

Sit and Go Scholarships

When Chris Moneymaker (yes, really) won the World Series of Poker in 2003 interest in poker skyrocketed. This trend continued until what April 15, 2011 (Black Friday), when the Department of Justice seized control of major poker websites and effectively ended the ability of U.S. players to play online. Since then, some states, such as New Jersey, are slowly bringing online poker back. Everyone else should. First, there are misconceptions about whether poker is a game of skill or a game of luck. Second, the stigma associated with Black Friday is unfairly attached to persons that did nothing wrong. Finally, and most importantly, online poker presents a simple solution to the education problems in this country.

Skill or Luck

The misconception of skill or luck in poker really comes down to not understanding the difference between a long view and a short view. In one popular variant of poker, Texas Hold 'em, players are dealt two cards face down. A round of betting follows. Players remaining are shown three community cards by the dealer face up. Another round of betting follows before the dealer flips over a fourth community card. Another round of betting occurs before the final community card is revealed. A final round of betting takes place and the player with the best five-card hand using any combination of their cards or the community cards wins the pot. The strongest starting hand in this variant is to start with two aces, while the weakest starting hand is to start with a unsuited deuce-seven. Even so, the aces are only favored to win against the unsuited deuce-seven around 87% of the time. On a single hand a lot of luck is involved! Suppose though that you were asked to bet \$1 against someone in that position 100 times. Would you take the aces or the unsuited deuce-seven? *Over time*, the aces would take \$174. This is basic math. The skill in poker happens *over time*. An amateur has a good chance of beating a professional in a single hand. An amateur has an average chance of beating a professional over ten hands. Over an entire tournament the odds look very bad. Over a lifetime of playing poker the amateur might as well burn his money.

The skill involved in poker is repeatedly make profitable decisions. This involves guessing the strength of an opponent's hand and calculating their decision making process compared to your own. There is a litany of literature, based on mathematical probabilities, to optimize your play. A general search of poker books on Amazon this morning revealed 6,590 hits.

Strong anecdotal evidence supports this argument. If poker is just a game of luck then why do we see the same players finishing in the top? One study which analyzed the 2010 World Series of Poker found that professional players had an average return on investment of 30%.¹ For every \$1000 they spend, they would get \$1300 back. That looks like skill, not luck.

Bad Deeds

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Levitte, Steven D and Thomas J. Miles. "The Role of Skill Versus Luck in Poker Evidence From the World Series of Poker." *Journal of Sports Economics* (February 2014): 31-44.

<http://pricetheory.uchicago.edu/levitt/Papers/WSOP2011.pdf>

The Black Friday case, *U.S. v. Scheinberg*, 10 Cr. 366 (2011), which included a civil case, *U.S. v. Pokerstars et al.*, 11 Civ. 2564 (2011) marred public opinion against online gambling.² However, to infer that these incidents mean that online gambling itself is wrong or has potential for people to abuse one another does not logically follow. While none of the companies involved admitted any wrongdoing as part of a settlement, *arguendo*, even if they had done something wrong it just shows that the people running the businesses are subject to the same kinds of temptations that those who drove our economy into the ground in 2007 are. It is curious that tanking the national economy goes with very little repercussions but if something as "evil" as gambling is going on, then everyone loses their minds.

Gambling is no more a sin than drinking or smoking. Adults who are informed of the risks should be allowed to do all of the above. Two out of three is a good start, and honestly, with the availability of casinos in most states poker is already available to adults.³ This does not include the ability to play poker in many states at dog tracks. The only argument made here is that there is no logical reason why a skill-based game cannot be available to consenting adults in an internet age. How does the same government that taxes gambling winnings say that how someone gambles is not okay?⁴ Like alcohol and cigarettes, states and the federal government can take advantage of legalized online poker as funding for national problems: first and foremost, schooling.

The Rake

The way casinos and online poker sites earn money from hosting poker events is traditionally called "the rake." For cash poker games the host keeps a portion of the bets on each hand. The way this works for small tournaments is that the host keeps a portion of the entry fee. Thus, these enterprises are self-sustaining ventures. Governments can take advantage of what was a multi-billion dollar industry by getting a piece of the rake. That piece needs to be low enough that companies still want to do business in the U.S. For their software developers, it's just one line of code. For the students of the U.S. it could mean cutting down on the trillions of dollars in student debt collectively accumulated. Suppose, for example, a tax of 1% on poker tournament entry fees. One popular small tournament is called a sit and go. These small tournaments usually range from nine to one hundred and eighty players. They occur continually online. Entry fees can range from one dollar to thousands. If nine players play a \$10 sit and go that comes out to \$0.90 for education. At the moment this is being written there are 29,000 people playing on a free poker site I use. That's one site. If they all played in that format it would be \$3,000, for less than an hour of play. What if players played more games? What if the stigma associated with online gambling disappeared and consenting adults wanted to play? The simple truth is that some States already use *unskilled* gambling to fund education.⁵

Conclusion

The numbers for the tax on online gambling can be changed around-perhaps 2% on tournaments and 1% for cash games. What matters is that there is a skill-based activity, that consenting adults want to engage in, that can be used as a revenue source for governments. Why isn't this happening?

² https://en.wikipedia.org/wiki/United_States_v._Scheinberg

³ <http://www.americancasinoguide.com/casinos-by-state.html>

⁴ <http://www.irs.gov/taxtopics/tc419.html>

⁵ <http://www.flalottery.com/education.do>