

GANGSTERS to **GOVERNORS**

*The New Bosses of
Gambling in America*



DAVID CLARY

Gangsters to Governors



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For my mother and in memory of my father

There's no such thing as a lucky gambler, there are just the winners and the losers. The winners are those who control the game, the professionals who know what they're doing. All the rest are the suckers.

—Meyer Lansky

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Gangsters to Governors



P R O L O G U E



Bad Bet

NEW JERSEY AND THE REVEL ATLANTIC CITY FIASCO

Atlantic City is dying. The question is, are we going to allow the same doctors who put the patient in this condition to treat the patient?

—New Jersey governor Chris Christie, discussing his plans in 2010 for a state takeover of the city's casino and entertainment district

On a bright morning in late March 2012, Chris Christie ambled up to a microphone placed on an outdoor balcony of the nearly complete luxury casino-resort Revel Atlantic City. The setting of the New Jersey governor's brief remarks purposefully showed off a commanding view of the sparkling ocean. The sleek skyscraper gleamed in the early spring sunshine and towered above the far northern end of Atlantic City's famous Boardwalk. Other casinos along the edge of the narrow barrier island looked like instant relics with their hokey themes and schlocky architecture. At Revel, the only theme would be modern elegance. Sweeping curves of blue glass and steel above the porte cochere would welcome visitors into a soaring atrium flooded with natural light—a refreshing contrast to the usual bunker mentality of casinos. When opened, Revel would boast a dozen gourmet eateries and ten saltwater and freshwater pools for guests who wanted a change of pace from the beach or casino.

The Boardwalk had never seen anything quite like it, and Christie had seized on the glitzy project as a lifeline for the struggling city. Decades earlier, New Jersey had authorized casinos and transformed Atlantic City into the capital of East Coast gambling. However, nearby states steadily

undercut Atlantic City's monopoly until New Jersey found itself surrounded by clusters of newer, more convenient resorts for the region's gamblers. Atlantic City's gross gambling revenue peaked at \$5.2 billion in 2006, the same year neighboring Pennsylvania opened its first legal casino. By 2010, the year Christie took office, Atlantic City's casino revenue had plummeted by nearly a third to \$3.6 billion and Pennsylvania was on its way to surpassing New Jersey in casino revenue.¹

The bumptious son of Newark and former US attorney had made it his mission as governor to revive Atlantic City at seemingly any cost. In 2011 the state seized control of the city's tourism district and charted an ambitious five-year rescue plan for Atlantic City. The largest recipient of government largesse was Revel. Beset by financial problems, construction was halted after key backer Morgan Stanley pulled out in 2010. Christie vowed to get the cranes moving again, save 2,600 construction jobs, and create an additional 5,500 positions once the half-finished complex opened.² The state awarded a \$2.6 million grant—the biggest of Christie's administration at that point—to train employees at Revel.³ In early 2011, at Christie's urging, the state approved a \$261 million package of tax credits and incentives linked to revenue targets that the project ended up missing, but the move attracted new private investment and restarted construction. "The tax credit showed Wall Street that the state of New Jersey was going to stand behind Atlantic City," said Revel CEO Kevin DeSanctis. "It was a huge boost in financing, and I think it would have been very difficult to do without it."⁴ DeSanctis successfully secured \$1.15 billion in loans from hedge funds to reboot Revel.⁵

Christie seemed thunderstruck when he toured Revel on that bright spring day in 2012 and soaked in what all of that money created. "You look around and this is really one of the most spectacular resorts I've ever seen, and people are going to be wanting to come to Atlantic City, to come here and experience this," he said. With a note of pride at what the state was able to accomplish, he added, "We're sending a signal to not only just the region but to the entire country that Atlantic City is back."⁶ Christie expected Revel to attract large-scale conventions, rehabilitate the Boardwalk,

and inspire additional investments in Atlantic City. DeSanctis predicted that fourteen thousand people would enter Revel each day.⁷

The \$2.4 billion project officially opened during Memorial Day weekend in 2012—the traditional beginning of Atlantic City’s all-important summer season. Revel’s Ovation Hall booked pop star Beyoncé for a series of high-voltage shows to give the resort a buzzy start, and its nightclubs targeted a younger, more edgy clientele than Atlantic City was typically known for. Yet something about Revel seemed off. Its cavernous interior spaces, endless escalators, and icy chandeliers conveyed more of a feeling of hollowness than grandeur. The expensive furniture in Revel’s lounges and waiting areas seemed more like austere museum pieces than places where real people would want to hang out. Las Vegas or even Manhattan—without the casino, of course—would have been a better fit for the forty-seven-story resort than the gritty Boardwalk. Revel’s sheen of wealth and artistic pretensions were incongruous with the weedy lots, cracked sidewalks, and boarded-up houses only a few blocks away.

