 50% of voting and wager an average of $50. In the second district 30% of the households have incomes over $25,000 and 70% have less. The true population mean for betting is $140 (.45* $250 + .55*$50). Now assume that voting figures are used to determine the sample size for each district. The first district will be given a weight of .535 (.6*.8 +.4*.5/6*,8 +.4*.5 +.3*.8 +.7*.5) in selecting the sample. In this district the average wager is $170 (.6*$250 +.4*$50) compared to $110 (.3*$250 +.7*$50) in the second district. The observed mean will then be $142 (.535*$170 +.465*$110), about 1 1/2% higher than the true mean.

35. For example, the estimate assumed that federal gambling enforcement had been equally intensive in all cities. In fact, there is ample evidence that this is not so. For example, there

included an unknown but substantial amount of double counting. The only useful information it provided was an estimate of the number of separate wirerooms in the city.[36]

One other source should be considered. There does exist a high quality study of gambling behavior and attitudes in the nation as a whole (Kallick et al, 1977). That study, built around a sample survey of 2,000 adults, estimated national sports wagering with bookmakers in 1974 at $2.3 billion; wagering on horse races with bookmakers was estimated at $1.4 billion. Given that urban residents in the Northeast wagered far more heavily than did other population groups, this suggests a 1974 bookmaking total for the New York metropolitan area (12 million population) of perhaps $300 million for sports wagers and $230 million for horse wagers.[37]

There is some reason to suspect that the national estimate for sports betting is an underestimate. The sample did not include any individual with wagering volumes approaching that of the average customer in the bookmaking operations about which we have obtained information in New York. There may be a small population which accounts for a high proportion of total sports betting with bookmakers. If there are 10,000 persons with wagering levels equal to that which we have estimated for the customers of big bookmakers in New York, then the figure would be an underestimate by $1.5 billion or 40 percent of the total. A sample as small as 2,000, even though weighted toward urban males, certainly the dominant betting group, has only a small probability of including one such person. If he chooses to be a non-respondent, no analysis of non-response, however sophisticated, is going to detect the problem. On this basis, we believe that the $300 million should be regarded as a lower bound, for sports wagering

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35. [continued] is substantial variation in the number of gambling wiretaps per capita between the cities in which estimates were made (Administrative Office of the United States Courts). Wiretaps, as discussed in Chapter V, were central to the federal efforts in 1972 which was the year of the estimate. More detailed discussion of this estimate can be found in Reuter and Rubinstein (1978, pp.60-62).

36. Again, we should note that even this involves a certain amount of double counting. The police cannot set out to collect information about the size of a population on a given day. Information must be collected over a period of months, during which partnerships are created and dissolved. This may lead to double counting.

37. In the Northeast 6 percent of the adult population said that they placed sports bets with bookmakers, compared to 4 percent nationally. The difference was still more marked for horse betting with bookmakers. The survey estimate for the Northeast

with bookmakers.[38]

The largest bookmaker is estimated to have handled, prior to 1978, no more than $2 million per week during peak periods. We suggest that his annual volume is probably less than $60 million. Note that this includes a certain amount of lay-off betting from other bookmakers. In his case, it may be the bulk of his handle. If the average bookmaker lays off one quarter of his handle, which is probably a conservative figure, then total bookmaker handle will be 4/3 of total bettor wagering. Thus, if we take the low estimate derived from the SRC national figure, namely $300 million for sports wagering in New York, we have a total bookmaker handle, including lay-off, of $400 million. Horse betting adds a further $300 million. The largest bookmaker then accounts for only 10 percent of the total.

We think that this is in fact an overestimate. It seems unlikely that there were, in 1974 or thereabouts, less than 15 major operations each handling approximately $30 million. However, that is, even by the relaxed standards of this study, extremely speculative. Leaving speculation to one side, we can reasonably say that the four firm concentration ratio[39] is less than 35 percent. As we shall see later, this low figure is important in explaining the difficulty of raising profit margins.

The instability of bookmaking enterprises makes this figure even less meaningful than concentration figures generally. We have already suggested, in the discussion of the ambiguity of roles, that bookmakers frequently lose control of their own

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37. [continued] was 6 percent compared to 2 percent for the nation. It should be remembered that there are large parts of the country which are distant from all tracks: it is unlikely that many residents in these areas have much interest in horse-race betting.

38. In defense of the survey it should be noted that the estimates produced for legal forms of gambling were extremely accurate. For horse betting at the track, the survey estimates was within 5.2% of the published parimutuel figures (Kallick et al, 1977, p. 94), despite expectations that a small number of bettors might account for a very high percentage of the total. Furthermore, while there is obviously some potential distinction in the mind of the respondent between reporting his legal wagering and reporting his illegal wagering, there probably is considerable sensitivity even about the legal wagering. If the player won, he/she may have concerns about failure to report winnings to IRS. If the net result was a loss, there may be concern about admitting failure. Yet the survey produced unexpectedly accurate national totals.

39. The share of the market held by the four largest producers, a standard (though flawed) measure of the competitiveness of a market.

operations and move to subordinate roles in other operations. Few bookmaking operations retain their identity continuously over long periods of time.

> Philly was a long-time bookmaker. In the early 1970's he was running a very aggressive operation, probably in partnership with his brother Charlie, who was also a long-time bookmaking participant. Philly would take any size bet on a game that he had listed. He was not very sophisticated in moving the line and was losing quite heavily. He also did his own "figuring" i.e. calculation of net results for each bettor and made numerous errors. Since bettors only reported errors that were in the bookmaker's favor, this resulted in substantial additional losses.
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> Philly was arrested in October for bookmaking. He then decide to close down his own operation. He handed over his accounts to his clerk, Billy. Billy was unwilling to run an operation as large as that which Philly had built up, so he asked one of their runners, who was also a bookmaker, whether he would take some of the accounts and, in return, lay-off action with Billy. The runner agreed to do this. Shortly afterward Philly entered into a complicated partnership with Billy, the runner and two others, but that partnership was quickly dissolved. [undercover operation]
>
> Willy was a well known bookmaker, with 38 arrests for gambling in the first forty years of his career. Most of these arrests, even including the later ones, resulted in small fines. Eventually it seemed that one of his convictions might lead to prison time. In preparation for that Willy handed over various of his accounts to another bookmaker, on the understanding that he would reclaim them when he came out of prison. Other customers, perhaps his house accounts, he handed over to yet another operation with the agreement that he would be regarded as the runner for these accounts. [undercover operation]
>
> Bob, in the course of describing his own career in the bookmaking business, provided an account of another ephemeral operation. The operation had originally been run by Seymour, who had incurred huge debts as a result of mismanagement. He had managed to borrow from numerous people, including both loansharks and legitimate businessmen who bet with him. When his debts became too large he simply left town. Bob and Nat, who had been clerking for Seymour, took over the operation, with the agreement of Seymour's creditors. Bob and Nat were lent money by a new set of financiers, who thus acquired an equity

interest in the operation as well. This also provided Bob and Nat with an incentive for stealing money from the operation. The financiers had, unknown to the operators, installed a taping system to check on them. The tape technician told Bob what was going on, probably in order to get a pay-off. Bob then walked away from the operation and took some of his customers to another bookmaker, for whom he became a runner.

These examples suggest some of the major sources of instability. One is poor entrepreneurial performance, either in the management of risk or in control of agents. Another is the impact of law enforcement, both through incarceration and disruption. A third is the difficulty of obtaining capital on reasonable terms.

> Not all operations are unstable. One in Brooklyn is run by a middle-level mafioso named Tommy. It has occupied the same premises for at least one decade. To the knowledge of an informant who has been associated with the gang that runs both the wireroom and the associated bar, it has never even been raided in that time. Over a period of one year, during which we have received information from a participant in it, there has been modest turn-over in clerical personnel but the agents, who work on variants of the standard runner arrangements, have been fairly stable. Most of them are middle-aged racketeers who have had long association with Tommy and, by implication, with his wireroom. The Big Store, referred to earlier as the largest wireroom in New York, has been in the hands of the same operator, despite numerous arrests, for over a decade. [various informants and police interviews]

The role of cheating in the bookmaking business deserves some elaboration, since it reveals so clearly the limits of physical sanctions and intimidation in this business. Cheating appears to be ubiquitous and to touch almost every relationship within the bookmaking world.

The most common form of cheating involves clerks. They may place false winning bets in the records at the end of the evening. For this they need cooperative customers but they are not hard to find and indeed, sometimes a clerk and customer will maintain this cooperative relationship over a period of years, even if the clerk shifts operations.

It is the threat of this cheating which provides the main incentive for the bookmaker to work in his own wireroom, where he can monitor his clerks' behavior. In principle, it should not be difficult to deter this, even if the bookmaker is not present. All that is needed is a tape recording of all bets on the clerks' phones. At least a few bookmakers do in fact do just that, which also provides a protection against efforts of customers to make false claims, asserting clerical errors. But the bulk of bookmakers still do not use this monitoring.

Equally surprising is the lack of effective punishment of cheating clerks.[40] It certainly seems to be the case that strong suspicion is not enough to justify use of physical punishment. Even when the evidence is very strong it appears that punishment is likely to be nothing more than dismissal.

> Bob provided information on numerous cheating clerks in listing of bookmaking participants. Willy had been cheated by his long-time clerk, Manny, for many years. This seems to have been fairly well known, but Willy never did anything about it. Manny has usually worked with two customers, though there may have been others as well.
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> In no case did Bob, who had himself been involved in some of the cheating, mention any punishment against cheaters. The closest instance concerned a clerk, Sid, who worked for Philly, a bookmaker referred to earlier. Philly had another clerk, Sal, who was very loyal to him. Sal caught Sid cheating and reported that to Philly. Sid turned out to be connected to some mafioso, who threatened Sal for making the accusation. Though they pointed a gun at him, Sal refused to back down and Sid was fired. [Bob]

A second and subtler form of cheating is carried out through the cooperation of a line-maker, who provides the bookmaker with his opening point spread. The bookmaker will be given a true line for all but one game. One or more bettors will be informed of the false line and will place early large bets on it. The bookmaker then faces difficulty in bringing his wagering into balance and may lose heavily on that game.[41] In at least one case this cheating was instigated by a loanshark who had lent the bookmaker money. The loanshark happened to know the linemaker for his customer and wanted to ensure that the bookmaker did not pay off the debt, since he regarded the bookmaker as a good credit risk and had charged him an unusually high interest rate.

A third form of cheating involves collusion between the bookmaker and a customer, aimed at defrauding the runner. Assume that a runner's customers lost $100 in the course of a week. Normally the runner would keep $50 of that and pass $50 to the bookmaker. Assume now that the bookmaker inserts a false winning $100 bet on behalf of one of the runner's customers. The runner now earns

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40. Similar behavior is reported in Zeiger (1975). De Carlo suspected numerous of his Numbers agents and made many threats but rarely punished even when his suspicions were confirmed.

41. Clearly the linemaker cannot do this too often with one customer. However, it should be noted that the bookmaker may list 50 or more games on a single day and he may have difficulty detecting the deliberate falseness of a line for a single game.

nothing. The customer, who would otherwise have had to pay the runner $100, now pays the bookmaker some amount between $50 and $100. The customer and the bookmaker divide between them the $50 which would otherwise have gone to the runner. Since the runner does not call in his customers' bets, he can only prevent this by calling in regularly and getting a listing of the bets before the results are known. Some runners do this.

There is another source of instability which is not highlighted by any of these examples but for which we have a little evidence concerning its importance. This is the custom of paying all claims of bettors if the bookmaker has lost his records as a result of a police raid. The bookmaker will, of course, try to suppress knowledge of such raids but the police correspondingly make an effort to spread the information. Not only will the names of the arrested participants be listed in the newspaper the following day but the arresting officers will sometimes stay in the wireroom and answer incoming calls. Some police try to impersonate the wireroom personnel and offer wildly inaccurate lines; customers will then place a high percentage of winning bets and will make genuine claims that the bookmaker will have trouble resisting. Other police simply inform the customer that the premises have been raided. For many customers that is a license to make large claims; obviously there is some limit to this but one bookmaker said that he lost $50,000 as the result of false claims following a rather well advertised police raid on his wireroom.

5. RELATED ACTIVITIES

The standard account stresses the control that may be exerted by an organized crime group through monopolization of markets for important inputs, a point made most elegantly by Schelling (1967). Information and negation of law enforcement were two factors whose historical importance we discussed in the first section of this Chapter. Lay-off betting facilities, i.e. a reinsurance market for bookmakers, also is thought to have played an important role in the horse bookmaking era.

In this section we consider these three input markets (information, corruption and reinsurance) together with a fourth, capital, which is sometimes asserted to be an important source of external control for organized crime in modern bookmaking. We also consider the role of pure extortion, a related issue for the market. We present illustrative material which indicates that none of these activities is structured so as to permit effective control of bookmakers by the Mafia or any other external group.

Corruption

We have already argued that the police have less potential for routinized extortion of bookmakers now that there has been a shift from face-to-face transaction to telephone wagering. The Knapp Commission Report (1973) after devoting a long section

to a description of Numbers corruption, dealt with corruption around bookmaking in New York in two pages. Since policy changes by the NYPD following the Knapp Commission,[42] relations between police and bookmakers have become even more attenuated. The trivial penalties imposed by judges on convicted gamblers no doubt have some influence in this.[43]

A number of police who have worked either undercover (i.e. by disguising themselves as participants) or on a "control pad" (i.e. assuming the guise of a corrupt officer, while in fact reporting to their superiors) provide relevant information. The bookmakers accept that few of the police are available for protection, in contrast to earlier days (Kornblum, 1976) when whole units took bribes, working as a group. Even more relevantly, they ask for quite minor services. Since wiretapping was the central source of bookmaking cases in New York during the early 1970's, the one service they desired was information about whether they were involved in a wiretap. Since information about these are very tightly held within the department, few officers could provide meaningful protection.

Corruption is the shadowiest of phenomena. To assert that it does not exist in an organization as large as the NYPD or the various other agencies involved in bookmaking enforcement in New York, is to run the risk of overnight falsification. We write this as ABSCAM continues to occupy the front pages, with its allegations of the availability of corrupt politicians. Nonetheless, we believe that the centralized "pads" which characterized gambling enforcement in New York have largely disappeared. To an extent this is a function of the declining law enforcement effort against gambling[44] and the centralization of gambling enforcement within the NYPD. Those corrupt relations that still exist, revolve around relatively isolated contacts between bookmakers and police and are not the consequences of organized crime influence over the NYPD generally.[45]

This last point is the critical one for our purposes. Whether or not it is possible for a bookmaker to find a corrupt

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42. For an account of these see Kornblum (1976).

43. We should note though that judicial attitudes were little different in earlier periods when systematic corruption was rife. On this see Chapter V.

44. On the decline in the gambling enforcement generally see Fowler et al (1978). The decline in New York is treated at length in Chapter V.

45. One informant reports that he and his gambling associates are now very hesitant about offering bribes to an arresting officer. A gambling conviction has a small penalty but the police and prosecutors seem to be enthusiastic in making felony

policeman, there is no evidence to support the notion that corruption is a tool for control of the bookmaking business by some group within the market. No group is able to use the police to harass their competitors[46] nor to prevent these same competitors from purchasing some protection if there is a well positioned corrupt policeman.

Information

We deal here only with sports betting information. It appears that there is no longer any significant organized dissemination of information on horse racing in New York. Indeed, many bookmakers are content to wait until the following day to learn the result of various races on which they have taken bets.

Sports bookmakers must, at least initially, decide what point spread (football and basketball) or odds (baseball) to offer bettors.[47] Each day begins with a series of phone calls about that decision. The bookmaker will call one or more suppliers of line estimates. Bettors will call to inquire as to the line offered, without making bets. The bookmaker, in his role as customer, may call other bookmakers to find out what line they are offering. In addition it is likely that the bookmaker subscribes to one of the legitimate sports information services,[48] which sell both opinion and up-to-the-minute information about the progress of sports events, the latter being an important solace for the nervous bookmaker. The best of the legal services currently charges approximately $250 per week for its highest access service.[49]

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45. [continued] cases against those offering bribes. This perception was borne out when one of his associates was actively prosecuted for making what seemed to him a standard offer to buy back records.

46. One corruption investigation in the NYPD prior to the Knapp Commission coordinated corruption with respect to a large part of the "handbook" market, i.e. bookmakers who deal with bettors face-to-face.

47. We say "initially" because betting patterns can quickly provide the bookmaker with information to correct the line once he has offered it.

48. These sports services are frequently subject to efforts of law enforcement agencies to eliminate them. Occasionally federal prosecutors will attempt to include linemakers as members of an illegal gambling business.

49. For $250 the subscriber may call in for scores that change every half inning for baseball games. The subscriber can also receive an opinion each day as to the outcome of all games listed for that day.

Las Vegas apparently continues to play an important role in the determination of the line. Las Vegas contains a small number of legal bookmaking establishments, handling, on the books, rather modest volumes of sports wagering.[50] Some of the bookmakers in Las Vegas are highly respected and their opinion is disseminated widely throughout the nation as soon as it is posted on the bookmakers' boards in Las Vegas. Local adjustments are made, reflecting, apparently, regional preferences.[51]

Curiously, the New York market does not move into full equilibrium in the course of an evening's betting on a particular game. One bettor who had access to as many as 15 bookmakers, would regularly record differences in the line, between bookmakers, of 1 1/2 to 2 points. In the case of some classes of games this bettor estimated, using past data, that he could make matching bets on the two lines which would give him an expected positive return of more than 1 percent. For example, if one bookmaker had the New York Knicks favored over the Chicago Bulls by 8 1/2 and the other had the Knicks favored by 10 1/2, then betting $100 on the Knicks with the first bookmaker and $100 on the Bulls with the second bookmaker yielded him an expected return of $1. Since he earned a large and stable income through this activity, the contention seems a credible one.[52]

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50. The growth of the legal books was hindered by the imposition of a federal excise tax of 10% of each wager, until December 1974. The federal excise tax was then reduced to 2%. That led to a substantial growth in the recorded volume of wagers. In the fourth quarter of 1975 sports wagers totaled $26 million, a rise from $4 million in the corresponding quarter of 1974. Four years later the fourth quarter handle was $120 million; for all of 1979 the total was $256 million. The reported margin, before income or excise taxes, was 4.5%, very close to the expected gross margin of illegal bookmakers before payments to agents. The number of sports bookmaking licenses grew from 8 in early 1975 to 27 at the end of 1979. It is still widely believed that much of the sports wagering in Las Vegas is not recorded for excise tax purposes. It is interesting to note that few legal bookmakers in Las Vegas will permit bets larger than $1,000, on routine events.

51. Indeed, it is striking how little intercity betting there is given the extent to which, at least in smaller cities, there is strong home-town preference which surely leads to difference in equilibrium point spreads for two cities involved in the same game.

52. The basis of his technique, which is much admired, is simply the diligent recording of all past games in terms of the actual result and the "market" point spread. It is simple to calculate, using these data, the impact of a shift of one point in the spread on the percentage of successful bets. What is surprising is that there are marked differences for each sport and for college and professional games. Moreover, it turns out that

The critical point for our purposes is simply that there is a dominant supplier of high quality information. Even if there were an individual with uniquely well informed opinions, it would be impossible for him to prevent dissemination of that information without payment to himself. Bettors have a right to inquire as to a bookmaker's line before placing a bet and the bettor cannot then be restrained from passing on that information, particularly if he is a bookmaker himself.

Finally, it is interesting to note the consequences of acquiring a reputation for well informed opinion. One bettor, "Shoebox," is regarded as having extraordinarily good opinions about college basketball; his opinions on other sports are valued less highly. Some bookmakers will not permit betting on their opening line on a college basketball game until they have let Shoebox bet. He is permitted to place a modest bet, perhaps $500, at the opening line; in return he is required to give his opinion as to the correct line. Following this the bookmaker may adjust his line before letting others bet.

Capital

Bookmakers operate on a thin margin, as discussed earlier in this chapter. Negative cash flow for periods of a week are not unexpected. Bettors or runners may be dilatory im making payments. A heavily bet game may go against the bookmaker as the result of a decision he makes with respect to the line or because the line changes so rapidly he is unable to achieve balance.[53] He may be raided by the police and incur some legal costs in addition to losses arising from false claims by bettors.

The only source of capital for bookmakers, apart from their own savings, are other criminals. Given the fact that the loan is unrecorded and the interest rate is almost certain to be above the legal limit for loans to individuals, these must be regarded as loanshark transactions. However, it would be a mistake to assume the bookmakers only borrow from persons whom the police regard as being loansharks.

Indeed, in the discussion of fluidity of roles, in section 3 of this Chapter, we omitted one role that many participants come to play, namely creditor. One of our principal informants, Bob, provided a long list of bookmakers who were also occasionally lenders, and loansharks who were also occasionally bookmakers,

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52. [continued] high scoring sports are more sensitive in this analysis, i.e. a one point shift in professional basketball is worth more than one point in professional football.

53. The New York betting market for some games is extremely sensitive to certain opinions. The line may change irreversibly in a very short period of time.

in the sense that they occasionally acquired a short term equity interest in a bookmaking operation which had a cash flow problem.

Oddly enough, despite the instability of bookmakers' financial positions, they seem to be regarded as prime borrowers. Even bookmakers who have the reputation for continuing financial difficulty seem to be able to borrow freely. Certainly loans of $10,000 to $50,000 are commonly reported.

The explanation for this rests on a number of characteristics of the bookmaker and his environment. First, most bookmakers are long term participants in the business. Second, even in New York, there are close connections between bookmakers and their associated lenders. These two conditions provide the bookmaker with an important incentive to maintain his credit rating even in the absence of violent reputation or threat on the part of the lender. On the other hand, the lender is likely to be flexible about the timing of payments. Our study of loansharking in New York (Appendix C) suggests that lenders typically do not harass borrowers for failure to meet all scheduled payments if the borrower is apparently making an effort. Second, the bookmaker's income is subject to large swings. While that explains why he has frequent recourse to lenders, it also explains why he is ultimately able to meet his obligations.

For our purposes the important issue concerning the capital market for bookmakers is the extent to which it is controlled by a single group. If bookmakers can borrow only from one group of creditors and will generally have to do such borrowings on a regular basis, then the group controlling the capital market will acquire control of the client bookmaking market.

There is a plausible argument for assuming that loansharking is an activity which may be centrally controlled. If, as is usually assumed, the incentive to repay the lender is a fear of physical violence arising from failure to meet the terms of the agreement, then that group of lenders with the strongest reputation for use of violence will have the lowest costs for collection. They will have to spend less on actually enforcing terms, will have a smaller ratio of borrowers who do not genuinely expect to be able to meet their commitments and fewer efforts to actively swindle them.

In Appendix C we argue that this rests on assumptions about the relations between the lender and borrower that are not valid. Lenders and borrowers have great intimacy, so that lenders can easily acquire credible information about the borrower and his reputation for prompt repayment. Concern about violence is not the only factor that determines the probability that a borrower repays the loan.

In a world where borrowers expect to make frequent recourse to a given lender, there is a second motive, namely the continued availability of credit. As suggested above, that is an important motive for bookmakers who have a predictable need for long-term

access to loan funds. The anecdotal information available to us suggests that any person with continuing contacts within the network of bookmakers may lend to a bookmaker with a reasonable assurance of repayment. Neither violence nor intimidation play much role in this lending. That the rates are as high as they appear to be, 1 to 3 percent per week, probably reflects imperfections in the flow of information, the very short term nature of many of the loans (often less than one month) and the relatively high probability of at least some interruption in the repayment schedule.

This is not to say that the market always work smoothly. Some Mafia members and associates will seek out lenders who are not associated with the Mafia in order to defraud them. Unconnected lenders in response try to screen their borrowers carefully precisely in order to identify just such persons. This topic is treated more fully in the subsection on extortion.

Reinsurance

In order to reduce the riskiness of his portfolio a bookmaker may choose to place bets with other bookmakers. It has been claimed that there are specialized operations which act as reinsurance facilities for bookmakers and charge extortionate prices for doing so.

There is no evidence that specialized lay-off operations exist in New York.[54] Larger bookmakers receive a disproportionate share of lay-off betting, since they have higher betting limits and lay-off bets, often being a combination of customer bets, are larger than average. However, no operation about which we were able to obtain information restricted its bets to bookmakers only. Indeed, it is difficult to provide an incentive for the operator to do that, even if it were possible to enforce the restriction; given the ambiguity of roles in the business, this seems a difficult task.

Lay-off betting by bookmakers is carried out at the same price as is charged customers. Moreover, most bookmakers have a number of other bookmakers to whom they give lay-off bets. There is nothing to suggest that new entrants to the market have more difficulty in obtaining access to other bookmakers, except inasmuch as they may not yet have provided acceptable evidence of their creditworthiness.

Extortion

At the heart of the belief that the Mafia plays a dominant role in the bookmaking business is the quite reasonable assumption

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54. I.e. neither participants nor police were able to identify any such operation.

that all bookmakers are easily subject to extortion. We have seen that most bookmakers have careers which do not suggest that they command much respect for their control of violence. Nor do they routinely employ low level agents to provide them with the means for threatening debtors (such as customers and runners) or resisting threats from others. Surely then, given that they cannot have recourse to courts either for the collection of debts or for protection from threats, they must be easy prey to groups that do have reputations for command of large scale violence.

Our conclusion is that the Mafia and its associates are involved in extortion against bookmakers. However it is neither systematic nor unavoidable. Such extortion yields only modest sums to the Mafia members and also provides a service which may be critical to the stability of the market. The next paragraphs present our evidence concerning the role of the Mafia as extortionists. This is then followed by an analysis of the limited role of pure extortion and its consequences for the organization of the bookmaking market.

Many bookmakers make payments to Mafia members in order to prevent various kinds of frauds being practiced against them. Such payments seem, by any standards, to be quite modest, though our direct information on this is slender. For example, one bookmaker went into partnership with a low level mafioso, who said that they should pay $150 per month to a more senior member to ensure his assistance in case there was a dispute. During the few months of the partnership they did not have to make use of his assistance.

What are the consequences of not making regular payments to some Mafia member for protection? It is not, apparently, to expose oneself to constant extortion and fraud. Our evidence on that is quite clear. The unprotected bookmaker will have to screen customers more carefully than his colleagues, to ensure that he does not acquire customers who will simply walk away from their debts whenever it suits their convenience. But if he fails to screen carefully enough, the consequence is a series of one-time frauds, not the risk of an effort to bankrupt the whole operation.

> Sol is a major bookmaker and bettor. He has carefully avoided any long-term ties with the Mafia, and screens his customer list to avoid acquiring any "wise guy" customers. This effort has not been entirely successful, and occasionally a bettor has walked away from substantial debts after citing his Mafia connections to Sol. Bob, our informant on this, is convinced that Sol could have found a Mafia member willing to act as his protector, and thus avoided these situations, but he is very concerned with the secrecy of his actions.
>
> A wiretap was placed on a Queens bookmaking operation, which was thought not to have a Mafia

connection. Two conversations were indicative of that. In one case a customer called in to say that he had some friends who also wanted to place bets. The bookmaker was uneasy, suspecting that the customer were connected with the "East Harlem crew", a common designation of one major Mafia group. He decided he could not reject them outright but would limit them to $200 bets, considerably below the maximum allowed to many other bettors. In the second case he decided to reject another set of customers whom he suspected of having Mafia connections; he feared that they would have better information about "hot horses" than he had. In general the bookmaker and his associates were very concerned about possible defaults by their customers.

Peter is a heavy bettor and son of a very prominent Mafio capo. When he finds a bookmaker who is not connected with the Mafia he will try to cheat him i.e. he will play with him until he has a large debt and then simply walk away. He also has an associate, Henry, who robs bookmakers through clerks. Henry always gives a large share of the proceeds of this cheating to Peter so that he will have protection if he gets caught. [Bob]

Milty was a long-time bookmaker with strong connections to a major Mafia figure, Jimmy. He owed one bettor, Whitey, $60,000 when he went to prison. After he came out he went back into his bookmaking operation and kept stalling Whitey. In desperation Whitey went to another Mafia capo named Tommy. Tommy demanded $2,000 in advance payment to collect the debt from Milty. Tommy called Milty, who said that he was connected with Jimmy and some other Mafioso senior to Tommy. Tommy agreed not to proceed further. Milty then called Whitey, whom he knew had no other Mafia connections, and told him that, because he had tried to muscle Milty into paying, the debt was no longer valid. Whitey made no further efforts. [Bob]

These efforts at extortion or protection are not coordinated. We have instances when a bookmaker, dissatisfied with the service being provided by one member, has been able to buy protection instead from another member. In other instances one Mafia member has tried to extort a bookmaker, on the assumption that the bookmaker was unprotected, only to find out that the bookmaker was in fact paying another mafioso. The result in that case is usually that the bookmaker is properly compensated by the mafioso attempting the fraud.

Arnie was associated with a Mafia gang headed by Sal. He believed that they were demanding too much money

from him in return for protection. To solve this problem he went to another Mafia member, from a different faction, and borrowed $75,000 at the prime rate, about 1% a week. He did not need the money but wanted to create a relationship with a new Mafia group. It is unclear whether he used this new relationship to help him in his bookmaking business but it did apparently prevent Sal's gang from further extortion. [Bob]

A more complicated tale concerns Steve, a bookmaker who was approached by two mafiosi, Angelo and Jonny. Steve was related to a long-time Jewish racketeer, Hy, closely associated with some major Mafia figures. Steve was interested in the partnership but asked Hy to find out if his partners could be trusted. Hy determined that Steve's partners intended to cheat him and, when Steve detected the cheating, to intimidate him with their Mafia credentials. Steve then informed Angelo and Jonny about his relationship with Hy. Jonny, who had initiated the predatory scheme, decided not to enter the partnership because Steve's relationship with Hy would make it impossible to carry out the scheme. Angelo did enter the partnership and made no effort to defraud Steve. [Steve]

The second example is particularly significant. Mafia members are often unaware of a bookmaker's connection with other members. But without exchange of information there cannot be coordination. While it is impossible to estimate how much money Mafia members and their associates make from "protection" of bookmakers, the small amount of direct evidence about the levels of payment plus the wealth of materials on the relatively minor consequences of not buying such protection and the lack of coordination in the arrangements all suggest that it is a relatively minor charge against the total flows in the bookmaking business.

Why do bettors pay bookmakers who do not have Mafia connections? Obviously we can only speculate about their motives but it appears that reputation is as important to bettors as it is to bookmakers. Our principal informants make constant reference to whether a bettor's "money was good". The bettor who walks away from his obligations runs the risk of finding other bookmakers less willing to accept his bets. Since his renouncing of the debts also affects the runner, who loses as much as the bookmaker, there are at least two people with reason to disseminate reputationally negative information. The density of relations between bookmakers makes this an important incentive for bettors.

6. RELATIONS BETWEEN BOOKMAKERS

We have already alluded, at a number of points, to the density of relationships between participants in the bookmaking market.

In order to understand the market as an economic entity we should consider these relationships in more detail.

The anecdotal evidence suggests that bookmakers in New York form a series of networks that touch but do not intersect. That is, there are groups of bookmakers and runners who have regular dealings with each other but only occasional and attenuated dealings with members of other networks. We have no explanation about how these networks emerge; to the participants they have a rather random quality and we lack sufficient detail to be able to say anything else. No doubt there is an accidental quality to many of the relationships in their initial phases. There is certainly no evidence of territoriality.

The nature of the relationships between network members vary. Some combine their business and social relationships; others segregate them. However, for our purposes the critical question is the extent to which network participants exchange economically relevant information and coordinate their actions.

Lay-off betting, and the fact that some bookmakers also serve as runners for others, ensure that there are regular meetings between network members. Weekly meetings may involve as many as seven participants who exchange moneys owed under various accounts. Partnerships may be formed and dissolved at such meetings. Certainly information about the performance of particular bettors is much discussed.

These meetings conform to Adam Smith's often quoted, "People of the same trade seldom meet together...but the conversation ends in a conspiracy against the public or in some contrivance to raise prices." At various times, but particularly at the beginning of a new season, some participants at the meeting suggest that the terms of betting be changed. We have one account, though a sketchy one, which indicates the difficulty of effective cartel action in the bookmaking market.

Baseball betting, as was discussed in Section 2, is currently conducted on terms less favorable to the bookmaker than football or baseball. In itself this is a curiosum which deserves explanation but we have not been able to devise one. The major bookmakers offer what is called the "10 cent line." Assume that the Yankees are favored over the Tigers, and the line is given as Yankees 50-60. The Yankee bettor must put up $160 to win $100, while the Tiger bettor places $100 to win $150. The cartel proposed moving to a "15 cent line." The Tiger bettor's $100 would yield only $145.

Over a period of about two weeks one bookmaker persuaded at least 15 others to make this change at the beginning of the forthcoming baseball season. The participants did as agreed. Within a few days they had lost over half of their normal baseball betting; moreover they had highly unbalanced books, since those betting on the favorites were unaffected by the changes. Within three weeks the participants had all abandoned the effort to

institute the 15 cent line. It had emerged that bettors, many of whom make use of more than one bookmaker, had access to other bookmakers who were not part of this network. The boundaries had proven porous, at least for the customers.

7. Conclusion

Sketchy though the data are, they show a great consistency. Bookmaking enterprises are small, both compared to firms in the legitimate economy and to the market as a whole. There is frequent entry into the market by former agents and employees, without any restraint by existing participants. Exit through financial failure, at least from a position of entrepreneurial autonomy, is common. Efforts to coordinate pricing policies have failed. By conventional economic criteria the market might reasonably be described as competitive.

Given the potential for economies of scale in risk-taking, this is particularly strong evidence against the conventional views about the relationship of bookmaking and the Mafia. Further, while racketeers, i.e. persons involved in a range of other crimes involving some degree of coordination and extortion, have a substantial presence in the bookmaking business, they do not appear to have acquired any degree of control over the conduct of the business or of the related input markets.

CHAPTER IV

NUMBERS IN NEW YORK

1. HISTORY AND BACKGROUND

Lotteries, both legal and illegal, have been popular in American cities throughout the Nation's history. From the seventeenth through the early part of the nineteenth century, government sanctioned lotteries were an important source of public finance (Ezell, 1960).

In the eighteenth century lottery tickets were expensive; a price of $5 was not uncommon. Many persons either bought a piece of a ticket or they purchased an "insurance policy," for a penny or two, on what they thought would be the winning number. This is the origin of the commonly played Numbers games that we know. The policy shops where these tickets were sold were usually owned by individual retailers who received a commission from the lottery operators. The commission rates varied, but were generally about 12 percent. During the latter half of the nineteenth century many states outlawed lotteries, although they did not make betting illegal.[1] Gradually there emerged combinations of owners who had exclusive contracts with lottery operators in distant states, like Louisiana, to distribute the results of their twice-daily drawings. These organizations were dominated, in New York, by local politicians who used their control of the police and the law courts to enforce monopolies. The turbulent character of urban politics assured the instability of these franchises and made certain that many different factions would share the profits of the lotteries. In some cities, Chicago for example, apparently no monopolies were established, but different organizations competed openly for business.[2]

In the latter half of the nineteenth century local operators began to draw their own numbers. Dependence on state lotteries withered, aided by masses of new immigrants who brought with them a taste for lottery gambling. Locally based policy and envelope

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1. A good brief history of the evolution of lottery laws is given in Blakey (1979: pp.62-71).

2. Haller (1979) maintains that the ties between politics and policy operations were particularly strong in Chicago.

games, a variation of policy, became very popular and were operated behind the protection of local political machines. But none of these monopolies proved any more stable than the earlier ones. Squabbling among politicians inevitably led to the ruin of operators.[3]

In the early part of the twentieth century Numbers, as we know it today, began to be played among the growing number of black poor in New York. It is not known who introduced the game or who the operators were. There were several West Indian entrepreneurs who organized Numbers banks without political backing and apparently with little capital. The banks were not large but in the context of business in the black ghettos, they were undoubtedly enterprises of local consequence. During the Prohibition era bootleggers operating in the poor areas of the city recognized the potential profit to be made from these lotteries. Using their local political connections and also the capital they had accumulated from bootlegging, they moved into the Numbers business. They forced the experienced black operators to join them or withdraw from the business. This account appears to be true primarily for Harlem, the major black neighborhood in the 1920's and 1930's, where Dutch Schultz apparently took over from black operators with the assistance of politicians and some conveniently timed prosecutions. In Brooklyn where there existed a well-entrenched set of operators providing other forms of lottery, it seems that bootleggers had less impact.[4]

There are claims that these racketeers used violence to organize their control of the Numbers business. There is little evidence to support this view. While violence may well have played an important role, it is also likely that the availability of capital to back the games and political support, which turned the police into an instrument of their efforts, were at least as important.[5] During Prohibition Numbers became the dominant form of lottery gambling among white players as well as among blacks and Hispanics. The games' backers had sufficient capital to operate them on a large-scale basis, paying winners regularly and promptly. "Even Harlem newspapers admitted that, after the Schultz takeover, the banks were better managed and more likely to pay off winning numbers." (Haller, 1979; p.95)

Since the 1930's there has been little change in the traditional Numbers game. Betting variations have been added, single

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3. A fascinating account of the rise and fall of a politically based policy syndicate is contained in Johnson (1977: pp.31-34).

4. The most serious account of the "syndication" of Harlem Numbers is given by Block (1980), who argues that Schultz achieved only limited power in this market. The statement concerning Brooklyn comes from Haller (1979).

5. This assertion plays an important role in the account given by Cressey (1969) of the growth of the Mafia.

and double action in addition to the original three digit bet; night action has been added to the regular daily play and Sunday betting is also becoming common. But the basic game has not changed. There is no dispute about the mechanics of this simple form of gambling, but its operation and control continue to be controversial points. Most of the literature asserts that the games are run on a territorial basis and that the operators function either as a monopolists or as a cartel of oligopolists.

The claims of monopoly profits are seriously challenged by the simple fact that the operators of the games pay the collectors, the lowest level of employee in the network, the largest share of the money, twenty-five percent of the gross to which is added a ten percent "tip" paid them by the winners. A recent Hudson Institute (1973) study of gambling in New York took note of this curious fact and explained it by arguing that organized crime overpaid its workers to make "certain that it has many loyal friends and agents available for other jobs". (p.10) There is little evidence to support the notion that most of the collectors have anything to do with other organized crime operations. It is more likely that the commission rates are high because the operators are dependent upon the collectors and have little control over them. We shall devote considerable detailed attention to the relationships between collectors and other members of Numbers organizations precisely because the high payout rate to the collectors suggests that the relationship between the top and the bottom in a Numbers organization is significantly different from what it ought to be in a monopoly business directed by people who routinely use violence and intimidation.

The very high payout to the collectors places a ceiling on the limit of payout to the winners which can be made while assuring a profit to the operators. There have been times when there was no price competition in large parts of the city. It may be that this condition was enforced by powerful racketeers using their well earned reputations for effective violence. However, it is also possible that it was the result of a voluntary agreement by the operators to enter into a cartel arrangement which enabled them to jointly maximize their profits. There is considerable doubt that this cartel arrangement has continued and there is evidence of active price competition.

2. TRANSACTIONS AND ROLES

The Numbers game is simply an active form of lottery, in which the bettor is permitted to choose his own numbers, lying between 000 and 999. Unlike conventional lotteries, where a fixed number of tickets is sold, the Numbers operator runs the risk of losing money on a given day, since a disproportionately large number of bettors might choose the winning number.

