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Blow the Whistle on Betting Scandals

By Justin Wolfers

N CAMBRIDGE, Mass. O one should be surprised by the news that federal officials are investigating whether Tim Donaghy, a referee for the National Basketball Association, bet on N.B.A. games and may have used his position to manipulate game scores so that he or his associates could profit from their wagers. David Stern, the commissioner of the N.B.A., characterized Donaghy as "an isolated case," but this both misrepresents history and misses the point.

Stern may be correct that Donaghy is the only bad apple in the current crop of N.B.A. refs, but sports betting scandals are fairly common. They are the result of persistent economic incentives that can be traced to the structure of sports gambling markets. And these incentives can be changed.

The activity known as "point shaving" gets at the heart of the problem: a corrupt player or official is rarely asked to throw a game to one team or the other. Instead he is asked to influence something rather immaterial, like the winning margin. This is profitable because gamblers typically bet on whether a team will exceed some point differential — the "Vegas Spread" — rather than whether a certain team will win.

Because basketball can be affected significantly by the actions of a single player, coach or referee, it is extremely susceptible to gambling-related corruption. But we have seen similar

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scandals in other sports, including football, soccer and cricket. The common thread in each case has been the existence of large-scale betting on immaterial outcomes, like the point spread, or how many combined points the two teams will score, or the winner of a meaningless "dead rubber" in cricket, a game that takes place at the end of a best-of-five series after one team has already won three games. The exception is the Chicago "Black Sox" scandal, when White Sox players threw the 1919 World Series to the Cincinnati Reds.

To the corrupt participants, point shaving feels like a victimless crime. The same team, after all, still wins. And this ensures minimal scrutiny of their actions.

Not all gambling leads as easily to corruption. For instance, if betting were allowed only on which team would win a game or a series, then corrupt gamblers would find it much more difficult to get referees or players to cooperate with them. The Black Sox players are famous precisely because they are rare.

If David Stern wants to reduce gambling-related corruption in the N.B.A., he should try to find a way to encourage the types of bets that do not promote corruption. When faced with a betting scandal, a sports league usually hardens its anti-gambling stance. But that doesn't work. A smarter approach would be to become more tolerant of some kinds of gambling in an effort to crowd out the bets that create incentives for scoreboard manipulation.

That's right: Legalizing wagering on which team wins or loses a particular game, while banning all bets on immaterial outcomes like point spreads, would destroy the market for illegal bookmakers and make sporting events less corruptible by gamblers.

Unfortunately, we're unlikely to see

this necessary reform anytime soon. It may be hard to remember in an era of ubiquitous gambling, but outside Nevada, all sports betting is illegal in the United States. This gives us the world's strictest anti-gambling legislation in theory, but in practice it

How gambling can keep N.B.A. refs from cheating.

means that most gambling occurs either in the unregulated underworld or in barely regulated offshore (but online) jurisdictions.

By plowing through the mountains of data created by sporting events, forensic economists have uncovered the footprints of this wrongdoing. If point shaving is occurring, then game outcomes should be especially sensitive to the Vegas Spread. In a paper published last year, I found that to be the case. Point shaving may be widespread enough to have occurred in around 1 percent of N.C.A.A. basketball games. An intriguing undergraduate thesis by a Stanford economics student, Jonathan Gibbs, suggested that similar forces may be at work in the N.B.A. The only thing new in the Donaghy scandal is the accusation that a referee, rather than a player, tried to tweak the score.

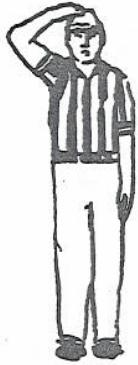
We do not yet know the details of the Donaghy case, but I would not be surprised if investigators are looking into whether he manipulated the total number of points scored in games without affecting the winner. A basketball referee has ample opportunity to influence the number of points scored, or just as important, whether the clock is ticking. This type of ma-

nipulation helps corrupt gamblers win their "over/under" bets, and it probably alters the winner of very few games.

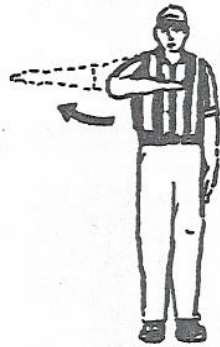
A more sensible legal framework would reduce this sort of manipulation. Bettors value regulation: They get paid, their legs don't get broken, and they can talk about their wagers around the water cooler with no legal risk. The rise of government-run gambling on horse racing in Australia paralleled the demise of the country's illegal bookmakers in second half of the 20th century.

The competitive advantage conferred by regulation may also channel problem gamblers into the legal sector. If policymakers build in sufficient safeguards, we can direct victims of compulsive gambling into treatment. Instead, today's problem gamblers are channeled by illegal bookmakers into ever-higher losses, and their mounting financial pressures sometimes lead to criminal conduct.

Point-shaving is a crime of opportunity, and the opportunity comes from the structure of sports betting markets. The commissioners of the major sports need to address these systemic issues. A transparent and well-regulated gambling sector could easily out-compete the unregulated offshore bookmakers and the illegal onshore ones. More important, it would reduce the number of betting scandals we're likely to see in the future. □



Upset Special



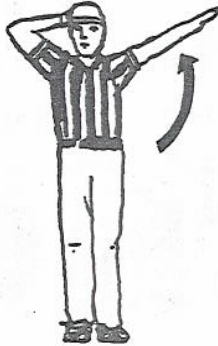
Even Money



Sucker Bet



Odds-on Favorite



Over / Under



Take the Points



Parlay



All In