Revel’s noisy opening masked the stubborn fact that it glided through summer without making a profit. Then Superstorm Sandy struck the Northeast in late October, a terrible reminder of how quickly the shore’s blessing of geography could become a curse. Superstorm Sandy didn’t hit Atlantic City nearly as hard as the state’s other shore towns, but it did darken Atlantic City’s already gloomy financial picture. As the twelfth casino in the cramped city, Revel had joined an overcrowded field clamoring for a shrinking revenue pie. Something would have to give, and it turned out to be Revel.

In early 2013, less than a year after opening, Revel entered bankruptcy protection and managed to wriggle out of it in two months, reporting a staggering \$111 million loss in its first year. That summer Revel stirred up media attention with its promise to refund slot machine losses for players, but the desperate gambit was too late to make a difference. Revel filed for bankruptcy again in June 2014 and failed to find a buyer. The project that just two years earlier was heralded by the governor and others as Atlantic City’s savior closed in September 2014.⁸ A month later a global commercial

property company won a bid for Revel at the fire-sale price of \$110 million but backed out. An eccentric property investor from Florida named Glenn Straub took ownership in 2015 for \$82 million—about 3 percent of what it cost to build Revel. His efforts to rebrand and reopen the resort have fallen into a miasma of court hearings and disputes with the city over property maintenance issues.

Atlantic City's *annus horribilis* of 2014 saw the closure of three other Atlantic City casinos: the Atlantic Club, the Showboat, and Trump Plaza—ripping out the heart out of the Boardwalk, eliminating more than seven thousand jobs, and placing Atlantic City's future in jeopardy.

The story of Revel's colossal failure illustrates how intertwined the fates of governors and gambling have become. Revenue-dependent states and cities lobby for more casinos, more slot machines, more table games, bigger lottery prizes, and higher betting limits by pitching overly optimistic economic forecasts to voters. In the case of Revel, the consequences of an overreaching governor were the waste of state resources and precious private capital on a doomed project in a declining gambling market. Christie's visions of Revel as a gold mine for the state and a beacon for an Atlantic City turnaround were as evanescent as sandcastles on the shore.

Governors today are under intense pressure to maintain public services without raising taxes, which is why so many are latching onto the "painless tax" of gambling as a quick and easy budget fix. More gambling means governments can rake in tens of billions of dollars in tax revenue from lotteries, casinos, and other forms of wagering each year. When neighboring states ramp up their gambling portfolios, they saturate markets and cannibalize profits as in Atlantic City. Today every state except for Hawaii and Utah has some form of legal gambling. Nationwide, roughly 890,000 gambling machines entice players, more than two hundred thousand retail outlets sell lottery tickets in forty-four states, and about one thousand tribal and commercial casinos stretch from Florida to California.⁹ Gambling has an enormous economic footprint: US casinos directly employ 734,000 workers, and the gaming industry supports more than 1.7 million

jobs—more than the airline industry.¹⁰ Gambling's total annual economic impact is estimated at \$240 billion in a 2014 report—equivalent to the combined budgets of New York and Texas—and contributes \$38 billion in tax revenues to all levels of government.¹¹

As legalized gambling continues its march across America, governors are in the curious position of managing enterprises that had long been the dominion of gangsters. Their embrace of gambling is a reversal of the traditional view of government that gambling needed to be suppressed for the good of society. The moral arguments of clergymen and social reformers influenced public perceptions for more than a century, nearly extinguishing legal gambling in the United States. However, banning gambling produced the worst of all possible worlds for governments: States received no revenue from a flourishing underground activity, corruption crippled local law enforcement, and, worst of all, crime syndicates asserted control of gambling. Betting poolrooms linked to racetracks, casinos (legal and illegal), and the numbers rackets all fell under the sway of gangsters.

When Nevada became the first state in modern America to legalize most forms of gambling in 1931, official oversight was exceptionally weak. Out-of-state crime syndicates secured a foothold in Las Vegas that lasted for decades. Benjamin “Bugsy” Siegel and his unsavory partners received a gambling license for the lavish Flamingo casino on the fledgling Las Vegas Strip because the state did not require an investigation into the background or the character of applicants. If anything, the gangster was welcomed as an investor. Lester Ben “Benny” Binion picked up a license to operate Binion's Horseshoe in Las Vegas even though he was under indictment for running an illegal gambling racket in Dallas and had been arrested twice on murder charges.

By the time state politicians felt roused enough to confront the threat, organized crime interests had become the masters of Las Vegas and the gambling underworld. It was only when the fight against organized crime became a federal issue that Nevada strengthened its authority, ultimately opening a path to mainstream corporate ownership that loosened the mob's hold on casinos.