A bettor can choose the amount of money he wishes to bet, again in contrast to the conventional lottery which offers fixed

size tickets.[6] The bettor will generally be given a receipt with number and amount bet written on it. The seller ("collector") will also have a copy of this receipt, possibly two copies, one of which is passed on to the agent who picks up bets from the collector to carry to the bank. The collector does not need to retain a copy since the bettor will produce one when claiming his winning bet. If there is a dispute between the bettor and the bank concerning the bet, it can be settled with the bettor's copy.

Bets can be placed on one, two or three digits. The last is called "straight" betting; two digit betting is often referred to as "bolita," while single digit bets are called "single action." Some banks handle all three kinds of action, but most seem to permit collectors to keep any single action or bolita as their own work. The payout on single action is 8 to 1 and on bolita it is approximately 60 to 1. The collectors may act as their own bankers or make private arrangements for financial backing with respect to these bets. The bulk of bets appear to be placed on three digits, but it is difficult to obtain accurate information on this since our basic unit of observation has been the bank. The remainder of the Chapter will be devoted entirely to the discussion of straight betting for this reason.

The bets pass from the collector to a "pick-up man," who is the salaried agent of a person known as a "controller." The pick-up man does precisely what the name suggests. He carries betting tickets from the collector to another location. Sometimes this location is the accounting room of the Numbers operation. Both the operation and the accounting room are referred to as the "bank." If the pick-up man does not take bets to the bank itself, he will take it to another location where it may be collected by a second pick-up man, this latter being the salaried agent of the banker.

The controller is a mediating figure between the bank and its retail agents. He has responsibility for ensuring the financial probity of each party to the other. He also must ensure that betting slips are moved promptly from the collectors to the bank. He is a commission agent of the bank.[7]

The collector is obligated to turn over to the bank all his straight bets. In fact it appears that many collectors retain some of the betting, consisting of the smallest denomination bets. A collector who receives $100 in bets each day, yielding a commission of about $25, can readily afford to keep up to 10¢ on each

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6. The Numbers operator may, of course, fix a limit on the size of the individual bet. Most operations either have such a limit for each agent or require the agent to notify them immediately when a bet larger than a specified amount is placed on a number.

7. This is a schematized description. As we shall see later, some banks have eliminated certain of these roles.

number.[8] The bank will have difficulty preventing this since neither the controller nor the bank personnel have any reason to know of these bets. Even if the bettor wins, the prize money is sufficiently small that news of the win will not become widely known in the community. If a controller does hear of it, he may retaliate by warning the collector to desist or even cutting him off; this will cost the controller income, as we shall see later. One informant asserted that a collector, once he is established, will keep approximately 20 percent of his handle.

The collectors are the retailers to the market. Most bettors do not identify a collector as working for a specific bank and do not normally have any contact with anyone else in the organization.[9] In the last few years there have been reports suggesting that controllers personally pay large winners because there have been some cases of collectors absconding with large sums meant for winning bettors. A collector can change the bank he is working for without the players knowing it or caring to know. Similarly, a controller can change the bank he is working for without his collectors knowing, since the collectors are not supposed to have any personal knowledge of who the banker is or where the banker's office is located. The careful segmentation of knowledge among personnel limits the chances of an arrest of the most exposed and vulnerable person, the collector, leading to the arrest of higher level personnel and the disruption of the daily operation.

Collectors and controllers do not meet every day. Routine transactions can be handled through an agent of the controller, the pick-up man. Cash is transferred only when accounts need to be settled. If the collector has to pay large winnings, in excess of his revenues since last settlement, then the controller will provide that money. Otherwise money is only moved on a weekly basis in most operations. This minimizes the risk of robbery by "cowboys," who see the opportunity for a quick score against persons who will not go to the police, or by police impersonators, who disguise robbery as extortion. The collector always retains his share, generally 25 percent, and will usually only return to the controller the revenues less his commission and the amounts he has paid out as winnings to bettors.

All of the descriptive material in the remainder of this section refers to the operation of "day" betting. There is also considerable betting on the "night" number. This number is based on the result of betting at a trotting track somewhere in the New York area. It appears that night action is far smaller than day action, at least in the banks which were seized and which have

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8. In a sample of 18,000 bets, discussed in Appendix A, 3,246 were 10 cents or less. Since these were bets seized in banks, the sample understates the frequency of small bets.

9. Even cards printed by the bank, listing prices, are distributed without any brand name.

night records in their files. However, the work routines of the police make it likely that they have little contact with the night operators and our data reflect that bias. We do not believe that the operation of night Numbers betting is significantly different from the day action we describe. The question of how it is controlled is more complicated and we make no claims concerning the structure of night action.

Collectors

There are two kinds of retail outlets in most Numbers organizations. Spots are fixed locations in which a number can be bought. A spot may be a hallway or a small retail store which sells other things as well; candy stores, newspaper stands and small food stores are most frequent mentioned. Runners provide the second kind of retailing. A runner is a person with whom a Numbers bet can be placed at various locations during the day. Some runners are actually sub-runners employed by someone whose route is too large for him to service properly or they may work for the operator of a spot, turning their work in to him. These sub-collectors do not have any relationship with the controller and do not appear in the operation's books. An example of the relationship between a collector and a sub-collector is the following. A woman takes numbers bets at a supermarket in New York City and receives 25 percent of the gross of her bets from the bank. In return for access to the supermarket customers she pays the market manager 10 percent of the gross which she receives net of the tips that she gets from her winning customers. The books of the bank with which she works do not reflect her payments to her sub-collector, nor are these transactions of interest to the bank or its controller.

While it is generally true that a spot will also retail some legal goods and services as well, there are reports of spots which provide nothing else. These seem to be most common in the South Bronx. For example, one spot has a sign saying "Coin Exchange," but the only sale is of Numbers bets. In some cases, the spot will actually be located behind the retail store. A Numbers customers will pass through the store to the spot, where one or more clerks will be located to take the bets. Such spots tend to be high volume outlets and often belong to an individual who also acts as a controller.

A small number of operations now retail by telephone. (Some telephone bookmakers have always accepted large Numbers bets as an accommodation to their clients.) The bettor calls in to a recording machine, which records his bet and identity. This machine is then called by either the controller or the bank, or the tape is picked up by an employee. We do not know how the accounts are serviced or whether the money has to be deposited in advance. The use of telephone betting is the first important innovation in the Numbers business in decades.

The relative importance of spots and runners is not clear. The records of the Numbers banks do not include any identification

of a retailer as one or the other. In certain areas it is generally thought that runners are the dominant form of retailing. Areas with dense working populations, located in offices and factories, probably are serviced primarily by runners, who also work in legitimate occupations. An office building may be served by an elevator operator, a factory by a shop steward; in both cases it is an individual who has a legitimate reason for contact with many others in the building.

Controllers

Controllers act as middle management in Numbers operations. They have responsibilities to both their collectors and the bank. They must ensure that the collectors' betting records are delivered to the bank's agent on time and that collectors receive money when needed for heavy wins. If a collector believes that the bank has failed to record a winning bet of one of his customers, the controller must resolve the disagreement. Such disputes are common and are, from cursory examination of the records, generally settled in favor of the collector; i.e. the clerks in the bank did overlook a winning bet, which is then found in review of the day's work.

Some controllers are appointed by the bank. A set of collectors will be informed that henceforth they will report to a new controller. It is reported that this is sometimes done with persons who have just come out of prison after serving lengthy sentences for non-gambling offenses committed on behalf of persons involved in the ownership of the bank, e.g. narcotics or hijacking charges. The job provides the person with an opportunity to reestablish contacts with others in his specialty while obtaining a reasonable income in a position which requires no special skills and is not particularly vulnerable to law enforcement.

In other cases it seems that controllers build up their own collection of routes. Unfortunately we do not have any direct information about careers of controllers. There are a few reports of controllers selling their routes, i.e. the right to handle bets of a particular set of controllers. We do not know whether the buyers are other members of the same Numbers operation.

The controller does not handle betting slips on a daily basis. His pick-up man will deliver an accounting ribbon giving details on transactions involving his collectors and the bank. While arrest records do not provide information about roles of arrested persons, it appears that controllers are not much exposed to risk of arrest.

Banks

The term "bank" is used in two senses in the Numbers business. It refers sometimes to a location at which certain services are provided. At other times it refers to the ownership of the right to receive a share of the profits accruing from the betting received by a set of collectors and controllers. This distinction is important since there are times when an individual will own a

bank in the second sense but not in the first.[10]

Let us first consider banks as service locations. Records of all bets are brought to this location, which must be in receipt of them before the winning number is announced. The bets are sorted by bank clerks, who tally the amount of money brought in by each collector and controller. After the winning number is announced the clerks scrutinize the bets to find those that were placed on the winning number. These are then recorded against the collector and controller with whom the bet was placed. The collector and controller bear no responsibility for any losses, but this accounting minimizes the flow of money between the bank and its agents. If the bank becomes indebted to a controller, that debt will almost invariably be paid off on the same date.

The clerks are exactly what the term implies in other settings; they provide clerical services. They are salaried employees of the bank, with no financial stake in the outcome of the day's action. Many of them are women, often relatives of other persons working in the organization. They rarely acquire more responsibility, in contrast to collectors and controllers who frequently rise to more responsible positions. Many bankers started as collectors, pick-up men or controllers. A particularly good clerk, i.e. one who is both fast and accurate, might earn a higher wage and acquire more bookkeeping responsibilities but he will not acquire any entrepreneurial powers.

The operator of the bank, i.e. the person in charge of the bank on a day-to-day basis, will generally not be the sole or majority owner. The operating position is considered to involve significant risks, both of arrest and of theft or kidnapping. The operator will at some stage have to handle the daily records of the bank and arrest with such records, together with some identification by the police that he is not simply a clerk, sharply increases the possibility of a jail sentence.[11]

No reliable information is available on compensation of the operator. Presumably he receives a salary plus some share of the net proceeds. Nor do we have general information about the division of major entrepreneurial decisions between owner and operator. In particular, paying bribes to police and other officials, the

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10. There is no evidence that anyone has created an enterprise offering accounting and security services for bankers, though at least one banker will handle work from other bankers for a commission, on a short-term basis.

11. This is not to say that even a banker faces more than trivial risk of significant incarceration. Lasswell and McKenna (1972) reviewed the disposition of the 19,500 persons arrested in New York State for felony gambling offenses, between 1964 and 1969, and found that none had received a prison sentence involving incarceration of more than one year. This is discussed more fully below in Chapter V.

setting of pay-out rates, and the recruitment of new controllers, are all decisions which may sometimes be handled by the operator, sometimes by the owner.

3. ENTREPRENEURIAL DECISIONS

Getting the Number

The winning number is determined by the betting at a specified racetrack. When there is a New York track operating, that is used. Otherwise a Florida or, very occasionally, Maryland track is used. Ensuring that the relevant information concerning the winning number is delivered from the track in a reliable and timely manner is of vital importance to Numbers operators.

When the result is based on the last three digits of the total handle for the day,[12] the problem is minimal. While getting the information rapidly is desirable, betting will have closed well in advance of the last race and the problems of cheating will be minimized. Some operations even wait for the printing of the official figure before paying out.

However, most betting is now based on a three-digit number which uses the winning prices on the third, fifth and seventh races.[13] This is the "New York" or "new" way. A certain amount of betting, which is usually kept by the collector, is single digit betting. Persons bet on the first digit of the number and will make a bet on the second digit only after obtaining the result of their first bet. Hence, there is a great interest in obtaining the first digit as quickly as possible.[14]

Two constraints are important here. First, the Federal Communications Commission prohibits the broadcasting of race results, generally, till a half hour after the race has been run. Second, racetracks do not have public telephones. If a Numbers bank is to obtain the winning digit immediately it must have an agent at the track who will convey that information to someone outside.

There are important economies of scale in providing information. It would be highly inefficient for each Numbers bank to have its own agent at the track. Some observers believe that there

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12. This is known as the "Brooklyn" number, though it is played in every borough.

13. The formula for calculating the winning number from these prices is moderately complicated. A clear account is given in Fund for the City of New York (1973).

14. Since most banks do not offer single digit betting, the source of this demand is individual collectors. Banks appear to offer this information as a service to their collectors but we do not have clear evidence on this.

is one organization, which provides sports and racing information generally, that also serves all the Numbers banks in New York. The banks pay a monthly fee and then receive the number as soon as it is called in from the track to the office of the information service. The bank then provides the number to its major collectors, with the figure being further distributed by word of mouth.

Other observers believe that there is more than one such information service and that some larger banks have their own agents at the track. We have been unable to obtain clear information on this point, which is of particular interest when the racing occurs out of state.

No observer believes that any coercion has been used to set up a monopoly on this service. There certainly exists a service which is willing to sell the information to any subscriber, at a modest price. Information does not represent a barrier to entry into the Numbers business.

Of course the situation changes when the number is "fixed"; then it is information concerning the fix that has value. In the summer of 1979 newspapers reported on several occasions that, as a result of the installation of a new computer system at the New York City racetracks, the daily number had been fixed. These accounts did not report how the fix had been managed, but that there had been a fix was amply evident on the streets of Brooklyn when a number of banks refused to pay on certain days and there was also, according to one informant, an argument between a number of bankers about whether they should switch from Belmont to permit the winning number to be determined by the totals at the upstate racetrack of Montecello - at least until it could be determined who was putting up the fix.

It was not possible to identify how the fix was arranged but it seemed that it occurred in the transmission process. The winning price on particular horses was misstated at the original transmission then correctly stated in the following morning editions of the paper which served as the final figure. Clearly the fix was not arranged by the bankers, who stood to lose from it in two ways. First, they had to deal with two sets of claims; the initial ones based on the wrong figure and then the correct ones. Second, customer confidence in the operations' integrity was reduced by the effort to refuse payment.

The observation should not have to bear too much weight but it is consistent with our view of the limited powers of the Numbers bankers and their associates. The first serious effort to fix the number came not from the operators but from others who were apparently able to carry out their scheme without penalty.

Security

One feature of the Numbers business that appears to be constant in the face of changing enforcement policies is the elaborate effort to conceal the location of the bank and maintain the security

of its records. All persons involved, either in Numbers operations or in law enforcement, describe exceedingly complicated measures to ensure that no one can easily locate the bank or find all the work at one point.

Two plainclothesmen who were involved in a raid on a large bank in Brooklyn described how they tailed a series of cars through three boroughs before the work was delivered to the bank. The car carrying the bettor records would pull over to the side of the road to identify any tailing car before meeting the transfer car. These officers were following the work of a bank that had never been raided before and appears not to have known that it was under surveillance. Much of the security effort is presumably aimed at possible thieves. This typical example of protective measures taken by banks suggests that concern about the police is not the only, and possibly not even the principal, motivation.

Curiously enough, despite all the security efforts, it appears that the banks rarely have large amounts of money in them. At least the police rarely report finding large sums. In a sample of twenty-five banks drawn from the property clerk vouchers available to us, we found no money reported seized by the police except in one large bank where $50,000 was seized but this money was apparently being used in a loansharking operation centered in the bank.

As mentioned earlier, the retail outlets in the South Bronx invest heavily in physical security measures. Banks are generally in locations which are difficult to approach discreetly. They may have heavy doors which require the police to spend time in breaking them down. The banks frequently contain firearms, though it is almost unknown for a person in the bank to be carrying one or to threaten the police in a raid.

Cheating

Cheating by employees is particularly easy in Numbers operations. An office clerk can take money from the organization by colluding with a controller. All that the clerk needs to do is insert a betting slip with the winning number after the number has been announced. Operations could protect themselves against this by totalling the amount on each number before the winning number becomes known, but few raids by police yield sheets indicating that computation.[15] Presumably it is regarded as an expensive precaution and one which require even earlier delivery of the betting slips to the bank. Assuring timely arrival of the work is a continuing problem for the bank and making the schedule tighter would be difficult.

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15. It is notable that Hispanic banks are far more likely to have such sheets. This is consistent with their use of the telephone for passing bets from the collector to the bank.

We have contradictory information from informants on the stringency with which banks enforce the requirement that the work be in "safe hands" by a specific time. One informant insists that failure to fulfill this obligation will arouse great suspicion and lead to dismissal. Another told us that if a pick-up man is known to the operation he will be allowed to arrive late without causing any stir. It is noteworthy that this informant also told us that he colluded with bank workers occasionally to cheat the operation.

Another method of cheating involves the person who provides the information on the winning number to the banks. If he calls the first digit to a bettor before he calls the bank, that bettor is able to place a bet with a collector on that digit before the collector finds out the winning digit. Presumably a bettor cannot do this too often with the one collector.

Territoriality

A universal assumption in discussions of the Numbers business is that there exists a territorial division of the market. I.e. it is assumed that each bank has a monopoly over some geographic area. This assumption clearly has important implications for the analysis of pricing behavior, which we shall consider in the next section. Here we wish merely to consider the evidence available to us concerning the existence of a territorial allocation.

We have two important observations from one informant who was a pick-up man for the head of a small "independent" bank. He collected slips on a daily basis from all the retailers in this bank. Most of them were concentrated in two sections of Northern Brooklyn. However, one collector was located in the Southern Bronx. Further, even within the two Brooklyn areas he was aware of outlets of other banks intermingled with those from which he picked up, since there was constant friction between his bank and two others who tried to recruit some of the independent's agents.

This same informant also provided a map of an area in the lower East Side of Manhattan. The area was a particularly densely populated and poor area. The map showed four different banks operating in a two block area. We were unable to confirm the accuracy of the map, since affiliations of Numbers collectors are hard to establish. However, this information was consistent with some comments from police gambling specialists. Two of these, involved in street level enforcement, described a bar which served as a stop on the route of four runners whom they believed were all associated with different banks.

This is not to deny that there may be some areas of the city in which territorial monopolies exist. But the few areas for which we obtained information did not fit this pattern and they seemed to be prime areas for such monopolies, in that they were traditional racket areas with little police presence and served as the sites for the distribution of many illegal goods, including narcotics, loansharking and prostitution.

4. PRICES

In contrast to bookmaking, the Numbers market in New York is characterized by heterogeneous prices. The payout rate, which is the "price" of the service, may vary at a given time from 500 to 1 to 625 to 1. The variation within any localized market, such as the lower East Side of Manhattan, is much smaller than that. However there are unconfirmed reports of variations of up to 50 points even within these localized markets. Numbers bank records indicate payout rates between 500 and 600 to 1; we shall discuss below why there may be a discrepancy between the rates recorded by the banks and recorded by street informants.

There is a second element to pricing in the Numbers market. The bettor may be told in advance that there is a lower payout rate for certain numbers; these are called "cut" numbers. A detailed discussion of these is contained in section 6 of this chapter. Here we simply note that cuts are apparently long lasting, i.e. the set of cut numbers does not change greatly on a day-to-day basis. Many collectors provide their customers with printed cards listing the numbers cut and the prices paid on them. Typically the card lists only 20 numbers[16] and the price is cut to 400 or 350 to 1. This increases the expected share of wagers retained by the bank by less than 1%.

Until very late in our research we assumed, as have other researchers and law enforcement experts, that the payout rate received by a bettor was set by the bank for whom the collector worked. However, when we sent out an informant to collect information about payout rates in a particular area of the city, we received information that indicated consistently lower rates than shown by bank records for banks operating in that area.

This led us to investigate the possibility that the collector sets the payout rate independently of the bank. While we do not have a great deal of information to confirm this, there are some indications that collectors do occasionally adjust the bank rates, generally offering lower rates than those given to them by the bank but possibly in some areas offering higher rates. This is important in providing some insight into the relationships between banker and collector.

Under the standard assumptions concerning the Numbers business, it is both optimal and feasible for the bank to set and monitor retail prices. The bank has an exclusive territory in which all its outlets are located and in which it can determine the number of retail outlets. No collector can enter that market

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16. It is interesting to note here that this is in sharp contrast with other cities where a high proportion of numbers are cut. For example, it is reported that in Rochester, New York, it is standard practice to cut all numbers with "1 in the middle," as well as various of the more popular numbers.

as an agent for another bank. The banker might be assumed to be as well informed as to the optimal price in his territory as the individual collector. Further, since each collector works for the same bank, the bank can act as a monopolist in that area, subject to the constraint (generally assumed to be minimal) imposed by the potential mobility of customers. The bank has both the incentive and the means to prevent an individual collector offering a higher payout rate than that paid to him by the bank. The incentive is profit maximization for the collective (bank and agents). The means are the reports of other collectors, in the same locale, whose customers might be diverted to the aggressive collector. No collector would wish to offer a lower rate, since he would face a highly elastic demand i.e. would suffer a very substantial loss of customers.

Once the assumptions of exclusive territoriality and control of number of collectors in an area are dropped, the optimal policy may change. Both demand and competitive conditions vary between neighborhoods of the city. Not all outlets of a bank are located in the same market. The collector may be better informed than the bank concerning the optimal payout rate in his market area. This suggests that the bank may want to establish different payout rates for collectors in different markets.

Difficulty of monitoring performance and evaluating claims concerning the optimal payout rate mitigate against this. Each collector will attempt to represent to the bank that the competitive conditions in his neighborhood require a high payout rate. The bank will have to invest in determining whether those representations are true. Finally, if the higher payout rate is granted to one collector, the bank will have to ensure that there is no arbitraging between its collectors. More importantly, it may be unable to determine whether in fact the collector is giving customers the payout rate that is given him by the bank.

Given these considerations, a bank with dispersed outlets and without control over entry of other collectors into its markets may choose a simpler policy. Under this policy all its collectors receive the same payout rate but are permitted to adjust it in response to local market conditions. Some will pay less than the bank pays them; in that case their compensation is higher than the commissions recorded for them by the bank. In other cases they may choose to give higher payout rates than the bank awards them. While this suggests that they assume part of the risk which is the responsibility of the bank, they have considerable leeway since the customer is expected to pay the collector 10% of any winnings as a tip. The collector who pays 650 to 1, instead of 600 to 1 paid him by his bank, still receives a net $15 on every winning $1 bet.

In this form we appear to have a relationship between the collector and banker that is similar to that between manufacturer and retailer in many consumer goods industries. The manufacturer may offer a suggested retail price but the retailer retains discretion over the price actually offered to consumers and makes

adjustment for local competitive conditions. This suggests a very different power relationship between the banker and his agents than the traditional account. The collector is no longer the hapless tool of the banker but an autonomous entrepreneur distributing the banker's services under terms that are dictated by neither party. Curiously enough, that is a conclusion reached by Tom Dewey as a result of his prosecutions during the 1930's (Block, 1980; Chapter 7) though it never influenced his public statements.

5. FINANCIAL FLOWS IN NUMBERS BANKS

Data

One of the reasons for selecting New York as a research site was the known availability of records confiscated in raids on Numbers banks.[17] Through these records it seemed possible to learn something about the internal financial structure of Numbers banks, and also, perhaps, about the structure of the market. This section is a report on the analysis of a large sample of confiscated Numbers bank records.

Before turning to the data themselves, we should briefly discuss the process that generated them. The records were collected in the course of police raids. It is reasonable to ask whether police enforcement strategies might lead them to raid selectively? If so, what impact would that have on the records, viewed as a sample of the financial experiences of Numbers banks in New York City during the period of 1966 to 1977?

During the first half of the period, roughly 1966-72, there is no doubt that there was a great deal of corruption in the Numbers enforcement effort. That is documented in the Report of the Knapp Commission (1972). How did that affect the police choice of targets for raids? It is impossible to give any definite answer to that question. Since the gambling effort involved a number of units which did not always coordinate their corrupt actions with each other, it is not even possible to assert that the police raided only the less "connected" or smaller banks. Some headquarters' units seem to have aimed to embarrass lower level units; one way to do that was to carry out raids on banks suspected of being protected by those units. Similarly, if larger banks were more likely to be paying for protection, they were also more likely to be targets of non-corrupt units, even if these units did not explicitly aim to embarrass the corrupt.

Our analysis is concerned not only with size but also with operating margins, cash flow and the internal distribution of profits. With respect to these, a priori speculations about bias arising from the raid strategies of the police become even murkier.

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17. Such records were used by Lasswell and McKenna (1972) for a study of Numbers in the Bedford-Stuyvesant section of Brooklyn.

Presumably more profitable banks tended to be the better protected, but it could be argued that the police were involved in extortion rather than bribery and that the most profitable operations were those which managed to avoid the grasp of the police extortionists. Given the difficulty of meeting customer expectations as to the quality of service, without providing ample opportunity for the police to tax the operation, we suspect that this is a rather strained argument. Nonetheless it suggests the difficulty of determining the validity of the sample data for the population in Numbers banks in the New York market.

The sample contains records from 53 separate banks. The earliest record is dated September 23, 1965 and the most recent February 18, 1977. In three cases there is some reason to believe that the records come from a bank that is already represented in the sample for an earlier period, i.e. the police raided the same bank on two separate dates. However, the time separating the two raids is long enough in each case, and the identification is uncertain enough, that we have treated the two sets of confiscated records as independent observations.

For each bank the records consisted of daily transactions between the banker and his controllers.[18] Controller-collector transactions could not be traced since there was often an ambiguity in the records as to how many different collectors there were in the bank; the one collector might appear under a number of different codes.[19]

W_{ijt} = wagering received

C_{ijt} = amount retained as commission by controller j and his collectors

H_{ijt} = payments to bettors who picked the winning number, including payments to bettors who had picked winning numbers on previous days but whose claims were not verified till day t

GP_{ijt} = gross profit for banker i arising from the wagering of controller j on day t; $GP_{ijt} = W_{ijt} - C_{ijt} - H_{ijt}$

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18. There is an ambiguity here. Not all banks use controllers, a matter which will be discussed in the following sections. Where the bank dealt directly with collectors those collectors were coded as controllers. However, this prevents us from making statements about the incomes of controllers and collectors separately.

19. A collector might have sub-collectors who handed money to the pick-up man at two different locations. These would be recorded separately in the bank records, often with the location as a subscript to the collector's code, even though the financial transactions were all handled through the collector.

TABLE IV.1

NUMBERS BANK FINANCIAL DATA

BANK ID	TIME INT.	ETHNIC	NO. OF DAYS	NO. OF CON-TROLLERS	WAGERS(1)	WAGERS(2)	GROSS-PROFIT/ WAGERS	HITS/ WAGERS	BALANCES/ WAGERS	NET PAYMENTS/ WAGERS	MINIMUM PROFIT/ WAGERS
1	3	3	9	2	3285.4	3285.4	16.4	43.1	39.7	47.4	-1.4
2	3	3	6	6	18891.7	18891.7	1.4	67.2	0.0	0.0	-0.7
3	2	2	7	1	5678.9	5678.9	15.2	38.4	0.0	0.0	-0.2
4	2	3	7	1	7815.6	7815.6	24.0	41.0	0.0	0.0	-0.4
5	2	3	9	21	10109.2	12169.7	0.8	66.0	10.8	0.0	-1.0
6	1	3	81	1	1872.4	1872.4	-2.8	72.8	159	8.0	-5.2
7	3	3	5	8	16695.8	18550.9	8.2	58.2	0.0	0.0	-0.5
8	3	4	4	4	10918.3	12478.0	23.1	41.7	0.0	0.0	-0.1
9	3	2	6	1	1422.2	1422.2	-4.2	77.6	0.0	0.0	-2.0
10	2	4	13	1	1788.4	1788.4	22.7	42.3	10.8	34.0	-0.7
11	3	3	13	3	9970.8	9970.8	19.3	50.0	0.0	0.0	-1.9
12	2	4	11	6	3975.3	4685.1	12.4	52.4	0.0	0.0	-1.1
13	2	3	19	3	1200.2	1754.2	-55	117	80.0	-15	-11
14	2	3	32	10	12858.8	16525.4	-14	70.8	0.0	0.0	-2.3
15	3	1	41	6	7565.0	9543.5	-0.7	49.3	158	10.4	-1.6
16	3	4	35	1	5266.2	5266.2	-83	148	0.0	0.0	-11
17	2	3	31	1	2872.6	2872.6	18.3	52.0	0.0	0.0	-1.0
18	2	3	30	1	795.3	769.6	20.5	49.5	0.0	0.0	-2.8
19	3	3	10	3	4141.4	7308.4	-21	84.7	0.0	0.0	-3.5
20	3	4	22	1	4929.2	4929.2	21.7	40.8	40.5	22.1	-0.7
21	3	3	39	13	15862.2	23935.0	2.6	48.1	91.4	10.3	-1.1
22	1	2	3	5	4015.0	4301.8	13.7	51.3	283	28.6	0.0
23	1	4	7	5	2789.9	3149.8	31.9	38.6	61.1	0.8	-0.4
24	2	3	117	9	8607.3	17165.6	-6.0	58.9	0.0	0.0	-3.2
25	3	3	51	29	14001.4	31615.4	-14	62.9	142	-0.8	-2.3
26	3	3	72	33	15479.9	40373.4	0.1	59.0	204	-0.9	-1.6
27	3	3	90	13	2357.5	3895.8	-10	73.4	234	-9.1	-5.3
28	3	1	177	10	7985.3	25698.1	4.5	61.5	69.5	5.7	-2.1
29	3	1	87	7	2521.3	7277.2	16.0	45.0	54.6	11.7	-3.5
30	2	3	9	5	1735.7	3719.3	26.7	30.3	0.0	-4.8	-0.1
31	1	1	3	15	1186.7	1722.6	32.0	0.0	317	61.7	0.2
32	3	1	75	5	8665.5	12035.4	9.6	63.3	67.4	1.3	-2.0
33	1	3	11	2	3572.8	4136.9	-9.8	82.9	0.0	0.0	-2.4
34	1	2	83	5	4794.8	4877.1	1.9	58.6	558	5.7	-2.6
35	3	2	7	3	6675.1	6675.1	-22	87.2	18.8	-22	-2.0
36	2	1	256	5	1467.7	3348.7	6.4	62.1	232	23.5	-15
37	2	3	10	9	7018.6	7178.1	28.0	37.6	315	20.2	0.0
38	3	4	5	9	4347.4	6113.5	20.8	44.2	33.5	-1.3	-0.0
39	1	2	10	7	5098.2	9150.6	-6.3	73.8	1514	4.9	-2.7
40	1	4	4	9	10606.3	12316.9	19.8	45.2	0.0	0.0	-0.6
41	1	4	13	5	10909.6	10909.6	-26	90.9	-17	-4.6	-2.3
42	1	4	9	9	10530.2	10935.2	-11	77.6	45.6	-9.0	-2.1
43	2	1	6	6	6204.3	7445.2	15.1	49.8	0.0	0.0	-0.3
44	1	1	5	17	1046.2	1457.8	66.2	8.4	367	45.5	0.6
45	2	3	2	3	2513.0	3769.5	-29	93.5	0.0	0.0	-1.2
46	2	2	13	12	7869.1	11580.9	-6.3	63.4	184	-13	-1.0
47	1	1	4	10	600.3	800.3	27.5	10.4	456	48.7	0.2
48	3	3	46	1	13484.2	13484.2	11.0	54.0	673	10.2	-1.6
49	3	2	11	33	19451.1	29056.6	-3.4	67.0	0.4	0.0	-0.7
50	2	1	68	1	26579.5	26579.5	-3.1	68.1	780	0.1	-2.4
51	3	3	10	7	3627.8	7054.1	34.0	30.8	0.0	0.0	-0.0
52	3	3	157	20	12870.5	35264.8	17.0	49.6	196	4.9	-1.8
53	3	3	4	1	3668.0	3668.0	34.7	35.3	0.0	0.0	0.3

The second procedure recognizes that we may be missing observations on certain controllers. We may have failed to include a controller on a given day because the bank had removed the records for that day, prior to the raid, in order to check them. There certainly is some reason to believe that each controller should be present on every day that he is associated with the bank. The alternative estimate of $\bar{W}_i$ is given by first averaging the daily handle for each controller and then summing the averages for all controllers in the bank.

$$W_{ij}^* = \sum_{t=1}^{N_{ij}} W_{ijt}/N_{ij}$$

$$\bar{W}_i^* = \sum_{j=1}^{N_i} W^*_{ij}$$

The first estimate should be regarded as a lower bound for each bank, the second as an upper bound. Values for each of the two are presented in Table 1, for each bank in the sample. Column (6) gives $\bar{W}_i$; Column (7) gives $\bar{W}_i^*$.

The most important observation about the size of the banks is simply their smallness. Using $\bar{W}^*$, the largest had a volume of $40,418 per day or $12.6 million per annum. With $\bar{W}$ as the measure the largest handled $29,056 per day or $9.1 million per annum. The average, using $\bar{W}$, was $7,173 per day, $2.2 million per annum.

The other figures should be mentioned to give these numbers a context. A sample of Numbers bets, discussed in section 6 of this chapter, found the average bet to be .85¢. This suggests that the average bank received only 8,438 wagers per day; the probability of imbalanced betting, even ignoring skewed preferences, is substantial. The second figure which provides some context for the above numbers is an estimate of the average sales of a store in a supermarket chain. In 1977 that average was $4.5 million with an operating margin of 22% (Earle and Hunt, 1978). The average Numbers bank, of which there are certainly less than 100 in the metropolitan New York area, is roughly the size of the average supermarket outlet in terms of sales revenue.

Gross Profits

We have defined gross profits as the operating margin of the banker after payment of commissions and winning bets. Out of this the banker must pay all operating costs, specifically those incurred in operation of the accounting room and for pickup of betting materials. We have no data on these costs.

The most striking feature of gross profits, expressed as a percentage of total wagers in Column 6 of Table 1, is their variability. Three banks show gross profits of more than 25% of gross

wagers, while 14 show negative operating ratios. For the sample of 53 banks the average is 6.4%. In considering the variation of the profit margins it should be remembered that we have a very small sample of observations for some banks, regarding each day as one observation. Given that many of the banks take in less than 10,000 separate bets, day-to-day profits may be highly variable.

In order to explain the variation in the profitability of banks, expressed as a ratio of total wagers, we considered the only three variables for which we had data; ethnicity, date of operation and volume of wagers. The standard account suggests that banks run by the Mafia should be more profitable than those run by Hispanics or blacks; the banker is assumed to have more bargaining power with his agents and, also as a consequence of reputation, more control over cheating by agents. Time is a potential explanatory variable because the police were less available as a means of agent and customer discipline after the Knapp Commission reforms. The banks were classified as to whether the records pertained to the pre-Knapp period (1972 or earlier) or to the period following reform moves. Finally, size was used as an explanatory variable since it too might reflect bargaining power on the part of the banker with respect to agents and market power with respect to customers.

While there are marked differences between the gross profit rates for the different ethnic groups, they did not show the expected pattern. Black banks showed the highest rate, almost 30%. Mafia banks show negative profits. This is clearly implausible. One explanation would be that the police raided profitable black banks and failing Mafia banks. But information about police enforcement strategy processes make this unlikely; the police do not acquire the right kinds of information for making such distinctions.[21]

The time pattern for profits also proved unexpected. Banks seized after the reforms showed higher profit margins than those seized before. If corrupt police had provided a centralizing influence in the market, taking their bribes out of operating profits, then the decline in their influence in the market should lead to higher payout rates and lower operating margins for banks. We are unable to provide more than anecdotal information on payout rates, over time, but that information suggests that the rates have risen substantially in many areas of the city.

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21. For a discussion of police intelligence and the implausibility of the raid strategy being directed by profit rates, see Chapters V and VI. It is certainly possible to come up with explanations for the result if the police are both corrupt and well informed. If they are paid by Mafia members to suppress competition, they will tend to raid the more profitable black banks. The appearance of failing Mafia banks is explained in this framework by the inability of these banks to maintain traditional levels of corruption payments. We believe this gives both the Mafia and corrupt police more credit than they deserve.

The explanation for the rise in operating margins may come from our reinterpretation of the banker's role. The banker paid for protection of the central accounting room but most protection payments were made by controllers for security of the various collectors. If, as has been suggested earlier, the bank is not in direct contact with all collectors (indeed, may not even know the identity of some of the collectors), then it is indeed unlikely that they bear the burden of bribery. Commission payments, as a percentage of wagers, decline slightly in the post-1972 period, which is consistent with this explanation. However, we should also note that some of the decline comes from the growth of autonomous Hispanic banks which eliminate the controller's role, while raising the commission rate for the collector.

Finally, we did not find any relationship between size and gross profit margins. This is, of course, consistent with the statistical properties of the game, ignoring market power consideration. A regression incorporating all three variables (size, ethnicity and time period) failed to produce any significant coefficients or to explain much of the variation.

The variability of profits, over time for a single bank, is also of considerable interest. The greater that variability the larger the capital necessary to enter the Numbers banking business. To indicate the importance of the problem, we have presented in Table 1, Column 12, the maximum daily loss/wager ratio. The larger the number of days of observation for a given bank, the higher the expected maximum loss ratio. Given the small number of observations for many of the banks in our sample, the figures are startling. Consider those banks for which we have 10 or more observations. In only five of those banks did the maximum loss/wagers ratio fall below 1. The highest ratio was 15.39. While the stochastic properties of this statistic are complex, it seems reasonable to conclude that the head of a Numbers bank in New York, handling less than $10,000 per day in wagers, faces a significant probability of having to make net disbursements of more than $10,000 at least once in one month's betting. We shall see that an analysis of the skewness of betting patterns across numbers yields results consistent with this high variability.

Cheating

As discussed in Section 3, we have anecdotal information which suggests that cheating is a significant problem for Numbers banks. Do the bank records confirm this?

There is a simple direct test which suggests itself. Assume that we know the parameters of the game for each bank in the sample i.e. the payout rate and the number of cut numbers. Then we can estimate the percentage of total wagers which should be paid to bettors for winning bets. If the ratio of "hits" to wagers is significantly higher than this, then we have evidence of cheating. Unfortunately we lack the critical parameters for many banks in the sample. Cut number cards were found in only a few of the banks and there was sufficient range in the number

and price of the cuts that this alone could cause a 1% variation in the expected ratio of hits to wagers. Further, in some of the banks we were unable to determine, from the records, the payout rate for standard (i.e. other than cut) numbers.

The power of the test is also limited by the complexity of the underlying game. The average bet was 87¢. A bank handling $8,700 in bets on a given day had an average of 10 bets per number. The combination of skewed preferences, discussed in Section 6 of this chapter, and sampling error, produces a high variance on the proportion of winning bets on a single day. For many of our banks we have less than one week of observations; the result is that we have a test statistic with a very high variance which may be difficult to specify.

Our discussion of cheating in Section 3 suggests a secondary hypothesis which is more easily subject to a test. The form of cheating with which we are concerned is the result of failure of the banker to adequately supervise his agents. Stated in that fashion we might expect that cheating would be more prevalent in larger banks. The extent of supervision will be less in such banks for two reasons. First, more supervisory responsibility must be delegated for technical reasons. Second, the banker may be assumed to have increasing aversion to legal risks with higher income. Assuming that larger banks will be owned by individuals with larger incomes, both from the Numbers bank and from other enterprises, then the larger the bank the more the banker will wish to delegate supervision. The hypothesis to be tested then is that larger banks have a higher ratio of hits to total wagers.

In order to test this we regressed the ratio of hits to wagers on three available variables which might have some explanatory significance. These were ethnicity, time interval of operation and daily average wagers.

