

Economic Beat



Nab Crooks, Not Shavers

by Martin Fridson

COLLEGE BASKETBALL FANS ARE CURRENTLY FOCUSING ON THE March Madness of the NCAA Division I Men's Championship, rather than the threat of a new gambling-related scandal. But a recent "forensic economics" study suggests that law-enforcement officials may have to decide what to do about point-shaving. The correct answer, if their goal is maximizing public welfare, is to do nothing.

Point-shaving occurs when players accept bribes to slacken their efforts sufficiently to make sure their teams win by fewer points than the "spreads" established by bookmakers. Logically, the scam is most likely to occur in games that the oddsmakers do not rate as close contests. If the spread is wide, players can shave points without running the risk of overdoing it and losing the game.

Justin Wolfers, who teaches business and public policy at the University of Pennsylvania's Wharton School, studied the outcomes of more than 40,000 games. He found that when the spread was less than 12 points, the favored team covered the spread as frequently as it failed to cover. At a spread of 12 or more, in contrast, the favorite failed to cover more often than it covered; the difference was too large to be coincidental. Wolfers deduces that gamblers succeed in corrupting 30-odd college games a year. His conclusion is supported by an NCAA survey conducted in 2004. Two percent of the polled players said they had accepted money for playing poorly or knew of teammates who had.

Tampering with athletic contests is morally wrong, even un-American. But what can be gained by expending tax dollars on prosecuting it? Deterrence is not likely. Point-shaving is a recurring story in the sports pages, dating back to the City College of New York scandal of 1951. Over the next half century, players shaved points at University of Iowa (1961), University of Michigan (1992) and Arizona State (1994), despite widely publicized investigations and convictions along the way.

Prosecutors should stop hot-dogging and leave disciplining point-shavers and other sports cheats to organizations like the NCAA.

Aside from deterrence, the main rationale for prosecuting a crime is justice for the victims. The victims of point-shaving are bettors who receive untrue odds—often on illegal wagers. If it is the government's duty to guarantee accurate bookmaking on basketball games, where should we

draw the line on enforcement? Perhaps the FBI should go after disgruntled prima donnas who refuse to play up to their statistical potential.

It is sound public policy to prosecute a casino that tampers with its advertised odds by loading the dice or tilting the roulette wheel. That is akin to fighting any other consumer fraud. And the Securities and Exchange Commission's enforcement division should strive to make certain speculators get a fair shake. Honest disclosure of companies' financial performance and risks benefits society at large, because it encourages investment in the enterprises that drive economic growth. Employing government resources to ensure accurate betting odds, on the other hand, produces the dubious achievement of encouraging people to gamble.

The main beneficiaries of a point-shaving investigation are headline-hungry district attorneys. They win fame by convicting marquee-name college athletes and perhaps a few low-level wiseguys. The cost is diversion of resources from undertakings that could generate much bigger improvements in people's quality of life. For example, officials could combat arson and embezzlement, which inflict more serious harm than the distortion of gambling odds.

In the most celebrated case of gambling-related sports corruption, the World Series fix of 1919, the government's response was a farcical, inconsequential trial. Organized Baseball itself, under the aegis of Commissioner Kenesaw Mountain Landis, restored the game's integrity by banishing for life eight "Black Sox" players, notwithstanding their acquittal in court. The team owners reluctantly granted Landis the authority because they recognized that the fans' disillusionment over the rigged championship posed a danger to ticket sales.

Similarly, the cost of enforcing the rules should lie with the institutions of higher learning that derive substantial revenue from basketball broadcasting rights. No public purpose is served by allowing college administrators to turn a blind eye toward violations, then calling on government to clean up the mess. Point-shaving is reprehensible, but prosecuting it is not an optimal use of the law-enforcement budget. ■