Until the 1960s legalized gambling in modern America was limited to Nevada and scattered locations in other states that allowed pari-mutuel betting at racetracks. Two decades ago only Nevada and Atlantic City operated officially sanctioned casinos. As this book shows, one form of gambling led to others being legalized. When states approved pari-mutuel wagering on horse races, it undercut arguments against establishing lotteries. Once governors got a taste of lottery revenue, it set off a stampede for more. State after state lifted bans on gambling and approved dockside casinos, riverboat casinos, big-city casinos, small-stakes casinos in old mining towns, and casino-resort complexes on tribal reservations.

Today state and local governments wield extraordinary powers to direct the expansion of the gambling industry. They have the authority to decide how many commercial casino licenses will be granted, select who will get them, approve where the casinos will be built, spell out what games will be played, and specify the number of slot machines. States also exercise considerable leverage in negotiating agreements with Indian tribes that want to operate gambling halls on their reservations.

On the whole, governments were right to legalize many forms of wagering as a concession to reality and as a tool to fight organized crime. Through their efforts, they transformed gambling from a shadowy element of the underworld into a legitimate business enterprise and a socially acceptable form of entertainment. Governors did this by deftly co-opting the methods of mobsters: State-run lotteries mimic the numbers rackets; government-authorized off-track betting parlors and casino sportsbooks resemble old-fashioned illegal poolrooms; and corporate-owned casinos operate in much the same way as when they were controlled by crime syndicates. By ensuring the integrity of the games, governments encouraged greater participation and more money for themselves.

Some of the old habits of prohibition have persisted in online gambling and sports wagering. In the first few decades of the twentieth century, underworld rivals had fought to control the flow of racing information over telephone and telegraph wires. Congress passed the Wire Act in 1961, which prohibited the interstate transmission of betting information. The

ban was expanded and applied to the Internet. In 2011 the Justice Department cracked down on online poker operators, alleging that they were involved in fraud and money laundering. The move dealt a blow to online poker it has never fully recovered from. A handful of states are gingerly entering the Internet gambling arena to mostly disappointing results.

Sports betting is largely illegal in the United States because of a 1992 federal law that has been as ineffective and counterproductive as were previous antigambling measures. Daily fantasy sports companies like DraftKings and FanDuel market their “games of skill” that seem quite like games of chance. The majority of Americans who want to bet on NFL games or play real-money online poker must consort with shady bookies or take their chances with dicey offshore websites. And just like in the past, gangsters benefit from the tide of illegal money.

Legal or not, gambling has always been deeply ingrained in the national character. The exploits of professional gamblers on Mississippi River steamboats, in gold rush mining camps, and in the saloons of the Old West are the stuff of legend; Powerball winners and multimillion-dollar poker champions are the folk heroes of today. Governments wrestled for generations over how to respond to such a popular activity until belatedly deciding that it’s far more sensible to legalize, regulate, and tax all forms of gambling than to ban them.

Governors are now the unquestioned masters of gambling, but their enthusiastic embrace of more casinos and richer lotteries is tipping the business out of balance. The question of how government should handle sports wagering and online gambling sets up a fascinating catch-22: Keep the barriers and risk losing ground to organized crime and missing out on revenue, or remove them and put governors in command of yet more forms of betting and accept the likelihood that they will overreach. The hurdles to online gambling and sports wagering in America seem certain to fall someday. State and federal leaders will need to adopt smart, realistic policies on these and other gambling issues to keep up with trends and stay ahead of underworld interests. But how long will they wait?

PART I



Dens of Thieves

GOVERNMENT MUSCLES
OUT THE MOB



The Sport of Kings

HORSE RACING AND THE DARK POWER OF THE WIRE

As has been done with liquor it will be found that the best public policy is to regulate [gambling] and to obtain a revenue for the state.

—Richard A. Canfield, Gilded Age casino proprietor
in New York City and Saratoga Springs

John Morrissey was a poor Irish immigrant, a street thug, and a bare-knuckled boxing champion—an unlikely background for his later life as a high-society horseman, entrepreneur of posh casinos, and member of Congress. Yet somehow he was all of those things, and his influence is felt to this day as the founder of one of the sport’s leading venues. For many states, horse racing was the first time in the modern era that they had a piece of the action in gambling, laying the foundation for many more legalized games of chance. Morrissey’s criminal past also showed the challenges of overcoming gambling’s origins of gangsterism.

Born in 1831, Morrissey endured a hard-knock boyhood in Troy, New York, marked by violence and lawlessness. He taught himself to read and write in an Albany penitentiary while serving a two-month sentence for burglary and assault.¹ Upon release, Morrissey moved to New York City where he earned the nickname “Old Smoke” when he thrashed a fellow hoodlum even while Morrissey’s flesh burned from being rolled onto hot coals from an overturned stove.²

Such tales of his remarkable strength and stamina would become legend. When he was barely out of his teens, Morrissey traveled to gold

rush-era California, where he honed his gambling skills. He fattened his bankroll by fleecing dupes at the tables. Once, a victim of one of his swindles challenged Morrissey to a duel and allowed him to choose his weapon. When Morrissey appeared at the appointed time carrying two meat cleavers, his mortified would-be duelist wisely backed down.³

Morrissey channeled his rage into the boxing ring, winning his first professional bout near San Francisco in 1852 and pocketing a \$4,000 purse and side bet winnings of \$1,000.⁴ He returned to the East Coast and defeated champion Yankee Sullivan in a gruesome match lasting thirty-seven rounds, claiming the heavyweight crown. Morrissey retired from the ring undefeated after successfully defending his title against challenger John C. Heenan in Canada.