Ethnicity was included on the basis of assertions that Mafia controlled banks were more likely to be able to intimidate employees with implicit threats of severe punishment. A dummy for time was included to allow for the possibility declining reputation of Numbers bankers vis-a-vis other participants in the business.

The results of the regression were disappointing. None of the variables had significant coefficients, nor did they jointly explain a significant portion of the variation.

A second test was tried. This was based on consideration of the optimal strategy for a clerk who had decided to place false winning bets. We do not know what, if any, statistical controls Numbers bankers use to detect cheating. The little relevant anecdotal evidence available suggests that they use none in a systematic fashion. Nonetheless, it seems reasonable to assume that they pay some attention to the ratio of winning bets for each controller and collector. If this is the case, then the clerk will wish to place the false winning bets in the accounts of the controller with the largest volume of wagers. This will

ensure that a given volume of cheating will have the smallest probability of detection. Since the risk of exposure must increase with the number of members to the conspiracy, it seems safe to assume that the clerk will wish to enlist only one controller.

In order to test this hypothesis we calculated a rank correlation coefficient for each bank. The two variables involved were the average daily handle and average ratio of hits to wagers, for each controller. Our hypothesis suggested a positive rank correlation between the two variables. The results did not confirm the hypothesis. Of the 28 banks with more than four controllers, the minimum number for a meaningful test, only three had rank correlations which were positive and significant at the 5% level.

Balances

One of the most surprising discoveries in the process of reviewing the bank data for coding was the presence of substantial long term balances, i.e. moneys owed to the banker by the controller but not collected. Bankers clearly regard this as a problem. Many bank records included notes from the banker to his controllers demanding payment of outstanding balances. Occasionally the note threatened to cut off service if the balances were not paid by a certain date. It did not seem that the notes had much impact. Service continued and the balance was not much reduced.

In one case the banker received no payments from any of his controllers during the entire observation period, which was 68 days. The total balances amounted to $200,000, approximately eight times the daily handle, on the final recorded day. While that was an extreme case, and involved a bank which had been raided a number of times in rapid succession, it is clear that this is a problem for many banks.

Table 1 records the average ratio of balance to handle for each bank in Column 10. If the banks collected on a weekly basis, which appears to be the intended routine, then we can calculate an expected value. If the banker's expected margin is 5% (600 to 1 payout and 35% in commissions to collectors and controllers) then balances, for a six day working week, should average 15% daily wagers. Instead the average is 244%. For a bank handling $10,000 per day this adds $22,900 to the required working capital.

6. BETTING DISTRIBUTIONS AND THE RISKINESS OF BANKS[22]

To complement our data on the actual flows of money within a bank we conducted a second analysis, this time of the distribution of bets across the numbers 000 to 999. For the financial riskiness

22. This section is based on data collected and analyzed by Kathleen Joyce. A full description and analysis of the data are contained in Joyce's Appendix B to this study.

of a Numbers bank is determined by the uniformity or non-uniformity of bets it receives, as well as its size. This has no effect on the expected percentage of handle retained by the bank, but increasing variability raises the size of the capital reserve required by the banker to ensure continued operation. The less uniform the distribution of bets the greater the probability that the banker will face large payouts on a particular day.

There is some reason to expect that the distribution of betting preferences in the population is not uniform. In both the black and Hispanic sections of New York, there is widespread use of what are called "dream books." These are publications which provide interpretations of dreams in terms of numbers. Thus a dream which includes a chicken may be said by one book to mean that the number 397 will be the winning number the following day. A casual review of dream books indicated that lower numbers were mentioned far more frequently than numbers larger than 500. Certain numbers appeared repeatedly.

The standard assumption in discussion of Numbers banks is that they face a uniform distribution. If a bank receives 10,000 bets on a given day, the expected number of bets on, say 735, is 10. On any one day there is a significant probability of slightly more or less than 10 bets being placed on that number, but over a period of a year, the average will be very close to 10 for each of the 1,000 numbers.

Even for a banker whose bets come from a population with uniformly distributed betting preferences the capital reserve required to cover day-to-day fluctuations in profits is substantial. We have the results of a calculation (Graham, 1978) for the case of a bank receiving 10,000 bets per day, each of size $1. Graham used simulations to determine the size of the cash reserve necessary for the bank to have a probability of at least 95% of remaining in operation for a period of six months. The minimum cash reserve was calculated to be $19,800. For a bank taking only $5,000 per day in bets the cash reserve required to meet the same conditions was $17,600. To give these figures context we note that the cash reserves amount to 40 days of gross profits for the $10,000 bank and 70 days for the $5,000 bank, assuming a gross margin of 5%.

If, instead of a uniform distribution, there is systematic overplaying of some numbers and underplaying of others, then the banker can adopt various strategies to reduce the riskiness. He can change payout rates. Reducing the payout rate on a popular number might discourage some players from betting on it, thus bringing the banker's distribution of bets closer to uniformity. He may also increase the payout rate on unpopular numbers, to produce the same effect. The other strategy is to lay-off, to exchange bets with other bankers or place bets with a special lay-off bank. This enables the banker, without changing the distribution of bets received from bettors, to produce uniformity in his own distribution of risks for the day.

The few serious studies of Numbers have assumed that bankers both cut pay-offs on popular numbers and lay-off to reduce riskiness on a particular day. However, if the cutting of numbers still produces a non-uniform distribution, and if all Numbers banks face the same skewness in their distribution, then laying off cannot solve the problem. Since this point is critical to understanding the implications of our analysis, it is worth expanding on it.

Assume for the moment that the banker faces a uniform probability distribution of money bet across numbers. He may nonetheless find that, on a particular day, after the bets are tallied, (but before the winning number is known) he has a large sum placed on a particular number. Unless there is some event that day(such as Hank Aaron beating Babe Ruth's home run record, which produced very heavy play on 715), which would explain why the betting population as a whole favored that number, the banker can reasonably expect to find other bankers who do not have heavy play on that number. They will therefore be willing to accept at least some of his excess play on that number. In other words, he can solve the problem through lay-off.

If, however, all bankers have received disproportionately heavy betting on that number, then lay-off will be infeasible. That was the case for the number 715 when Aaron hit his record-making homerun. The banker can retroactively cut the number; the cost of this strategy is loss of customer loyalty and future business. Alternatively, he can refuse to accept additional bets on that number once it becomes clear, as it did that day, that a particular number is receiving exceptional amounts of betting. This second option also exposes him to charges of bad faith and possible desertion by some regular customers.

The problem is more serious if all bankers regularly receive heavy play on the same number. In that case they are unable to lay-off to each other on those particular numbers, since all their colleagues face the same risk. Cutting the payout rate to discourage this betting is the only option and that may not achieve the desired result if bettors are highly insensitive to the payout on those numbers.

An intermediate situation is possible, which has interesting implications. It may be that, within the population as a whole, there are differences between sub-populations with respect to Numbers preferences. If, for example, Hispanic groups favor the number 711 while blacks favor 310, it would then be possible for black banks to lay-off some of their excess on 310 to the Hispanic banks while accepting some of these banks' excess on 711. Alternatively, this would explain the emergence of larger banks that spanned both communities, since they could reduce the riskiness without having to resort to lay-off. Only if blacks underplayed 711 (to the extent that Hispanics overplayed it) while Hispanics underplayed 310 (to the extent that blacks overplayed it), could perfect uniformity be achieved, but the problem is less serious than if there were the same, non-uniform, preferences for

TABLE IV.2

Most Frequenctly Played Numbers:
Amount Bet by Area

	Harlem	Hispanic	Other
Number of Bet:	14,627	12,279	11,202
Average Bet Size:	25¢	42¢	58¢
Average Amount Bet per Number:	$3.66	$5.16	$6.50

Number	Frequency	Average Bet	Total Amt. Bet	Number	Frequency	Average Bet	Total Amt. Bet	Number	Frequency	Average Bet	Total Amt. Bet
125	52	.38	19.76	125*	51	.34	17.34	125	33	.42	13.86
139	59	.67	39.35	139	19	.46	8.74	139	42	.17	7.14
140**	23	.13	2.99	140*	46	.26	11.96	140	21	.33	6.93
180	13	.68	8.84	180	27	.54	14.58	180*	54	1.18	63.72
205*	69	.20	13.80	205	27	.28	7.56	205	36	.41	14.76
210	36	.14	5.04	210	30	.65	19.50	210*	44	1.19	52.36
212	51	.22	11.22	212	35	.77	26.95	212*	53	.40	21.20
225*	55	.48	26.40	225	16	.54	8.64	225	23	.99	22.77
250	43	.15	6.45	250*	52	.33	17.16	250	30	.98	29.40
251	33	.14	4.62	251*	49	.26	12.74	251**	4	1.37	5.48
310*	92	.18	16.56	310*	74	.51	37.74	310	63	.45	28.35
316	24	.30	7.20	316	24	.36	8.64	316*	44	.87	38.28
317	53	.21	11.13	317*	47	.60	28.20	317*	49	.98	48.02
318	20	.15	3.00	318*	47	.54	25.38	318	29	.56	16.24
319*	59	.41	24.19	319	27	.54	14.58	319	27	.94	39.48
329	36	.16	5.76	329	27	.64	17.28	329*	52	.42	21.84
387*	54	.30	16.20	387	6	1.19	11.59	387**	17	.34	5.78
389*	68	.38	25.84	389	20	.26	5.20	389*	7	.57	3.99
414*	71	.19	13.49	414	34	.51	17.34	414*	24	.50	12.00
468	23	.33	7.59	468	25	.34	8.50	468*	44	.34	14.96
511*	54	.22	11.88	511**	18	.22	3.96	511	25	.57	14.25
721	59	.22	12.98	721*	67	.25	16.75	721**	23	.22	5.06
731	22	.34	7.48	731	25	.22	5.50	731*	45	.30	13.50
752**	19	.17	3.23	752*	52	.79	15.08	752	22	.54	11.88
765	44	.15	6.60	765*	58	.26	15.08	765	51	.31	15.81
769*	136	.13	17.68	769	39	.27	10.53	769*	66	.28	18.48
813**	0		0	813**	13	.23	2.99	813*	54	.17	9.18

* Ten most frequently played numbers in area.
** Less than average on number for this area.

particular numbers across all sub-groups of the population.[23]

The only scholarly study of the distribution of Numbers bet across numbers found important elements of non-uniformity. (Rados, 1976) The smaller numbers appeared to be consistently favored over numbers higher in the range. Unfortunately, that study was marred by an inadequate sample. The bets were derived from a single day's action of a single controller.[24] In effect, it was a sample of one. There was no means of determining whether it was idiosyncratic to a particular area or time.

In the course of our research we gathered a great quantity of data on Numbers betting. One component of those data was a large number of betting slips seized by the police in the course of their gambling enforcement efforts, over a period of ten years. These materials were used as a data base for a detailed study of betting distributions in different parts of Manhattan, and hence of the riskiness faced by Numbers bankers.

The results of the analysis confirm Rados' finding concerning a bias to lower numbers. The numbers between 100 and 399, which would attract only 30% of the total amount bet, if preferences were uniform, in fact receive 42.9% of the total. On the other hand, the numbers between 800 and 999, which would receive 20% of total wagers if the distribution were uniform, receive only 12.9%.[25] This sharp deviation from uniformity occurs even though popular numbers are regularly given lower payouts, and are clustered among the lower numbers.

For purposes of this analysis, the Manhattan population was divided into three "social areas." One was labelled Harlem, and contains the black precincts of the city, all of which are contiguous. One was labelled "Hispanic" and contains the less well defined but predominantly Hispanic precincts of the borough; these are widely dispersed. The third is a residual category labelled "other." Distributions of bets across numbers were then estimated for each of the three areas. While there were differences between them, they all show the same basic shape. The numbers between 100 and 399 received at least 40% of the total number of bets and 800

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23. The focus on ethnicity of players is justified by evidence that different banks serve different ethnic groups. Certainly it seems that few black players use white collectors; similarly, we find it unlikely that Hispanic players bet through non-Hispanic collectors. There may be other market segmentation, but the existence of black and Hispanic dream books again suggest that this is the most relevant means of discrimination between player groups.

24. Personal communication from David Rados, 1979.

25. Rados found 45.5% of his bets were on numbers between 100 and 399, while only 11.0% were on numbers between 800 and 999.

to 999 received less than 14%. Therefore, laying off between social areas is not, in general, a solution to the non-uniformity faced by bankers operating in each area.

A review of cut numbers and the most frequently selected individual numbers confirms this consistency between subgroups. The cut numbers were taken from a sample of cut number cards which were found in various seized records. The different cards listed many of the same numbers. Of 20 lists, 14 contained the number 310, which nonetheless was the most frequently bet number in the sample of bets. Cards in both Spanish and English listed the number. In general, cut numbers received heavier betting than other numbers; an average of 33 bets were placed on the cut numbers compared to 18 for all numbers.

As a second check we took the 10 most popular numbers for each of the three areas in turn and considered the heaviness of the betting on those numbers in each of the two other districts. There is little overlap between the numbers on each of the three lists. If the three lists are combined, 27 out of a possible 30 different numbers occur. There is, however, heavy play on all the popular numbers in all the areas. Table 2 presents the data. In the case of the "other" area, all but one of the most popular numbers attracts more than the average amount of play in both of the other areas. Of the 54 entries (heaviness of play in another area) 45 indicate more than average amount bets on the popular numbers. In other words, a Harlem banker who also accepted bets in Hispanic areas would find little compensation there for his heavily played Harlem numbers.

One interesting implication of this is that Numbers bankers are unwilling to cut the price on popular numbers sufficiently to ensure that their exposure with respect to those numbers comes into line with the rest of the distribution. The most common "cut" was to reduce payout on the number from 600 to 1 down to 400 to 1. If the effect of that was to reduce the total bet on the number to only 50% more than the average, then the banker's exposure would be brought to uniformity. In the case of the two most heavily played numbers however, where cuts as low as 350 to 1 appeared, the cutting still left the banker with excess exposure to the number. If 310 hit, the average banker would find himself paying 3.4 times as much as he would on the average number. For 319 the exposure would be 3.0 times the average.

This has important implications for the financing of Numbers banks. In particular, while it does not affect the long-run share of gross wagers retained as profits by the operator, it does raise significantly the size of the capital reserve required by the banker to ensure continued solvency.

To show the impact of the non-uniformity on necessary capital reserve requires an extremely complicated computer simultation. In place of that, we present here some figures on the probabilities of high prize payments under a simplified version of our non-uniform distribution and a uniform distribution. This will give an

indication of the extent to which the capital reserve requirement is raised by non-uniformity.

Consider a bank handling $5,000 per day, in the form of 5,000 $1 bets. Assume bettors' preferences are uniformly distributed. The probability that the winning number has at least $10 bet on it is 1.4%; the probability that it has as much as $15 is less than three in ten thousand.[26] Now consider a simplified version of the non-uniform distribution that was revealed in our sample. Of the 5,000 one dollar bets received each day, 56% are evenly distributed on 400 of the numbers (corresponding to our findings concerning 100 to 399 and 600 to 699) with the remaining 44% spread over the rest of the distribution. I.e., there is a 40% probability that the winning number is one which attracts an average of $7 in bets and probability of 60% that it is one which has a mean total bet of $3.67. Under these assumptions we can calculate the probability of the winning number having at least $10 or at least $15. The figures now rise to 4% (three times the level with a uniform distribution) and 3 in one thousand (10 times the level with a uniform distribution).

If the winning number has $10 bet on it, then the banker must pay out of reserves $2,750 (assuming the payout rate is 600 to 1 and he pays collectors and controllers a total of 35% of wagers). If the winning number carries $15 in wagers, then his net loss for the day is $5,750. In the case of the uniform distribution the banker will face such loss only once every ten years. With our simplified non-uniform distribution, which understates the probabilities of high wins, the banker can expect one such payout every year.

As we stated earlier, it is not possible to present the impact of this on the reserves necessary to maintain the solvency of the bank with a given level of probability. However, the above calculations suggest that a $5,000 per day bank may have to raise its capital reserve from $15,000 (which would ensure less than 5% probability of insolvency in a 6 month period with a uniform distribution) to $20,000 or $25,000 (roughly 80 to 100 times daily gross operating income). At an imputed annual interest rate of 50% (the prime loanshark rate) this raises the operating cost of the bank by $2,500 to $5,000 per annum. More importantly, it may significantly reduce the ability of controllers to set up their own banks, since access to capital may be the most important barrier to entry.

There is an important qualification which attaches to this analysis. While we have shown that there are certain numbers which attract disproportionate shares of the betting over the long run, this does not constitute the sole source of fluctuation with which

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26. These calculations are based on a Poisson distribution, with a mean of 5, for the number of bets on each number.

the banker must concern himself, both in terms of financing and of laying off. Indeed, we may not have isolated the most important source of day-to-day variability.

On a particular day, as mentioned earlier, an event may lead players to heavily favor a single number. The example of Hank Aaron's home run 715 has been mention before. Since the bankers were aware of that before the day's betting began, they may have taken some preventive action, in the form of a call to their collectors either limiting the size of bets on that number, or a sharp cut in the payout rate. But other events may be less well signalled. In Maryland, the State Lottery, which runs a Numbers game as well, was hit one day by extraordinarily heavy play on a number which was not, otherwise, particularly popular. The number, it turned out, had appeared on two successive prime time television shows the previous night, quite by accident.

A sample such as ours, in which the bets were not tied to specific dates, could not be used to study such fluctuations in betting patterns. It is possible that each day the banker faces a new set of betting preferences. This possibility suggests that we should view our measures of riskiness, as provided from an analysis of an undated sample, as a lower bound estimate.[27]

7. CONCENTRATION AND COORDINATION

Concentration

In the previous chapter we mentioned two sources of data for estimates of the size of the New York Numbers market. The Fund for the City of New York (1973) estimated, using a sample survey, that total Numbers wagering by New York City residents in 1972 was $600 million. The Survey Research Center (Kallick et al, 1977) estimated the volume nationally in 1974 to be $1.1 billion. While it is impossible to make any precise extrapolation from the national estimate to a New York City figure, we should note that participation rates for Numbers are far higher in the Northeast (8% versus 3% nationally) and in cities (7%). Taking the 12 million population in New York as 40% of the urban Northeastern population and calculating that this regional population accounts for 60% of the $1.1 billion total we produce an estimate for New York City of about $260 million for 1974.

Despite the substantial variation in these two figures, we can make the same general assertion about the Numbers market with either of them. The market is certainly not concentrated, assuming that our sample does indeed represent the population of Numbers

27. There is one qualification to our conclusion concerning multi-area banks arising from short term shifts in Numbers preferences. It is possible that, with different interpretations of a given event in each area, there may be negative correlation, across areas in this component.

banks. The largest did less than $20 million per annum; the four firm concentration ratio must be less than 30% and may indeed be a great deal lower.

It is as well to repeat here one cautionary note that has been alluded to briefly earlier in the chapter. The question of the autonomy of banks in the sample is a serious one. A single banker may choose to disperse his operations to a number of different accounting rooms. Further, there may be a series of partnerships which, like interlocking directorates, lead to coordination and centralization despite the appearance of many separate enterprises. The fact that there is little evidence of lay-off and considerable evidence of variable profits for the individual units, does make it unlikely though that any coordinating group would choose to disperse its outlets so widely.

Coordination

As in the case of bookmaking, we have a little evidence concerning an effort to coordinate bank policies. Unfortunately, the details are few and the incident is dated. Nonetheless, it seems appropriate to present the little that we know of the cartel effort.

In the early 1960's, over a period of at least two years, there were a number of meetings involving the major bankers in Brooklyn. There is some argument as to whether these bankers also had interests, even controlling interests, in other boroughs. The bankers met approximately every month. They coordinated both the payout rate and cut number levels. We do not know whether they agreed to use the same cut numbers.

The group was surveilled by the police during a period when it was concerned with the growth of a non-member banker. That banker apparently offered higher payout rates than the cartel. He was in good terms with one cartel member. The cartel asked him to join, provided he was willing to cut back his payout rate. He was about to become a member when the police arrested the cartel members at a meeting and our information ends.

It is interesting to note that these meetings occurred during a period when the police were quite corrupt. Though there were "pads" in Brooklyn which provided coordinated protection for banks, it appears that the police were not involved in the cartel considerations.

8. DISTRIBUTION SYSTEMS: A COMPARISON OF NUMBERS AND BOOKMAKING

It may be of some interest to compare the distribution system for bookmaking and Numbers. We focus here particularly on the relationships between entrepreneurs, agents and customers.

The Numbers business is characterized by an exclusivity in relationships that is in sharp contrast to the multiplicity of relationships between participants in bookmaking. A bettor will

in general place his bets with only one collector. The collector, in turn, will deal with only one controller, who will also turn his bets into a single bank. The simplicity and invariance of the product is the obvious explanation for this. The bettor has no incentive to check different suppliers each day since they offer same service over a long period of time. This reduces the incentive of the agents to seek affiliations with more than one bank. Only concerns with security and prices, both of which are long term characteristics of the bank, will lead them to change suppliers.

Given the nature of final demand, we would expect some differences in the two distribution systems. Numbers is a mass market, characterized by large numbers of customers making small "purchases" with little seasonal variation in the intensity of demand or the product demanded. Bookmakers, at least telephone sports bookmakers, serve a relatively small number of customers each of whom purchases a great deal of the service. It is scarcely surprising that the small unit product has a much higher distribution cost.

There is some very weak anecdotal evidence that Numbers bankers have been able to restrict the mobility of controllers more effectively than bookmakers have restricted that of runners. In particular, it is asserted, though we have no accounts of specific incidents, that controllers may not shift between banks when they owe their current banker money. As we saw in our analysis of financial flows in banks, indebtedness is a common state for controllers with respect to the bankers. There is apparently no restriction on runner mobility in the bookmaking business. Not only can runners leave when they have accrued red figures (i.e., when the bookmaker has financed the runner's share of current customers' winnings, in return for the runner's share of an equivalent amount of future customer losses) but there are claims that runners occasionally leave even when they owe a bookmaker some money received from customers.

The higher distribution cost for Numbers is obviously not a complete explanation of the differences in the pricing of the two forms of wagering. Even after allowing for the distribution costs, the banker's statistically expected margin, between 5% and 15% of total wagers, depending on the payout rate and the number of cut numbers, is very much larger than the approximately 2% for the sports bookmaker. One explanation for this may be the greater difficulty of controlling the riskiness of the portfolio for the Numbers banker. With a distribution system which provides him with his wagering information only very close to the time at which the outcome of the bets is decided, the banker is poorly placed to make the adjustments that the bookmaker routinely makes to achieve his desired degree of risk. The higher risk technically inherent in the system may require the banker to seek a higher share of the wagers.

More interesting is the question of why the distribution system has remained unchanged over a period of time when the spread of the telephone has certainly created the possibility of a far cheaper retailing system. Until recently there may have

been a large segment of the Numbers betting population which did not have easy access to a telephone. That is no longer true; in 1976, 95% of U.S. households had at least one telephone. It is certainly possible for Numbers to be retailed through telephone calls rather than in face-to-face transactions.

Indeed, there are some Hispanic banks which have apparently moved to such a system. Most Hispanic banks have eliminated the controller and his pickup man. The collector calls in his bets to a telephone, attached to a tape recorder. A pickup man from the bank retrieves the tape at an appropriate time. Others have, it is said, moved to customer calling of the same telephone. Whether these bets are paid for in advance or through credit arrangements we do not know.

Why has this innovation not made further inroads? The use of short-term credit appears to be common in the Numbers business. Many players select a number which will bear a certain amount every day of the week; they make payments each Monday for the bets of the week past. The use of telephones could certainly be tailored to such a system. It would eliminate the riskiest transaction in the current system, which is the placing of the bet with the collector. It further eliminates the need for a controller's pickup man, while still permitting the collector, now in the same position as the runner, to serve as the recruiter of customers.[28]

Surely part of the answer is custom, never an intellectually satisfying assertion. Customers in a superstition ridden game such as Numbers may have a preference for face-to-face transactions with familiar faces. Collectors may be suspicious of innovations which appear to reduce their importance in the system, even if they are offered increase compensation, at the expense of controllers. The latter may be particularly resistence to an innovation which makes their role even more questionable.

Indeed, it is difficult to see precisely what role the controller does play even in the traditional system. If the controller is to serve primarily as a buffer between the bank and the collector, so reducing the risk that the arrest of a collector will lead to possible apprehension of the bank or banker, the compensation certainly need not be a commission. The same insulation can be achieved through employment of a salaried agent, recruited perhaps by the bank's pickup man.

The most plausible explanation for the high compensation of controllers is that they serve to recruit collectors for a bank. This is consistent with our finding that banks have outlets dispersed in different sectors of the city. Controllers may have

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28. However, the New York Telephone Company pricing system may explain this. Customers pay unit charges for all but a small number of calls per month. This surely discourages use of the telephone for low denomination bets. We owe this suggestion to Mark Kleiman.

community ties which permit them to recruit collectors for a bank which lacks such roots. The bank in essence rents the collectors from the controller and is dependent on him for any expansion.

The fact that the Hispanic banks have been the ones to move to a system without controllers and lower overall distribution costs is consistent with this. The major Hispanic populations in New York are relatively new arrivals. They have brought variations to the Numbers game. It seems reasonable to expect that they are less wedded to the distribution systems that have been used by black and white ethnic groups for a number of decades. It would be even more persuasive if we found that the banks in Hispanic communities had less dispersed outlets but we lack any useful data on this point.

9. CONCLUSION

As in our study of the bookmaking market in New York, we have been able to present incomplete information on the Numbers market. The conclusion about market structure is less clearcut in this case. Numbers banks show elements of permanence and territoriality that were lacking in bookmaking operations; these suggest that we must be more tentative about classifying the market as competitive. There is also more reason to be concerned that apparently independent banks are simply branches owned by a single operator or partnership.

Nonetheless, the evidence is generally inconsistent with conventional assertions about central control. There does appear to be substantial local upward pressure on payout rates in some areas. Banks cannot prevent entry of new retailers in their general geographic market. The division of gross margins between agents (collectors and controllers) on the one hand and bankers on the other would suggest that the agents have considerable bargaining power. Agent control over prices to customers points even more strongly to this conclusion about relations between banks and collectors.

Our analysis of the financial records of Numbers banks and the distribution of betting preferences provides further modest support. Assuming that the observed banks are truly autonomous, the market would appear to have a very low concentration ratio. Banks have unstable profits and considerable difficulty, in many cases, in collecting those profits. The data on betting patterns and cut number policies also show that banks have failed to act in a coordinated fashion to deal with adverse consequences of skewed preferences.

Our evidence concerning the structure of the relevant input markets is weak. Corruption clearly played an important role in the creation of territorial market power in earlier periods. There is some reason to believe that changes in police policies, as well, perhaps, as the introduction of the federal authorities into intrastate gambling enforcement, have greatly reduced the role of the police in this respect. This is considered further

in Chapters V and VI. The entry of New York State into direct competition with the illegal Numbers banks may have had some effect upon the Numbers markets in the state, as a result of the ability of the state to establish a "floor" below which payout rates in the illegal games may not fall. The state game pays out at 500-1 and does not cut numbers.[29] It was argued, when the wisdom of establishing a state numbers game was discussed, that its existence would in time destroy the illegal games. That this is not so is readily observable and even conceded by the state. John Quinn, Executive Director of the New York State Lottery, commented on this subject: "Our point is not to wipe out the illegal game; we couldn't do it if we tried. Our job is to make money."[30] The impact of state competition is most keenly felt by the smaller and least well capitalized black and Hispanic games which flourished after the Knapp Commission and which now find it increasingly difficult to survive in the more expensive market. Access to information is certainly not a barrier to entry, since there is a minimal quantity of easily obtainable information that is required. We know nothing about the availability of capital to Numbers bankers and must rely on our earlier observations about the capital market for bookmakers for a claim that this is not a source of control in the Numbers market. We have found little evidence that bankers make use of reinsurance facilities, which have, in other cities (Zeiger, 1973) been cited as the locus of control. While the absence of evidence is less convincing than direct disconfirmation, it is useful to note that the records of Numbers banks contain no indications of lay-off bets, whereas bookmaking operations yield clear indications of such activity.

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29. The State game winnings are subject to federal income tax but the State files a reporting form only for payments of more than $600. A series of winning $1 bets will produce no such reports. The fact that no numbers are cut in the State game may assist illegal operators by reducing the imbalance on popular numbers such as 310.

30. The Empire State Report, November, 1-15, 1980, pp.386. Dan Jacobson: When the State Runs the "Rackets"...

CHAPTER V

ENFORCEMENT OF GAMBLING LAWS

1. INTRODUCTION

We chose to study bookmaking and Numbers because these are the two illegal activities which have occupied the central position in official statements about organized crime for over a quarter century. During that period, they have also served as the major targets for law enforement efforts[1] against organized crime. In order to understand what criminal justice agencies have achieved and what is possible, both in efforts to suppress gambling and to control organized crime, it is important to describe and analyze past gambling enforcement efforts. We shall pay particular attention to the relationship between these efforts and organized crime control goals.

The most striking characteristics of gambling enforcement have been its apparently self-defeating and ritualistic nature. It has been widely, and reasonably, asserted that failure to actively enforce anti-gambling laws will lead to citizen suspicions about the integrity of the police. However, it also appears that vigorous efforts at gambling enforcement induces just such corruption. In terms of ritual, it has often been noted that the large numbers of gambling arrests produce trivial numbers of prison sentences or serious fines. The police concern with gambling enforcement has rarely been shared by prosecutors or judges. Nonetheless, it is worth noting that the police can inflict significant costs on bookmakers and Numbers bankers, even without the assistance of other law enforcement. It is indeed just this capacity which has led the operators to be willing to make large payments for protection against police efforts. But arrest alone achieves so much less than incarceration that the ritual element is striking even to those most involved in the effort, vice police..

The bulk of this chapter is concerned with enforcement of anti-gambling laws in New York during the period 1965-75. We describe the scope and nature of that enforcement effort, which has a rather tangled and interesting history. Despite the considerable

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1. We follow, with qualms, the convention of using "law enforcement" as a term for police (all investigative agencies with general criminal jurisdiction) and prosecutive agencies taken jointly.

emphasis given to gambling enforcement, our description suggests that its goals were always internally oriented i.e. that the policy changes that occurred from time to time were concerned not with the efficacy of anti-gambling efforts but at the preservation of the apparent integrity of the NYPD. At the same time we find that prosecutors and judges, whose attitudes may have been greatly affected by the apparent corruption of the police effort, adopted very different policies toward gambling cases.

The latter part of the chapter deals with federal enforcement of anti-gambling laws, which was particularly intense during the period 1970-75. The rapid growth of that effort, in the context of an intensified campaign against organized crime, and its equally sudden disappearance, suggest the difficulties of using gambling enforcement as a major organized crime control instrument. This provides the background for Chapter VI, in which we present our recommendations for law enforcement with respect to illegal gambling and organized crime.

2. GAMBLING ENFORCEMENT IN THE NEW YORK POLICE DEPARTMENT: ORGANIZATION

Gambling enforcement responsibilities have been widely dispersed in the NYPD. Every level of command (precinct, division and borough) as well as headquarters had, during the 1950's and 1960's, some part of the responsibility. Even the uniformed branch had some gambling enforcement duties. The efforts to deal with the corruption associated with this tangled web led to constant reorganization and restructuring.[2]

In the early 1950's revelations of widespread police protection of bookmakers[3] caused the NYPD to create several elite gambling squads which acted independently of the precinct, division and borough units that had traditionally been responsible for enforcement of the gambling laws. The decentralized enforcement strategy was a consequence of the manner in which the city grew. New York City expanded by annexing neighboring towns and boroughs, incorporating existing police agencies into the City's police department.[4] These forces were permitted to retain considerable autonomy which was zealously guarded over the years by career police officers and politicians. The creation of the central units following the Harry Gross scandals added an additional layer of enforcement on top of the existing arrangements, without altering those arrangements.

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2. Kornblum (1976) provides a detailed history of these efforts.

3. This is commonly known as the "Harry Gross Scandal", after the bookmaker who figured most prominently in it. Cf. Kornblum (1976, Chapter 2).

4. Richardson (1970).

Each borough in New York had an essentially autonomous plainclothes command which was headed by the borough commander. He had a squad of men who worked under his immediate supervision. Each precinct had several plainclothes officers who reported directly to the precinct captain. But the backbone of the gambling enforcement was centered in the Divisional commands. Several precincts were grouped together into a Division which had a plainclothes unit of at least ten men who were led by an Inspector, a high ranking commander reporting to the Borough Commander. The number of Divisions increased gradually as the city's population became more dispersed, until there were seventeen at the time of The Knapp Commission. In 1969, prior to The Knapp Commission, there were between 600 to 700 men assigned to plainclothes, representing about 2% of the force.[5]

During this period every police officer was, in theory, responsible for vice enforcement. A police officer observing gambling in public was required to make a report of the condition and to effect an arrest if possible. In practice, however, uniformed officers made arrests only for nuisance gambling, dice games on the sidewalk, and the divisional plainclothesmen concentrated on organized illegal gambling. Theoretically each divisional unit was autonomous but since plainclothes commanders were frequently shifted from one division to another and were permitted to bring with them several trusted officers, the entire plainclothes command structure was well integrated and familiar with the activities of all the divisions.

The division and precinct plainclothesmen were responsible for enforcement against local conditions while the central units operated on received complaints alleging police corruption or inactivity. In theory these central units were supposed to compel honesty in the divisions by operating in secret. In fact, it was exceptional for a central unit to make a raid without the division and borough affected having prior informal notice. Despite the honesty and commitment of many dedicated vice and intelligence officers, much of their work was squandered by corrupt commanders and colleagues who sold out their cases.[6] In order to conceal the extensive organized corruption, the plainclothes commands developed avalanches of paper activity. Plainclothesmen were assigned arrest quotas; they made arrangements with gamblers to be arrested at convenient times. Many "stand-ins" and "ghosts" were permitted to take arrests in place of the locally important gamblers, satisfying a statistical need but having no impact on gambling conditions.

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5. Kornblum (1976, p.35) provides figures on the size of the gambling enforcement effort in various years.

6. It is interesting though to note the opposite observation, offered by Reardon (1980). In his view senior commanders frequently ignored the corrupt practices of their subordinates and did not receive any of the moneys produced. Reardon was a principal figure in the Harry Gross scandal.

Despite the existence of widespread, entrenched corruption there was very little disruptive publicity. Only rarely did the public receive any indications of this corruption and, when it occurred, the Department responded by creating an administrative procedure to prevent its recurrence. In the early 1960's it created the Gambling Enforcement Inspection Review Board, (GEIRB), which was supposed to be the centralizing force behind a professionalization of vice enforcement. Composed of the highest ranking commanders in the Department, this Board was to be responsible for monitoring vice conditions, recommending new strategies and supervising personnel selection. Although the Board introduced numerous innovations, mainly in the domain of reporting procedures, it appears to have had little effect on the integrity of gambling enforcement.

For example, the Board forbade the traditional practice of a transferred commander taking an aide with him to his new command. This was designed to prevent corrupt commanders from taking their "bag-men" with them. These men were responsible for checking out the other men in the new command as well as arranging for the collection and distribution of bribes. The consequence of this was the emergence of a voucher system which was operated by the clerical officers of the plainclothes units. These officers became the trusted hub of corruption networks, maintaining the continuity of illicit arrangements despite personnel changes. They were responsible for checking with their counterparts in the other divisions on the "reputation" of a particular man when he was transferred into a new unit.

The Knapp Commission (discussed in the following section) had a broad impact on the entire operation of the Police Department, causing the transformation of many traditional police practices. With respect to gambling, there were two important changes. First, uniformed patrolmen's discretion was severely limited. They were no longer permitted to make vice arrests, although they were still required to make reports on observed vice conditions. The police department ceased to enforce petty gambling laws directed at street-corner crap games and card sharpers. If a patrolman made an arrest involving gambling he was required to file a report explaining why the case could not have been referred to the vice units for full investigation. The goal was to limit the ability of the uniformed branch to shake down gambling operators; knowing that patrolmen did not have the right to make arrests presumably reduced the gamblers' inclination to offer money for not making arrests.

More importantly, the traditional plainclothes command structure was abolished. The borough, division and precinct vice commands were extinguished and vice enforcement was completely centralized in a large headquarters unit called the Public Morals Division (PMD) which was part of a larger operating unit called the Organized Crime Control Bureau (OCCB). Substantial resources were invested in corruption control, according to some reports as much as 10% of total manpower. A complex reporting procedure was introduced, designed specifically to prevent corrupt acts.

Security procedures were tightened, making it more difficult for an officer to sell information about impending raids to bookmakers or Numbers operators. The use of informants was put on a regular basis, each informant being required to register with the Department before he could receive any money. The police actively sought to create undercover operations so as to reduce their reliance on informants and they also established "control pads"[7] to identify any emerging corruption networks.

At the same time, partly because of the Knapp Commission and partly because of New York's fiscal problems, the number of men assigned to gambling enforcement was reduced. In 1971, in the midst of the Knapp Commission the anti-gambling units were reduced by two hundred to approximately 500 officers. At the end of 1975, the number was 265. Correspondingly, the number of gambling arrests declined dramatically over the same period. Using the information filed with the F.B.I. Uniform Crime Reports, Table V.1 gives the figures for Numbers (Policy) and bookmaking.

There can be little doubt that, by 1976, gambling enforcement had become a low priority activity for the New York Police Department. There have been statements about a policy goal which stresses "Quality arrests, not Quantity", but the difficulty of obtaining "quality" arrests, the arrests of senior operators, made that a slogan rather than a real operating principle. The lack of active support from prosecutors and the judiciary[8] also reinforces the impression that gambling enforcement is no longer a major concern of the criminal justice system.

There is a reasonable consensus that the policy changes have achieved their major objective. The extensive corruption networks of the 1950's and 1960's, which probably had their origins during the Prohibition era, are gone. There have been no major corruption cases in New York during the last five years, centering around gambling, despite the investment of many men in pursuit of such corruption.

There is also some direct evidence of the decline in corruption. We cite two cases involving undercover activity by police. In the first a policeman was approached by a gambler and asked to find him a connection with the central gambling unit. The policeman agreed to make the effort and under this guise was able to probe about other police contacts the gambler might have. Though the gambler was well informed about most members of the gambling unit, he said that he had been unable to find any that were taking money for gambling protection from any of his colleagues.

In the second case a policeman agreed to provide information to a bookmaker in return for payments of about $10,000 in one year.

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7. A "control pad" is created when a policeman is approached by a gambler seeking protection and the policeman agrees to provide the protection while reporting the transaction to his superiors.

8. See Section 5 below.

TABLE V.1

New York Gambling Arrests

Year	Felony Bookmaking	Misdemeanor Bookmaking	Felony Policy	Misdemeanor Policy	Total
1965	64	2,212	4,924	4,267	11,467
1968	283	1,463	1,381	4,354	7,481
1971	83	239	2,049	3,578	5,949
1974	12	23	807	420	1,262
1976	454	196	493	251	1,194
1977	499	128	636	454	1,717
1978	345	234	773	476	1,828

Source: New York Police Department

The bookmaker, who turned out to be doing a very substantial business, then lined up some other bookmakers to use this same policeman who, in fact, never supplied any useful information. Again, what is important is the enthusiasm of the gamblers to obtain police cooperation, even in an era of diminished law enforcement activity, and the difficulty they have in obtaining meaningful assistance. The result of this second case was the arrest of a group of ten independent bookmakers, most of whom had been paying into the pad, when they met to settle their weekly layoff transactions.

