

Has pachinko got the balls to survive if casinos are legalized?

In February, the Liberal Democratic Party formed a team to study the possibility of lifting the ban on casino gambling in Japan. About half of Japan's prefectures, as well as Tokyo Gov. Shintaro Ishihara, have said they want to build casino resorts to attract foreign tourists.

Japan is lagging behind the rest of Asia in this area. As China's economy has grown and more Chinese citizens travel abroad to spend their disposable income, the countries of Southeast Asia legalized gambling after noting how many of these tourists gravitate to places like Macau and Las Vegas. Even uptight Singapore is now in the process of building a huge entertainment complex centered on casinos.

The people who oppose legalized gaming in Japan say that it will stimulate underworld criminal activity and lead to the deterioration of public morals. But some types of gambling are already legal.

The Japan Racing Association, which is run by the Ministry of Agriculture, Forestry and Fisheries, operates 10 horse-racing tracks and administers off-track betting. Regional „koei“ racing (boats, motorcycles, bicycles, horses) is controlled by prefectural governments and public corporations related to certain government agencies. The national lottery (takarakuji) is overseen by the Finance Ministry. Altogether, these government-sanctioned gambling operations generate about 7 trillion yen a year.

But that's peanuts compared to pachinko, which takes in 30 trillion yen a year – more than Japan's automobile manufacturers. Not officially considered gambling, pachinko,

in fact, may prove to be the biggest obstacle to legalizing casinos in Japan.

In an article he wrote for *Shukan Kinyobi* last January, Hiroshi Morisu, a professional gambler who lives in Australia and is in favor of legalizing casinos, explained why the LDP's push toward legalization will hit a wall. According to Morisu, the National Police Agency has a vested interest in pachinko that would be hurt by casinos.

Some will say that accepting a professional gambler's argument in favor of casinos is like accepting a fox's design for a new henhouse, but the nature of gambling is such that anyone who actually makes a living from it has to operate from a foundation of pure logic.

Morisu's argument is based on the idea of *kojoritsu*, which is related to the gambling term „house edge.“ The house edge is the percentage of an average bet that the casino expects to keep. In roulette, when you bet on a single number, your odds are 38-to-1 that you will win, since there are 38 slots on a roulette wheel. However, if you place a dollar on a winning number you will probably win \$ 36. The two dollars is the house edge, which in this case is a little more than 5 percent.

The house edge decreases as the odds of winning improve, which means slot machines have a high house edge while blackjack has a low house edge. Professional gamblers never play the slots, which is why Morisu considers pachinko and its offshoot pachislot (essentially a slot machine) nothing more than robbery.

By Morisu's calculations the *kojoritsu* for pachinko parlors ranges from about 8 to 50 percent, depending on how ethical they are. By adjusting the machines to their favor and reducing the number of pachinko balls a player can win, a parlor can increase its edge and thus its profits.

The reason these practices are not illegal is that the

authorities do not consider pachinko to be gambling. The industry is regulated by the law that controls fuzoku eigyo (businesses that affect public morals), such as massage parlors and game arcades.

Pachinko gets around the gambling ban by means of a loophole called santen hoshiki (three-store method). When you play pachinko you buy a tray of balls. Winning means ending up with more balls than what you started with. However, the parlor cannot buy back your balls with cash, since that would violate the gambling law, so they give you „prizes“ instead. You take these prizes to a separate business down the street, where you exchange them for cash. This business, in turn, sells the prizes to a wholesaler, who then redistributes them back to the pachinko parlors.

Yakuza used to be involved in the prize buy-back system, but about 15 years ago the police managed to lock the criminal element out and set up their own organizations to administer the business. According to Morisu, these organizations remain under police control, and the money they make goes into NPA benefits schemes, like the pension fund. In the 1990s, a prepaid card system for pachinko parlors was introduced, making it easier for the police and the tax authorities to monitor revenues.

If casinos are legalized, pachinko would vanish, claims Morisu, since casinos' house edge is much lower and „no one plays pachinko to collect metal balls.“

Actually, pachinko patronage is already on the decline, but the industry has managed to maintain the same levels of income. They do this by increasing the jackpot appeal. Players are led to believe they can win bigger amounts while the probability of winning is decreased through adjustments made to the machines. The possibility of hitting it big all at once keeps the pachinko player in his seat longer.

Pachinko parlors are also reinforcing the game's pop-culture appeal, an aspect that Morisu doesn't address. TV commercials promote new machines that feature manga characters, the South Korean drama „Winter Sonata,“ and Indiana Jones. Many pachinko establishments resemble theme parks and wouldn't look out of place in Las Vegas, which is now touted as a vacation spot for the whole family.

Morisu's argument is that gamblers would logically abandon pachinko for casinos, but casinos don't automatically have to spell doom for pachinko. There are plenty of losers to go around.