Throughout his boxing days, Morrissey was a fearsome enforcer for the Tammany Hall political machine in New York. He led the Dead Rabbits gang in the notorious Five Points slum dramatized in Martin Scorsese's film *Gangs of New York*.⁵ Morrissey's toughest opponent in the street wars was William "Bill the Butcher" Poole, also an accomplished pugilist and Bowery Boys gang leader who despised immigrants and Roman Catholics. In 1855 the feud boiled over at a saloon when Morrissey pulled out his pistol and Poole brandished his knife. Police broke up the fight, but Morrissey's goons returned later that night and shot Poole, who died two weeks later. No one was convicted, and Morrissey was untouched by the crime.

Morrissey parlayed his fame and political protection into a lucrative career as the city's top gambling impresario. He bought and sold a succession of swanky gambling houses popular with the city's leading politicians and other free-spending sportsmen. Morrissey netted a profit of \$1 million in just five years managing the plush casino at 8 Barclay Street in Lower Manhattan before selling it and operating another establishment uptown, further expanding his wealth.⁶

He took his gambling expertise upstate to the bucolic resort town of Saratoga Springs, a summer playground for the wealthy who reveled in the town's soothing mineral springs. Morrissey's gambling house opened in

1861 and enjoyed the patronage of many of the same captains of industry who thronged Morrissey's casinos in Manhattan.

Morrissey sought to capitalize on horse racing's popularity and believed that a first-class racetrack would lend further appeal to Saratoga as a summertime destination. Morrissey and tycoons such as Cornelius Vanderbilt financed a racetrack built about a mile from the center of town. Organized thoroughbred races were conducted on former trotting grounds for a four-day meeting in 1863; the following year, the turfmen purchased land across the street to build Saratoga Race Course. Tellingly, Morrissey's name was not officially listed as an incorporator even though he was the driving force in the track's creation. His raffish background was apparently too much to take for some of the well-bred horsemen.

Saratoga Race Course remains America's oldest active racetrack and is one of the sport's most hallowed sites. Even today, it still retains much of its old-time charm. Asked how to get to Saratoga from New York City, famed sportswriter Red Smith wrote: "You drive north for about 175 miles, turn left on Union Avenue and go back one hundred years."⁷

Through the years, thanks to the patronage of the elite and the participation of the many, horse racing won a measure of respectability that helped it survive waves of crackdowns on gambling. Even so, racetracks nearly disappeared from the American landscape when reformers gained the upper hand in the early nineteenth century. Illegal off-track betting and the corrupt system of relaying racing information dominated the scene until an automated system of organizing wagers enabled governments to legalize betting.

Ever since there have been at least two horse owners in the same place, racing and gambling have been intertwined. In 1693 two Virginians bet money and four thousand pounds of tobacco on the speed of their respective sprinters.⁸ Smaller bets were more common. The South's rigid social hierarchy barred the lower classes from participating in the races. A Virginia court in 1674 imposed a fine on a tailor for having the temerity to

enter his mare in a contest, calling racing “a sport only for Gentlemen.”⁹ Nonetheless, the colorful spectacles drew crowds consisting of common people and servants who bet informally among themselves.

For the Puritans in New England, racing horses was just one of many activities considered to be unproductive diversions and thus contrary to God’s law. The Plymouth Colony in Massachusetts levied fines (or, if unpaid, one hour in the stocks) on anyone caught racing horses on the main street or near meeting houses.¹⁰ Other states thought of racing as a public nuisance and prohibited betting. In Philadelphia, official warnings were roundly ignored; the racing thoroughfare *Sassafras Street* was dubbed *Race Street*, a name that persists in Center City.¹¹

The expense of raising thoroughbreds motivated horsemen to organize more races and bigger purses to defray costs. That meant building large racetracks that could appeal to the masses as well as the wealthy. In New York, a band of millionaires attempted to overcome antiracing sentiment by organizing associations and constructing luxurious tracks. A leader in the movement was Wall Street financier Leonard W. Jerome. Along with friends William R. Travers and August Belmont, Jerome founded the American Jockey Club in 1894 and set out these high-minded goals: “To promote the improvement of horses, to elevate the public taste in sports of the turf, and to become an authority on racing matters in the country.”¹²