But if the policy has accomplished one of its goals, the suppression of systematic gambling corruption, it clearly has also led to diminished effectiveness in controlling illegal gambling. In order to explore this we need to look in more detail at the strategies used in gambling enforcement.

3. ENFORCEMENT STRATEGIES[9]

Contrary to the impression created by decades of futile debate over how the police can best suppress organized gambling, there are in fact only two basic strategies available to them. They can choose to harass street vendors - Numbers writers - thus forcing banks and their agents to act more discreetly and increasing their costs. This approach, which requires the commitment of considerable manpower, can also be used to minimize the appearance of corruption and the condoning of law-breaking. Alternatively, the police can attempt to make cases that lead to the arrest of those with operational control of the Numbers business, on the argument that this will punish those most deserving of punishment. These choices have potentially important influence on both the structure and operation of the racket. Nobody believes that either of these approaches can lead to the suppression of organized gambling, even if the police are entirely untainted. Suppression requires the coordinated commitment of all the components of the criminal justice system; in New York (and elsewhere) the suppression of illegal gambling has not been a goal of the District Attorneys or the Judiciary for at least a century.[10]

Until the Knapp Commission the basic strategy in New York was harassment. At the end of the Second World War the Department established a Known Gambler file which was compiled by the Division plainclothesmen. Every person arrested for organized gambling activity was assigned a serial number and a file was created, including his (among the more than 5,000 people in this list there are only two women) photograph, the area where he was believed to

9. This section is based on discussions with a number of officers who served in gambling enforcement units between 1960 and 1977.

10. For a brief review of the historical evidence that courts and prosecutors have provided little support in other cities see Rubinstein (1973, p.379).

operate, his home address, and other pertinent information about his activities. Within a division, each KG (as they are still called) was assigned to a particular plainclothesman, either formally or informally, and that officer was responsible for knowing what he was doing. The KGs were a handy target whenever there was need for arrests to demonstrate publicly that the deparment was "doing something" about illegal gambling.

Although the great majority of plainclothesmen were corrupted by gamblers or, if not corrupted, refused to seriously enforce gambling laws in deference to collegial pressures, there was little trust between gamblers and police.[11] Every plainclothes squad sought to keep the identity of at least one member concealed from gamblers in order to have available someone who could check up on actual conditions in their area of responsibility. But the bulk of the information which plainclothesmen obtained came directly from the gamblers who were paying them protection. This created a serious internal problem for the police. Generally, it turned out that the most knowledgeable officers were corrupt and those who were stringently honest did not have particularly good information. Informants, in the traditional sense, were never particularly important in gambling since a well-placed informant could not long conceal his relationship from corrupt officers who would expose him to his associates.

The corrupt police obtained "confidential information" regularly from their gambling contacts but this was mainly business information which they did not put into writing or allow to go up the chain of command to headquarters. Frequently they permitted a low level employee to become a KG in place of a more important person in order to avoid having to disrupt business. For many of these "stand-ins", as they were called, their only involvement in illegal gambling, other than betting, was to be arrested. There are many such KG's with scores of arrests for Numbers, each one representing some plainclothesman's quota requirement.[12]

While this corruption had a fearful impact on the ability of the Department to establish and enforce professional standards in every area of police work, the corrupt plainclothesmen represented collectively a large pool of very accurate information. If it became necessary for any reason to arrest someone important, or to locate such a person, it was these men who could provide information. The honest men usually did not have the necessary knowledge.

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11. For an extremely interesting account of these relations, by a vice officer involved in the Harry Gross scandal see Reardon (1980). Though the book is presented as a novel, there is no doubt that the author bases the book on his own experiences in the NYPD in the late 1940's.

12. Though the NYPD has generally denied the use of quotas in vice enforcement, there is no doubt that quotas were applied to many gambling units and individuals.

One consequence of this system was the establishment of effective control by the police over public gambling. If there was a complaint of a dice game in an alley or of a very flagrant Numbers sport it could be suppressed forthwith. While the Numbers business flourished and few, if any, citizens of New York were unable to place a bet when they wanted to, people who did not participate in this gambling were not affronted by its being publicly flaunted before them. The only exception to this was in the black ghettos where the intensity of Numbers gambling was possibly higher than elsewhere, the police were indifferent to local opinion, and the local population was more tolerant of what has been styled by others as deviant behaviors.

The senior commanders of the police department were aware of the actual conditions among the plainclothes units. Those who were oppressed by the flourishing corruption sought to establish procedures which would oblige the plainclothesmen to become accountable and truly productive. One important effort was the creation of Bank Teams in the early 1960's. Without sacrificing harassment as their principal strategy, GEIRB ordered the divisions to create teams of men who were assigned specific, high-level targets by the Board. These teams, often with as many as eight men, were relieved from making low-level arrests, except for purposes of obtaining information, and concentrated on locating and arresting policy banks.

The Policy Bank Teams represented an effort to create a strategic enforcement arm which could burden a Numbers operation with considerable financial loss as well as arresting important figures. Some of the teams were corrupt, but while they continued they generally produced significant information. The best data on Numbers in police files is contained in their reports, although these cannot properly be used without the assistance of knowledgeable and experienced men familiar with conditions at that time. The only arrests of important gambling figures in the years before the Knapp Commission were made by these Bank Teams, in association with men from the Chief Inspector's Investigative Unit and other elite squads.

The Bank Teams, a novel and effective approach to gambling enforcement, highlight several insoluble difficulties associated with gambling enforcement. While the protection of the location of a Numbers bank is not as important as the protection of a heroin drop, for example, it is nevertheless not a simple matter to find a bank, unless there is a complaint to the police giving the actual address, which occasionally occurs. More typically the police begin by identifying a collector who works for a particular operator and seek to learn where his work is being "dropped". Since they know the approximate time at which the work must be moved (to limit the possibilities of cheating), they are able to target their surveillances economically. They seek to identify a pick-up man and then to follow him on his route to the next drop or, hopefully, to the bank. The defensive measures taken by the pick-up men are quite elaborate and it is not a simple matter to follow someone who knows where he is going, is alert to being followed, and whose principal skill is evasive driving in urban environments.

If the police are able to devote the necessary manpower and time to the effort they will always locate the bank they are seeking. However, this requires formal support of a policy which will produce relatively few arrests and, unless manpower is increased, a relaxation of street harassment. The gamblers too know that the police have limited manpower. They understand, without needing corrupt police to tell them, that if their pick-up men are being followed or arrested, that their operation may have become a target of police commanders. When this happens, many Numbers operators will take defensive measures of their own to limit the risks to themselves, personally, as well as the financial risks to their operations. The easiest thing they can do is to move their bank into another jurisdiction. They can also divide their banks into several parts, which increases their office costs, but limits the damage if they are raided. They can also make arrangements with other bankers to take over the processing of the work for a fixed fee, for a period of time, until the police turn their attention to another operator. While there are real costs associated with all of these measures, none of them are sufficient to make any but marginal operations unprofitable.

After the Knapp Commission the police essentially stopped street harassment. The Public Morals Division organized large teams of men and assigned them specific targets. The result has been that in the period 1974-78 more large banks were seized than at any time in the last thirty years. Meanwhile, in some parts of the city, spots opened where gambling were conducted not only publicly but flagrantly. The winning numbers and the odds offered were prominently posted in the window. At many of these spots the gambling was so heavy that disorderly public conditions were created - large, noisy crowds and double parking of cars. The uniformed officers were forbidden to take any action, except to give out traffic summonses. In some precincts there were neighborhood complaints to the local captains, allegations in letters to the Police Commissioner that the inaction of the police was caused by, naturally, corruption. Many police officers, too, felt bitter and humiliated. In effect, the police department was encouraging law-breaking. The inevitable consequence was that the police were obliged to return manpower to enforcement against street conditions.

Before a police officer can obtain a warrant from an assistant district attorney to search a Numbers spot, he must take at least two officers and a supervisor is required for each raid. In order to assure that there is no return to the petty corruption which has always accompanied harassment strategies, the police are obliged to assign more senior personnel to supervise and control these actions.

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13. Parenthetically, it is important to note that these defensive measures also create problems for researchers. It is often difficult to know whether the work seized by the police belongs to a particular bank or if it is only being "banked" temporarily for a fee. Police analysts often are confused by this ambiguity; so were ethnographer and economist.

While the police have succeeded in rooting out embedded corruption, they are unable to avoid the inevitable pressures created by conditions of urban life which compels them to distort their carefully conceived strategies. There are signs of burgeoning petty gambling on the streets in all parts of the city, which is likely to spur demands for harassment by uniformed officers to drive away the card sharpers who are plying their trades in the city's parks on any sunny afternoon. This will further strain and distort the department's strategy of focused enforcement against high-level operators.

4. CORRUPTION, KNOWLEDGE AND ORGANIZATION

There is no doubt that gambling corruption was widespread and embedded in the New York City Police Department through the 1950's and 1960's.[14] This has been amply illustrated by the Harry Gross investigation (1949), the Koutnick cases (1964) and the Knapp Commission findings. We shall not discuss these in detail but shall only comment on some of the more distinctive characteristics of gambling corruption as they relate to the organization of Numbers operations.

The most notable feature is the depth and systematic character of gambling corruption. Numbers operators and handbooks,[15] who no longer are as important in bookmaking as they were several decades earlier, not only require the freedom of the street, but they must be able to work at specific, well-known times in order to be successful. This makes them very vulnerable to police pressure. The corruption of an individual officer is insufficient to guarantee them the security they require since these retailers depend on a regular, daily clientele to create a steady flow of business. Individual officers undoubtedly "scored" money from gamblers for specific favors, but the essential corruption was of entire units. Only by putting everyone on the payroll could the gamblers achieve security and also place their corruption payments within regular and predictable limits.

Harry Gross, the central figure in the scandal of 1950, was a minor figure in Brooklyn bookmaking until he was selected to be the intermediary between Brooklyn gambling police and handbooks.[16] He represented essentially all of the handbooks in the borough and arranged the protection for several hundred operators. He came to

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14. For evidence that this statement holds for some other cities see Beigel and Beigel (1977), dealing with Chicago, and Rubinstein (1973), dealing with Philadelphia.

15. A handbook is a petty bookmaker who takes action directly from customers at a fixed location or walks a regular route, stopping at bars and shops.

16. Reardon (1980) describes the rise of Harry Gross in great detail.

have the reputation as the largest bookmaker in New York, which was clearly untrue. He actually was little more than a broker who represented the interests of many independent operators. Very few of the bookmakers he represented handled anything larger than local action in a corner bar, but collectively they appeared to constitute a large ring. The only ring involved was that formed by corrupt police, who created an association that provided them with large and regular payoffs.

Harry Gross could not have initiated such a large-scale protection operation; even if the idea was his, he was not in a position to put it into effect. This required the initiative of important police officials and probably local borough politicians acting as intermediaries. The exposure of the protection system led to Gross's conviction, the sentencing of several ranking police officials to prison terms, the suicide of several others, and the departure of the Mayor.[17] Since Gross did not control the bookmakers who were being protected, his departure from the scene probably had only a momentary impact on the bookmakers. They had a period of insecurity while they determined what the police would do, and some of them may have been driven from the business, but there were no obvious long-term disruptions of the trade.

The Koutnick case, while it did not generate spectacular headlines nor cause senior commanders to commit suicide, was one of the larger scandals of the New York police. Lt. Stanley Koutnick was the clerical officer of the C.I.I.U. the most important gambling squad in the police department. In that position he was privy to almost all ongoing investigations throughout the city, had instant knowledge of wiretap installations, and equally important, was able to be in touch with all plainclothes units in the city on a regular basis. It was alleged that he acted as the coordinator and bookkeeper for a corruption network which spread throughout the city. At the time of his arrest there was allegedly more than $400,000 in his bank accounts, money which presumably was to be distributed to members of the ring.

The lower court found that Koutnick and his associates hired a minor racketeer to operate a telephone service which acted as the clearing house for the operation. Plainclothesmen from numerous divisions and boroughs, using pre-arranged codes to identify themselves and locations, called in to warn impending raids. Also, when uncertain about a particular location, they would call to learn if it was a protected location. If not, they then proceeded to sign up the gambler or, if he was unwilling, arrest him.

There was a carefully graduated scale of payments, which escalated with the officer's importance and seniority. Although

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17. William O'Dwyer was appointed U.S. ambassador to Mexico in 1949. However, it is generally believed that he accepted this appointment to distance himself from the political problems arising from various corruption scandals. See Moore (1974, p.176).

most of the participants in this protection ring did not actually know the names of most of the other police involved, members of most plainclothes unit throughout the city participated. Although Lt. Koutnick was the highest ranking officer indicted,[18] it is unlikely that he was either the organizer or the director of this operation.

The overthrow of this central brokerage forced the gambler and corrupt police to organize their protection on more modest lines. The divisions and the boroughs became the principal units of corruption and if there were any citywide linkages they have not been revealed. The Knapp Commission demonstrated that entire units of plainclothes officers were corrupt, but it did not gather any evidence of corruption in headquarters or even in the borough offices.

The Knapp Commission was created in September 1970 following allegations that charges of misconduct against the police were not being investigated even when brought to the attention of the Mayor's office. The decision to create a public investigation was a political one made under considerable public pressure brought to bear by the city's leading newspaper. It suggested that corruption conditions within the police department had somehow worsened, although this was not demonstrated by the findings of the Knapp Commission.

The Commission had a fairly broad mandate to investigate malfeasance and misfeasance throughout the Police Department and it was amply funded from City and Federal sources. The Commission resulted from the refusal of the City's five District Attorneys to undertake the investigation; they claimed they had neither the necessary funds nor manpower for the task without disrupting their essential functions. Hence the Commission had to assemble a staff without much knowledge and experience of city conditions. Despite considerable publicity and public clamor, the absence of experienced investigators, together with the Commission's refusal to seek the aid of local officials, severely hampered its work.

While the Commission did succeed in focusing public attention on a major problem in law enforcement in New York, it did not in fact document its case very well. Almost all of the examples of corruption that it uncovered involved the cooperation of a corrupted plainclothesman named William Phillips who was coerced into working for the Commission as an undercover agent by a private investigator working for the Commission.[19] The investigator made

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18. All of the lower court convictions were thrown out by a higher court, on technical grounds.

19. It is worth mentioning that the investigator who brought Phillips to the Commission was a man of unsavory reputation who later fled the country to avoid prosecution on a number of charges related to his investigative activity.

recordings of conversations with Phillips in which the plainclothesman discussed various extortion schemes. When subpoenaed before the Commission, these tapes were played and Phillips was offered the choice of working for the Commission or being arrested.

Phillips was a particularly greed plainclothesman and was scarcely to be regarded as a reliable witness. Members of the NYPD, not surprisingly, regarded the Commission's case for asserting that corruption was endemic throughout the Department as very poorly documented. However good the case, major changes were implemented in gambling enforcement as a result of the Commission's Report.

Both the Knapp Commission and the Koutnick cases revealed that corruption payments were made for very well defined services. Gamblers paid the police for the protection of specific places. If a location was discovered by the police that was not covered by an arrangement, the police could demand (and received) additional money. There was no protection for banks and if the police located a bank they were permitted to negotiate a special price for returning the work (the financial records) and for concealing the raid from the public which otherwise could cause a run of claims for hits, causing damaging losses to the operator.

The following extract of a conversation between a well-known Numbers operator and a plainclothesman, which occurred in the mid-1960's on a Manhattan street corner, illustrates how regularized the arrangements were. The gambler had requested the meeting because he felt the plainclothesmen had violated their agreement by arresting an associate of the gambler's in a location which he felt was protected:

"Corrupt Cop (CC): You say I am a shake-down artist or I am here to be a shake-down artist.

Operator (O): I said you're famous for that.

CC: I'm famous for being a shake-down artist, I say if I catch you right....

O: How the hell can't you catch the guy right? If you couldn't catch a guy right, they wouldn't pay you.

CC: Right, then how can I be a shake-down artist if I catch him right?

O: Because you're getting paid not to catch him.

CC: No, I'm getting paid not to fuck around with your spot.

O: Ah, that's your terminology.

CC: Right, there is a big difference.

O: Difference for you - - - your saying that because it's to your benefit to say that.

CC: No, its not to my benefit to say that.

O: Of course it is, it has to be, listen please.

CC: Well, this, well this is the interpretation I've had ever since Ive been in plainclothes.

O: Do you know who makes the rules? You make your rules....

CC: But then again, you feel as though that if you're giving me money before a certain spot....

O: An operation.

CC: Which covers ... oh, all right....

O: An operation.

CC: All right, no, no, all right.

O: If you get money from Chase, its from Chase.

CC: Ask for everything that's coming to me.

O: No, not everything.

CC: Like what, what doesn't it include.

O: Well it doesn't include if you got let's say 10 collectors, 5 blocks from the spot.

CC: That's right, 5 blocks.

O: It doesn't include, like if I'm ... in my bank.

CC: It doesn't include that.

O: It doesn't include if a block away you catch the guy that picked up the business from Chase and it doesn't include drops, it doesn't include that.

CC: Right, anything else?

O: Well, I could probably think of more. It doesn't include, if you shoot a guy in the head, or if he gets drunk and breaks up a bottle and punches a guy in the head.

CC: Marvelous, I go for that."

This system of corruption involved complex ongoing relationships between the police and gamblers. If the police uncovered an operator who was not paying protection, he was given an opportunity of joining the pad before being raided. The corrupted police also, on occasion, would play an active role in settlement of disputes between gamblers. Some policemen became involved in the day to day operations of Numbers, guarding the transfer of money and enforcing local monopolies for collectors by suppressing competition.

More importantly, there is some evidence that the corruption arrangements determined the shape and scope of Numbers operations. It has been alleged by some informants and police that controllers were consciously concentrating their collectors within specific divisions so that they would not have to pay protection to two divisions.[20] It is unclear at this point whether the police simply ratified existing arrangements or if their demands had important consequences for the scope and size of operations. This is not a trivial question, since it has an important bearing on the nature of territoriality in the rackets.

We know that the police certainly played a role in maintaining some degree of concentration in the Numbers business. Since the Knapp Commission caused a change in enforcement strategy there have been numerous efforts by local Numbers operators to organize precinct pads. There have been complaints from some operators about their inability to make money because the intensity of competition is preventing any single operator from achieving the volume necessary to sustain a profitable operation. The high costs of running a Numbers operation makes it difficult for operators to use pricing inducements to gain business.

Curiously, despite the extensive corruption numerous Numbers operators were frequently arrested. A small sample of 40 Manhattan operators show an average of three arrests since 1965. What these arrests actually represent is hard to determine. Moreover, gambling arrests had little long term personal consequence. Lasswell and McKenna (1972) showed that during the period 1966-1969, there was only a one in fifty chance that a convicted gambler, who was identified as being connected with organized crime, would receive jail time (p.201). Aside from the costs of disruption and lawyers fees, it is hard to see that the arrests represent anything significant to the gamblers personally.

5. PROSECUTORS AND COURTS

We have written of gambling law enforcement as though it were the sole domain of the police, with courts and prosecutors playing no role. In fact this is not far from the case. Neither

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20. The same phenomenon can be found in the De Carlo tapes; Zeiger (1975; pp.224-5).

judges nor prosecutors have taken this responsibility seriously in the last three decades. Nor does gambling present as many inherent problems to them as it does to the police.

First, let us deal with the attitudes of the prosecutors. Despite the fact that New York has been the city with the most prominent organized crime prosecutors[21] and a city in which claims about the importance of gambling to organized crime have been given official status, gambling has rarely been a major target for Rackets Bureaus in the various D.A.'s offices. In Manhattan, one prosecutor who briefly headed the Rackets Bureau during the early 1970's chose to focus his attention on bookmaking, more as a matter of personal curiosity than the result of analysis of doctrine. In the early 1970's the Brooklyn District Attorney also chose to focus on bookmaking; in this case it appears that he was reflecting the general belief about the importance of gambling. However, these are brief episodes.

Otherwise gambling cases were handled as low level routine prosecutions, to be disposed of as expeditiously as possible. For some time during the 1950's and 1960's there existed in New York a unique institution called "Gambler's Court". All but a few gambling cases were disposed of here by a court which could impose only minor fines and very short (less than 90 days) jail sentences. The cases were handled by the most junior prosecutors. It was in fact one of the traditional first assignments for new Assistant District Attorneys. A prosecutor might dispose of 10 cases each day in this court where perjured testimony by police officers was an accepted part of the routine.

One reason that gambling was handled at a low level in New York for many years was that there existed no felony gambling statutes until 1963. A prosecutor might bring multiple misdemeanor charges against a defendant in order to obtain substantial prison sentences, but that was unusual. The phenonemon that needs to be explained is why the prestigious District Attorneys of New York, who play an important role in shaping criminal legislative policy, did not see fit to press for the passage of felony gambling stature until Governor Rockefeller made it part of his anti-crime package in 1963.

Even now there continues to be friction between the police and prosecutors concerning gambling enforcement. The District Attorney of New York has refused, at least since 1975, to authorize wiretape applications for gambling operations. The Police

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21. Tom Dewey, twice Republican nominee for President, rose to prominence in New York through his prosecution of racketeers in New York City. Frank Hogan, District Attorney of New York for over 20 years, was famed for the prosecutions by his Rackets Bureau. Robert Morgenthau, D.A. since 1974, is also noted for his prosecution of organized crime figures while U.S. Attorney in the Southern District of New York from 1961 to 1969.

Department has continued, for at least some of that period, to press for some gambling wiretaps.

It is interesting to contrast here the attitudes of the suburban prosecutors' offices, particularly in Suffolk and Nassau Counties on Long Island. There the District Attorneys have continued to support numerous applications for gambling wiretaps. The relevant figures are contained in Table V.2. One explanation for this may be that the police are more integrated into the prosecutors' offices. The major gambling investigative units consist of police detailed to work in the District Attorney's office, so that there is continued contact between the investigators and the prosecutors.

Judicial attitudes toward gambling in New York City have been uniform for at least two decades. A study of sentencing in the period 1964-69 (Lasswell-McKenna, 1972) found that less than one in fifty of those convicted following arrest on felony gambling charges received prison sentences. More recently we have examples of very prominent bookmakers being arrested inside their own wirerooms and being fined no more than $500 following a guilty plea. Several judges have also made public statements about the inconsistency of jailing gambling operators when the state has gone into the business of encouraging betting through the State Lottery and OTB.

Again there are some important differences between the city and suburban jurisdictions. In Suffolk County all gambling cases initiated by the Rackets Bureau are handled by a single judge. That judge has sentenced a number of convicted gamblers to prison sentences of more than one year. The prosecutors believe that this reflects the judge's increasing sensitivity to the differences in the importance of gamblers as a result of his presiding over many gambling cases. In city courts there are no judges who have developed any particular expertise concerning gambling, case assignment being random.

Why have judges and prosecutors assigned such low priority to gambling cases? The question is of particular interest precisely because the attitude of the police has been so different. We carried out little research specific to this question, so the explanation that we offer should be treated as an informed speculation rather than a tested hypothesis.

We have already suggested why the police have taken gambling so seriously. It has represented a constant public chatlenge to their integrity. Allegations about corruption in police enforcement effort have been a continuing part of New York's modern history. The police have the capacity, even without the support of courts and prosecutors, to inflict considerable harm on gambling operations, merely through harassment. In particular, it has often been asserted that gambling arrests have been a part of the corrupt strategy. Some gamblers are arrested because they threaten the operations of those who are being protected by the police. Others are arrested because they have failed to meet the

demands of the police.

Prosecutors, many trained in the fraudulent procedures of Gambler's Court, have a general awareness of this. It is not unreasonable to suggest that this has affected their attitude toward gambling cases generally. No doubt some gambling cases that police brought were genuine i.e. the police honestly attempted to identify a major gambling figure and succeeded in arresting him without violating the law. However, prosecutors may sensibly have doubted their ability to distinguish these cases from the many in which either a "stand-in" was presented or in which the arrest was part of the strategy of corrupt police for maintaining their illegal income. Rather than attempt to make such distinctions, prosecutors may have chosen to treat all gambling cases as equally suspect and worthy of only minor effort.

While this is only speculation, prompted in part by conversations with former prosecutors in New York, it is consistent with one other observation, namely the very different attitude of federal prosecutors. As discussed in the following section, federal prosecutors gave gambling cases a very high priority during the early years of the Organized Crime Strike Force Program. To some extent this probably reflects the very different role of the FBI, the counterpart to the police in the federal effort, in gambling cases. There have never been serious allegations of corruption in FBI gambling enforcement efforts; given that agents do not have patrol responsibilities, this is scarcely surprising.

Moreover, the legislative mandate of the Strike Force Program specifically referred to the corruption of local police and emphasized the importance of illegal gambling in this respect. The discussion surrounding the passage of 18 USC 1511, one of the gambling statutes in the 1970 Organized Crime Control Act, made this point. "No drive against illegal gambling can even begin to succeed in those instances where it is to be undermined and betrayed by venal law-enforcement officers--police, prosecutors or even judges.[22] This was consistent with the beliefs of the Kefauver Committee that illegal gambling could only function at the level that it did if local officials were corrupt. Given this legislative background, it is not surprising that federal prosecutors adopted a much more aggressive attitude toward gambling investigations than did their local counterparts.

6. FEDERAL ENFORCEMENT

Since 1970 the federal authorities, operating mostly through the Organized Crime Strike Forces located in the Eastern District (Brooklyn and Queens for our purposes) and the Southern District (Manhattan and the Bronx) of New York, have had a major presence in gambling enforcement in New York City. This followed the passage of the Organized Crime Control Act of 1970. The Act

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22. 115 Congressional Record p.10736 (1969). Remarks of Senator Hruska.

included 18 U.S.C. 1955, which gave federal authorities simultaneous jurisdiction against gambling cases involving violations of state laws, if they involved more than four persons and either continuous operation for at least thirty days or $2,000 per day in wagering.

This law was used by the Department of Justice, throughout the country, to make a very large number of cases. In 1972 the total number of defendants on this statute was 1,532.[23] Of those convicted, approximately 50% of the defendants, some 20% received prison sentences. The total number of defendants has fallen considerably since 1972, to about 480 in fiscal year 1975.[24]

A great deal of controversy has surrounded the use of this statute. A number of the early cases featured as many as 50 defendants, the result of citywide raids. Serious questions were raised about the propriety of the Federal government prosecuting persons who were involved only tangentially in small or medium sized gambling operations.[25] Many of those early cases were made against Numbers operations, though many people believe that the statute had been intended primarily to apply to bookmaking operations. With little success in court, some of the cases with multiple defendants being dismissed entirely, there was a change in emphasis. The slogan was "quality rather than quantity".[26]

To what extent have the federal efforts succeeded in apprehending the major operators in the Numbers racket? As a preliminary investigation of this question we examined a listing of all gambling defendants in Federal court in New York (Eastern and Southern Districts). The names in the list were checked against the Known Gambler (K.G.) files maintained by the NYPD since 1946.

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23. We have not been able to obtain figures for overall Strike Force defendants. However, figures for indictments from six Strike Forces for fiscal years 1972-75 show that gambling may have accounted for half the total of indictments under Title 18 (GAO, 1977).

24. These figures were obtained by the Commission on the Review of the National Policy toward Gambling. Figures for later years for the specific statute are not available but for the period 7/31/78-6/30/79 a total of only 253 defendants appeared in federal district courts on gambling charges, including 18 U.S.C. 1955, (Administrative Office of the U.S. Courts, 1980).

25. See Commission on the Review of the National Policy Toward Gambling, (1976, p.13) for a critique of the Strike Force use of this statute.

26. See, for example, the testimony of Frederick Fehls, Assistant Director of the FBI, before the Commission on the Review of the National Policy Toward Gambling, May 1976.

The results were very surprising. Out of a sample of 197 names on the Federal list, only 29 (14.7%) were included in the K.G. file. The K.G. file contained by the mid-1960's, over 5,000 names. It included certainly anyone that had been arrested in a major operation and was undoubtedly over-inclusive, in that many of the persons in fact held only minor positions in gambling operations. One would have expected substantial overlap with Federal indictments.

A number of interpretations are possible. One is simply that the local police, despite their efforts in this area, do not manage to identify a high percentage of the major figures in gambling. An operator who divorces himself from the day-to-day activities of the Numbers bank (or bookmaking room) may be exceedingly difficult to track down, even for purposes of intelligence identification, let alone prosecution. Another enforcement agency, operating relatively independently, with its own set of informants and strategies would then turn up a very different list of target figures.

It is difficult to give much credence to this explanation. Federal and local authorities both agree on the names of the major racket figures and on the importance of the Numbers business to the rackets as a whole. The K.G. files do contain a large number of the more important racket names. It is hard to believe that the Federal authorities have identified a new set of major operators,[27] while at the same time continuing in effect to endorse the old list in their public statements.

An alternative explanation is that they have failed to develop investigative resources that would enable them to make cases against the major operations. A listing of the size of the operations on which the Federal authorities obtained information in 1971 and 1972, years of peak Federal enforcement effort, bears out this contention. Some 18 Numbers operations are listed. Of these only two did as much as $100,000 per week, a figure only somewhat above the average in our sample of Numbers banks. At least 11 of the operations were estimated to be doing less than $30,000 per week, or $5,000 per day, certainly modest sized banks.

As has been noted, the federal authorities used a strategy, at the time of arrest, different from that of local authorities. Instead of arresting only the leading figures in the operation, and perhaps the clerks in the bank or wireroom, they arrested all persons whom they had identified as working with the operation. Thus they might arrest controllers, runners and collectors. The very large numbers of arrests concealed then the fact that relatively few cases were being made and also led to arrests of

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27. Indeed, a number of local officials claimed that the FBI approached them for leads when the federal gambling enforcement effort began and that the FBI knew little about gambling at that time.

persons whom local authorities might have left untouched.

The most curious aspect of the federal campaign against illegal gambling is the speed with which it both began and ended. Court authorized wiretapping was approved in late 1968. In 1970 Congress passed the Organized Crime Control Act, which substantially broadened the powers of the Department of Justice to act against illegal gambling. In 1970 federal authorities undertook 183 electronic surveillances, of which 120 were for gambling investigations. In 1971 total federal wiretaps numbered 285 of which 251 were for gambling. By 1974 the figures had fallen to 121 and 68. In 1978 they had fallen quite dramatically, to 81 and 6.

Not only did the number of gambling wiretaps decline but there was also a corresponding decline in the emphasis given to gambling cases generally by the Strike Forces. In 1976, as mentioned earlier, the Department of Justice still asserted, in official testimony,[28] that gambling was the "cash register" of organized crime; however it did admit that it was no longer giving gambling investigations priority. By 1978 gambling had sunk to the lowest possible place amongst crimes that the Strike Forces might investigate. A senior official in the Strike Force program said that gambling cases would, in most instances, be handed over to the U.S. Attorney's office for prosecution. Labor racketeering, infiltration of legitimate business and narcotics distribution were now the main targets.

The same official explained the changed attitude toward gambling enforcement in terms of dissatisfaction with the sentences being given convicted gamblers. This complaint, which has been made by local law enforcement officials for more than a century,[29] is supported by the figures for 1975. Barely 27% of the defendants convicted on gambling charges in Federal Court in 1975 (which includes many of the cases brought as a result of intense enforcement efforts of 1971-1972) received a sentence including any prison time. This figure compares with 54% receiving prison sentences following Federal marijuana convictions in 1975, 60% for narcotics convictions and 38% for Federal larceny convictions.

We have no independent information that might explain the sudden change in federal policies toward gambling enforcement. A highly critical GAO report[30] may have had an influence, although this report did not make specific recommendations concerning appropriate investigative strategies for the Strike Forces. The decision to focus the efforts of the Strike Forces on other crimes is not one that has produced any official documents or justification. We have not found any Congressional testimony by the Department of

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28. Hearings, Gambling Commission, May 1976.

29. See footnote 10 above.

30. General Accounting Office (1977).

Justice that touches on how or why it decided to change its strategies or what evaluation it had made of its previous efforts.[31] Congress in turn, asked no questions.

7. GAMBLING ENFORCEMENT AND WIRETAPPING

Court authorized wiretapping entered American life primarily as the result of a concern with organized crime. The Senate Judiciary Committee state "The major purpose of Title III (the electronic surveillance provision) is to combat organized crime." The evaluation of the success of the statute has largely revolved around organized crime issues.[32]

From the very beginning gambling has been the dominant offense investigated through authorized wiretaps. By the end of 1974 gambling accounted for 54% of the 4,334 wiretaps authorized by state and federal judges. This included an extraordinary 72% of federal wiretaps. The figures since then show some decline, with gambling accounting for only 42% of all wiretaps in 1978. Yet gambling still is the leading category of offenses for which wiretapping is used.

It is also interesting to note how much wiretapping is concentrated in the New York - New Jersey area. In the first six years, to the end of 1974, New York and New Jersey authorities (ignoring federal authorities in the same states) accounted for 2,711 out of the 3,377 applications by state and local authorities throughout the nation. Federal authorities in the two states added another 251 taps in the same period, out of a total 957 by federal authorities throughout the nation.

The number of wiretaps has declined every year since 1973. The decline has been most precipitous for those authorities which were most heavily involved in wiretapping in the earlier years. Whereas the total number outside of New York and New Jersey, for state and local authorities, has risen from an average of 111 during the period 1969-74 to 231 during 1977-8, the corresponding figures for New York and New Jersey show a decline from 452 to 386. Most of the total decline in the annual totals come from the fall in federal wiretaps. From a peak of 285 to 1971 they have declined to only 81 in 1978. The relevant figures are presented in Table V.2.

This decline, as we stated earlier, is symptomatic of the decline in gambling enforcement generally. Many wiretaps were rejected by the courts on technical grounds, but our impression is

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31. The closest thing to such a statement is the testimony of Phillip Heymann, Assistant Attorney General for the Criminal Division. See Chapter VI.

32. For varying views on this see Final Report of the National Commission for the Review of Federal and State Laws

TABLE V.2

Court Authorized Electronic Surveillance[1]

	1968 - 1974	1975	1976	1977	1978
U.S.A.					
Total	4,334	701	686	626	570
Gambling	2,341	408	378	265	241
% Gambling	54	58	55	42	42
Federal					
Total	957	108	137	77	81
Gambling	689	69	53	14	6
% Gambling	72	64	39	18	7
New York City					
Total	966	80	60	39	20
Gambling	n/a	18	8	5	2
% Gambling	n/a	22	13	13	10
New York Suburbs[2]					
Total	267	52	57	78	60
Gambling	n/a	39	35	55	38
% Gambling	n/a	75	61	71	63
New Jersey					
Total	951	195	167	150	152
Gambling	n/a	122	110	75	78
% Gambling	n/a	63	66	50	51

Notes:

1. Figures from Report on Applications for Orders Authorizing or Approving the Interception of Wire or Oral Communications Administrative Office of the United States Courts, Washington, D.C., Various years.

2. The Counties of Westchester, Nassau and Suffolk.

that there is, among prosecutors with experience in wire tap investigations, an increasing lack of faith in the efficacy of gambling wiretap cases. The cases are legally complex, rarely lead to the organized crime figures that are the hoped for targets, and produce relatively minor penalties against those convicted.[33]

While we do not claim authority to comment on the utility of wiretapping for criminal investigation generally, we believe that the above figures concerning gambling wiretaps provide cause for a re-evaluation of the issue. When the Wiretap Commission issued its Report in early 1976, it based its conclusions on the data available through the end of 1974. The sharp decline in federal use of wiretaps had only just begun. A minority of the Commission expressed serious doubts as to the effectiveness of electronic surveillance in organized crime investigations.

The dramatic decline in the extent of wiretapping by federal authorities and the district attorneys in New York City, the location most strongly associated with major organized crime groups reinforces the doubts raised by the minority. Those agencies most experienced with wiretapping make for less use of it than they did at the time of the Commission's deliberations. In other states there are agencies which, with far less experience, are now repeating the pattern of the federal and New York City agencies; perhaps with more cooperative courts they will achieve greater statistical success. It seems unlikely though that they will accomplish, through the use of gambling wiretaps, the stated objectives of the wiretap authorization statute, namely the conviction of major organized crime figures.

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32. [continued] Relating to Wiretapping and Electronic Surveillance hereafter The Wiretap Commission).

33. For contrasting views on this matter see the Wiretap Commission Hearings. Schwartz (p.1090) cites an unnamed Justice Department representative as saying "we could never have gotten the bill through if we had told them all we were going to do was go after gamblers to get strategic intelligence." Lapidus (p.1064) stresses that at the state and local level electronic surveillance has been used against "small time gamblers". Positive views are presented by William Cleveland (p.836-7) and William Hyland (p.352-3).

CHAPTER VI

GAMBLING ENFORCEMENT, ORGANIZED CRIME AND THE ROLE OF INTELLIGENCE

1. INTRODUCTION

We have argued that there is a great deal of evidence suggesting that gambling enforcement is not likely to be a major tool against organized crime. The nature of the members' involvement mitigates against this. Yet gambling has continued to occupy a central position in the efforts of most law enforcement agencies against organized crime over the last quarter century. The explanation for this is plausibly to be found in the failure of law enforcement agencies to develop better intelligence capacities. In light of this, our final chapter has three goals. First, we wish to suggest what is the true role of gambling enforcement in police strategies against organized crime, namely its unique capacity for providing information on the activities of organized crime members. Second, we shall suggest some important limitations in the capacity of intelligence units to provide law enforcement administrators with the information and analysis needed to form a coherent strategy against organized crime. These limitations derive from the role of police in America. Finally, we suggest the proper role of intelligence units in helping design such a strategy.

The chapter is not an optimistic one. The changes that are necessary to improve police decision making in this area touch on fundamental aspects of the organization of law enforcement and of police behavior. We see little reason to expect these changes to occur; there is no public, political or professional demand for them. Nonetheless we hope that long run changes in the status of the police may help produce such demands.

2. GAMBLING ENFORCEMENT AS INTELLIGENCE GATHERING

One of the demands on a major city police department is simply that it be informed about the rackets. Whether this is a legitimate demand is a question which we shall put aside for the moment. But when someone like the late Carmine Galente[1] is killed "in gangland fashion", there is an expectation on the part

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1. A prominent New York Mafioso who was shot in a restaurant in 1979. The event was front page news in New York papers.

of the public and the media that the police will be able to explain the significance of the event, even if they are unable to actually arrest the persons responsible for the homicide. Similarly, there are many investigations, perhaps initiated by other agencies not directly concerned with racketeering, which eventually touch on racketeering, for example securities fraud cases which turn out to involve violence; the police are expected to be able to place the actors in their positions in the rackets, to suggest something about the possible importance of the various individuals involved.

Gambling enforcement is a good means to acquire the information necessary to meet these demands. Racketeers may not control Numbers or bookmaking, but they have an ongoing involvement in these activities, sometimes as bettors, sometimes as financiers. Any police department which undertakes major gambling investigations on a regular basis, using undercover agents, informants and wiretaps, is assured of learning a great deal about the relationships between persons in the rackets. Very simply, gambling investigations provide a good means to gather intelligence about racketeers.

Would any other class of offense serve this purpose so well? It is clear that the police focus on gambling among racketeering offenses at least in part because they are able to acquire leads and information relatively easily. We do not know whether, if they chose to go after loansharks or fences with the same intensity that they go after gamblers, they would also not acquire a great deal of intelligence; the effort has never been made. However, it is plausible to assume that gambling investigations are more efficient in this respect. Gambling is a routinized activity involving very large numbers of customers, many of whom at least touch on the rackets if they are not direct participants themselves. No other single activity has that combination of qualities.

If gambling is then uniquely suited for the gathering of intelligence about racketeering generally, do we have an adequate justification for intense gambling enforcement? This depends largely on what is done with the intelligence material. If it contributes to making other cases, such as fencing or extortion cases, then there may be a reasonable argument for it. If it merely serves to help the police respond to the public's salacious interest in rackets, constantly fed by the media, then the justification is far more questionable.

There is no systematic means of exploring this question. We considered doing an analysis of the arrests and convictions resulting from wiretaps for which the original offense specified in the application was gambling. If these wiretaps lead to numerous convictions for other offenses then there would be prima facia evidence of the fruitfulness of gambling investigations for rackets cases. Unfortunately, the processes of amending and extending wiretaps produces serious ambiguities; one cannot determine if a wiretap listed as a loansharking wiretap is the result of a

prior gambling tap. Further, the offense specification for arrests tends to be vague. Conspiracy is often the listed charge, which provides no information about the nature of the substantive offense.

We have discussed this in some detail to suggest both the problems faced by the outside researcher and the opportunity available to the law enforcement agencies. The exercise that we have suggested is one which could be conducted by any major law enforcement agency which has carried out a reasonable number of wiretaps for gambling. A review of a sample of past gambling investigations could provide evidence of the extent to which such investigations have led to the making of other, non-gambling, cases. While this alone would not be an evaluation of the desirability of gambling wiretaps, it would contribute significant evidence concerning their utility.

Let us return now to our main theme, namely the role of gambling enforcement in police efforts against organized crime. Is there any evidence that intensive gambling enforcement imposes severe costs on organized crime? Certainly such investigations have low yield in terms of arrests, let alone incarcerations, of major organized crime figures. If there is any effect it must be on the income or the power of organized crime in the area of gambling.

A priori it seems implausible that intense gambling enforcement significantly impacts on organized crime. If members are involved primarily as financiers in the bookmaking business, then enforcement may actually be counterproductive, since it may force some otherwise solvent bookmakers to turn to loansharks for financing.[2] If the police were able to identify bookmakers who were already in debt to loansharks then they could focus their efforts on them and thus deprive the loanshark of his loan or at least delay its repayment. However, we are not convinced that there are intelligence systems that would enable such fine definition of targets. Intense enforcement against bookmakers has an unpredictable, but probably small, effect on the incomes of organized crime figures associated with the business.

The argument for counterproductive effects is stronger in the case of Numbers. We believe that the decentralization of the Numbers business in New York is a healthy change. It has come about at least in part because of the decline of gambling corruption in the New York Police Department. That in turn is a function of the reduced emphasis on gambling enforcement. "Corruption control" may be improving but there is little evidence that one can manage an intense gambling enforcement effort in a major city police department for long without producing serious corruption problems. Corruption in the enforcement of laws against Numbers will lead to increased control on the part of

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2. We owe this hypothesis to Ronald Goldstock.

those criminals who can establish the best connections with corrupt police administrators. In cities for which Numbers is important, that means traditional organized crime groups.

We argue then that intense gambling enforcement may be counterproductive in its effect on organized crime. But this is not an argument against gambling enforcement per se. Apart from the need to maintain public order, the public has a justifiable expectation that the police provide some harassment of those who make substantial income by flouting the law. We are not arguing for the effective decriminalization of gambling, though we might argue for the legalization and taxation of privately operated Numbers and bookmaking. Certainly the existing patchwork of prohibition and state operation of different forms of gambling has little to recommend it.

Gambling enforcement must be appropriately scaled (i.e. small) and narrowly focused. It may be possible, under those circumstances, to enlist the active cooperation of prosecutive agencies, whose attitude to gambling cases (as suggested in the previous chapter) has certainly been influenced by the traditional corruption associated with them and the sheer number of such cases. Generating only a few cases, which the police could show were clearly targeted against major operations, might generate a change in prosecutorial attitude.

Such a gambling enforcement effort is built around limited goals of equity and intelligence. Some of the instability and low profitability of illegal gambling to high level entrepreneurs is a function of procedures that participants, particularly low level ones, adopt in the face of possible arrest and seizure. In other words, some enforcement may ensure more equitable distribution of money within gambling markets.

As to intelligence gathering, we find plausible, though not proven, the contentions of the police that gambling investigations are productive of information about other rackets. That also suggests one of the major criteria in choosing targets, namely the probability that useful information will be obtained on other criminal matters. This is not often determinable in advance but it can be part of the decision criteria for continuation or abandonment of an investigation.

3. INFORMATION GATHERING AND THE ANALYTICAL PROCESS

Throughout this Report we have been critical both of the kinds of information which the police collect and that which they do not collect. We have also acknowledged that without the co-operation of the police and access to some kinds of information which only they have, we would not have been able to undertake the research which is reported here. John Mack, the noted British criminologist remarked in his work on professional thieves that, "although what the police know is patchy and largely inferential, it is also true that the police know a great deal more about crime as a major behavior system than any criminologist can get to know

without their help." (Mack, 1964, p.42) A similar condition exists with respect to illegal gambling and some of the other rackets which are said to comprise the central activities of organized crime.

In the course of doing this research we have learned how difficult it is to collect information on racketeering. The urban terrains and social milieus in which much racketeering occurs makes it very difficult to conduct surveillances, to develop informants who are not direct participants in the rackets which the police are seeking to suppress, or to gain the confidence of decent citizens who might have important information to provide. Our criticism of the police are not directed at the methods which they use but rather at the kinds of information they choose to collect, collectively labeled "intelligence", and the manner in which it is utilized.

The police are often referred to as a "para-military" organization.[3] They have adopted much military terminology and some of the functional structure. In particular, they have carried over the notion of the "intelligence" function which has been such an important part of modern military organization.

Intelligence refers to "the problem of gathering, processing, interpreting and communicating the technical and political information needed in the decision-making process". (Wilensky, 1967, p.3) In the case of national armies that consists primarily of information about weapons, strategy, capabilities and intentions. For law enforcement it refers to a much more limited set of information, mostly concerning activities and relationships of criminals. One distinctive problem for law enforcement is identification of the targets on whom they should be gathering information. The targets are defined for the military by political authority. The police have only rather general guidelines from statutory codes.[4]

Intelligence, in the law enforcement community, has been treated as a police function. Prosecutors are essentially customers of police intelligence units. This is true at all levels of government; federal, state and local. Since the placement of the intelligence function has considerable significance for its performance, we should consider the explanation for it in some detail.

Prosecutors are generally case oriented. They respond to information about specific investigations, usually provided by the police. They either choose to prosecute or they decline to do so. They may store all information that is brought to them but

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3. See e.g. Van Maanen (1973, p.410).

4. ABSCAM is an instance in which law enforcement agencies choose, dramatically, to expand the set of targets.

each piece of information will pertain to a specific potential prosecution.

The police, on the other hand, have patrol and general investigative responsibilities. Many of their activities produce information but do not result in cases. That information may be stored for later use in other investigations or to provide the basis, when related to other information, for initiation of an investigation. The police also acquire far more information simply by greatly outnumbering prosecutors. It is scarcely surprising, in light of this, that the police have acquired responsibility for intelligence collection for law enforcement generally.

This has particular significance for organized crime control strategies. It is often assumed that prosecutors will direct major organized crime investigations. The federal Organized Crime Strike Forces, for example, are inter-agency units headed by prosecutors from the Organized Crime and Racketeering Section (OCRS). Various state and county units have been formed with a similar structure; a small number of prosecutors heading units staffed by large numbers of investigators from various police agencies.

These units are the major instruments of contemporary efforts against organized crime. One might expect that their choices of investigative targets would reflect a knowledge of all the intelligence available to federal law enforcement agencies on organized crime. In fact it does not. The presence of lawyers at the head of these units ensures that they have, as units, restricted access to the intelligence files of the agencies represented in them.

For example, the federal Strike Forces have never been able to obtain access to the F.B.I.'s intelligence system, though the F.B.I. is a participating agency in the Strike Force Program. Indeed, the F.B.I. is certainly the most important source of large scale investigations for the Strike Forces. Yet the Strike Forces have been forced to try to create their own intelligence system, based on information provided to them by the various participating agencies. Since that information is almost entirely case oriented, the intelligence system has generally been viewed as of little value.

Indeed, it is probably accurate to characterize the behavior of the Strike Forces as not very different from that of traditional prosecutive units. They respond to information brought to them by investigators seeking to make a specific case. The police may indeed draw on a wide intelligence base in making their investigative decision, but they make that decision in near isolation from the prosecutors who ostensibly direct the organized crime units.[5]

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5. For an illustration of the difficulties Strike Force attorneys have in directing F.B.I. efforts see Beigel and Beigel (1977).

One explanation (offered by participants) for this isolation of prosecutors from police intelligence is that the police mistrust prosecutors. As a generalization that does indeed seem to be the case. Individual prosecutors may build relationships of trust with a group of police but the career pattern difference between the two occupations has the effect of creating a general suspicion on the part of the police.

For prosecutors generally are short term public employees. Many of them leave the prosecutor's office after three to five years. The New York District Attorney was thought to have been stringent in imposing a minimum term for incoming prosecutors of four years, with the threat of lack of recommendation as the enforcement tool. The declining relative salary for senior public sector lawyers has increased the incentive for talented prosecutors to leave the office early in their careers.

Furthermore, many of them leave to join the defense bar. There are explicit legal prohibitions on entering the defense side in cases for which they have acquired information as prosecutors. It is however difficult to prevent the former prosecutor from making use of information that he acquired about individuals if it is not related to a particular case on which he worked as a prosecutor.

The police, on the other hand, tend to spend a long period of time in the public sector. In large part this reflects the fact that their skills are in little demand in the private sector. Their alternative employment opportunities outside the police agency are likely to be less well paid, interesting or prestigious. The creation of retirement systems which provide them with an incentive for leaving the police force after twenty years has had an ameliorating effect. The pension does not prevent them from finding another job that, together with their pension, yields a substantially higher income. Nonetheless it still is true that the average employment tenure for a policeman in his agency is far higher than for a prosecutor.

For the police, then, most prosecutors represent at best temporary allies, who may shortly join the enemy side. That is not to say that they doubt the prosecutor's enthusiasm for a particular case. But they do have a real understandable concern about providing the prosecutor with a great deal of information which might be of assistance to him if he decides to become a defense lawyer. Thus the strong desire of police agencies to isolate prosecutors from criminal intelligence systems.

Prosecutors might still have an influence on the intelligence function. In theory they could be involved in the design of intelligence systems and the creation of decision rules for its use in making investigative allocations, without being given the detailed information in the system. However they are not and, given the cumbersomeness of such a relationship, it is scarcely surprising that this should be so.

Intelligence then is a police function. Not only do police collect the information that constitutes the base of the system but they also control design and analysis. In order to understand the limitations then of the intelligence function we need to consider its relationship to police work generally.

In large part intelligence units are customers of enforcement activities. They are small units which are asked to provide many routine products to other units within the police agency. They have little control over what information goes into their system, for they are viewed as desk rather than field units. The information is collected by enforcement units and is generally incidental to investigative or patrol responsibilities. That fact has a great deal to do with the nature of the information that intelligence units collect and with their role in the ratification of law enforcement strategies.

If enforcement determines what information is generated, then we can predict what it is that intelligence units will know about. They will learn about the activities which other units emphasize in their patrol and investigative decisions. "Vice" enforcement has been targeted heavily toward gambling, in particular Numbers and street bookmaking. Intelligence units have correspondingly acquired a great deal of information about these activities. If they then chose to interpret this as implying that Numbers and street bookmaking were particularly important, it is scarcely surprising.

Further, with respect to organized crime figures, the same problem arises. Intelligence units were given a great deal of information about the gambling activities of these figures and not much about anything else. After all, if there were no units undertaking loansharking investigations it was difficult to make the claim that loansharking was the major activity for organized crime figures. Critical to this was the treatment and recruitment of informants. Where gambling was the most important responsibility for organized crime control units, it was likely that informants would be recruited who knew more about gambling than any other activity and their debriefing by agents would emphasize gambling. We shall discuss the informant problem at greater length later.

Wilensky (1967) suggests that this relationship between intelligence and policy is a generic one. "Among intelligence specialists, no conviction is stronger than the notion that their main function, whatever their intentions, is 'backstopping'. And administrative leaders...throw in their 'research' staff ritualistically, much as a tribal leader, embarking on a war, calls on the shaman for supporting incantation." (p.16) Certainly discussions of the role of military intelligence have suggested just that. McGarvey (1973) argues that the Defense Intelligence Agency, which is controlled by the military (in contrast to the CIA), sees its function as providing evaluations of data to support the policy positions of the armed services. Blachman (1973) makes the same point about Air Force Intelligence in Vietnam. If police agencies are committed at policy levels to focusing organized

crime control efforts on gambling, intelligence units are likely to provide the supporting analysis for such a commitment.

The interdependence of intelligence and enforcement can be illustrated by one incident. We reviewed the files of one of the most professional intelligence units in the New York area. One individual was listed as involved in loansharking and gambling. However there was no other information on the summary card, as there had been for other figures in the file, listing the location and/or scale of his operation. We inquired as to why he was identified as being in these activities. It turned out to rest on the surveillance of another person, a very significant mafioso. Over a period of weeks of surveillance of this mafioso, whose prime activities were listed as gambling and loansharking, the other person had been observed regularly entering the car with him and sitting in the back seat. This was interpreted to mean that the other figure was important (otherwise he would have sat in the front seat with the driver) and must be involved in the same activities as the mafioso. The surveillance did lead to a major gambling case against the mafioso, but produced no specific information on the other figure.

The dependence of intelligence on enforcement is not only explicable but, given American concerns with civil liberties, almost inevitable. There is little public enthusiasm for police actively seeking intelligence divorced from an effort to solve a specific crime. The specific crime may be a heroin distribution or bookmaking enterprise but the information should be sought in the context of trying to apprehend those responsible for the criminal enterprise. The oft-remarked American suspicion that government authority will be abused where it is not clearly monitorable produces this concern. In a case-oriented regime, the police can always account for their choice of targets in terms of a particular criminal offense.

Indeed, even without this concern, there are few sources of meaningful intelligence independent of enforcement. Informants are critical, particularly for the kinds of activities that are central to organized crime. While it is conceivable that police might buy informants with large sums of money, the fact is that most informants are generated by enforcement activity. In return for lenience with respect to certain offenses, the criminal agrees to provide the police with information about some other activities.[6] Police perpetually complain about the meagerness of funds to pay informants but the bulk of information is generated in response to something other than monetary incentives.[7] Very simply, more

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6. Wilson (1978) found that most FBI and DEA informants were generated through threats of arrest.

7. Wilson (1978; p.77) reports that the Drug Enforcement Agency, for whom informants are clearly essential, had only a total of $1,260 per agent for purchase of information in 1975.

enforcement means more potential informants.

The alternative source of information on consensual crime is surveillance. But that alternative is more apparent than real, a complement to effective informant programs rather than a substitute. Apart from the lowest levels of the gambling and drug trades, few transactions occur in public. An informant can provide the police with information about who is likely to be gathered at a particular spot and time but surveillance will do little more than confirm that. The informant will still have to provide the critical information about what occurs in the transaction.

Wiretapping, under current court restrictions, also requires informants. The police may not place electronic surveillance on an organized crime figure simply because of a generalized suspicion that he is important to a class of criminal transactions in the city. They must find a specific crime in which he is involved and for which he makes regular use of the telephone. The attraction of gambling for wiretaps is precisely that the operation of a bookmaking or Numbers enterprise of any magnitude requires regular use of a telephone. It has failed to provide a major tool against organized crime because gambling operators turned out to be a group different from that which law enforcement authorities originally identified.

So informants are the centerpiece for organized crime intelligence and informants are the product of enforcement activities. We shall suggest various ways in which police may improve the operation of their intelligence units but we must accept this basic dependence and some critical limitations that it imposes.

Informants have always represented a threat to police administrators.[8] The relationship between the informant and his police protector has no clear sanction in law; the police do not have the authority to permit lawbreaking. Yet they must do so if they are to obtain certain kinds of information from informants.

The police administrator wants the information from the informant to be committed to a paper record placed in files available to other investigators. He has two incentives for that. First and more important, that maximizes the utility of the information provided by the informant. Second, it permits him to monitor the quality of the informant and to evaluate the police officer.

The incentives of the officer are opposed to this. In many large police departments there is a wide suspicion about the integrity of files. Information placed there may be obtained by corrupt officers and sold to criminals,[9] placing the informant at

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8. Silberman (1978; p.312) makes a similar comment.

9. Wilson (1978; p.70) reports a comment by a DEA official that three or four informants, in his region, may have been

risk. Whether or not the suspicion is correct, the important fact is that it exists. Policework is governed by paper requirements, which the police generally resent and find burdensome. In this area they also have a good justification for minimizing the amount they will commit to paper.

There is another incentive, which is even more general. Individual police are evaluated not by the information they collect but by the arrests that they make. Information committed to files becomes available to the competition. Other officers may make arrests that the original officer would seek if he did not disburse the information.[10]

There is yet a third incentive. The relationship between informant and police is one which may involve the illegal granting of a partial license.[11] The less that is committed to paper by the police officer the less that licensing process comes into view. This is particularly a problem for narcotics enforcement where restricted informant funds lead police to seek to pay off informants through drugs held back after arrest and seizure.

This aspect of drug enforcement has been discussed in a number of studies. Manning and Redlinger (1977) note that "the agents become a link in the marketing of narcotics." (p.297) Daley (1978) provides a detailed account of one narcotics officer's deep involvement in the provision of narcotics to his informants while he was making many successful cases against high level dealers. Indeed, the essence of making high level cases appears to be precisely leaving informant/dealers in place so as to be able to make cases, with their cooperation, against higher level dealers.[12]

The problem is not restricted to narcotics enforcement. In many areas of policing informants are essential. The solution of major burglary incidents is likely to involve use of informants:[13] so are gambling and loansharking cases. A policeman seeks to maintain a number of criminal informants, who are available when he

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9. [continued] killed in a six-month period, possibly because of their informing activities.

10. Rubinstein (1973; p.200) cites this same problem in the context of patrol officer treatment of information about illegal vice locations. Silberman (1978; p.134) discusses it in the context of patrol-detective relations.

11. Epstein (1977; p.106) reports a Baltimore narcotics officer claiming 800 dealer informants with de facto franchises.

12. Wilson (1978; p.79) argues that the unreliability of narcotics informants and the difficulty of verifying their claims, except through seizures, mitigate against their use in long investigations.

13. On investigative problems generally see Greenwood et al (1975).

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needs information to make a particular case or to initiate a new investigation. If an informant goes to prison, the officer loses a valuable asset. Hence he seeks to protect the informant (cf. Vilano, 1978). Not only does he not arrest the informant when he himself learns of some new offense, but he will actively try to protect the informant if he gets into trouble with another agency.

Skolnick (1966) and Manning and Redlinger (1977) report incidents in which an officer asks another agency to drop charges against a criminal because he is an informant for that officer. We observed that with respect to one of our own informants, who worked for various agencies. When he was arrested by another agency he asked a number of the officers for whom he provided information to intercede on his behalf. As far as we could tell these interventions were made only by telephone and were never put in writing. Moreover, the informant believed that the agents would not inform their supervisor that the interventions were being made.

Our point is a simple one. The informant-police relationship is potentially dangerous for both parties. The ambiguity of the "licensing" of the informant and the increased value of information when hoarded ensures that officers will minimize the amount of information they commit to paper. Indeed, it is difficult for police administrators to even ensure that the existence of all informants is properly recorded (Knapp Commission, 1973). Tightening requirements, for example by ordering regular reports from each informant and periodic evaluation in order to determine whether the status should be continued, is likely to increase the incentive for not registering informants and for paying them illicitly.[14]

The organizational consequences of the unrecorded nature of informant-officer relationships are obvious. Police agencies fail to acquire much of the information that is held by their members. When members leave the department, the informants they have recruited are likely to leave with them. Some officers will make an effort to pass on their informants to others but the relationship is highly personalized and even where there is willingness to make the transfer, on the part of the officer, it may not be successful. There is also little incentive for the retiring officer to do so. The same problem arises when an officer is transferred to another unit within the agency.

This latter problem has appeared in an interesting form in gambling enforcement. One agency had a minor gambling scandal, arising from corrupt relations between gambling officers and their

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14. Wilson (1978), generally placing considerable trust in the accuracy of agent statements, nonetheless says, commenting on Justice Department guidelines concerning informants "no guidelines can do much more than restate the law and urge officials to obey that law and, in the gray areas, to use their judgement." (p.83)

informants. The agency responded by wholesale transfer of the gambling unit and imposition of a two year rotation for all members of the gambling squad. It quickly became clear that the new unit could do little in its first two years because it had to develop a new set of informants. At the end of the two years the department had to effectively drop the rotation requirement because it would clearly perpetuate non-enforcement through loss of informants.

With only a small fraction of the information collected by officers flowing to them, intelligence units have a limited role to play in the area of organized crime enforcement. What information they do obtain derives mostly from formal arrest and investigative reports. This further skews the perspective of intelligence units toward the kind of activity that generates just such paperwork.

The problem is compounded by the narrow base of recruitment into police departments. Civilians play a very small role in most big city agencies and never acquire any command responsibilities. Inasmuch as police departments require specialized skills they must be found or developed internally. To this extent the police again mirror the military.

However, the military have always had a two tier recruitment system. Officers are recruited into higher ranking and higher paid positions at a later stage in their educational development. Moreover, the military have long encouraged officers to acquire additional education even after entering the services. It is not uncommon for officers to be paid for one or two years of full-time graduate study in universities in mid-career.

The police allow entry only at one point, namely the lowest level. All officers must start at the Police Academy and face the prospect of a period of years as a patrol officer. Nor do departments generally provide the means for higher education once the officer has entered the department. For a few years federal funding was available for higher education (the Law Enforcement Education Program) but that was mostly for night study while still employed full-time.[15] It is more properly regarded as a means for providing police officers with the minimal higher education requirement necessary for their functioning in modern urban America than with training an administrative elite.

For intelligence units this means that the range of formal skills available within the department for them to utilize is very limited. It is consequently no surprise to find that what passes for intelligence analysis is rarely more than compilation. What could be accomplished with more sophisticated tools is an issue we shall address later. Here we wish simply to make the point that no effort has been made to find out.

Our examples must obviously concern what is not done. Computer analytic techniques are only just making their entry into police

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15. An evaluation of this program is provided in Sherman (1978).

intelligence work in the organized crime field. Even the F.B.I., as late as 1979, had a manual file system for organized crime intelligence; the only computer assistance was locating file references to a particular individual. Network analysis, potentially an important tool if the right kind of data are available, is just being implemented by one agency in the New York area.

Again it is important to reiterate that this is not a critique of members of intelligence units themselves. No demands have been placed on them by senior policy makers within police departments to acquire more sophisticated analytic capabilities. Those managers themselves have emerged from conventional police backgrounds which provide little understanding of the potential for modern management analytic tools.

What constituted police intelligence analyses of illegal gambling in New York? We have not seen all the products that may have been given this rhubric but what we have seen is all of the same type, namely compilation. For example, an analysis of Numbers banks done in the mid-1960's, during the height of NYPD efforts against Numbers, consisted simply of a listing of all major banks, their estimated volume, membership and internal command structure. There was no information about the relations between banks and bankers, the financial success of different banks, the use of violence etc. In other words, the analysis could provide no strategic direction for target selection, except on the basis of the size of the bank and the significance of the person who reputedly owned it. Nor have we come across any evidence that a senior police administrator ever asked the intelligence units to prepare analyses of alternative strategies or evaluate the effectiveness of current approaches.

4. INTELLIGENCE AND ORGANIZED CRIME CONTROL: POTENTIAL

The previous section argued that intelligence units have few resources available to them. They can obtain only a small amount of the information that flows to members of the departments in which they operate, are dependent on enforcement policies for the meager flow of information that they do obtain and have limited analytic skills. The first two, and most important, of these problems we assume to be inherent. It is certainly beyond our capacities to find convincing reforms which will overcome the self-defeating but understandable reluctance of police to share information. As to the second point, the constitutional protections which prevent pure "intelligence" activities are too important to advocate removing simply for organized crime control purposes.

Nonetheless, it is possible to improve the performance of intelligence units, even within these limitations. In this section we assume, perhaps optimistically, that an innovative police administrator is willing to provide his intelligence unit with the resources it needs to play a role in the design and evaluation of an organized crime control strategy. The section lays out what should enter into the design decisions and what role the intelligence unit can play.

Three assumptions underly this discussion. First we assume that the goal of the strategy must be something other than "elimination" of organized crime. Society is not willing to commit the resources necessary to deal with such an intractable structural problem, even assuming we knew how to accomplish it. Second, we assume that law enforcement agencies can make choices about how to attack organized crime. They may devote more resources to enforcement against one kind of crime rather than another; they are not restricted to responding to a given flow of information about a particular set of offenses. Third, we assume that these choices by law enforcement have an effect on organized crime behavior. The effect may merely be tactical i.e. it may affect only how members of organized crime conduct themselves in particular areas of criminal activity. It may be more fundamental and affect which forms of criminal activities they go into or the actual level of criminal activity. But the choices have some consequences.

These three assumptions are necessary if we are to take the strategy issue seriously. They may seem obvious as stated but we shall see, in the course of our discussion, that they are sometimes ignored, with important consequences.

The first and probably most difficult issue is specification of the objectives of organized crime control programs. These can be specified either in terms of the nature of the particular harms that we believe organized crime inflicts on society or in terms of the lessening of the powers of particular groups that are identified as organized crime. The existing discussions at the policy level, with one interesting exception, talk only in terms of the second.

We believe that it is worth considering the other approach, namely the nature of the behaviors that organized crime control programs should attempt to reduce. We do not claim to be able to provide an operationalization of these for the purpose of designing programs or evaluating the success of individual units. However, such a discussion, precisely by identifying the difficulties of operationalization, provides an insight into the possible role and limitations of intelligence units in organized crime control.

This discussion will rely heavily on materials presented by federal agencies involved in organized crime programs. We would have preferred to make use of state or local presentations but have been unable to identify comparably broad statements of policy and evaluation at these levels.[16] In justification we also note that the organized crime effort, at least since the 1967 President's Crime Commission, has been greatly influenced by federal efforts. Indeed, it appears that the federal effort is a significant portion, in terms of total investigator and prosecutor manyears, of the

16. A useful document concerning state and local efforts is Blakey, Goldstock and Rogovin (1978), which includes a brief description of most major organized crime investigative units.

total effort by all agencies.[17]

Current evaluation is carried out in terms of the nature and number of convictions secured by the program. E.g. the Director of the F.B.I., testifying before Congress,[18] gave the number of convictions achieved by his organized crime investigators as a measure of success. The only other evaluation measure was the number of high-level transitions that had occurred in the Mafia as the result of law enforcement efforts (28 in the previous five years). The Congress asked no questions that suggested these were inappropriate measures of the success of the F.B.I. efforts. Blakey et al (1978) report similar evaluation by state and local units.

It is not hard to explain the use of these measures. They reflect traditional performance measures for law enforcement agencies. Police agencies will stress increases in the number of arrests as evidence of improved performance. Individual officers will be rewarded for high arrest figures. Prosecutors use the number of convictions obtained or the percentage of successful prosecutions for the same purpose. For management these are often appropriate measures, providing the correct signals to managers and their subordinates, particularly where there is a relatively uniform stream of homogeneous offenses.[19]

Moreover there is another measure readily available for most forms of crime, namely the number of reported offenses. Critics of the police in a particular city can point to rises in the number of reported burglaries, for example, to show that the police are failing in some part of their responsibilities. Police administrators have become far more sensitive to these indicators in recent years. They provide, if not a performance index, a measure of the scale of the problem.

For organized crime the traditional measures fail for at least two major reasons. First, the flow of offenses is much more heterogeneous in organized crime. The Numbers runner and the Numbers banker can both be listed as gamblers but they represent vastly different levels of investigative and prosecutive accomplishment. The difference is much greater than that between any two burglars. Second, there are no simple measures of the size of the problem, comparable to the number of reported burglaries. Police efforts to measure the extent of illegal gambling, itself a very simplified measure of the level of organized crime in a city, have

17. It was not possible to obtain figures on the total state and local effort.

18. Permanent Subcommittee on Investigations (1980).

19. Manning (1980) provides evidence that narcotics units are much less sensitive to arrest figures.

been quite unsuccessful.[20] There are no external measures which one can use to test the relevance of management performance measures.

Moreover, there is no obvious analytical framework in which to develop alternative measures more appropriate to the problem. As our discussion in Chapter I suggested, there is no consensus in the academic or policy literature concerning the definition or nature of organized crime. It is not surprising then to also find that there is no consensus (indeed there is little discussion) of the distinctive harms arising from the activities of organized crime, which is a necessary preliminary to the development of a functionally oriented control strategy i.e. a strategy which takes as its goals the efficient reduction of those harms.

In this context it is worth reviewing in detail the most sophisticated statement of a policy maker concerning these issues. Phillip Heymann, then head of the Criminal Division of the U.S. Department of Justice, testified in 1980 before a Congressional Committee[21] concerned with organized crime and violence. He used that forum to make a broad statement about the problems of organized crime control strategy design, the only such statement that we have been able to identify.

"In order to carry out a sensible program against organized crime, we must specify as clearly as possible the nature of the harm that concerns us.... The most evident harm caused by organized crime is fear (p.41). "Our job is to give the American people the security of knowing that criminal organizations which can affect their lives and their institutions deliberately, unfairly and without recourse will not exist unchallenged in any sector." (p.42)

Heymann used this criterion to justify the choice of Strike Force program priorities; labor-management racketeering, the infiltration of legitimate businesses, public official corruption and narcotics trafficking. He argued persuasively for the significance of these first three to public confidence in legitimate institutions i.e. unions, corporations and government. Narcotics was included because of the apparently high level of violence that its unique profitability engendered.

At the level of rhetoric the goals and the priorities match well; the Strike Forces target those offenses that society takes most seriously. The argument might be that this would deter members of organized crime from committing those offenses. However, there is nothing in Heymann's statement to suggest that he believes that. Indeed, the notion of deterrence or "deflection"

20. A discussion of one such effort is provided in Reuter and Rubinstein (1978; pp.60-61).

21. Permanent Subcommittee on Investigations (1980).

(i.e. deflecting the resources of organized crime into areas of less concern to society) plays no part in the discussion of organized crime control.

Further, Heymann introduced a second element of strategy which certainly reflects traditional values but which may not be consistent with his setting of priorities. "A major assumption of the (Strike Force) program has been that convicting as many actual members of principal groups as possible is the best way to reduce their power and impact." (p.37) It is unlikely that a focus on such complex offenses as labor racketeering will produce as many arrests of Mafia members as will focusing the same resources on more routine offenses. Indeed, in the waning days of the efforts against gambling by the Strike Forces, the justification was precisely the productivity of that effort in securing convictions of senior Mafia leaders.[22]

Heymann has moved part of the way to founding strategy decisions on an enunciation of goals. However he has failed to relate the allocation of prosecutive resources to the attainment of those goals; rather he has used those goals for the development of a symbolic strategy. It may turn out that that is the best one can achieve, given how little law enforcement can learn about the activities of organized crime and its impact on them, but there should certainly be more discussion of the issue before we accept that conclusion.

We believe that the essential problem for development of strategies is precisely information. Consider Heymann's specification of the distinctive harms arising from organized crime. How does an agency develop some indicator of the extent of public official corruption, or the economic impact of labor-management racketeering in a particular industry? We have argued that intelligence is a product of enforcement; only where an agency commits itself to serious investigation of corruption and racketeering is it likely to be able to acquire information that will enable it to determine whether the investigation is justified.

But that itself makes clear what the operational solution is, namely an iterative procedure. An investigative priority once assigned, for whatever reason, must be constantly evaluated against the goals of the organized crime control effort. It is easy to make cases in most areas of suspected criminal activity. What is difficult is to make cases that will really reduce the powers of organized crime or deter that behavior with which we are most concerned. By requiring evaluation of investigative results against these criteria one can hope that specialized units will focus their energies appropriately.

That still leaves the complex task of stating how a law

22. Commission on the Review of the National Policy toward Gambling Hearings (Criminal Division, U.S. Department of Justice, May 10, 1967).

enforcement agency might go about developing operationally applicable indices of the organized crime problem. We know too little about both organized crime and the potential of law enforcement information systems to set out an agenda to accomplish this. However, we do have some suggestions to make.

First, conceptual refinement is not to be expected. The proximate goals for the program will undoubtedly be far from the specification of the behavioral problems. That is in the nature of programmatic development; few behavioral goals have exact observable indicators associated with them. Utility is more important than precision.

Second, there will be no single indicator that is adequate. Though Heymann may be correct in asserting that fear is the most important harm inflicted by organized crime, there is no single measure that captures all the dimensions of that problem. There will be a variety of measures relating to different sectors of the licit and illicit economies which provide information about the extent of the organized crime problem.

Third, most of the indicators will be "soft" i.e. will involve use of judgement and/or the ascertainment of attitudes. This implies that consistency over time is particularly important. Some means must be found for collating judgemental and attitudinal elements in a relatively uniform way.

Fourth, the program design should be sensitive to the particular nature of the organized crime problem in the individual jurisdiction. In some cities illegal markets are more important; in others it is corruption of the political system for the granting of contractual favors. These differences suggest program differences.

For the intelligence unit the most important issue is whether it can acquire adequate information to permit development of a meaningful and discriminating program. We have already seen the limitations on the flow of information to such a unit. Whether an intelligence unit given the right resources and imaginative leadership can acquire sufficient information to meaningfully describe the problem and carry out evaluation is a question that can only be answered through experimental implementation.

APPENDIX A

LOANSHARKING

1. INTRODUCTION

There is a well established orthodoxy concerning loansharking and its relationship to organized crime. The President's Crime Commission in 1967 provided the most important source for this when it asserted that loansharking was the second most important activity of organized crime.[1] The basis for this statement was, again, the conclusionary assertions of law enforcement officials either to earlier official bodies or to Commission staff, without published documentation. The significance of loansharking has been re-emphasized on various occasions since 1967.[2]

Despite the supposed centrality of the activity there are no meaningful estimates of its scale and few detailed accounts of either the operation of loansharking or its organizational structure. In modern times loansharking has not been a major focus for police law enforcement activity. Few investigations target loansharks. Those few cases which have been successfully prosecuted, have generated little useful information concerning the roles of significant organized crime figures in loansharking, largely because they have involved low level participants.

Law enforcement agencies believe that the use of violence and intimidation are essential and critical operating features of the successful loanshark. The loanshark is perceived as totally predatory in intent, employing usurious interests rates and unscrupulous methods to strip borrowers of all their assets and to gain control of their businesses.[3]

Although we have collected only relatively limited information on loansharking, we have sufficient to raise serious questions regarding the accuracy of the orthodox description of loansharking. We do not see evidence that organized crime groups control the loansharking business in New York. People who have no organized

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1. Task Force Report (1967; p.3).

2. E.g. Pennsylvania Crime Commission (1980).

3. For examples of such statements see Pennsylvania Crime Commission (1980; pp.156-163).

crime connections have sustained long-term and profitable loansharking operations in many segments of the New York market. Further, it is quite probable that intimidation and threat are not a central part of the collection procedure for many loansharks. Instead, the possible loss of access to the lender for future loans may be the most important incentive for the borrower to make reasonably expeditious repayment. Finally, it is clear that few loansharks have any interest in obtaining control of their customers' businesses. The dominant concern is prompt payment of interest and eventual recovery of principal.

Our tentative conclusions and the orthodoxy regarding loansharking are clearly in conflict. Why should this be so? One reason for the discrepancy in conclusions is that the view of the police is profoundly affected by the manner in which loansharking investigations begin. The majority of loansharking investigations are initiated only when the customer of a loanshark makes a formal complaint.[4] Most complainants will only come forward when they have actually been threatened. The police, therefore, deal mainly with those loansharks who are prepared to resort to physical violence. In recent years the New York City Police Department has carried out a number of undercover investigations of loansharking. Even these have usually been initiated by the complaints of loanshark customers and hence have the same inherent bias as the case investigations. Significantly, those few investigations which have not been found on complainant information show a low incidence of violence. Certainly our own informant information about loansharks has indicated the existence of many loansharks who have not been identified as such by the police and whose "modus operandi", characterized by low levels of both violence and intimidation, has permitted them to remain inconspicuous.

2. DEFINITION

Dictionaries are singularly unhelpful with respect to the term loansharking, for it is regarded as an informal or colloquial expression, undeserving of precise specification.[5]

The most frequently cited of recent scholarly studies (Seidl, 1968) finds loansharking to have three major characteristic elements:

1. The lending of money at extremely high interest rate.

2. A "borrower-lender agreement which rests on the borrower's willingness to pledge his and his family's physical well-being as collateral against a loan."

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4. Of approximately twenty such investigations whose origins we know, only four were initiated in another manner.

5. "Loan shark, a person who lends money at exorbitant or illegal rates of interest (Colloq.)", Webster's New Twentieth Century Dictionary.

3. A "belief by the borrower that the lender has connections with ruthless criminal organizations." (Seidl, p.30).

Another recent study asserts that the term "loansharking" "...plainly embodies two central features: the assessement of exorbitant interest rates in extending credit and the use of threats and violence in collecting debts." (Goldstock and Coenen, 1978; p.2).

Each definition conforms with the orthodox view of loansharking. However, neither of the definitions cited embraces the whole range of undertakings which the police (at least in their intelligence activities) and participants classify as loansharking. Loans are regularly made by persons classified as loansharks at rates which are certainly within legal limits. Wholesale loansharks, for example, may offer privileged customers weekly interest rates as low as one-half percent.[6] Not all loansharks either threaten or carry out acts of physical violence. It is also unlikely that every customer of a loanshark believes that the lender has "connections with ruthless criminal organization."[7] The definitions of both Seidl, and Goldstock and Coenen are, short, too limiting.

Legal definitions are similarly of limited value. The colloquial term loansharking is rarely used - in federal law the term "extortionate credit transaction" is the critical one. Goldstock and Coenen correctly stress that the federal offense does not involve usury. Of concern is not the interest rate charged but the implied method of collection. At the state level, on the other hand, the interest rate is often the critical element of the offense, with no specification of the methods of collection.

All states have, of course, statutes against extortion, which can be used to act against many elements of loansharking, but 24 states have no statute which explicitly deals with usurious lending of money or the use of intimidation to collect money owed. Even a state as urbanized as Ohio lacks such a statute.[8]

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6. Usury rates vary substantially between states. Goldstock and Coenen (1978) cite allowable rates as high as 40% and as low as 12%.

7. Clearly when the police arrange for an undercover officer to borrow from a loanshark whose organizational affiliation they have tested and found absent, this condition cannot be met. But we mean more than this quibble.