The turfmen purchased land in Westchester County and built Jerome Park, a course complete with a giant ballroom, skating rink, and a lavish clubhouse. Membership in the Jockey Club was limited to the wealthy and powerful, who met in the club’s downtown Manhattan headquarters to trade racing gossip and make wagers. Jerome Park’s first meeting in September 1866 attracted figures such as Gen. Ulysses S. Grant, fresh from his triumph on the battlefields of the Civil War. The track won praise for its clean approach to racing. “Nothing goes on at Jerome Park which the purest-minded person could object to,” wrote a New York newspaper. “There is no bribing of jockeys, no ‘dosing’ of horses with laudanum. Never did the history of racing in any country begin with so fair a page.”¹³

John Morrissey's Saratoga was a destination racetrack that appealed to the rich and the lower classes. With Saratoga Race Course proceeds pouring ever more money into Morrissey's pockets, he set out to build a casino in the Spa City that would exceed in grandeur his gilded gambling rooms in Manhattan.

In 1870 Morrissey erected a graceful brick building in the center of town and transformed the surrounding swampland into elegantly landscaped grounds. The furnishings inside were even more elaborate. Morrissey spent more than \$100,000 on wall tapestries, linen draperies, and fine-grained walnut furniture with "J. M." monogrammed in gold leaf.¹⁴ Roulette and faro—a popular card game of the time—were offered in the stately drawing rooms on the ground floor; high-stakes gamblers convened in private rooms upstairs. The casino, known then as the Club House, catered exclusively to the out-of-town crowd: no residents or women were allowed in the gambling rooms.¹⁵

After it was expanded to keep up with demand, a visiting writer compared the gambling palace and Saratoga to the famous Baden-Baden spa resort in Germany. Saratoga visitors would spend the day attending the races or taking in the waters at a fashionable spa and later let off steam around gambling tables in the town's hotels and billiard parlors. Morrissey's gambling house was a favorite spot of the elite of Wall Street. In Saratoga, Morrissey presided as a prince in his "white flannel suit, huge diamond rings, and pin containing brilliants of the first water, and of immense size."¹⁶ Morrissey didn't drink and talked little, but his imposing stature and reputation spoke loudly enough.

Morrissey's alliances with powerful men and his own political standing ensured that his gambling enterprises could proceed even though gambling was technically illegal in Saratoga Springs. An observer noted that Morrissey "is liked in Saratoga because he divides the profits of his sinning with the good people of the village with a generous hand."¹⁷

In 1866 the Tammany-backed Morrissey won a seat in Congress and held it for two terms. Morrissey's record as a legislator was undistinguished; he

reportedly ran a faro bank while he was in Washington. During a floor debate, the ex-boxer's pugnaciousness shone through when he threatened to fight disagreeable House members with his bare hands.

The last years of Morrissey's life were difficult. Although he lost a fortune in bad investments on Wall Street and endured a falling out with Tammany's William "Boss" Tweed, he did win a seat in the New York state Senate after leaving Congress. Morrissey attempted to move back to his hometown of Troy and build a house in the fashionable part of town, but his prospective neighbors were wary of the gambler and bought the property he wanted. The snub infuriated Morrissey, who got even by purchasing a nearby piece of land and building a soap factory that emitted streams of fumes.¹⁸ Wealthy residents bought him out just to shut down the factory.¹⁹

Morrissey died in 1878 at the age of forty-seven; an estimated twenty thousand people turned out to witness his funeral procession through Troy. Morrissey's Club House ended up in the hands of Richard A. Canfield, a wealthy art collector and casino operator in New York City.²⁰ Canfield, a man of taste who gorged on fine food and drink and took to wearing a corset to constrain his girth, added to Morrissey's elegant handiwork by installing a first-class restaurant and dining room to lure high-rollers like the Whitneys and the Vanderbilts. The extravagance of the restaurant was matched by Canfield's office at the Club House, which featured a splendid \$10,000 Tiffany window and a safe containing \$1 million in cash for emergencies.²¹

Canfield's casino interests ran afoul of reformers who were persistent enough to have a chilling effect on gambling in Saratoga. Among them was the famous reporter Nellie Bly, who visited Saratoga in the summer of 1894 to see the resort town for herself. What she found there shocked her sensibilities. "Saratoga is the wickedest spot in the United States," she began her dispatch published in the August 19, 1894, edition of the *New York World*. "Crime is holding a convention there and vice is enjoying a festival such as it never dared approach before." Bly, who had achieved renown for her

trip around the world in seventy-two days, was troubled that women and children were feverishly betting amid scenes of decadence at the racetrack.

Weary of being hassled by authorities, Canfield closed the Club House for good after the summer of 1907 and sold it at a loss to the village of Saratoga Springs, which today operates the “Canfield Casino” as a history museum and rents out its gilded rooms for special events.