8. For a listing of relevant statutes see Goldstock and Coenen (1978; Appendix A). In New York loansharking became a felony only in 1965. This is something of a paradox, given the important role that official bodies have asserted loansharking to play in organized crime activity. It becomes less of a paradox when it is realized that few cases can be made even with a strong statute and that most such cases derive from complaints which can be prosecuted under a felony assault statute.

To define loansharking in a manner which reflects the perspectives of those who are involved in the trade either as lenders or borrowers, requires a descriptive approach. Such a definition has four essential elements:

1. The true terms of the loan are not legally recorded.

2. Both the borrower and the lender believe that the true transaction is illegal.

3. The use of threats or violence in the event of the failure of a loanshark borrower to make repayment on time, while not necessarily anticipated by the borrower, are certainly understood by him to be a possible consequence of the type of agreement into which he has entered.

4. The interest of rate for the loan is near or above the legal limit.[9]

This definition offers a much broader conception of loansharking than is generally used. It stresses the attitude of the parties involved in the transaction. Thus, while high interest rates, indeed outrageously high interest rates, are the general rule in loansharking transactions, there are also loans which occur at quite modest effective rates but which are regarded by the participants as generically the same as transactions with very high rates. It is not unusual for loansharks, like legitimate lenders, to demand collateral to cover at least the outstanding principal of the loan. The use of violence in a context where a loan is covered by collateral would seem counter-productive; nonetheless the customer of a loanshark would not be surprised if threats were made should repayment be delayed.

The sheltering of loansharking transactions behind the facade of legal loans, the principal being overstated, is not uncommon. The existence of the facade, however, does not obscure the awareness of all the parties involved of the true nature of the loan. The documents involved are known to be of a misleading nature and the inherent impropriety of the true transaction is acknowledged by all the parties to it.

We are asserting then that loansharking is defined by attitudes and characteristics of the parties involved, as well as by characteristics of the transaction itself. The Chase Manhattan Bank is never viewed as being in the business of loansharking, no matter

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9. The wide variation in the legally allowable rates has been mentioned above (fn. 6). There is nothing to suggest that the limit rate affects either those who consider themselves to be loansharks or their customers. It should also be noted that in most states there is no legal interest ceiling on loans to businesses. Loanshark credit to a small businessman may thus take the form of loans to his business, though the money is for personal use.

how high the interest rate it charges a business or how unscrupulously it squeezes the businessman/borrower who is having trouble meeting his payment schedule. On the other hand, there are organized crime figures whose loans are regarded by everyone as loansharking transactions, no matter what the interest rate or whether threats are ever uttered in the course of collection. While there are undoubtedly some border line cases which are difficult to classify e.g. an individual lends to a colleague of his at a high, unrecorded interest rate and becomes abusive when the borrower has trouble making his payments, these definitional problems do not seriously complicate our analysis.

3. HISTORY

Illegal lending presumably has a long history in urban America, but there is little published material available. The only serious study of the history of illegal lending, and the source for this section, is that of Haller and Alviti (1977). In previous eras, however, it seems to have taken a very different form to that which is now called loansharking. Violence played a very small part in the operation of the system. A brief examination of the illegal lending of the earlier period will provide a clearer understanding of the contemporary situation.

Until 1911 all states tightly restricted the interest rates that legitimate financial institutions might charge to any customer. The legal ceilings were so low that consumer financing was unprofitable to legal lenders. In the early decades of the century, moreover, the borrowing of money for anything other than home purchases was generally considered to be evidence of an unstable character.[10] The conjunction of these conditions led to the growth of what were called "salary lenders." These were organizations which lent money against future salary payments, usually creating documents which disguised the true nature of their loans.

The interest charges of salary lenders were, by any reasonable standard, usurious: often they were comparable with those charged by modern loansharks whose rates upon small loans may be as high as 150% per annum. The fact that many of the borrowers were salaried employees and that the borrowing was regarded so negatively by employers gave the lenders a simple collection device. The threat to inform a borrower's employer of the loan, thus setting his job at risk, provided a considerable incentive for repayment. The documents used in the loan transaction, although disguising reality, might also be used in court to compel payment.

Organizations in the salary lenders' market were semi-legitimate corporations. They were incorporated under state law,

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10. This same condition, apparently, characterizes contemporary Japan and has produced an industry of predatory small loan businesses. See The Wall Street Journal, November 5, 1979 page 1.

though not as consumer finance organizations.[11] They advertised their services and had conventional offices. Numerous loans were made, generally in the rate of $5.00 to $50.00. The source of the lenders' capital is far from clear, but the allegation that it came from criminal syndicates does not seem to have been common or have any justification.

The passage, in the various states, of Small Loan Laws largely eliminated the salary lender. These laws considerably relaxed the maximum allowable interest rate for legitimate consumer loans, frequently raising the ceiling to 42%, and giving a variety of legitimate financial institutions an incentive to enter the small loan market. The changes in the financial law alone, however, were insufficient to eliminate, even in the small loan market, the practice of loansharking.

Two features of the organization of salary lenders are particularly interesting. First, although there were some salary lenders that had branches in a number of cities, there was no national organization - indeed, there is nothing to suggest that there were even local monopolies. Second, although salary lenders generally operated in open violation of felony statutes, allegations of related police corruption did not figure prominently in the extensive and much publicized campaign against them. There were, however, many allegations of political corruption - the corruption of legislators - directed against the members of state legislative bodies which considered the repeal of those stringent limitation on legal lending that protected the salary lenders' market.

Haller and Alviti also provide an account of the early history of what they call "racketeer loansharking." This they define as illegal lending that does not occur through formal offices of a legally established organization. They note that it is unfortunate that "....little is known about the origins of racketeer loansharking, except that it apparently first appeared in New York City in the 1920s." (p.141) With respect to the small loan market Haller and Alviti observe "What had changed was the collection mechanism: the use of violence, or the threat violence, emerged as the standard collection procedure." (p.142) But their source for the assertion that this was new, namely its reporting in major newspaper, is slender support.

New York District Attorney Tom Dewey made a number of cases against loansharks who dealt in small loans, but he was never able to substantiate his allegations that they were agents for prominent racketeers like Dutch Schultz, Lucky Luciano and Lepke Buchalter.[12]

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11. Haller and Alviti's account suggest that corporations in this market were specially formed to be salary lenders. They were not affiliates of broader based corporations.

12. Cf. Block (1980).

Racketeer lending to entrepreneurs, both legal and illegal, seems to have been well-established in New York by the 1930's. The few accounts of such lending[13] associate it with various forms of gambling; unsuccessful bettors became the borrowers. This view, however, may reflect the police interest in gambling rather than any peculiar importance of such borrowing. Haller and Alviti believe the establishment of loansharking as a syndicate racket in Chicago to be founded more on loans to criminals than to loans in other sectors of the community.

There is only one scholarly piece of loansharking in contemporary America. Ianni (1972) in his study of the activities of one organized crime family in New York, dealt with two of their illegal businesses in detail. One was Numbers, the other loansharking. On the latter, which he asserted was the family's major illegal activity, Ianni relied on the informant described as a "client of the loansharking operation." On the basis of this one informant, Ianni sets out a description of Mafia loansharking in New York generally. That description emphasizes elements of a cohesive superstructure for each operation.

We are dubious about broad structural conclusions based on the information provided by a single, low-level, informant. Moreover the claim about central control within the organization is supported neither by reporting of specific incidents nor by direct observation. It is instead an inference by the informant which Ianni accepts. Our own experience suggests that participants are inclined to infer command where relationships are often much more responsive to the market.

4. SOME EXAMPLES

In this section we describe three operations on which we obtained relatively detailed information. They do not in any sense represent a sample but they do show some interesting variations and provide an appropriate introduction to discussion of more general characteristics.

Ambaz

David Ambaz operated a legitimate debt collection business in a city near New York. He also ran a loansharking operation out of the same office. The records of the loansharking business were maintained in a separate file cabinet in the office, and were kept as routinely and completely as were the records of the debt collection agency.

Ambaz has approximately 50 customers, with loans outstanding totalling about $200,000. The bulk of loans were

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13. Various Mafiosi biographies have low credibility accounts of these transactions. The best is Maas (1967).

between $1,000 and $2,500, but there were a few that were significantly larger; the largest was for $30,000. The interest rate seemed to be a uniform 3% per week. The terms were interest payments on outstanding principal, but the principal could be reduced at any time. Most customers were repeat customers. Included in the list of 50 customers were about 10 bookmakers. Other customers were mostly small businessmen.

Repeated efforts to find organized crime figures associated with Ambaz found none. He had no previous criminal record and was completely unknown to the law enforcement agencies in the city. The bookmakers who borrowed from him included persons closely associated with the dominant Mafia group in the city.

Ambaz always tried to obtain collateral. Often that took the form of a second mortgage document, signing over to Ambaz a portion of the borrower's home. The borrower was told that the document would be filed if, and only if, he failed to make the scheduled payments. In fact, Ambaz would occasionally file the documents anyway, thus freezing the borrower's ability to sell his home. Some of Ambaz's borrowers used him simply to ensure that they maintained their assets free from apparent encumbrance and thus retain continued eligibility for legitimate financing if they needed it.

Ambaz did not use violence for collection. However, he did make explicit threats over the phone if a borrower were late in making payments. He did not use any agents for collection, apparently relying on the use of collateral to pressure borrowers. [investigator interviews plus seized records]

Brodsky

Jim Brodsky lent money from a fur store in the fur district of Manhattan. The store contained only a few fur samples, which were dusted every two weeks. He worked with his wife, Tamara, and an agent, Eugene. Every morning Eugene met Brodsky in the store to discuss the accounts and then went out to pick up payments from those customers who could not easily come to Brodsky fur store. He seems to have served about 100 customers each week. Brodsky dealt with borrowers who came to the store; most loans seem to have been initiated by such visits, even if the customer was later serviced by Eugene.

Borrowers came mainly from the fur business. None seem to have been criminal operators. The loan might be needed at the beginning of the fall to buy some pelts to make into furs. Since summer is a slow time for

the furriers, they have liquidity problems just at the time they need to acquire an inventory of raw materials. The loans were typically for periods of six to eight weeks. If Brodsky did not take coats as collateral, he required the borrower to make out a pre-dated document handing over some part of the borrower's business to him. This was returned when the loan was repaid.

The bulk of loans were "knockdown".[14] The effective interest rate was never less than 2-1/2% per week, and rose as high as 20%. Loans varied in size from $200 to $50,000, but there were very few over $5,000. The Brodskys (Tamara was an active member of the business, keeping the books and pressuring Joe and Eugene) had a total of about 600 loans on the books in one year.

Collection schedules were rigorously enforced, in the sense that lateness in payment led to heavy penalty charges. On the otherhand, despite a ready use of threats, observation by an undercover officer over a period of some months revealed only one (unsuccessful) attempt at violence. The attempt occurred when Eugene and Joe spotted a customer who had not paid for a year. They were unable to catch him in the ensuing chase.

Brodsky had close relations with two Mafia figures. He was extremely deferential in his handling of one of them though there was nothing to suggest a business relationship between them. He dealt with other organized crime figures from time to time. For example, he made regular purchases of stolen cigarettes from one major racketeer, which he then required his customers to buy from him for their own resale purposes [undercover agent in Brodsky operations]

Martino

Frank Martino was a low level member of one of the New York Mafia families. He was involved in a variety of criminal activities throughout his career, including fencing and bookmaking.

It is not known exactly how much money he had lent out at any one time. During the observation period he appeared to have over $100,000 in circulation. Most of the loans were for amounts between $500 and $2,000, but he had recorded at least one loan of $25,000. All but the largest loans were made on a knock-down basis. (The knock-down terms were 12 weekly payments of $100 for a $1,000 loan.)

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14. Involving fixed schedule of payments, covering interest and principal.

Loans were transacted through bars. An agent for Martino, Vinnie, was hired to make the loans and collections from a bar near the docks. Each day he spent about four hours in there. Dock workers who approached him had to show their dock identification badge before being given a loan. Payments had to be made on Friday, which is the payday on the docks, regardless of the day on which the loan was made. Vinnie also went to other bars to pick up envelopes that had been left with the bartender; he did not make loans at these locations.

On only one occasion during his six week service for Martino did Vinnie use violence. In that case the borrower, a small-time criminal, had failed to make payments for over twelve weeks. After frequent warnings, the loanshark instructed Vinnie to beat up the borrower. Vinnie did so. The victim had both legs broken and had to spend some time in the hospital. He did not bring any complaint against Martino or Vinnie. [Vinnie]

5. OPERATING CHARACTERISTICS

Agents and Enterprises

Unlike Numbers bankers and bookmakers, loansharks do not make use of numerous agents. Success leads not to an increased number of loans but rather to an increased size of loans. This is easily explicable in terms of rising concern with the prospect of arrest as the lender's capital and income increase. The exposure to arrest is primarily a function of the number and characteristics of borrowers. If the loanshark does not increase the size of his loans he can only lend more money by increasing the number of customers. Further, he can increase that number only by lending to people he knows less about; the probability of one of his customers being an informant may thus rise sharply. None of the important loansharking cases which have been made by the police in recent years have exposed a loanshark employing more than one or two agents. Agents, incidentally, have generally been used more for the purpose of collection than for the recruitment of new borrowers.

Only when one takes into account the lending of money to loansharks within the trade is it possible to detect even a loose form of organizational structure. In this structure tiers of loansharks create a distribution system which is, in essence, comparable to those that exist in the heroin and cocaine trades. Within the distribution system loansharks with greater capital lend to others with less. They may in turn lend to other loansharks. The more important loanshark may lend to the next level in units of $50,000 at one-half percent a week, while the second level lends units of $10,000 at 1% a week; as in the heroin chain, the price per unit rises as the transaction moves down the chain.

There are however important differences between the loansharking and the heroin distribution systems. Any large scale heroin transaction must take place between dealers. No one is likely to purchase a kilo of heroin for his own use. There may, however, be loanshark borrowers who need capital sums that can only be obtained from the highest level of loansharking "dealer." Because of such possible capital requirements, it is unlikely that any loanshark specializes entirely in financing other loansharks. All those about whom we have information indicating them to be "wholesale" loansharks also lend to customers who are not themselves loansharks.

Relationships within the distribution system for loansharking are rarely exclusive; within the heroin system they must be. A heroin kilo dealer is likely to make purchases from only one importer at a time; the knowledge that the relationship is fraught with danger compels all high level heroin dealers to make great efforts to restrict knowledge of their specific transactions. (cf. Moore, 1977) The result of this is a very long heroin distribution chain. Dealers at the highest level will presumably sell to only very few customers, and it takes many transactions to break down a kilo shipment to the "bags" purchased by the retail consumer. In loansharking, by contrast, since the threat from law enforcement is so small, a loanshark may be willing to lend to any person who can provide reasonable bona fides. Further, our anecdotal evidence points to frequent interconnections between different chains of loansharks.

These interconnections within the loansharking business raise interesting questions about the recruitment of customers. Since it appears that no systematic effort is made to check on whether a potential customer has any outstanding loanshark debts, one customer is not prevented from borrowing from a number of loansharks simultaneously. Some individuals take advantage of this and do in fact borrow from a number of loansharks during the same period; they then, in effect, call a creditors meeting to work out a schedule of payments when unable to meet the sum of their payments. The advantage of this tactic to the borrower is that under these circumstances no single loanshark can use violence against him because to do so would affect the collateral of the other lenders.

The determinants of the order of payment when multiple borrowing occurs are not clear. In one case, it was simply the importance of the individual lenders in the criminal world. The most senior member came first in order of payment. In another case, it was the age of the debts. The lender with the oldest debt, who was presumed to have received the greatest interest payments, was given the lowest priority. We have however too few examples to be able at this point to make generalizations about credit seniority practices.

Terms

There are two basic forms of loans. Most of our informants believe that "knockdown" loans are the dominant form. The terms

of a knockdown loan specify a fixed schedule of payment covering both interest and principal. Larger loans may be "vig" loans, where the borrower is only required to make interest payments on a regular schedule; principal payments are left unspecified.

If a borrower misses a payment on a knockdown loan there are various devices for levying penalties. In some instances the loanshark specifies in advance what portion of each regular payment is interest and what is principal. E.g. a $120 payment maybe said to have $20 interest and $100 principal. In the event of missed payments an amount equal to the interest - $20 - will be added to the total bill for each missed payment. If the borrower misses just one payment, he must pay $140 next time to get back on schedule. If he misses two payments, then he must add $40 the next time etc. In other operations there are more complex and extortionate schemes for determining late payment penalties.

In the case of a vig loan the most interesting specifications of terms is the lender's recall right. One informant asserts that the convention is for the lender to have two-week recall rights, i.e. the lender can specify at any time that he wants the principal back in two weeks. Some loansharks require that the principal only be reduced in fixed fractional increments. One lender, for example, specified to his customers that they had to pay back at least one quarter of the principal at one time. Some loansharks do not permit partial reduction of the loan at all, requiring full repayment.

Interest Rates

There is considerable variation in interest rates not only between operations but also within operations for loans of the same size. It is generally true that larger loans have lower interest rates than do smaller ones, but the character of the borrower has an impact on the rate charged.

It is difficult to discuss the actual level of interest charges with informants because the terms of a loan often conceal the true rate. A loan of $1,000 that requires repayment of 12 weekly sums of $100 is often cited by the participants as a loan of 20 points - or 20% - a week. If the complex process of converting the loan into an annualized interest rate is undertaken by conventional actuarial method, the example cited above would bear an annual interest rate of 152%, or less than 3% a week.[15]

The terms given in the above example appear to be typical for loans of approximately $500 to $2,500. There is, of course, variation. Some lenders demand that $1,000 be repaid in 11 installments of $120, thus raising the true weekly interest rate to close to 3-1/2%. In one case a loanshark who lent mostly to dock workers

15. These calculations are contained in Regulation A Annual Percentage Rate Tables, Board of Governors of the Federal Reserve System.

made a loan to a city employee. From the longshoremen who are paid weekly, the loanshark had required weekly payments. From the city employee, who was paid every second week, the lender demanded only payment each second week. In return, however, the city worker had to pay a higher effective rate: five payments of $280 at two weekly intervals made for a total repayment of $1,400 in 10 weeks, a period in which other borrowers would have paid $1,200 for a loan of the same amount.

Very small loans bear very much higher interest rates. The traditional "6 for 5" loan still exists for very small amounts. On a $50 loan the borrower has to repay $60 one week later - an annual interest rate of 1040%. Small loans, according to at least one participant, have higher rates because it is not considered cost effective to collect very small amounts at one time. For the same reason, a knockdown loan for $250 may be extended over no more than three weeks - the repayment being $100 each week - so that the collector does not have to handle payments of less than $100.

Larger loans are likely to be "vig" loans, i.e. the borrower pays only the interest each week, no schedule being set for the repayment of the principal. The interest rate for a loan of $20,000 may be as low as 1% per week. There is even an unreliable report of a loan of $189,000 which had only one-half percent weekly interest attached to it. In general, 1% seems to be regarded as the "prime" rate. The few pieces of information which we have on borrowing by loansharks indicates that 1% per week is the conventional rate. For loans over $5,000 the retail rate seems to be in the range of 2% to 3% per week.

As an example of the effect of borrower character on the interest rate charged, we have the case of a non-Italian small business owner borrowing from a major Mafia figure. The lender, whose primary interests were in Numbers banking and horse bookmaking, lent the borrower $5,000 and required 13 weekly payments of $500 in return. This was one more payment than he would normally have demanded. Our informant asked the lender why he had done this. The loanshark replied that the borrower wanted to have the prestige of borrowing money from someone as well known as he was; he had charged him extra for the prestige. Besides, the lender continued, he didn't like the businessman.

Collateral

One of our most surprising observations is the frequency with which loansharks require borrowers to provide collateral for the loan. The resale value of the collateral to the lender may be substantially less than its face value; indeed, he may not be in a position to sell it against the wishes of the borrower, as in the example of Ambaz. The prime function of the collateral in many cases is simply to give the borrower a strong incentive to meet his repayment schedule.

The form of collateral can vary greatly. Brodsky tried to secure furs, (placed in his storage room) whose wholesale value

equalled the loan. Ambaz required financial documents which merely tied up the assets of the borrower. In some suburban counties, the borrower had to turn over ownership papers of his car, although its resale value might be less than the outstanding loan. Presumably the threat to sell the borrower's car was a potent one for securing payment.

Many loansharks require that the borrower have a guarantor for the first loan. Since the borrower is introduced to the loanshark by another customer, this is a feasible procedure. The guarantor is apparently generally liable for the principal but not for accumulated interest. We have at least two examples of instances in which the guarantor did have to pick up the remainder of a debt when the borrower fled town.

Collection Methods

Most loansharking cases that are known to the public concern loansharks who make use of violence. Indeed, the origin of an investigation leading to an arrest is likely to be the complaint of a loanshark customer who has been beaten or threatened. It is, not unreasonably, then assumed that most loansharks make ready recourse to threats or actual violence.

The truth is far more complicated.[16] Many loansharks have shown a great reluctance to make use of violence or to have recourse to explicit threats. Those that collect collateral have little need for such behavior. Others appear to have no access to the sources of effective violence. That may not inhibit them from making threats, but it does limit the utility of the threats since they cannot be effectively followed up. There are even some who have access to violence and do not require collateral, but nonetheless seem reluctant to use threats.

Anecdotal accounts suggest that a great deal depends on the individual loanshark's personality. One undercover policeman described a loanshark who was extremely unsure of his own status. He was a rather stupid man and, being aware of that, assumed that others were always taking advantage of him. In order to minimize this problem he became threatening, indeed violent, at the least sign of problems in repayment by a customer. A delay of two weeks in a payment might produce a vicious beating with a metal pipe. At the other extreme lay a quite elderly senior Mafia member who required only that the customer always make contact with him in the case of a payment problem. If the customer had even a moderately convincing explanation for the difficulties he would let him continue without threats or penalty payments.

Loansharks develop reputations for their readiness or reluctance to use violence. One loanshark, a former bookmaker who operated on the fringes of Mafia groups in both Manhattan and

16. Some comments to this effect are also reported in a recent article in The Wall Street Journal, (12/22/80) page 1.

Brooklyn, had a well established reputation for the punctiliousness of his dealings both as a borrower and lender. He seemed to be able to instill in his borrowers a sense of obligation that eliminated, or at least greatly reduced, the need for threats. As a borrower he was so punctilious that once when he was a day late in making a payment of $5,000 he added another $500 so that the lender would not spread the word that he had been late with his payment.[17]

Whether or not a loanshark does his own "enforcing" depends, as one might expect, partly on his standing in the criminal world. Elderly, semi-retired major Mafia figures (and we have information about at least three such persons) certainly do not do their own beatings. On the other hand we have examples of loansharks, such as Brodsky, who have substantial capital and who never employ agents for collection purposes.[18]

Violence is, in most cases, a very late stage of the collection process. Harassment is the most common first stage. The borrower will be called with increasing frequency. Threats will become more explicit, and the threats will be made increasingly at night and at the borrower's home. Our impression is that the typical process of harassment may extend over a reasonable length of time, not less than a month in most operations.

Obviously a great deal depends on the nature of the borrower. A criminal borrower, having in many cases a complex relationship with the lender, may be subject to much less pressure. One extreme concerned Vinnie, a collector for Martino. Vinnie had been forced to borrow money, about $2,000, when a fencing scheme of his failed. The lenders were a group of four, including one who was a long-time colleague of his. The loan was a vig loan, with simple interest charged each week until he could make his first payment. He was unable to make that payment for almost six months, by which time the debt had doubled.

Each month Vinnie called one of the lenders and say he was not in a position to pay. Finally the lending partner who was a friend of his called to say that he must make a more serious effort to pay. Vinnie then started working for a bookmaker who ran a branch of the operation controlled by a major Mafia figure, Jimmy, who knew Vinnie very well. Jimmy sat down with the creditors and worked out an agreement whereby Vinnie's paycheck, about $375 per week, would be withheld every second week and used to pay off the loan. No further interest was charged.

Predatoriness

There are two reasons that loansharking is considered to be more serious as a social problem than simply its role as a source

17. This is of course guaranteed that many people did hear about it.

18. Eugene seems effectively to have been a junior partner.

of income to criminal entrepreneurs. One is the use of violence in collection. The other is the assumption that loans are used by organized crime to take over legitimate businesses.

There is a growing literature on this latter topic.[19] Certainly there have been some major frauds perpetrated in this manner. A businessman borrows money from a loanshark, who then uses the businessman's failure to meet his payment schedule as means to take control of the business, leaving the former owner in only nominal charge. The business then is either used as a "front" or is stripped of its assets, often in such a way that other firms providing supplies to the first firm are the major losers. The firm goes into bankruptcy and the others are left with unpaid bills.

It is not clear that this is the common pattern. The loansharks concerning whom we have information do not seem to make an effort to obtain control of businesses whose owners borrow from them. We did find two attempted takeover cases, but in most instances delinquencies on the part of business borrowers led to no more than the usual efforts to obtain prompt payment.

It may well be that only certain types of loansharks can in fact make use of complex fraud schemes. In the fraud cases that have emerged in recent years, the loansharks have been persons also involved in a variety of legitimate businesses, with a knowledge of conventional commercial practices and a set of commercial connections that permit them to carry out the necessary manipulations.

Many of the loansharks that we have studied have been small time "hoods" with little experience outside the world of criminal rackets. These people are not well equipped for the complexities of fraudulent take-over schemes. Ultimately, of course, such small time criminals may work for, or pay tribute to, others with broader capabilities and experience. However, the relationship between the lesser and the more powerful criminals does not imply that the more competent criminals would have the detailed knowledge of lesser loansharks' loan portfolios of the sort which would be necessary should they wish to explore the possibility of taking exploitative action against the lesser loansharks' clients.

It is also likely that certain kinds of businesses lend themselves the profitable fraud schemes more easily than others. The owner of a small clothing store may present a relatively unprofitable target for these ventures, since the clothing business involves little extension of credit and fake bulk purchase are less easy to conceal. On the other hand a wholesaler in the food business offers considerable opportunity.

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19. Kwitney (1978) provides an interesting series of accounts of such incidents.

Bars may also make attractive targets for predatory loans, though for different reasons. Control of a bar provides the racketeer with control over a premise which can be used for the distribution of illicit goods and services. Further, the bar is desirable as a meeting place which can be controlled. The loanshark may be willing to let the former owner continue as nominal owner and manager, perhaps even retaining most of the profits, while using the bar for his own activities.

6. LOANSHARKING AND BOOKMAKING

A frequent and important assertion about loansharks is that they derive a great deal of their business from gambling.[20] It is claimed that bookmakers' customers, once they have become heavily in debt to the bookmaker, are either turned over to a loanshark, or become loanshark customers of the bookmaker. It is also alleged that card game operators permit loansharks to operate at the games and that this is critical to the earnings of both the operators and the loansharks.

It is clear that both forms of gambling do lead customers to incur obligations to loansharks. We know little about illegal card games in New York, but what we do know suggests that the loanshark is indeed likely to be an integral part of the setting, for card games do seem to lead players to incautious efforts to recoup their losses. It is impossible for us to estimate the importance of this to the loansharking business as a whole, particularly as none of our informants have provided us with information about this area of lending, despite their contact with numerous loansharks. Nor do the police seem, at least in recent years, to have made cases against loansharks specializing in gambling debt borrowers.

We have gathered a great deal of information on the relationship of loansharks and bookmakers.[21] The implications of the information are unambiguous and in sharp contradiction to the prevailing orthodoxy. The loanshark is important to the bookmaker because the bookmaker must himself borrow funds for continued operation. These loans are frequent and substantial.

We have already, in our discussion of bookmaking, provided some account of why bookmakers face liquidity problems. In addition to the problems that arise from their own betting decisions

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20. See FBI testimony before the Commission on the Review of the National Policy toward Gambling, June 1974.

21. While our analysis of the financial structure of Numbers suggests that Numbers bankers may require loanshark financing from time to time, when popular numbers hit, we have no examples of this from our informants or police.

(i.e. their intentional failure to balance their bets on each game), they also have difficulty in collecting money owed to them by runners and customers. As a result most bookmakers have close and continuing ties with a number of loansharks.

There are, indeed, loansharks who specialize in lending to bookmakers: while they may also lend to other customers, they appear to deal mostly with bookmakers. In some cases the loanshark is himself involved in the bookmaking business, usually as a partner or runner. In other cases, the loanshark originally came out of the bookmaking business. The connections between bookmaker and loanshark are sufficiently complicated for it sometimes to be difficult to distinguish the roles.

It is precisely this intimacy which explains the most surprising aspect of loanshark financing of bookmakers, namely the fact that it goes on at all. It is hardly unreasonable to describe bookmakers as very poor risks. The very fact that they need a loan suggests that there is something fundamentally weak about their operation: their clerks are stealing, customers are not being effectively pressured for payment or the bookmaker is taking large risks. Nonetheless, we have lists of loansharks who regularly lend to bookmakers and lists of bookmakers who regularly borrow from loansharks.

The closeness of the ties between lender and borrower helps explain this. The loanshark will frequently know a great deal about the business of the bookmaker to whom he is lending. He may be willing to take some part of the operation as repayment for the loan if there are problems. This is both attractive and feasible because of the lender's involvement in bookmaking generally. The closeness of the community surrounding bookmaking and its financing also suggests that it is important for the borrower to avoid alienating the loanshark, for fear of acquiring a poor reputation which would prevent borrowing from other loansharks.

Very few bookmakers leave the business once they have been in it for a few years. A lender, aware of the fluctuations in a bookmaker's business, may reasonably expect that at some stage in the long run the bookmaker will be sufficiently successful to make repayment, though some of the accrued interest may have to be foregone.

The arrangements do not always work smoothly. In one case there was a major bookmaker who, through the reputation of his brother, an important racketeer, was able to borrow from about 20 loansharks. Eventually his debts totalled over $750,000 and the debt service payments were close to $30,000 per week. He fled the city leaving his various creditors to sort out the priority of their loans, which were collected against the continuation of the bookmaking operation that he left in the hands of his former clerk.

In another case a loanshark, who was also a heavy bettor, lost because of a loan to a bookmaker. The bookmaker borrowed the money just before going to prison, knowing that the lender would

then take over his bookmaking operation in order to protect the loan. The loanshark failed to control the operation properly. He promptly lost all the money that he had lent to the bookmaker, who may have arranged to siphon it off through phony runners. The loanshark, who had himself borrowed the money from others, left the city, leaving his creditors a list of his customers (and the amounts they owed). He suggested that his creditors should collect the money that he owed them directly from his customers.

Our final example concerns Jiggs Stone, perhaps the most prominent retail loanshark in New York City until his murder in 1976. Stone, of Eastern European origin, had close connections with Thin Andy, a major Mafia figure who provided him with much of his financing in his latter years. Stone lent to a wide variety of customers, both legitimate and illegitimate, but was most strongly attracted to the night-life style around the bookmaking business. At one stage he entered a partnership with two younger bookmakers, providing them with $35,000 in capital. The partnership lost $100,000 in one week during the baseball season, which is when bookmakers operate on the thinnest margin. Stone, who had no operating role in the partnership was convinced that the others were stealing from him. He arranged for them to obtain $100,000 from Thin Andy and demanded that they return to him the $35,000 that he had initially provided. Up to this point the partners had been paying Stone 1% per week for the use of the money. Now that he was no longer a partner, he demanded that they pay the standard rate for a loan of that size, 2% per week.

The partners were sufficiently angry at what they saw as betrayal by their former partner, that they refinanced the loan, borrowing money from another loanshark at the same 2% and using it to pay back Stone. Eventually, after many ups and downs, the original three member partnership was re-formed, with Stone again in a non-operating role; this time the operating partners did actually steal money from Stone. It was this partnership which expanded to take on the customers of the bookmaker mentioned in the previous example, when he went to prison. When these accounts led to large losses on the part of the partnership, Stone again claimed that the operating partners were at fault and that he should not incur any of the financial responsibility. This led to a confrontation between Stone and the loanshark with whom the others had refinanced their original borrowing. The confrontation was mediated by Thin Andy and led to a compromise and the final dissolution of the partnership.

These incidents illustrate the critical point about the relationship of bookmaking and loansharking. Bettors, runners, loansharks and bookmakers form a fluid system in which roles change frequently. Large sums of money move between the groups, but the net transfers between individuals over time may be quite small. Whatever role formal organization and intimidation may play in other sectors of the loansharking business, within the sector that supports bookmaking we have a self-contained system in which informal relations, involving many individuals and extending over long periods of time, are far more important.

7. CENTRAL CONTROL

There is almost unanimity amongst prosecutors and police in New York in the belief that loansharking is controlled by the Mafia.[22] They believe that no one can become a loanshark without receiving permission from, and paying tribute to, some member(s) of the Mafia. This assertion has a plausible rationale to justify it.

The critical assumption, which appears, a priori, to be reasonable, is that the incentive to repay money lent by a loanshark is the fear of possible violence initiated by the lender if payment is not made. If this is so, the individuals associated with the group with the strongest reputation for violence, namely the Mafia, will have definite advantages over any others who might enter the loansharking business. In the first place, borrowers are simply less likely to attempt to defraud the lender if he is able to provide evidence of association with the maximally violent group. This is not to say that no one attempts to defraud the Mafia or that no one repays a debt to a non-mafia loanshark. The probability, however, of a borrower trying to defraud a Mafia loanshark is smaller than if the lender cannot show credible evidence of a Mafia association.

This argument is clearest if we consider the example of a non-Mafia lender who has been detected by a Mafia member who decided, either directly or through a front, to borrow money from him. When the lender demands repayment, the member cites his Mafia credentials and thus shows the lender the ineffectiveness of trying to use force to effect payment. An independent loanshark who wishes to avoid situations like this must either demand collateral before he extends any loans, a practice which may restrict his market, or he must invest in screening out not only Mafia members but also - a much more difficult task - their fronts, again to the detriment of his market.

The second advantage of the Mafia loanshark is ancillary to the first. Not only will the Mafia loanshark be less subject than others to deliberate attempts to defraud him, he will also be in a stronger position when his borrowers find themselves in genuine difficulty in meeting their payment schedules. The probability that a borrower will make a maximum repayment effort is directly related to the fear that the lender is capable of arousing in him. The Mafia member will arouse the maximum fear and, thus, will generate the greatest effort to seek our sources of funds to repay the loan.

We believe that the rationale cited, drawn mostly from implicit assumptions contained in the statements of law enforcement

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22. Even some who are willing to consider that gambling may not be controlled by the Mafia flatly assert that loansharking is so controlled.

authorities, is too simple. It ignores the difficulty of establishing a comprehensive understanding of who is associated with whom; underestimates the general ease of access to violence for enforcement; overestimates the need for violence in loansharking; disregards the actual anonymity of most of the individuals involved in loansharking activities and, above all, disregards the intimacy of the relationship between the loanshark and many of his customers. While there may be some segments of the loansharking market which are monopolized, there are some parts which, quite apparently, are not: the critical factor in determining whether monopolistic practices can or cannot operate probably revolves precisely around the nature of the customer-lender relationship.

It is important to note that while we would qualify the assumption that the loansharking market is under a single monopolistic control, we are in no sense claiming that the loansharking market is a competitive one, as we have asserted the bookmaking market to be. Few customers apparently have easy access to more than one loanshark, so each lender may have some degree of at least temporary monopoly power. Sports bettors seem to have far less trouble finding additional bookmakers than borrowers have finding additional lenders. There is variation in the prices charged for identical loans which, even when allowance is made for variations in loan size and in the explicit or implied collateral of the borrowers, suggest an imperfection in the flow of information incompatible with a competitive market condition.

It is this very element of non-competitiveness which suggests why the "reputation based monopoly" argument may not be entirely valid. Persons who have needed to borrow from a loanshark are, if the loan was repaid smoothly and if the relationship never degenerated to threats or violence, likely to wish to borrow from him again. It is not implausible to assume that the borrower typically realizes this even when he make his first loansharking transaction. If we are correct in our assertion that it is not easy to obtain access to a loanshark to obtain needed money, then the maintenance of the relationship which a borrower has established with a loanshark is an important consideration for the borrower. That alone may serve to motivate most borrowers to make repayments when required even when the lender lacks overwhelming reputation and has not required the deposit of substantial collateral.

The fact that many of the loansharks on whom we have information - including loansharks who may have monopolistic advantages - require substantial collateral needs to be accounted for. Collateral, even if its re-sale value is less than the amount of the loan, gives the borrower some incentive to make more strenuous efforts at repayment. If the borrower does fail, the value of the collateral will reduce the extent of the loss. On the other hand, the collateral requirement must reduce the market for the lender. Certainly many potential borrowers, whose riskiness is in truth quite moderate, lack the physical collateral required. It is arguable that the ubiquity of the collateral requirement is, in fact, evidence that borrowers are not, as has been generally

assumed, in fear of the loanshark.

To this we must add the fact that loansharking is a business in which it is extremely difficult to restrict entry of newcomers. We have heard several accounts of various small businessmen entering loansharking on a part-time and opportunistic basis. Typically they come from small business sectors in which there is regular use of loansharks. Under the guise of arranging a loan with a racketeer for an associate they lend their own money at a usurious rate. The borrower assumes that they are "backed" by a racketeer and has much the same incentive for repayment that he would have if the loan were in fact provided by such a racketeer.

The critical point is that it is possible to do this on a very part-time basis. Obviously if a lender tries to undertake this activity on a large scale he runs the risks that we mentioned earlier of being defrauded by a racketeer. However, by making loans only when the borrower is well known to the lender and restricting his domain of activity in terms of the type of business, the lender can avoid exposure to this risk and minimize the probability of conflict with more committed loansharks.

We do not have data that would enable us to make an evaluation of such non-racketeer part-time loansharking, but it certainly exists. In one county outside of New York the police believe that such lending had become a major component of the illegal small business credit market; in other areas we were merely given occasional examples of such lending. In no case did we learn of any actions taken by racketeers against such lenders, though the nature of enforcement in this area makes it unlikely that such information would come to the attention of the police. The amateur loanshark is not well placed to bring a complaint when he is defrauded by a professional. However, the very existence of such lending suggests the difficulty of controlling this market.

8. CONCLUDING REMARKS

The very varied nature of the loansharking business, together with the low level of law enforcement against it, makes general conclusions about its structure and operation difficult to draw. Our study does suggest though that there is a substantial discrepancy between the official view of loansharking in the criminal world and the reality of loansharking in New York.

The roles of both violence and intimidation are very much smaller than official accounts would suggest. The ties between borrower and lender, in many segments of the market, are sufficiently close that there is little need for recourse to violence, or even to threats. Those that borrow from a loanshark know that they are likely to have future need for similar loans and that it is not a minor matter to secure loans at short notice. This alone may be enough to lead most borrowers to reasonably prompt payment.

We are impressed with the ubiquity of loansharking activity in various parts of New York. The list of bars and social clubs

in which loansharking deals are made on a routine basis is impressively long. Even with our limited investigative resources we have been able to locate loansharks in many districts of the city.

Loansharking is certainly a major activity for well established groups of racketeers. On the other hand, it is also a business in which non-racketeers play a role. The illegal lending of money at usurious rates is not a matter which requires much skill, time or organization and it seems that numerous individuals engage in it on a part-time basis, taking opportunities as they present themselves.

What emerges then is a complex market imbedded in the urban community. It is undoubtedly an important source of income and power to racketeers but there is much to suggest that, once again, they have limited control over the business as a whole.

APPENDIX B

BETTING PREFERENCES IN THE NUMBERS GAME

by
Kathleen Joyce

1. ANALYSIS

The analysis of the finances of the Numbers business suggests that profits are marginal and unstable. The average level of profits (as a percentage of betting volume) is a function of the basic parameters of the distribution system, namely the payout rate (which determines the percentage paid, in the long-run, to bettors) the number of "cut" numbers, and the commission rates for collectors and controllers. The instability of recorded profits is a function of the size of individual banks and of the uniformity of preferences of bettors. The argument concerning the importance of uniformity is given in detail in Chapter IV.

This Appendix reports a study of the distribution of bettor preferences across numbers and tests the assumption of uniformity. It is based on a sample of betting slips seized in arrests of collectors in Manhattan over a period of almost 10 years. The data show, first, that the distribution of bettor preferences is not uniform; there is a strong bias toward the lower end of the distribution. Second, and of equal analytic significance, that is true for all three population sub-groups within Manhattan (black, Hispanic, "other"), though there are some differences between the preferences of the three groups.

Although descriptions of the Numbers game are commonplace in popular literature, scholarly examinations of the game are few.[1] Discussion of the distribution of bets in Numbers typically begins and ends with the assumption that the distribution is uniform across numbers. At first glance, the assumption is not an unreasonable one. The odds of any one number winning on any given day are 1000 to 1; therefore, there is no apparent advantage in preferring one number over another. Bettor preferences should cancel each other out in the long run and produce a uniform distribution. However, the assumption of uniformity discounts the influence of cultural beliefs about the nature of different numbers, and the widely reported attempts by players to enhance their luck by consulting dream books or playing hunches.

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1. Light (1977) provides the most serious analysis of the cultural significance of the game.

These cultural beliefs and practices may lead bettors to prefer certain numbers or cluster of numbers and hence produce a non-uniform distribution of wagers.

Only one other study has focused on the distribution of bets across numbers (Rados, 1976). Rados' data showed that the distribution appeared to be non-uniform; however, he made little attempt to further explore the nature of the non-uniformities, identifying only biases across groups of numbers. Further, his data were limited: his sample consisted of the betting slips that were taken in the arrest of a single collector, presumably covering only one day. His data can hardly be said to represent numbers betting generally in New York for even that one day, much less for a period of time.

This study will discuss the distribution over time of bets in three distinctive socio-economic areas of Manhattan.[2] We will estimate the distributions in each area and test for significant differences among the areas and within each area for different time periods. This enables us to address distortions of the distribution due to number preferences among the general Numbers betting population as well as distortions peculiar to each area. Further, we can examine these distributions in an extended time context for their stability over time, testing that our results are not the product of peculiar short term social conditions.

Data and Context

The data used in this study consist of Numbers betting slips taken by police in gambling arrests in Manhattan from 1967 through 1975. Only material from low-level gambling arrests was used, so as to ensure that our arrest data did in fact represent the betting behavior of the population residing where the arrest occurred.[3] The sample included 18,000 observations with the following information: 1) the police precinct in which the arrest occurred; 2) the year; 3) the number on which the bet was placed; 4) the amount bet straight on the number; 5) the amount bet "combination";[4] and 6) the type of bet (straight, combination or both). The 18,000 cases were selected, from more than 3 million bets available to us, in such a way as to produce 2,000 in each of nine categories as defined by time period and social area.

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2. Data for other boroughs were not available at the time of this study.

3. A detailed discussion of sampling procedures and the nature of the data is presented in Part II of this Appendix.

4. A combination bet is a bet on all six possible permutations of the three digits. E.g. a $1.50 combination bet on 517 is equivalent to a 25¢ bet on each of the six numbers 517, 571, 751, 157, 175.

A second data set was created from the 18,000 cases by converting the combination bets into their several equivalent straight bets. This was necessary because we are interested not only in bettor behavior but also in the consequences of that behavior for operators. If number 503 wins on any given day, it makes no difference to an operator if a bettor places 10¢ on 503 or 60¢ on the combination of 305 - his payout to the bettor is the same in both cases. Since each of our 18,000 cases may carry either a straight bet or combination or both, the implications of combination betting for the operator could be concealed by virture of the structure of each case. This transformation produced a sample of 38,108 cases. The first set (18,000) will be used to discuss bettor behavior; for discussions of the operator the second set (38,108) will be used.

We are interested in two different but related distributions throughout this study. The first is the frequency distribution of bets across numbers, without regard to the amounts bet. The second is the distribution of money across numbers. In discussing these two types of distribution we will address the relationship between number choice and the size of the bets staked; that is, do bettors who prefer low numbers, such as 146, stake less on their number than those who prefer numbers in other areas of the distribution, or is number choice and bet size uncorrelated. Ethnic differences in behavior regarding this relationship will be explored as will any time differences.

Winning numbers come in a variety of forms, but all are based on the parimutuel betting at a pre-designated racetrack.[5] The digits of the winning number are selected from fixed positions in the racing results printed in newspapers and the Daily Racing Form each day.[6] There is little potential for operators to fix the winning number when using this system, and this method appears to represent as ideally random a source of numbers as can be obtained.

No scholarly or official effort has been made to compile all the winning numbers over a lengthy period of time; however, the authors of dream books do insert such compilations in their materials. Whether these lists are genuine may be subject to some question, but the evidence seems to weigh in their favor. Holland (1971) examined the winning numbers listed in a Boston dream book which purported to cover 44 years, and concluded that the work was probably legitimate. The distribution of winning numbers was neither so uniform as to make one suspect that the author made certain that each number turned up as frequently as

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5. If a local track (Aqueduct or Belmont) is running, it will be used. Otherwise a track in Florida or Maryland is designated.

6. The formula for determining the winning number is given in Fund for the City of New York (1973).

it ought to, nor so nonuniform as to suspect that the author filled in each winning number on the basis of whim. Our own examination of the winning numbers contained in dream books for the New York area supports the legitimacy of these lists as well. Our dream books, covering 17 years, appeared to have a truly random set of numbers. Assuming, then, that the lists in the dream books do actually contain the winning numbers, winning numbers appear to be random and their distribution truly uniform across the possible range.

Since winning numbers are random, one would expect approximately uniform betting distributions. The very existence of dream books, however, suggests many people believe that outcomes are not random. The utilization of dream books is an attempt to manipulate the odds of winning in one's favor. In these books symbols and experiences of everyday life are translated into numbers. Numbers corresponding to popular symbols and events should receive heavier play than other numbers, thereby distorting the distribution. One might expect "positive" or "happy" numbers to get heavier play than negative or sad numbers.

Unfortunately, we have no data on the prevalence or utilization of dream books among the Numbers betting population, so we cannot directly assess any influence that dream book recommendations may have on the betting distributions. However, in examining the contents of the dream books some statements regarding their organization and the potential impact of that organization on betting behavior can be made.

Dream books typically contain about 2500 interpretations in addition to more elaborate number predictions based on the time of the year or one's name, birthdate or number of children and the like. The word-interpretations are arranged alphabetically for easy reference and the content of the word lists speaks directly to the commonplace occurrences in the daily life of the ethnic groups for whom the books are written. For instance, in Rabos' Nu-merical Dream Book, aimed at the city's black population, there are frequent references to many of the difficulties of ghetto life, such as jail, hassles with the police, debt, crime, hopelessness, the army and Democrats (no Republicans). In the Charada China Guia de los Numeros there are frequent references to oppression, revolution, the Catholic Church and its saints, birth and the family, tradition and homelands. Aside from differences in cultural content in the black and Hispanic dream books, there is little agreement of interpretation on those symbols they contain in common: a telegram means 069 in Rabos's book and 851 in Guia. From this one would expect blacks and Hispanics to prefer different numbers, and to some extent this is true, as we will see below. However, the books do share one feature in their interpretations, which could affect the distribution of bets: in both books certain numbers appear over and over again in the interpretive lists to the exclusion or, at the very least, underrepresentation of other numbers. Just the fact that certain kinds of numbers appear so frequently should lead

to the systematic distortion of the betting distribution, a point to be discussed more fully in a later section.

Since this study is based on data originally collected by the police in routine gambling enforcement, one of our major concerns has been in trying the material taken by the police to the population residing in the area where the arrest occurred. We believe that, on the basis of information contained in the arrest reports collected for the sample cases, the material represents "local" betting behavior; a detailed discussion of the content of arrest reports and justification for this claim is presented in Part II.

Betting Patterns

In placing a Numbers bet the bettor has three options. He can place a bet on 1) a single three digit number (straight betting), 2) all six permutations of a single three digit number (combination betting), in which the payout is one-sixth of the straight payout;[7] or 3) on both a single number and all its permutations; if the specified number wins he receives seven-sixths of the straight payout.

The straight bet is the most common form. Table B.1 shows that nearly three-quarters of the 18,000 bets are straight-only bets, while only 11.3% are combination only. The Table reveals that bettor preference in these modes of betting varies somewhat by area. The rate of straight-only betting is six times that of combination-only betting in our sample overall, but in Harlem the rate is only four time as great. In Harlem bettors are also more likely to bet both straight and combination than in other area. The "other" group shows the greatest affinity for straight-only betting and the least taste for combination-only betting.

The mean amount bet for straight-only bets is greater than that for combination-only bets, a somewhat surprising result given that combination bets are, in effect, six straight bets. The mean amount bet straight-only for the sample as a whole is $.76 compared with $.64 for combination-only bets and $.89 for straight and combination bets, again revealing the tendency to stake more on a straight number than on its possible combinations.

Amounts bet range from $.01 to $60.00 for the sample as a whole, and vary by area. Even though the largest bet in the study was found in Harlem, bets in Harlem tend to be the smallest found in any of the three groups, while the largest are generally found in the "other" group. Of the 71 penny bets in the sample

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7. If a combination bet is placed on a number with only two different digits, such as 575, then the payout is one-third of the straight bet payout.

TABLE B.1

Types of Betting by Area

Percentage of Betting "Straight" Only "Combination" Only and "Straight and Combination"

Type of Bet	Harlem	Hispanic	"Other"	Total
Straight	63	73.5	78.5	71.7
Combination	16.3	10.1	7.7	11.3
Straight and Combination	20.7	16.3	13.8	16.9
Total (N)	100 (6,000)	100 (6,000)	100 (6,000)	100 (6,000)

Mean Amount Bet Straight: $.76
Mean Amount Bet Combination: $.64
Mean Amount Bet Straight and Combination: $.87

67 are found in Harlem, and fully one-third of our Harlem bets are for $.10 or less. While the model bet is a dime in Harlem, it is a quarter in Hispanic areas and $.50 in "other" areas.

More than one-half of all the bets in the study are for a $.50 or less and three-quarters are less than $1.00; only 2% are for $5.00 or more. In Harlem more than one-half of the bets are for a quarter or less; only 8% are for $1.00 or more; and less than 1% are for $5.00 or more. In Hispanic areas one-half of the bets are for $.50 or less; 22% are for $1.00 or more and 2% are for $5.00 or more. In "other" areas one-half are for $.50 or less, but 10% are for $2.00 or more and 4% are for $5.00 or more. Thus, we have a large concentration of small bets in Harlem and a lesser but notable concentration of larger bets in "other" areas. Hispanic bets fall in between these two extremes. In all three areas bets are skewed downwards with one-half or more of the bets for half-dollar or less.

Figure B.1 shows the distribution of bets across numbers. The two lines, although similar in shape represent two different distributions. Line A, which hugs the diagonal fairly closely, represents the cumulative frequency of bets, regardless of the amounts concerned. Line B, which lies outside Line A, represents the cumulative proportion of money in the sample bet across numbers in intervals of 100 numbers.

The most notable feature of both lines is the sharp underrepresentation of the first interval. This reveals that numbers beginning with "0" or otherwise containing a "0" are played at less than one-half the rate expected under a uniform distribution. The next three intervals receive more than their share of play with the sharpest increase occurring for numbers containing a "1". The next four intervals receive less than 80% of their respective shares.[8] Therefore, bettors show a clear preference for numbers containing a "1", "2" or "3", and shun 0's, 8's and 9's. At this point it should be mentioned that the results for both the 18,000 case data set and the 38,108 case set are roughly equivalent. The only significant difference is that in the 38,108 case set 14.5% of the bets begin with or contain a "2", while only 12.3% of the bets in the 18,000 case set begin with a "2". This merely means that combination bets with a "2" in other than the lead position are popular. This is the only instance where the difference between the two data sets exceeds more than a few tenths of a percent.

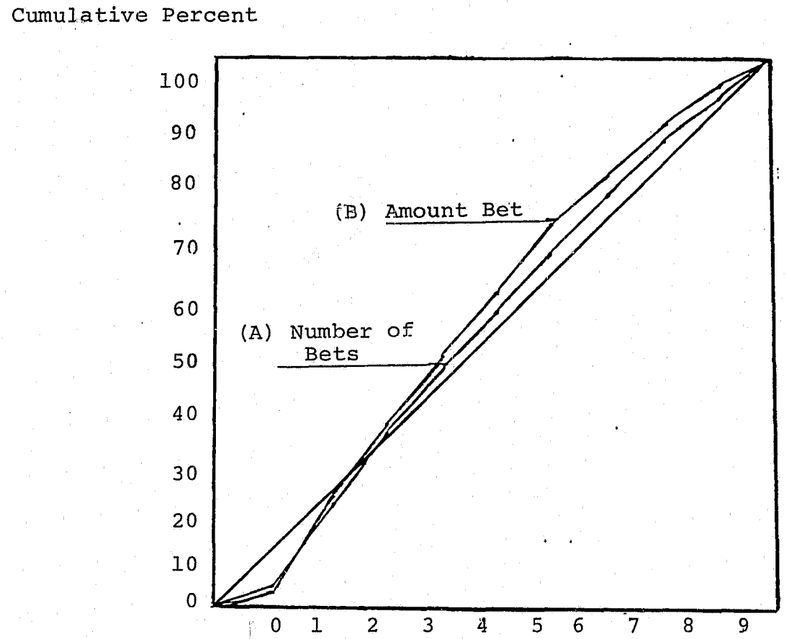
The gap between the two lines is notable and requires some discussion. If bettors made their decisions regarding the amount they wish to bet independently of their choice of number to bet on, we would expect each interval to receive the same proportion

8. These results are consistent with the data presented by Rados. In his sample the interval 100-399 accounts for 44.7% of all bets and the interval 800-999 for only 13%.

FIGURE B.1

Betting Patterns for the Overall Sample

Cumulative Distributions of Bets and Amounts
Bet Across Numbers in Intervals of 100 Numbers
(N=38,108)



Gini coefficients: G_A=.113; G_B=.152

	Cumulative Distributions	
(A)	Frequency of Bets	(B) Amount Bet
0	4.2	3.9
1	18.1	18.3
2	30.5	32.8
3	43.3	46.8
4	53.7	56.9
5	64.7	69.1
6	74.2	77.7
7	85.0	87.1
8	92.9	94.2
9	100	100
	N=38,108	$15,273.43

of the money bet as it receives in actual bets, and the lines should be identical. The figure would seem to indicate that these two decisions are not made independently, but rather that the more preferred numbers not only receive more individual bets but also receive larger bets. This is, in fact, the case and will be discussed in greater detail in a later section.

We suggested earlier that the interpretations found in dream books may induce distortions in the betting distributions by assigning many meanings to certain numbers and few meanings to others. On close examination of the dream books, we find, interestingly, that the underrepresented numbers in the interpretations correspond closely to those underrepresented in the betting distribution. This is especially true in the case of numbers beginning with "0". In one book only 190 of the more than 3400 symbols were interpreted as beginning with "0". Other numbers appear far more often than they should, if interpretations are assigned randomly. For instance, the number "125" appears at least once on all pages, which contain about 120 words each, and on some pages as many as five times. The combinations of "125" are also greatly overrepresented. In general numbers beginning with a "1" appear more often than the 12 times one would expect. On one randomly selected page of 120 words, no fewer than 47 contained a "1". The same general trend is found in other dream books as well. The biases against 0's, 8's and 9's and in favor of 1's are found in English and Spanish dream books. Although we cannot say that the distortions found in our data are due to customer use of dream books, we can say that the bias against certain numbers and in favor of others, although subtly expressed in the dream books, appears to be fairly well integrated into the Numbers betting culture.

Numbers operators are aware of bettor preference and routinely reduce the payout on particular popular numbers.[9] Although some decisions to "cut" certain numbers may be made on short notice or on a daily basis, it appears that most cuts are well publicized and remain in effect for long periods of time. It also appears that some numbers are regularly cut by most operators in the city, perhaps in response to a universal preference among Numbers bettors for those numbers.

Information on the cutting practices of 20 different operators was collected along with the original betting material. On average, each notice contained 12 numbers, for which the payouts may be reduced to as little as 350 to 1. The most numbers to appear on any given list was 23 while the fewest was one. The

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9. Indeed our data are more interesting because of this. Bettors show strong preferences for certain numbers even though they offer lower payouts. Presumably the non-uniformity would be even greater if payout rates were the same for all numbers.

combined list contained 106 different numbers. The dominant pattern among these operators is to cut certain numbers only in their straight form and others in all their possible combinations. Of the 233 numbers appearing on the lists (some numbers appear on more than one list) 150 were cut only in their straight form. The distribution of cut numbers roughly conforms to our overall distribution of bets. No numbers in the range of 000 through 099 appear on any of the lists, while 15 numbers from 100 to 199 are cut by at least one operator (see Table B.2). Recognition of the popularity of "1's" is reflected in the common practice among operators of cutting "one in the middle" in addition to particular individual numbers. This cut policy reduces the payout on any of the possible 100 numbers which carry a "1" as the middle digit.

Table B.2 shows the betting frequencies for each cut number and the number of the table indicates that those numbers receiving particularly heavy play in our sample tend to be widely cut by many operators. The number 310 is cut by no fewer than 14 of our operators and is the most frequently bet number in the study. The mean frequency of bets on cut numbers as a group far exceeds that of all numbers in the study: cut numbers were chosen an average of 33 times each by bettors in our sample while the average number was chosen 18 times. Only 9 of our cut numbers (8.5%) were selected 15 or fewer times, while over 40% of all numbers were played as lightly.

Approaching the relationship between betting frequency and cutting from a different angle, the 10 most heavily bet numbers were pulled from both data sets. All of these numbers were cut by at least one operator; most were cut by several operators. The problem of heavily bet numbers is exacerbated for operators by the high mean amounts bet these numbers carry. The operator faces the possibility not only of having to pay off a lot of different winners but also to pay out more to each, should one of the more popular numbers win. Interestingly, only two numbers appear on the lists for both data sets but 14 of the 20 contain a "1" (Tables B.3a and B.3b).

The preference for "1's" is even more dramatically highlighted in Table B.3c, which shows the most popular numbers for each area. No fewer than nine of the top ten numbers in Hispanic areas contain a "1"; in eight it appears as the middle digit. Six of the top ten numbers in Harlem and seven in "other" areas similarly contain a "1" and once again the "one in the middle" pattern predominates.

These favored numbers show some differences and similarities in number preference among the three areas. Harlem bettors show a greater affinity than do others for double and triple numbers, and their top ten are more dispersed throughout the range of possible choices than is the case elsewhere. Concentration of preference is most pronounced in Hispanic areas where threes and sevens predominate. Only one number (212) appears on all three lists, but eight of the top ten numbers in "other" areas

TABLE B.2

Betting and Cut Patterns for Numbers
In Intervals of 100 Numbers
(N=18,000)

Interval	Number of Different Numbers Cut in Interval	Betting Frequency for Cut Numbers	Mean Number of Bets Per Cut Number
000-099	0	0	0
100-199	16	632	39.5
200-299	13	507	39.0
300-399	14	610	43.6
400-499	14	372	26.6
500-599	14	407	29.1
600-699	10	256	25.6
700-799	13	495	38.1
800-899	4	97	24.3
900-999	8	125	15.6

Mean Frequency of bets for all cut numbers is 33.
Mean Frequency of bets for all numbers is 18.

Source: Information on cut numbers was taken from a sample of 20 "cut number cards" used by operators to inform customers and employees about cut policies. Betting data comes from our sample of 18,000 bets.

TABLE B.3a

The Ten Most Frequently Bet Numbers

(N=18,000)

Number	Betting Frequency	Mean Amount Bet	Number of Times Cut (base=20)
100	69	$1.01	6
111	77	.51	5
212	71	.68	3
222	68	.86	7
310	94	.76	14
315	59	.46	2
414	65	.41	6
500	70	.91	12
714	64	.78	4
769	81	.50	14

Note: The average betting frequency for sample numbers is 18.

TABLE B.3b

The Ten Most Frequently Bet Numbers

(N=38,108)

Number	Betting Frequency	Mean Amount Bet	Number of Times Cut (base=20)
125	136	$.38	3
212	139	.42	3
250	125	.42	3
317	149	.59	6
319	128	.61	4
414	135	.29	6
714	124	.50	4
721	132	.30	2
765	153	.25	7
769	241	.19	14

Note: The average betting frequency for sample numbers is 38.

TABLE B.3c

Most Frequently Bet Numbers by Area

(N=18,000)

HARLEM		HISPANIC		OTHER	
Number	Frequency	Number	Frequency	Number	Frequency
212	25	212	21	212	25
414	29	414	22	180	24
222	25	318	22	222	27
225	27	317	27	317	24
100	23	315	24	100	26
111	34	310	34	310	28
139	24	500	23	500	25
517	26	714	23	714	27
769	36	711	20	769	26
389	23	721	22	210	24

Note: The average betting frequency for each number in each area is 6.

appear on some other list, while this is true of six of the most popular numbers in Harlem. Therefore, while there is some continuity in number preference across social areas, there is still considerable variation between the groups.

These numbers have curious staying power, in that they do not tend to lose their popularity when cut. We have insufficient information to rigorously test this assertion; however, the information we do have tends to support it. We have little information on cutting for our first time period (1967-1969), but those numbers on which we do have information do not appear to lose their popularity in later years. There is no appreciable drop in popularity for numbers known to have been cut after 1970, and the two most popular numbers in our study (310 and 769) have been routinely cut for as long as anyone involved in the game can remember. This suggests that numbers are cut on a rational basis, to protect the operator from excess risk, but that the cuts are not large enough to eliminate the problem. The cuts apparently do not deter bettor from choosing these numbers in spite of drastically reduced payouts over a period of years.

The lack of erosion in the popularity of certain numbers when payout is reduced raises some question about the psychology of Numbers betting. The belief that certain numbers are lucky and others unlucky is pervasive throughout the Numbers folklore. The distribution of betting frequencies is consistent with this belief, in that betting tends to be light in certain regions and heavy in others. The pattern of cut numbers also conforms to this belief. In cutting a favored number an operator may reinforce the prior belief that that particular number is lucky since it is singled out for special attention. In effect, he may be making it more valuable to the player rather than diminishing its value as is his intent.

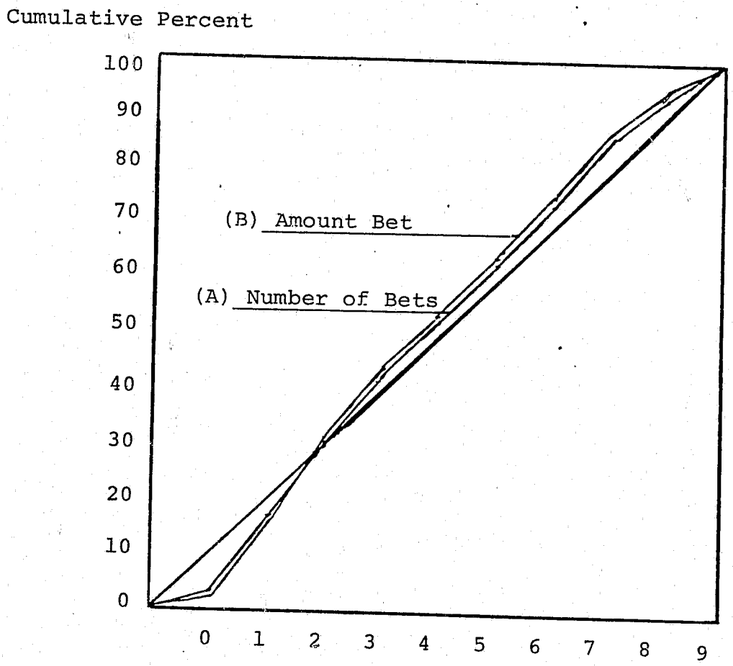
Only two numbers received no play at all in our study (094 and 779). These two numbers remain deserted when all combination bets are distributed as straights, indicating that no one in the sample placed a combination bet that would have included them in the possible outcomes. The mean amounts bet straight on the other combinations of these digits tend to be very low and the betting frequencies light. Five of the seven combinations involved had mean amounts one-half the size of the overall mean amount for the total sample.

Having described some of the general features of Numbers betting, we turn now to differences and similarities in the betting patterns of our social areas. Figures B.2 through B.4 show the distribution of bets and of amounts bet for our three social areas. As was true in our earlier discussion of the overall distributions for the sample as a whole, the three social areas show distinct departures from uniformity in both distributions. As a further test of the uniformity hypothesis, the mean number bet upon in each area was estimated. In each case the mean number was significantly different from 500 and therefore,

FIGURE B.2

Betting Patterns in Harlem

Cumulative Distributions of Bets and Amounts Bet Across Numbers in Intervals of 100 Numbers (N=14,627)



Gini coefficients: G_A=.112; G_B=.131

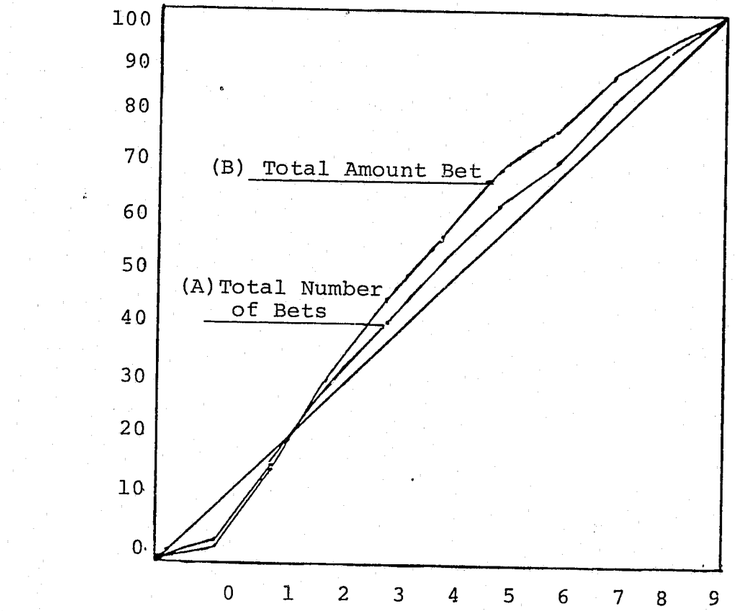
Cumulative Distributions

(A) Frequency of Bets	(B) Amount Bet
0 4.1	2.8
1 17.6	16.1
2 29.4	30.5
3 42.0	42.6
4 52.0	52.7
5 63.4	64.3
6 74.6	75.1
7 85.3	85.9
8 92.8	93.3
9 100.0	100.0
N=14,627	$3,599.51

FIGURE B.3

Betting Patterns in Hispanic Areas

Cumulative Distributions of Bets and Amounts Bet Across Numbers in Intervals of 100 Numbers (N=12,279)



Gini coefficients: G_A=.121; G_B=.164

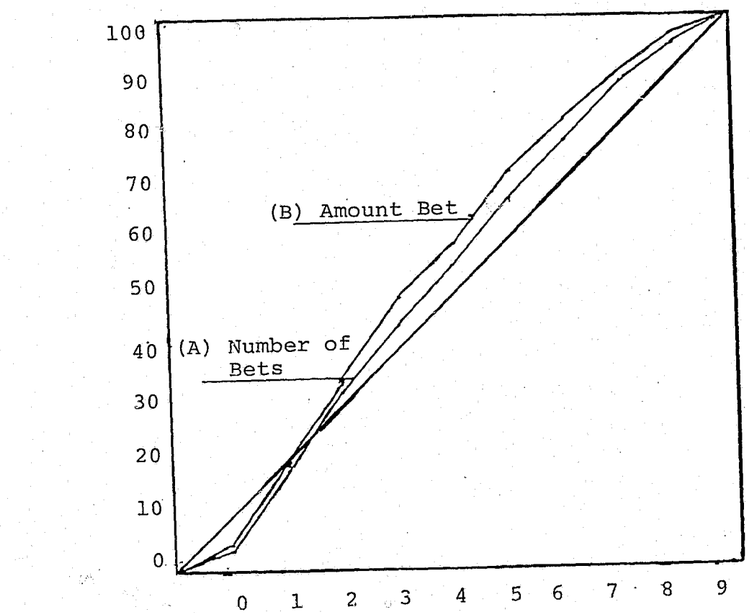
Cumulative Distributions

(A) Frequency of Bets	(B) Amount Bet
0 4.0	3.8
1 18.9	18.6
2 31.1	32.1
3 44.2	47.7
4 55.0	58.7
5 64.9	70.2
6 72.3	77.0
7 83.4	86.5
8 92.0	93.4
9 100.0	100.0
N=12,279	$5,212.09

FIGURE B.4

Betting Patterns in "Other" Areas

Cumulative Distributions of Bets and Amounts Bet
Across Numbers in Intervals of 100 Numbers
(N=11,202)



Gini coefficients: G_A=.124; G_B=.169

	Cumulative Distributions	
(A)	Frequency of Bets	(B) Amount Bet
0	4.4	4.6
1	17.8	19.2
2	31.1	34.7
3	44.0	48.5
4	54.6	57.9
5	66.1	70.9
6	75.7	79.7
7	86.4	88.3
8	94.0	95.3
9	100.0	100.0
	N=11,202	$6,461.84

we reject the hypothesis that the distribution of bets across numbers is uniform.[10] Gini coefficients show the degree to which each distribution departs from uniformity.

Harlem has the most uniform distribution and the Hispanic areas show the most erratic departures. Harlem shows the greatest distaste for numbers containing "0" but it shows the same preference as the other groups for 1's and 2's, and somewhat less affinity for 3's than the other groups. The Hispanic and "other" groups show the typical sharp increase in frequency after the first interval but both show a greater swelling in the middle range of the distribution than in Harlem. The bumpiest patterns are found in the Hispanic curves showing a sharp drop, then resurgence in preference for numbers in the high-middle range. The "other" group most closely resembles a fat version of the overall distributions presented in Figure B.1. In all three areas the gap between the lines indicates the presence of a correlation between the number and the amount bet upon the number.

The differences in the shapes of the three curves suggest that Numbers operators in these three areas are selling to three distinctive population groups. To explore this further a series of t-tests were performed to test differences in the mean number bet and the mean amount bet among our areas and overtime. Table B.4 underscores the distinctiveness of Harlem from the other two groups and the similarities between the Hispanic and other groups.

Bets in Harlem are significantly smaller than in the other two areas, but, while Harlem bets are more evenly spread across numbers than in other areas, they still differ significantly from both uniformity and the distributions found in other areas. The mean number bet upon in Hispanic areas is not significantly different from that in "other" areas, however, there is a striking difference in the average size of bet found in each. The average bet in "other" areas is more than 30 percent greater than that found in Hispanic areas.

The relationship between the number a bettor chooses to wager on and the size of the bet he stakes was explored using two sets of correlations (see Tables B.5 and B.6). Table 5 displays correlations between the mean amount bet on a number and its position in the distribution; Table B.6 contains correlations between position and total amount bet. Overall there is a correlation of -.13 between the number and mean amount bet, indicating that numbers in the lower regions of the distribution tend to receive larger average. However, there is no significant relationship between the two items in Harlem, where betting patterns follow a more uniform form. The strongest relationship is found in Hispanic areas (r=.14), in agreement with the sharper departures found there. The reader will recall that even the

10. Rados found a mean of 431.2, also significantly different from 500.

TABLE B.4

T-Tests for Differences in the Mean Number and Mean Amount Bet by Area (N=38,108)

		T VALUE FOR DIFFERENCES BETWEEN AREAS	
		Hispanic	"Other"
A.	Mean Number by Area		
	Harlem	3.7462*	5.5187*
	Hispanic	-	-1.7519
B.	Mean Amount by Area		
	Harlem	-16.7917*	-20.7697*
	Hispanic	-	8.4054*

Mean Number by Area		Mean Amount Bet	N
Harlem	480.1	$.25	14,632
Hispanic	467.3	.43	12,281
"Other"	461.0	.58	11,202

* p .001

TABLE B.5

The Relationship Between the Mean Amount Bet and the Number Bet Upon Over Time (N=998)

	AREA			
Time Period	Harlem	Hispanic	"Other"	Total
1967-1969	-.006	-.167**	.004	-.104**
1970-1972	.004	-.105*	-.144**	-.120**
1973-1975	.026	-.036	-.032	-.043
All Time Periods	.031	-.138**	-.090*	-.126**

*p .01
**p .001

TABLE B.6

The Relationship Between the Total Amount Bet on a Number and the Number Bet Upon Over Time (N=998)

	AREA			
Time Period	Harlem	Hispanic	"Other"	Total
1967-1969	-.024	-.164**	-.082	-.142**
1970-1972	-.044	-.110*	-.143**	-.120**
1973-1975	-.010	-.115**	-.118**	-.113**
All Time Periods	-.006	-.156**	-.185**	-.150**

*p .01

**p .001

most popular numbers are more spread over the range of choices in Harlem than in any other area.

The same general pattern is found when examining the relationship between the total amount bet on any given number and its position in the distribution. Here the correlations tend to be stronger, also indicating that large bets appear more frequently in the lower ranges of the distribution than elsewhere.

Time differences for the size of bet in both Tables are less compelling than the differences among social areas. In Harlem number choice and amount bet remain uncorrelated over time, and a modest correlation holds in the other two areas and the sample as a whole over time. The critical issue here, however, is that the distribution of bets across numbers is stable over time in all three social areas. That preferences should be stable might be expected given the fact that the interpretation of numbers found in dream books and the over-representation of certain numbers in the books do not change over time. Examination of several editions of Rabos' book and the Guia reveals the main body of the books to be identical in each subsequent edition. The only changes are found in the daily and other predictions preceding and following the interpretive lists.

These relationships suggest some consequences for the operators of Numbers games. It would not, in general, benefit operators to layoff bets across social areas or expand their operations into other areas. An operator in a Hispanic area seeking to minimize risk due to the nonrandomness of his betting distribution may merely increase the average size of bet should he take bets from "other" areas without achieving any appreciable change in the shape of the distribution. Similarly, it would not benefit a Harlem operator to expand into Hispanic or "other" areas, since such an action would exaggerate already present distortions in the distributions. The differences between Harlem and "other" areas are so sharp that expansion into Harlem may flatten the "other" betting distribution in terms of frequency of bets, but the differences in the size of the bet in the two areas are so great that the reduced distortion may not be sufficient to offset the distinctive betting preferences found in "other" areas.

SUMMARY

This study has examined several aspects of the Numbers game in Manhattan. Using a sample of bets taken from police files we have examined the distribution of bets across numbers in three discrete social areas of Manhattan. We have found no evidence to support the commonly held notion that bets are distributed uniformly across all eligible numbers. Rather, we have found systematic distortions in the distribution and have found that different areas of the city produce distributions of differing shape. This leads us to conclude that the sample of bets taken from each of the three areas represent the behavior of three

different betting populations. We have suggested that culture may overwhelm rationality in playing Numbers in such a way as to produce these systematic departures from uniformity.

Harlem appears to differ distinctly from the other two social areas in several ways. First the distribution of bets across numbers is the most uniform in Harlem of any area. The average size of bets in Harlem is far smaller than in other areas, and unlike Hispanic and "other" areas, there is no relationship between the size of a bet and the number on which it is placed. In the other two areas a significant inverse relationship obtains, meaning that bettors who bet on low numbers stake larger amounts on those numbers than bettors who choose higher numbers. Partly as a result of this relationship Numbers operators reduce the payout for many numbers in the lower regions of the distribution. The purpose of cutting numbers is to protect the operator from heavy losses, however, the cut numbers still attract a disproportionate share of the money wagered. Therefore, operators fail to reduce the payout rate sufficiently to produce a uniform distribution of financial outcomes for themselves. Though preferences differ across the three social areas, a bank which operated in all three would only slightly reduce the riskiness of its operations.

2. METHODOLOGY

The sample used in this study of betting preferences was a cluster probability sample. There are many problems involved in using as data material collected for purposes other than research, and in this instance these problems are aggravated by the sheer mass of material collected. Some of the general problems involved in using police material as data and many of the problems peculiar to the materials used here will be discussed below in some detail. First, some comments on general design and our definitions are in order.

This product analyzes the distribution of Numbers bets across numbers. One objective is testing the uniformity of the distribution for Manhattan as a whole, in terms of the frequency of bets--revealing bettor preference for certain numbers--and also in terms of the distribution of amounts bet--representing the money risked by bettors and operators alike. The distributions are then analyzed and tested for differences across different social areas of Manhattan and over time. These objectives dictated the design necessary to achieve them. A sample size of 2000 for each area and time combination is sufficient for estimating the frequency distribution for each area and time within $\pm$ 10 numbers, and for estimating the average size of bet within $\pm$ $.05. A cluster probability sampling technique was used with cluster size of 50 bets each. The following pages give a detailed methodological discussion of the project design.

Manhattan Social Areas

Manhattan was divided into three broad social areas for the purposes of this project. Although Manhattan is far more diverse

ethnically than such classification would suggest, police data used to study Numbers betting do not permit finer distinctions. The three areas used here are 1) Harlem; 2) Hispanic areas; and 3) Other areas. The criteria used for classification of a precinct into one of these categories is simple. Any precinct in which the population was 50% or more non-hispanic black fell in to the first category; those precincts in which 1/3 of the population or more was Hispanic made up the second category; and the balance of Manhattan formed the third.

Black precincts are referred to as Harlem in this study because the term more accurately captures the heavy concentration of the black population in Manhattan. In this sense Harlem really represents the only true social area, since it is geographically distinct from other areas. Harlem has a relatively long history as a black community, and is easily defined in territorial terms. For our purposes it consists of the four contiguous police precincts that cover the area from 110th Street to 165th Street, and Riverside Drive to Fifth Avenue. These boundaries contain more than 65% of Manhattan's black, non-hispanic population. Our definition of Harlem departs from the traditional definition only in that the area in Precinct 26 west of Morningside Park is included; however, that area produced few Numbers arrests, while the portion of Precinct 26 that lies east of the park produced quite a few of our Numbers arrests. To indicate the homogeneity of the balance of Harlem, 2 of the remaining precincts are more than 90% black while the third is nearly 2/3 black.

Manhattan's Hispanic population is far more dispersed than is its black population. Two of our Hispanic precincts lie on the lower east side, two are on the upper east side, one on the upper west side and the last is at the northernmost tip of Manhattan. Not only is the Hispanic population more dispersed geographically than the black population, it is also less dominant within these precincts: no precinct in Manhattan is more than 45% Hispanic. The Hispanic population is also less culturally homogeneous than the black population; subgroups from different Spanish-speaking nations are often more competitive than cooperative. Many Hispanic groups are relatively recent arrivals in New York. Their attachment to neighborhood appears to be more tenuous than that of the black population in that they tend to migrate out at a higher rate when economically capable of doing so.