The growing fervor for racing after the Civil War challenged racetrack owners to develop a betting system that would set up fair odds and process wagers on a mass scale. At Saratoga, Morrissey had paid himself a flat commission by acting as a broker for high-stakes bettors who wanted to make head-to-head wagers. He had also managed an auction pool in which each horse in a race would be put up to bid, and the highest bidder would collect all of the money in the pool if his or her horse won. Morrissey deducted a percentage for himself from the total amount wagered. According to horse-racing expert Richard Sasuly, the system had several problems: favorite horses typically went to the wealthiest bettors; low-stakes gamblers were usually unable to bet their desired amounts on their horses of choice; and the odds were not calculated.²²

The auction pool system had its roots when wagering was a private affair between gentlemen. They were usually acquaintances of the owners of the horses and knew how they were trained and bred. Such a primitive method of placing bets couldn't last if the sport hoped to keep up with its broadening appeal. For better or worse, bookmaking emerged as the dominant way to handle wagers.

The first professional who kept a “book” of wagers in America set up shop in Philadelphia in 1866, processing bets on horse races as well as cricket matches and regattas.²³ Soon racetracks reserved space for betting enclosures or rings where bookmakers took bets of all sizes based on odds posted on blackboards or shouted over the heads of the milling crowds. The increased participation created larger purses and higher profits for

track operators, who charged bookmakers a fee for the privilege of taking bets on racetrack grounds.

Racing's popularity surged with the openings of Saratoga and Jerome Park. Other big-time tracks popped up across the nation: in 1870, Monmouth Park in Long Branch, New Jersey, and Pimlico in Baltimore, home of the Preakness Stakes; in 1872, the Fair Grounds in New Orleans; and in 1875, Churchill Downs in Louisville, which ran its first Kentucky Derby the same year. Even the nation's business took a back seat to racing fever. On October 24, 1877, Congress adjourned so members could catch a special train bound for the "Great Sweepstakes" at Pimlico. Racing was then by far the nation's most popular spectator sport.²⁴ Most important, it enjoyed the blessing of government, unlike other forms of gambling.

However, the accelerating pace of expansion and the sport's lack of a central governing authority pushed racing to the breaking point. The number of tracks multiplied into the hundreds, and they ran more races with more horses to maximize gate receipts and bookmaking concessions. Each track devised its own rules and racing calendar, and there was no supervision of breeding.²⁵ One track in New Jersey promoted a continuous 176-day meeting that included Christmas Day; another in Illinois ran 364 days a year.²⁶ Inclement weather was no reason to call off a race: records from the 1880s show that meets ran in New Jersey despite a "blinding snow storm" at one track and a dense fog that obscured the horses at another.²⁷

At too many tracks, racing was less about the horses and more about the gambling. Many track attendees were there solely to bet and "didn't know a thoroughbred from a jackass," in the vivid words of a horse-racing historian.²⁸ A New York newspaper estimated that about sixty bookmakers were operating at the Brighton Beach racetrack with a gross handle—the total amount wagered—of more than \$1 million per day in 1894.²⁹

Stories of famous "plungers," or big bettors, livened up newspaper accounts of horse races. Among the best known was John Warne "Bet-a-Million" Gates, a man who eagerly bet on anything that moved—literally. One time while riding a train, Gates laid a huge bet on which raindrop would reach the bottom of a window first, winning \$22,000.³⁰ "For me

there's no fun in betting just a few thousand. I want to lay down enough to hurt the other fellow if he loses and enough to hurt me if I lose," he remarked.³¹

Gates, who made his fortune in barbed wire manufacturing and stock market speculation, loved playing the ponies and spent summers—and loads of money—in Saratoga Springs. One day in 1902 Gates lost nearly \$400,000 at the track. That evening, he dined at Canfield's luxurious restaurant and repaired to the Club House's gambling parlors to recoup his losses. By 10:00 p.m., Gates had lost another \$150,000 at the faro table where the top limit was \$5,000. Gates tracked down Canfield and asked that the limits be doubled. Canfield agreed, replying, "Are you sure that's enough?" Gates then went on an incredible run, betting between \$5,000 and \$10,000 on each turn of the cards. By 2:00 a.m., Gates was even; by dawn, when he quit, he was \$150,000 ahead at the tables but still about \$250,000 down overall counting his racetrack losses.³²

Another notorious gambler of the era was George E. Smith, better known by the nickname "Pittsburg Phil." Smith obsessively studied everything about the races—the jockeys, the trainers, the winning times, the condition of the track, and the quality of horses—and assembled the data into detailed charts to guide his wagering. Smith was soon rich enough to buy his own horses. He believed that one of his purchases, King Cadmus, was severely underrated and ran the bay colt in highly competitive races to hide his true ability.³³ In 1891 King Cadmus's training improved the horse to the point that Smith had the confidence to enter him in a stakes race he felt the horse could win. Pittsburg Phil dispatched his confederates to quietly place big bets on King Cadmus to win the contest at New York's Sheepshead Bay. Smith coolly watched the race through his binoculars as the horses charged around the track into the homestretch. King Cadmus edged out his competitors and netted \$143,000 for his owner—the biggest win the sport had ever seen. The former cork cutter from Pennsylvania was a rare example of a gambler who died a wealthy man; his mother commissioned a statue of her son clasping a racing program to adorn the top of his grand mausoleum in a Pittsburgh cemetery.³⁴