If we were concerned with how cultural differences impinge on lottery preferences within the Hispanic group, the diversity of precinct composition might be of major consequence for our interpretation. However, our focus is the three-digit Numbers game, which developed in the United States and which these groups adopted only after emigrating here. There is no reason to assume that a Puerto Rican views the game or plays it in a substantially different manner than a Cuban or a Dominican when viewed within the limited context of this game, as would be the case if one were examining more "ethnic" variations of illegal lottery.

The "Other" group of precincts is very diverse and we are unable to make any assumptions regarding ethnic domination of the game either in terms of operation or clientele. All arrests are, however, low-level street arrests and police feel they involve bettors living in the areas.

THE DATA AND THEIR COLLECTION

The material used in this study consists of all Numbers slips taken by police in raids in Manhattan for the period 1967 through 1975. It was clear from the outset that not all of the material could be used and that some sort of sample would have to be constructed. But prior to sampling the data went through a series of sorting procedures, some conducted by the police as part of their routine handling of gambling arrests and some used by our office for research purposes. Since we were interested in betting behavior in discrete social areas we made the decision early to use only those slips taken in low-level gambling arrests. Because collectors are street level employees who often have face-to-face contact with customers we felt that slips taken from a collector come from customers in the area where the arrest occurred. This is not true of higher level gambling operatives, like controllers or bankers, whose offices may service customers from the entire metropolitan area.

Street Level Gambling Arrests and Location of Customers

Gambling arrests in general, and Numbers arrests in particular, are not uniformly distributed across the population of Manhattan. Like many social phenomena, they are concentrated in certain sections of the city and among certain population groups. Blacks[11] and Hispanics are both heavily overrepresented in Numbers arrests; they are similarly overrepresented in the Numbers customer population.[12] For this reason, the study concerns three social groups: blacks, Hispanics and "others". All of the blacks arrested in this study live and operate in Harlem, while the Hispanics are dispersed throughout the several police precincts in Manhattan which are 1/3 or more Hispanic. Some Hispanics turn up in our "other" group by virture of our procedure for dividing the city into these three social areas.

Police normally arrest an individual on gambling charges only after observation of the individual's participation in an illegal gambling activity. Observation periods may extend for only a few

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11. For our purposes "black" refers only to non-Hispanic blacks. Those who were both black and Hispanic were treated as Hispanic for the construction of social areas and for the analysis of arrest reports.

12. This is a consistent result of gambling population surveys. E.g. Fund for the City of New York (1973) and Kallick et. al. (1977).

minutes or may involve lengthy surveillance over several occasions. In each case the time, location and nature of activity is recorded for each observation period prior to the arrest. The circumstances of the arrest and materials seized by police during the arrest are recorded--often in such fine detail as to include conversations--and included in the arrest report.

Included in our study were arrest reports covering 213 incidents.[13] Of these 213 individuals 93 were arrested in Harlem, 88 in Hispanic areas and 32 in "other"[14] areas.

All of the blacks in this sample of arrests were taken in Harlem, but not all of those arrested in Harlem were black. Of the 7 nonblacks arrested in Harlem four were Hispanic. Of the 13 non-Hispanics arrested in Hispanic areas two were Jewish, three Italian and one Polish; for the remainder ethnicity[15] could not be inferred.

Arrest reports give considerable detail concerning the circumstances of arrest and from these details we can describe differences and similarities between black and Hispanic arrests and provide some details on differences in the organization of the game at the retail level for these two groups. In all these areas low-level Numbers arrests tend to involve only one individual. In Harlem 82 of the 93 arrested were arrested alone, 70 of the 88 arrested in Hispanic areas were arrested alone, and all but 2 of our 32 "others" were arrested alone. In none of the arrest incidents were more than three people involved. The overwhelming majority of arrests occur inside some building but on this point the "other" arrests differ most sharply from the other two groups: 13 or more than one-third of the "others" were arrested on the street, while only 8 in Harlem and 17 in Hispanic areas were arrested outside.

Most of the arrests occurred in apartments. Forty-five arrests occurred in stores or some other commercial building,

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13. Recall that our sample was designed so there would be an equal number of cases in our three areas and across three time intervals. Therefore, our arrests are not necessarily representative of Numbers arrests for the city in general. Information on all arrests in the population of bets, from which the sample was drawn, was not systematically collected.

14. Our "others" include 9 Italians, 11 Puerto Ricans, 3 Cubans; the rest are of undetermined ethnic origin.

15. Ethnicity was inferred from the following information contained in arrest reports: place of birth, race and/or ethnicity as recorded by police, or on the basis of the suspect's mother's maiden name. Where information was not available, the individual was classified as "other".

with the Hispanic group and the "other" group showing proportionately greater frequency of this type of arrest than those in Harlem. The "other" group shows the most diversity in arrest setting, arrests occurring more frequently in restaurants and social clubs than is the case for the other two groups. The remaining 130 arrests occurred in a dwelling of some sort.

For the most part those arrested tended to live in the neighborhood in which they were arrested; 35 were arrested in their own homes. Only 13 of those arrested in Harlem lived outside the immediate neighborhood while 30 of the Hispanic lived outside the immediate area. The "other" group were most frequently distant from their residence; nearly one-half living in other boroughs or New Jersey.

When the blacks in the sample were arrested they tended to be charged only with Numbers violations. Only one case in Harlem involved any other crime, in this instance narcotics. The Hispanic arrests more frequently involved other offenses, particularly drug and gun violations. There were five drug cases in Hispanic areas, four gun violations, three disturbances of some sort and one attempt at bribery. Seizure of property occurred more frequently for "other" than for Harlem and Hispanics: four cars and numerous telephones were taken. They are also the only group which shows involvement in other types of gambling. Only in "other" areas is the arrest also more likely to be precipitated by a complaint from someone other than the arresting officer or by an event unrelated to gambling.

These other events surrounding the arrests are a cause of some concern. Since the Numbers charges grew out of more serious circumstances, these arrests may involve a higher level of Numbers organization and therefore we are less confident that the bets come from the immediate area than in Harlem and Hispanic areas.

Nonetheless the arrest information suggests that the data do represent local betting behavior. The great majority of those arrested lived in the area in which they were arrested and were probably engaged in serving customers from the area when the arrest occurred. They were by and large operating retail outlets serving the surrounding community. Higher level agents, collecting bets from widely dispersed clientele, are likely to work from offices with telephones. Few of the arrests in the sample, and none in Harlem, indicated use of the telephone. Therefore, we are on firm ground in asserting that the work taken in these low level arrests represents the behavior of those living in the area.

From the foregoing it should also be clear that there are some differences among our three groups in their conduct of the game. In Harlem the outlets are most closely tied to residences. Hispanics and "others" use social clubs and public stores more than do operators in Harlem. In Harlem the stores involved were of the "Mom and Pop" grocery type, while Hispanic arrests occurred

in cleaning stores, restaurants and record stores. "Other" arrests were most public of all, some occurring in larger businesses, many on the street in commercial districts and some in hotels. Because the "other" group is so diverse and the setting of arrest so frequently public, most of the following will focus on the similarities and difference of the Harlem and Hispanic groups.

Estimating the Number of Bets and Variations in Bet Recording Practices

Even limiting ourselves to the use of only low level gambling material, did not reduce the bulk of the available material sufficiently to permit use of it all. When the police material arrived at our offices it filled a large room of file boxes. Our first task, then, was to determine what was contained in the arrest packages and second to estimate the number of bets involved.

Each package represented one gambling arrest and carried a cover-sheet roughly describing the contents and estimating the number of plays involved. However, we found these police estimates to be unreliable in most cases. When making a gambling arrest the police must adhere to the technical evidentiary requirements of New York State law. They make their estimate for the purpose of charging the individual with either felony or misdemeanor gambling offenses. For the two major felony charges a defendant must possess more than 500 plays (possession of gambling records) or records or money representing more than $500 a day in lottery operation promotion. Because of these requirements police tend to overestimate the number of plays seized. It is very common for police to overcharge a defendant and later have the charges reduced to the lesser misdemeanor charges. Consequently, many arrest packages will list more than 500 plays when they do not in fact contain anywhere near 500. In these cases the police overestimate the number of bets. It is also not uncommon for the police to stop counting plays once the technical requirements of the law have been fulfilled and just guess at the total number of plays taken. In these cases the ballpark estimates may be either high or low. Therefore we could use the police estimates only as a very rough guide as to what the packages contained and had to make our own estimates by going through each package and counting the number of plays.

In addition to estimating the number of plays contained in each package the estimation procedure involved separating the plays from other materials taken in the raids. This cleaning procedure was necessary because the police take everything that is on a desk or table and store it with the gambling records. The other materials included stationery items and dream books but often contained items unrelated to gambling operation like a child's composition book, a TV Guide, a pack of gum, a prayer book and a poster of an upcoming Puerto Rican Day dance.

For our purposes a "bet" consists simply of a three digit number on which a specified amount of money was staked.

Translating the material gathered from police into this seemingly straightforward form proved to be unexpectedly complicated. The first substantive decision we faced--and one of the few methodological problems we had anticipated--was how to deal with combination bets. Since we were interested in the behavior of bettors in addition to the implications of betting distributions for operators, we decided to use combination betting as a second category of betting. The problems encountered in using this simple definition are caused by the variety of recording practices used by Numbers collectors, some of which are discussed below.

Typically a $1.00 straight and combination bet would look like this: 513 10¢ C 90¢, where the first three digits represent the number, the first amount represents the amount bet straight, the "C" stands for "combination" and the final amount is the bet on the six combinations. This is the standard form of recording, although it is by no means uniformly used across all collectors or bettors in all parts of Manhattan. In Harlem the recording variations are the most diverse while in Hispanic precincts the variations were the most puzzling and troublesome. In Harlem, where it is common for bettors to write their own slips, the six combinations may be all written out. For our coding purposes these six individual bets were collapsed into one. It is also common in Harlem for a bettor to write out all six combinations of a three digit number but to stake different amounts on each possible outcome. In this case the six bets are treated separately as six individual bets. Another practice unique to Harlem is for a bettor to bet a certain amount straight and then choose only four of the possible six combinations and stake smaller amounts on these four numbers. Here the bets were treated as five individual straight bets. In Harlem very small bets are common--in fact the most common bet is 10¢--and bettors often place bets on several different numbers and their possible combinations. It is not unusual for a bettor to choose 10 different numbers on which to bet and for the total amount recorded on a slip for those bets to be less than $1.00, so it is important to remember that our data represent bets, not bettors. It is important to determine the number of bettors involved in this study, partly because identification on the slips is often incomplete. The data represent betting behavior only on the aggregate level and cannot refer to individual betting behavior.

In Hispanic precincts the most troublesome departure from standard recording procedures involved not the number but the recording of the amounts bet. Here it is common to use a kind of shorthand method to record amounts, where all zeroes are dropped. A "5" represents $.50 unless followed by a "cents" sign in which case it means 5¢. Dollar amounts are indicated by circling the number. A $1.00 straight and combination bet in Hispanic precincts may take the standard form or it may look like this: 513 5-5, which means 50¢ bet straight on 513 and 50¢ on the <u>other</u> 5 possible combinations. In order to standardize our data, bets listed in this way were altered to conform with the simpler method used in Harlem: 40¢ straight and 60¢ combination,

unless the record indicated that the 50¢ combination bet was to cover all 6 possible outcomes. Since telephone betting is far more common in Hispanic areas than in other areas, the bets were generally recorded by a clerk and came in more uniform and readily codable form than the bets for Harlem once these modifications had been made.

Police Seizures Over Time

The period 1970 through 1972 encompasses a period of relatively intense gambling enforcement on the part of the police. This was followed by a period of non-enforcement against small operations and street-level personnel, and a concentration on large operations. This shift is easily visible in the population of bets used in this study. In all three social areas many more arrests occurred in 1970-72 than in the later two periods. However, the mean number of bets involved in each arrest in 1973-75 far exceeds that for 1970-1972: In Harlem the mean is 3 times greater in the last period than in 1970-1972; in the Hispanic area the average is 8 times greater and in the "Other" area it is 13 times as great in 1973-1975 as is 1970-1972. Arrests in 1973-1975, however, drop to less than 10% of the previous level in all cases (see Table B.7). We can only speculate as to how this non-uniformity of enforcement would affect our sample. We realize that the de-emphasis of gambling enforcement was intended to shift focus from small operations to large ones. It is unlikely that the parameters of interest would be affected by such a change in police strategy.

Estimating the Population and Generalizability of the Police Sample

The police do not discriminate between types of illegal lottery operation in their enforcement of the gambling laws. Since our interest focused solely on the three-digit Numbers game, we separated slips pertaining to Numbers from those involved in other lotteries. All bolita, single action and Puerto Rican lottery tickets--all of which go into the police estimate of plays--were discarded during the cleaning process.

The condition of much of the police material made the data preparation phase of the project cumbersome and time consuming. Collectors (and bettors) will use almost any paper product on which to record bets. Bets appeared on empty cigarette packages, matchbooks, assorted pieces of cardboard, sales slips and on tiny scraps of paper as well as on ordinary paper. Some of the material had gotten wet during some part of its history and on a few occasions the defendants had attempted to burn the evidence during an arrest, leaving the data charred but not beyond recognition or use.

In our preliminary count there were approximately 3.5 million bets, of which nearly 2 million came from arrests in Harlem. After removing ineligible bets (from other forms of betting) and

TABLE B.7

Number of Arrests and Average Number
of Bets Per Arrest By Area and Time Period

Time Period	Harlem	Hispanic	"Other"
1967-1979			
Arrests	245	43	95
Average Bets	1387	746	400
1970-1972			
Arrests	439	261	262
Average Bets	1582	556	488
1973-1975			
Arrests	30	13	11
Average Bets	4582	4598	6619

other extraneous material, the number of eligibles dropped to 1.8 million three-digit bets, still heavily concentrated in Harlem.

In two other areas of Manhattan where there is a great deal of illegal gambling activity, the police make relatively few arrests. The two areas are Chinatown and Little Italy. The two very different reasons for lack of gambling arrests in these areas provide interesting insights into gambling enforcement problems faced by the police and the difficulties of using police generated data for research.

In Chinatown the police problem is simply a lack of comprehension. Even when the police seize records in a Chinatown gambling raid they are unable to interpret them for case-making purposes since there are almost no ethnic Chinese in the Police Department. On the other hand, in Little Italy the problem is one of strategic choice.

The police and other enforcement agencies make numerous surveillances in Little Italy but the aim of the surveillance is the arrest of higher level organized crime figures. Making low level gambling arrests would reveal the existence of the surveillance and thus impede higher level cases. Hence, despite the fact that the same organized crime enforcement units are present in Little Italy as in the rest of Manhattan, there are fewer gambling arrests in Little Italy and a relatively small percent are likely to be for street level activity.

The underrepresentation of these areas in our sample raises the question of the impact of differential enforcement on our findings. For our purposes we need only address it insofar as it applies to our three broad social areas. Gambling arrests are heavily skewed in the direction of Harlem. Our initial counts showed that over one-half of the plays and 49 percent of the cases originated in Harlem. The heavy representation of Harlem results from two factors: first, the police have been more successful in penetrating gambling operations in Harlem and second, Numbers is very visible there. The game is organized toward accessibility in Harlem, where retail outlets abound and operators are quite bold in posting payout rates in store windows. This is less true of Hispanic areas where language and ethnic barriers to entry play a more important role in determining the frequency of gambling arrests. A second factor reducing the visibility of Numbers gambling in Hispanic areas is the prevalence of telephone betting, which sharply curtails the face-to-face contact between customer and operator.

The difference in visibility and apparent predominance of Harlem in gambling arrests may suggest that the police are reaching different levels of gambling operation in the two areas and that the slips taken in Hispanic areas are less likely to represent neighborhood betting than those in Harlem. Our examination of the data, however, lead us to think that this is not a serious problem in this study. One indication that the police

are reaching different levels of operation would be the relative sizes of the seizures, since betting records are passed up through intermediate levels to the banker. So a higher level should average a larger number of bets collected from different locations. While some Hispanic arrests involve a very large number of bets, the differences are not important when single action and bolita are considered in addition to the three-digit numbers bets. In fact, when these are removed from the estimates, Harlem has a higher average number of bets per case because of the relative popularity of Numbers in Harlem over these other forms of lottery. Arrest reports for both areas indicate that the police observed customers placing bets with the operators, strongly suggesting the locations are retail outlets rather than accounting offices. Therefore, while there may be some bias in our sample construction and we cannot accurately estimate the degree of possible bias, we can, nevertheless, assume that it is slight and presents a minimum of problems for our interpretation of the data.

Sample Construction

Once the total number of eligible bets had been estimate, the packages were sorted into our three social areas and into three time periods within each area. A sample of 2,000 bets was taken, in clusters of 50 bets, from each of the nine area and time combinations for a total sample size of 18,000.

The decision to divide the bets into three time periods was based on economic considerations. The choice of three time periods seemed reasonable since finer temporal distinctions would require a significant increase in the size of the sample without a correspondingly significant increase in the quality or quantity of useful information. Similarly, two time periods would be inadequate given the length of time covered in the study (nine years).

Determination of cluster size also involved a series of judgements. Establishing the size of a sample necessary to perform certain statistical tests on data is a fairly straightforward procedure. Cluster sampling can bias one's results and, consequently, usually involves increasing sample size in order to offset the design effect. Most of what is known about the potential bias resulting from clustering comes from population surveys in which the sample elements are individual people or households, not events like our bets. Neighborhoods tend to be relatively homogeneous regarding some critical background factors that are known to affect the attitudinal and behavioral dimensions generally studied. For instance, a known correlation between certain background variables such as religious affiliation and political party membership can result in a biased estimate of political candidate preference if the clusters in a sample are too large. Consequently, clusters in most population surveys tend to be small (10 or less) in order to spread selection throughout a population while avoiding the prohibitive cost of simple random sample.

Our clusters of 50 bets each appear quite large by these standards. However, during our initial cleaning and estimating procedures we found that the data were not organized in such a way that homogeneity within clusters of this size should present a major problem. This would be the case if the bets had been arranged sequentially, e.g., a bet on the number 101 followed a bet on the number 100, or if the bets were arranged according to the size of the amounts bet--that all the small bets were grouped together and the large bets grouped together. However, the data were apparently arranged as the bets were taken by the collectors, and the only obvious ordering was by the day of the week when the bets were placed. Therefore, we concluded that a cluster size of 50 would not present any problem of such a magnitude as to justify the tremendous added expense in terms of time, energy and money that a simple random sample would require.

Selection Procedures and Data Preparation

Each arrest package was assigned a case number signifying its membership in the proper area and time category. This number was recorded on a master sheet along with the number of three-digit bets contained in each package. The cumulative total number of bets was recorded in a third column. The skip interval for each category was computed from the total number in each of the nine categories.

The final number of eligible bets was estimated to be in excess of 1.8 million. Reflecting the skewed distribution of Numbers arrests across areas and time periods, the skip intervals ranged from 950 in "Other" Time period 3, to over 15,000 in Harlem Time 2. The total number of arrests involved was 1332 less than one-sixth of which were selected at the final stage. These arrest packages contained a mean number of bets of 1643 in Harlem, 748 in Hispanic areas and 649 in "Other" areas.

Once the skip interval was established, selection was accomplished by random start and then counting through the bets until the cluster was located. These bets were then pulled from the package and numbered 1 to 50. All slips involved in each cluster were marked with the case of origin, the precinct, the year and the type of bet (New York v. Brooklyn, Day or Night action) where the information was available. This information was necessary since a single cluster could involve more than one arrest. Each cluster was kept in a separate letter envelope also carrying the identifying information. The data were then transferred to coding sheets, verified and put on tape.

The data were analyzed in two forms. The first data set consisted of the 18,000 bets making up the sample. Here, it will be recalled, a bet could carry two different amounts: an amount bet on that number "straight" and another amount bet on any of the six possible combinations of that three-digit number. The data set arranged in this way is important for two reasons. First, in choosing to bet on a number straight a customer is expressing

his faith that a certain number will hit that day; he is making a statement that that number is especially lucky for him. In this sense the distribution of numbers reveals bettor preferences for certain numbers over others and relates to the consumer aspects of number choice. Second, unless the operator does some tabulation of bets involving combinations, it represents his perceived risk, which may reflect his decisions on payout rates.

The second data set was created from the first and consists of all bets converted into straight bets. There are 38,108 cases when all combination bets are distributed as straights. This data set conforms more closely to the actual risk faced by the operator.

APPENDIX C

ILLEGAL GAMBLING IN OTHER CITIES

1. INTRODUCTION

The data presented in the rest of this Report all came from the metropolitan New York area. As mentioned in the second chapter, it is easy to argue that New York is atypical of even major American cities. Not only is it substantially larger than any other city in the country, but it is also by far the most important commercial and financial center. While one may doubt that this has any direct effect on such a local, low income activity as Numbers, it may have a considerable influence on the general structure and coherence of organized crime groups. The sheer size of New York also permits anonymity which may be critical in limiting the ability of any one group to control entry and pricing in the various activities we have examined. E.g. we note again that the New York area is unique in having multiple Mafia groups.

In order to provide some sense of the typicality of the New York rackets, we* made an effort to gather data on the same activities in other major cities. It was obviously impossible to gather detailed data in these other cities since that would have required several months in each city and extended cooperation on the part of numerous agencies. Instead we tried to collect data about a few critical variables concerning the two gambling markets, indicators that would provide some measure of the extent to which the organization of Numbers and bookmaking differed from what we have found in New York.

Information was obtained from eight cities. Each one was visited for between one and three days. In each a number of gambling specialists were interviewed, records were reviewed and, in three cities, an informant was interviewed. The cities were chosen to represent the various regions of the country but the choice was constrained by our ability to secure, in advance, an agreement of cooperation from a major law enforcement agency. In some cities we obtained cooperation from local, state and federal enforcement personnel; in others we could obtain

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* Ronald Goldstock assisted in collecting the data. He is not responsible for the interpretation reported here.

assistance from only one or two of these. Table C.1 presents some data on each of the cities.

The quality of the information obtained varied a great deal. In at least three cities we feel that we were able to obtain good quality information on all the major dimensions of illegal bookmaking and Numbers, plus some useful information about loansharking. In one we were unable to obtain adequate information on even one of these activities; whether that was because of the ignorance of the agencies we met with or their unwillingness to be forthcoming we cannot say.

As expected, we found that every city had significant bookmaking activity but that Numbers was confined to older cities in the Northeast and South. More surprisingly, law enforcement agencies in most cities did not seem to regard loansharking as a major activity. Only in two of the cities (C and E) was there any significant evidence of organized loansharking. In one other city (D), the police proved well informed about loansharking but interpreted the evidence to suggest that it was a small activity of the local organized crime group.

Our broad conclusions about Numbers and bookmaking in New York appear to have application in these other cities. In only a few instances did it appear that either activity was under the control of groups with wider criminal interests. While Numbers banks everywhere seemed to be larger and more stable organizations than their bookmaking counterparts, they were almost invariably small by the standards of New York banks; a bank handling $10,000 per day was regarded as a large bank in most cities. Nor did there appear to be significant coordination between Numbers banks in the cities. Bookmaking was everywhere a small scale activity characterized by considerable financial instability amongst the operators. Violence played no role in competition anywhere.

The rest of this chapter presents the material on which these conclusions are based. The various subsections each deal with an element in our description of these activities in New York which was significant for our conclusion about the shape of the market. The material is presented without the names of the individual cities since that was a condition for cooperation by various of the law enforcement agencies.

2. ORGANIZED CRIME AND GAMBLING

Of the seven cities in which we obtained usable information, two (A and C) are older cities which have reputed Mafia groups resident in them. Two others (E and G) have seen, in the last decades, an influx of significant Mafia groups into them from other, older cities. A fifth city (D) has a small Mafia-like group in it, which has a loose attachment to such groups in other cities. Two other cities have no broad based, stable, hierarchical and ethnically based criminal groups.

TABLE C.1

CHARACTERISTICS OF SAMPLE CITIES

City	Region	Population* (millions)	Numbers Present	Mafia Present
A	N/E	1.0	Yes	Yes
B	N/E	3.0	Yes	No
C	N/E	2.9	Yes	Yes
D	W	1.4	No	?
E	S	1.4	Yes	Yes
F	W	3.1	No	No
G	S/W	1.2	No	?

*Standard Metropolitan Statistical Area

Where a city had a Mafia group present there was always some evidence of involvement of that group in bookmaking and/or Numbers. However, only in the cities with mainstream Mafia families did it seem that the families had a controlling influence. In each case that influence took the form of payments by the heads of illegal gambling operations to Mafia members. It seemed that there was little direct interest by the members themselves. In neither of the two cities did it seem that the Mafia group exerted its control in a consistent manner. In one city (C) it had succeeded in raising the price paid by sports bettors while at the same time permitting competition to produce a high payout rate to customers in Numbers. In the other city (A) the involvement seemed to be entirely passive, consisting of extorting payments from the leading operators, though an effort was once made to use the police to discipline the leading Numbers banker for failing to pay tribute.

The two cities where mainstream Mafia groups had established a presence through migration were quite different. In one (G) the group had no gambling interests at all. In the other (E) they had involvement only with bookmaking and the nature of that involvement was quite unclear. The fifth city (D), where there was an unaffiliated Mafia-like family, this group had an involvement in the business, but only as bookmakers themselves. We were told that they had recently tried to exert pressure against other participants in the business but had been wholly unsuccessful in doing so.

One important distinction between the organization of Numbers and bookmaking emerged in other cities, as it had in New York. The Numbers operators all tended to come from the ethnic groups that dominated their customer population. In those cities where Hispanics were a major population group, the bankers were predominantly Hispanic. In one city (F), where Hispanics arrived relatively recently, they now dominate the Numbers business throughout the city. In city B there has been little change in the percentage of minorities in the city's population but there has been a gradual transfer of power within the Numbers business to black groups. In bookmaking there is nothing to suggest an ethnic base to the organization of the business, except that it is a white business in which black and Hispanics are noticably absent, as they probably are from the customer population.

3. TERRITORIALITY

There was almost complete consensus on the absence of territoriality in either bookmaking or Numbers. In one city the local police department commented on the fact that in the course of following one Numbers pick-up man they would invariably develop information about other pick-up men whose routes intersected with that of the first. Of the four cities with Numbers banks, three reported that territoriality had been more marked in earlier times.

The situation was even simpler with bookmaking. Handbooks have disappeared in every city, except for a few small operations in older ethnic neighborhoods. With telephone betting territoriality has no meaning.

4. PRICES

In only one city was it claimed that bookmakers had been able to shift the price significantly. In that city (C) the standard terms on a sports bet was supposedly 6 for 5. However, even in that case the little direct evidence we were able to obtain suggested that some bookmakers were in fact offering 11 for 10. Certainly there was lay-off to other cities at 11 for 10 and there were rumors that business had declined since the switch to 6 for 5.

In other cities there was more subtle methods for raising the price. For example, in two cities there was apparently frequent use of "split lines". I.e. the bettor on the Rams had to concede 7 points, but the bettor on the underdog Bears was given only 5 points. If the game results in the Rams winning by 6, then the bookmaker kept all bets. Depending on the particular sport, this can raise the expected profit of the bookmaker by up to 5 percent.

It was far more difficult to obtain reliable information on Numbers payout rates. In only one of the cities (F) could we obtain direct evidence and that indicated that even within the one bank there was variation in the payout rate given to different collectors. A single bank record, for example, showed payments ranging from 500 to 550 to 1 for three digit bets. In that city the dominant form of betting was bolito (two points) and apparently there was more uniformity there, though no evidence was available for review.

In general it appeared that there was some variation within the city. Only in one city (A) was it said that there was complete uniformity. There the payout rate was only 500 to 1, with cut numbers paying only half that. Moreover in that city at least 100 numbers were cut, meaning that the long run gross share of the players was only about 47.5%.

One significant pricing difference between New York and other cities related to baseball betting. In New York many of the larger operations offer what is known as the "pitcher's line" or "dime line". This gives the bookmaker a much smaller margin than the conventional 11 for 10 bet on football or the alternative line on baseball, usually called the "20¢ line". In some situations the bookmaker's gross margin may be squeezed to less than 2%, before paying runners.

Outside of New York the dime line is almost unknown. Indeed, in some cities it seemed to be literally unknown by the gambling specialists in the police department. In city A the line was not offered but one bookmaker had access to a bookmaker in another

city, who did offer such a line, and placed numerous bets with him on his own account. The pattern and timing of betting made it clear that these were not lay-off bets, though laying off would obviously have been a profitable activity.

Interestingly, we found a number of cities in which few bookmakers operated during the baseball season. This probably reflects the lower profit margin on baseball bets. These cities are ones in which it also seemed likely that the bookmakers were part-time operators involved in other legitimate and illegitimate activities throughout the year.

There was one other variant on pricing in bookmaking outside of New York that we found in three other cities (D, E and B). Consider a game in which the Rams were favored over the Giants by 5. If the bettor wished to place $2,000 on the Rams the bet would be recorded as $1,000 on the Rams -5 and $1,000 on the Rams -5-1/2. Each additional $1,000 would cost the player another half point.. This substantially reduces the bookmaker's risk with respect to large bets.

5. SIZE OF OPERATIONS

We have mentioned, in the context of New York, the tendency of police to over-estimate the size of individual gambling operations. In the case of bookmaking operations the problem may be the product of choice of time to execute raids; understandably raids are chosen for the most active period of the bookmaker's year and the police tend to estimate the total volume of the operation by assuming that the volume at the time of the raid is typical of the year as a whole.

Outside of New York we were not able to obtain records from raided operations that would enable us to check the estimates of the city authorities. Hence we report the figures on total volume with the caution that they may tend to be upwardly biased estimates of the actual volumes. We did try to obtain information though on two other variables related to the volume of wagering; the largest size of bet taken and the number of employees. With the help of these we believe we can make approximate estimates of the size of the largest operations in most of the cities.

In only one city (B) did it seem that Numbers operations ever attained great size. Even there the claims concerning the largest operation (estimated to handle $29 million per annum) seemed dubious given the general fragmentation of the market. The police in B claimed at least 30 operations each handling more than $1 million per annum and a total handle of $180 million per annum for a city with a population of 700,000 and a metropolitan area population of 3 million. The ethnic and social composition of the city's population suggests this figure is far too high. Further, in that city it seemed rare that a bank had more than 3 clerks in it, suggesting more modest

volumes for each bank than the police estimates.

In other cities the police estimates were quite small. A bank handling $10,000 per day, approximately the average size bank in New York in the early 1970's, was regarded as an extremely large bank in other cities. Reference was frequently made to banks handling no more than $2,000 per day. Again, it was unusual to hear of banks that employed more than a handful of clerks.

The only evidence inconsistent with this picture of small operations was the general report of the willingness of banks to accept very large bets. In one city (A) there was a bettor who bet $50 every day on the same number and had no problem finding a collector to accept it; since the bettor was a friend of the gambling detective supplying the information this seemed a reliable assertion. In the same town the largest Numbers bank, handling about $10,000 per day, never laid-off a bet and was finally bankrupted when, following some raids in which substantial amounts of money were confiscated, a bettor won $115,000.

Bookmakers handled far smaller bets than we found in the major New York operations. In city A bets over $1,000 in the largest operation were rare. We mentioned the custom in some other cities of adjusting the price against the bettor for bets over $1,000, which is indicative of the rareness of such bets. In no other city did we come across any evidence of operations employing more than one or two clerks. While it is possible to handle very large dollar volumes with a small work force, this is not the case when the individual bets are small.

6. DISTRIBUTION SYSTEM

A key point in our analysis of New York gambling was the relationship between operators and their agents in the distribution of their gambling services. Bookmakers' agents, runners, are the ones who recruit and retain customers. In Numbers the collector is an independent agent who can choose, at least to some degree, which bank he will affiliate with and what services he offers his customers. In other cities we focused a great deal of our attention on the nature of the distribution systems used in illegal Numbers and bookmaking operations.

In the smaller cities we found no equivalent to the runner system. It appeared that bookmakers recruited their own customers and serviced them. If anyone was an intermediary between the bookmaker and his customers he was merely a salaried courier, with no rights over the customers' participation in the operation. The exception to this, which was mentioned in only one city (A) but may be a feature elsewhere also, is the use of agents in bars and stores. The customer places his bet with the bartender or store owner, probably coming into the location for another reason. The agent is responsible for handling the money and no credit is given in the city where this was discussed. Settlement is done on a daily basis and the agent receives perhaps 25% of the gross

profits generated by his customers.

In larger cities (C, E and F) there seemed to be systems similar to those found in New York. In one city (C) the runners were allegedly persons who had all previously been independent bookmakers. Now they called in all their bets to an office which was directly controlled by a broad based organization crime group. In another of the larger cities the runners, though not formerly independent, also relayed the bets to the bookmaker, thus limiting the number of individuals who had direct knowledge of the phone number of the bookmaker's office. We were unable to obtain information about recruitment of customers or the extent to which the runner could divide customers between different bookmakers.

In the case of Numbers we found an interesting variation on the system prevailing in New York in at least two cities (A and B). In these cities a collector might routinely turn work into more than one operation at a given time. It was not clear why a collector would choose to do so, unless banks were regarded as bad credit risks so that the rational collector would not want to be too dependent on any one bank.

We also came across occasional references to efforts by banks to compete for services of different collectors or controllers. In two cities (B and E) that seems to have been associated with transitions in the ownership of Numbers banks as the ethnic composition of the city's population and politics changed. In only one of the cities (E) was it clear that the competition had taken the form of increased commissions for the collectors but in the other there was some suggestion of this.

Not every city had the equivalent of the controller in each operation. Often, as in Hispanic banks in New York, the controller had been supplanted by a salaried employee of the banker, either taking bets by telephone from collectors, or simply acting as pickup man. This latter is consistent with the smaller size of banks in these other cities.

7. LAYING-OFF

In New York we have found no evidence of bookmakers making bets outside the metropolitan region on a regular basis. One explanation for this might be the sheer size of the metropolitan market, so that no bookmaker has difficulty finding some other outlet within the area willing to accept his bet. This argument would suggest that other cities might have much more intercity lay-off. There are, however, two other points which should be noted here. First, while we found no evidence of systematic lay-off to other cities, it is entirely possible that New York bookmakers receive bets from other cities, the bets being placed through agents resident in New York. One informant believes that occurs and wiretaps certainly would not reveal it since they locate only outgoing calls.

The second point is the more important one here. Whatever the scale of the New York market, there may still be an incentive for New York bookmakers to place bets in other cities. For there is undoubtedly a great deal of home-town sentiments (even in New York). For example, when the New York Giants play the Los Angeles Rams there may well be a discrepancy between the lines in the two cities. In Los Angeles betting may be equalized if the bookmakers offer a line in which the Rams are favored by 7, while in New York the equalizing value of the point spread may be only 5. A bookmaker, or a bettor, who can place bets in both cities can "middle" bets so that he is guaranteed not to lose no matter what the outcome of the game.

Despite this, we have found nothing in our work in New York or in other cities to suggest that bookmakers make systematic arrangement for such betting between cities. In smaller cities, such as D and G, there are operations that regularly bet with other cities. However, these are fixed arrangements that have nothing to do with differences in preferences on a given game. Indeed, the arrangements often involve exchange of information about lines and efforts to make them consistent. They probably reflect the lack of outlets available to the few major bookmakers in those cities when they attempt to lay-off larger bets. In city D the major bookmakers were so concerned about the difficulty of setting a line which would enable balanced betting on the home-town football team that they required bettors to put up 6 for 5 on these games and limited the size of the allowed bets very sharply. Intercity lay-off would have vitiated this problem.

We came across only one instance of interstate lay-off in the Numbers business. This involved city E, where the largest Numbers bank received bets from both Los Angeles and New York. The incentives to lay-off Numbers bet intercity are less pronounced than in sports bookmaking. Nonetheless, given the small size of Numbers banks outside of New York, there is probably a need to find outlets in other cities to smooth the distribution of bets. The failure to find such activity suggests the weakness of intercity links in these rackets.

8. CREDIT

In New York bookmaking operates through the extension of large amounts of very short term credit. A major bookmaker will settle on a weekly basis and probably will permit a little slippage beyond the due date to a well-established customer. Amounts of $5,000 are frequently involved in these transactions.

Outside of New York it seems that bookmaking comes much closer to being a cash business. At one extreme a bookmaker in city B demanded that a new customer, who said that he would be placing large bets, should establish an escrow account of $10,000. The bettor agreed to that, provided that the bookmaker would deposit a similar sum in another account; the customer said that he knew he was good for the money but was not so sure about the

bookmaker. In city A the largest operation extended no more than two day's credit and regarded $500 overdue as a significant amount.

The credit relation between bookmaker and runner was also very different from that prevailing in New York. The bookmaker was far more likely to require immediate settlement of debts, whereas in New York it is common to find runners withholding some of the money due to the bookmaker at a weekly pay-and-collect meeting. However the basic credit arrangement, involving bookmaker financing of operating losses (red figures) seemed to be fairly uniform, though the share of profits going to runners was consistently less than the 50% that is found in New York. This suggests that the runner in other cities has less control over his customers, which is consistent with the paucity of bookmaking outlets for customers.

9. LINE INFORMATION

Many major law enforcement agencies still maintain that organized crime is able to control bookmaking because it controls the only good source of information on which the bookmaker can set his line. We have shown that in New York this is not true; there are numerous sources of line information and the charge to the bookmaker for getting this information is quite small.

In the other cities we also found that there are many sources of good line information. As in New York, the bookmaker's day begins with various calls that are used to establish the line. Information is exchanged between bookmakers. In only one city (C) did we come across any suggestion of uniformity in line setting. This was also the city in which a serious effort had been made to centralize bookmaking generally, so that such uniformity was part of a larger effort to control the market. Elsewhere there were dispersed sources of line information and often discrepancies between bookmakers, at least for short periods of time.

Las Vegas appears to play an important role as the source of good information on point spreads. However, access to that information, either through direct calls to Las Vegas or to various local agents, seems to be easy and cheap. Further, the Las Vegas information is adjusted for local tastes, at least with respect to those games on which there is likely to be substantial local betting.

10. OTHER ASPECTS OF BOOKMAKING

There were a number of other important elements of bookmaking in cities outside of New York which were consistent with our findings in New York. They bear only lightly on our major conclusions concerning the organization of the business but provide useful contextual information.

In every city we found general agreement with the proposition that bookmakers are not involved in other criminal activities. They associate with other criminals, apart from bookmakers, who are important as customers and financiers. In one city (F) a bookmaker was included in a list of organized crime figures which was given wide publicity by the state Attorney General. The bookmaker complained to a newspaper that this was slander; he was purely and simply a bookmaker. The newspapers checked with the local District Attorney's office, which agreed with the bookmaker. He indeed associated with no other activity.

It was also true in these other cities that, despite financial instability in the bookmaking business, participation was fairly stable. The same people occupied important roles in the business over long periods of time, though there might be rapid fluctuation in the profitability of their operations and they might occasionally have to work for some other operator to recoup their finances. There was also a general impression that the base of participation was expanding, i.e. that new operators are entering the business.

Finally, we found absolutely no evidence of violence in the bookmaking business. It certainly had no role in competition between bookmakers. More surprisingly it also did not seem to be a characteristic of debt collection. Certainly there were threats but no police officer was able to recall any actual use of violence.

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