The huge amounts of money at stake made it extremely tempting for bookmakers to cut corners and cheat to avoid getting cleaned out by the likes of “Pittsburgh Phil.” Jockeys were bribed to pull back the reins on a horse during a race and trainers were paid off to manipulate their horses to ensure they would lose.³⁵ Bookies hired “touts” to roam the grounds, sidle up to bettors, and dispense rumors masquerading as inside information from the stables.³⁶ The false “tips” were doled out to steer wagerers in a direction that benefited the bookmaker. If a favored horse lost in a fixed race, the bookmaker stood to gain a handsome profit.

In 1894 a group of owners and breeders formed the American Jockey Club in New York to impose order. The club licensed jockeys, trainers, and horses; organized the racing calendar; administered *The American Stud Book*, the official listing of thoroughbreds; and appointed racing officials.³⁷ Tracks that broke the rules were branded as outlaws, and horse owners were discouraged from racing at such places. The Jockey Club’s standards did bring cohesion to a wild sport, but it failed to stop reformers who viewed bookmakers as a pestilence on the people and nearly abolished horse racing in the United States.

State after state banned bookmaking and prohibited other forms of gambling as part of a nationwide temperance movement. Many racetracks had no choice but to close because they depended on fees they charged bookmakers who took bets on racetrack grounds. A sport that expanded too quickly contracted almost as fast. By 1908 the number of racetracks in the United States plummeted to 25 from 314 roughly a decade earlier.³⁸

In New York, the victory of law professor Charles Evans Hughes over publishing magnate William Randolph Hearst in the 1906 race for governor extended the gains made by reformers. With Hughes’s encouragement, the New York legislature approved a bill in 1908 that banned on- and off-track wagering on horse races. Racing and scattered betting continued; a subsequent law spelled out that racetrack owners were subject to fines and imprisonment if wagering occurred on or near their grounds. All

tracks in New York—including Belmont and Saratoga—shut down in 1911 and 1912; some never reopened.³⁹ In 1911 only six states permitted betting at racetracks.⁴⁰ With few places left to race in America, thoroughbreds by the thousands were shipped overseas, and many jockeys and trainers moved to friendlier pastures in Europe.⁴¹

A system of betting imported from France saved horse racing from extinction in the United States. In 1865 Paris perfume shop owner Pierre Oller was unhappy with the odds offered by bookmakers. At his store, bettors bought a ticket for their favorite horse in a particular race; after taking a percentage of the pot for himself, Oller paid winners in proportion to the number of tickets sold.⁴² The system, which he called “pari-mutuel” (or “mutual stake”), allowed bettors to wager against each other and determine the odds based on the amount bet on each horse. It quickly caught on in France and was the only legal form of wagering at the nation’s racetracks. Inventors in other countries devised tabulating machines that improved the speed and accuracy of totaling bets.

In the United States, bookmakers correctly sized up the pari-mutuel machines as a mortal threat to their livelihoods. They feared that they would become obsolete middlemen since the bettors themselves would determine odds, not the bookies with their unreliable chalkboards. At Saratoga, Morrissey used the system to handle five-dollar wagers as early as 1872, and it appeared at other courses in the 1870s. Churchill Downs managers purchased several versions of the machines and put them into service in 1878, but they baffled many horse players accustomed to auction pools and bookmakers.⁴³ The bookies pushed back, and by 1890 they were back on racetrack grounds leveraging their personal relationships with bettors. While the machines gathered dust in deep storage, the climate for legalized gambling darkened and the track itself was in financial peril.

In 1902 Louisville native and tailor Matt J. Winn joined with civic power brokers to buy Churchill Downs for \$40,000 in the hope of reversing its decline. Winn, a moon-faced salesman with a flair for publicity and bonhomie, loved the sport and cherished Churchill Downs and its famous twin spires. At age thirteen, he had watched the first Kentucky Derby in

1875 from the seat of his father's grocery wagon, taking in the crowds, color, and enthusiasm from the infield.⁴⁴ (Winn lived long enough to witness the seventy-fifth "Run for the Roses" in 1949, never missing one in between.⁴⁵) When it came to business, Winn was no sentimentalist. In the year after Winn and his group took command, Churchill Downs showed a profit for the first time in its history.

Still, even Louisville wasn't immune to the nationwide assault on horse racing. In 1908 the city imposed a ban on bookmaking just before the running of that year's Kentucky Derby.⁴⁶ Winn knew that the prohibition would devastate the track: "Without some form of wagering to offer to the public, we might just as well close the gates," he wrote in his memoir, "because the zest in racing is supplied by the fact that a man, first, can back his opinion as to the merits of the horse of his choice, and then watch his horse trying to justify that faith."⁴⁷ Winn and his cronies discovered an obscure municipal provision that permitted "French pools" or pari-mutuel wagering. The race was on to harvest as many of the machines as possible before derby day. One rusty machine was uncovered in a Churchill Downs storehouse, another turned up in a pawn shop, and four others were scavenged.⁴⁸ Mechanics repaired the battered machines in time for the Kentucky Derby, and Winn went to great lengths to educate bettors about the system.

Winn's long institutional memory paid off. The machines handled more than \$67,000 on derby day, five times more than the bets placed with bookmakers the year before.⁴⁹ The track kept a percentage of the total as a fee for handling the money, and winners were paid according to odds that all could see. As the ban on bookmaking persisted, the pari-mutuel machines became more popular, especially when the track cut the minimum ticket price from five dollars to the now-standard two dollars. Winn's innovations—including wrangling wealthy owners like August Belmont and Harry Payne Whitney to enter their horses in the Kentucky Derby—raised the race's profile and made the first Saturday in May the most notable date on the racing calendar.⁵⁰ By exclusively using

pari-mutuel betting, he also showed that tracks could prosper without on-site bookmakers.

However, the manually operated wagering machines were prone to inaccuracies. Johns Hopkins-trained engineer Harry L. Straus was tired of being shortchanged at the track and believed that there had to be a faster, more automated way to calculate odds and payouts. He helped invent the electrically operated “totalisator,” a betting system that handled thousands of bets accurately, transmitted the tabulations to a display board, and printed tickets for customers. In 1930, Pimlico in Baltimore became the first US racetrack to install his equipment; Hialeah near Miami and Arlington Park near Chicago followed soon after. The electronic indicators in the infields constantly updated the odds on each horse in a race, noted the order they finished, and displayed payout amounts. Tracks clamored for them once they noticed the surge in betting wherever the devices operated. It certainly helped that the totalisators were practically error-free: in 1940 about \$375 million passed through the machines with a combined error of less than \$5,000.⁵¹ Straus’s breakthrough made him a millionaire and enabled him to buy an estate in Maryland where his thoroughbreds had ample room to roam.

The long-delayed acceptance of pari-mutuel wagering was the key that unlocked the gate to official approval of racetrack gambling. States embraced the system because it automatically computed the odds and payouts, eliminating the nettlesome on-track bookmakers. The move boosted public confidence in the honesty of horse racing, encouraged more wagering and bigger purses, and, above all, promised a reliable revenue stream for governments. Kentucky and Maryland were among the first states to authorize pari-mutuels and take a fixed percentage of the handle. For the first time in modern America, states directly benefited from gambling.

Governments didn’t just take the money; they were also becoming partners with the tracks. States set up racing commissions and boards that worked with tracks on racing standards, organized the calendar to avoid overlapping dates, and licensed personnel.⁵² During the Great Depression,

government involvement accelerated because states were desperate for any source of new revenue. In 1933 alone, ten states approved pari-mutuel wagering, with California the most significant entry into the field. Picturesque Santa Anita Park in Los Angeles County opened in 1934; Bing Crosby was a major investor in the Del Mar Racetrack, the place “where the turf meets the surf” north of San Diego that hosted its first race in 1937; and Hollywood Park welcomed fans in 1938, the year the exploits of Seabiscuit and War Admiral riveted the nation. These celebrity-studded sporting palaces thrived in the glow of their sudden legitimacy.

Horse racing was back from the abyss, but this time most of the real action took place away from the track, illegally. Racing fans put down bets at handbooks, which were side businesses in neighborhood spots like cigar stores, barbershops, or saloons. Bettors who were unable to attend a race or who lived too far from a track could place wagers and follow the results in crowded urban “poolrooms.” Thousands of these poolrooms—so named because they hosted betting “pools”—were connected by a nationwide network of telephone and telegraph wires that transmitted racing information. News about track conditions, late scratches, and jockey assignments helped gamblers make their decisions. Poolrooms displayed blackboards listing the odds at races at an array of tracks, and wagers were accepted in person or over the phone. An announcer dramatically narrated the race. Smoke and rumors filled the rooms, and betting slips papered the floors. They were low-tech versions of modern-day casino sportsbooks where goggle-eyed wagerers follow the action on multiple screens and odds boards.

States that had gained a foothold in on-track betting were overmatched by the popularity of off-track gambling. There were simply too many handbooks and poolrooms that could afford the price of law enforcement protection. One operator of a Manhattan poolroom paid \$100 for rent and handed out \$1,200 a month to police and antivice societies. Even after paying other bills, he cleared nearly \$8,000 a month during racing season.⁵³