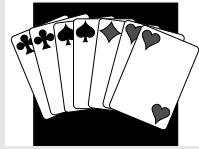


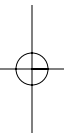
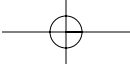
PART I



The Entrepreneurial Spirit

[1937–1978]

In 1937, at age 25, Bill Harrah unwittingly began one of the greatest legends in gaming when he took over a modest card game business in Venice, California, previously owned by his father. The young entrepreneur purchased the illegal "circle game" and operated it out of a storefront for one year. The constant threat of being shut down by local officials drove Harrah to Reno, where he opened a small bingo parlor. Part I recounts Bill Harrah's early struggles to launch the modest enterprise that in time became northern Nevada's most successful gaming company. It closed in 1978. At the time of his death, he had amassed a vast fortune.



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A RISKY BUSINESS



T'S BEEN MORE THAN TWO DECADES SINCE BILL HARRAH PASSED away in 1978, leaving the unique and remarkably successful company that bore his name. He started his career in the mid-1930s and is recognized as one of the early pioneers in the chronicles of American gaming. In an industry with a shady past, the Harrah name is synonymous with integrity.

Since he opened his first casino in Reno, Nevada, millions of people have passed through the doors of the 26 casinos operated by Harrah's Entertainment, Inc. Relatively few people, however, know much about its founder. As years pass, the number of employees, business associates, and customers who personally knew Bill Harrah becomes fewer. Yet, many of his innovations have become standard operating procedure in gaming casinos across America.

Like pioneers in any field, above all else, Bill Harrah was a risk-taker. As one of the early casino owners, he blazed trails where no one had previously ventured. He is truly one of the great icons in the history of gaming in America.

The history of gambling traces back to primitive man and biblical times. In this country, its roots go back to 1612 when the first lottery in America raised 29,000 pounds for the Virginia Company. George Washington, who deplored the gambling rampant at Valley Forge, nonetheless supported a lottery to help build the city that bears his name. Lotteries helped build General Washington's army and were also responsible for funding several early buildings on the campuses of Harvard, Princeton, and Dartmouth. America's modern gaming era began in the 1940s, a time when Nevada was the only state in the Union where casino gambling was permitted by law. The majority of Americans viewed gambling as sinful. For years, clergymen and politicians preached the evils of gambling to their parishioners and constituents.

The history of gambling in Las Vegas familiar to most Americans revolves around the notorious gangster Bugsy Siegel, who hit town in

1943. The film industry has perpetuated the image of Las Vegas as an underworld haven; blockbuster movies such as *The Godfather*, *Bugsy*, and *Casino* exhibit this slanted view of its early days.

In the 1940s, Vegas was a small jerkwater town in the desert. However, Vegas held two distinct attractions for Siegel and his Mafia associates: first, legal gambling, and second, a desirable proximity to metropolitan Los Angeles, three hours away by car. Meanwhile, Reno, Nevada, 450 miles to the north, was proudly hailing itself as “the Biggest Little City in the World,” and it, too, was in its neophyte stage as a gambling refuge. While Reno had its share of disreputable operators, it also had a handful of commendable small-time casino owners. Although Reno’s remoteness was considered a disadvantage at the time, it turned out to be a blessing in disguise, because underworld henchmen stayed put in Vegas. Mafia leaders had no motivation to set up shop in Reno when they were making so much money in Vegas. As the city of Las Vegas quickly became the gambling mecca of the world, Bill Harrah vowed he would never own a casino there. He did not shy away from competition; he simply had no desire to compete head-on against the underworld that had a tight grip on gambling in Las Vegas. Harrah wanted no part of the strong-arm tactics employed by mobster-type casino owners and their business associates.

A Nation of Risk-Takers

Taking risks is the American way. We survived as a nation because our founding fathers were risk-takers. Before the colonization of America, lotteries were conducted in England to determine who would go to the New World. The first to arrive in this country came to America in 1606 and founded the Jamestown colony. By 1609, our nation’s first colony had a population of nearly 500 citizens. During the winter of 1610, the colonists were ravished by sickness, starvation, and hostile Indians until the colony’s population was reduced to 60. Despite the dangers and hardships, brave men and women colonized our shores and survived. Early settlers encountered enormous risks when they crossed the ocean to a faraway land and ventured into the wilderness. Our forefathers probably embraced gambling because life itself—getting out of the mills and mines, getting through Comanche territory in one piece—was a gamble. Later, during the nineteenth century, Americans pioneered a vast virgin land, building farms and ranches often many miles from their nearest neighbor. Isolated, the settlers became fiercely independent, a characteristic that today epitomizes the American spirit. From its birth, America

opened its doors to the world's unwanted. Brave newcomers left their homes and arrived penniless on our shores. They too were risk-takers. This is our American heritage.

In a speech delivered to the Commonwealth Club in San Francisco on November 3, 1989, Philip G. Satre, president and CEO of Harrah's, told his audience:

Americans have a philosophical drive, an instinct for achievement that includes taking risks. Americans have an inbred tendency, if you will, to gamble. It's been true in our frontier past. I think it is true in our entrepreneurial present. And I think it will be equally instinctive in our high-tech space age future. As long as people strive for the charms of wealth, and try to avoid the pitfalls of poverty, the gamble to win will be a part of our makeup, part of our nature, and part of our future. As luck will have it, gambling will be with us for a long time—you can bet on it.

Business annals are full of resourceful entrepreneurs with humble beginnings who amassed huge fortunes. Irenee du Pont, for example, came to America in 1800 when he was 30 years old. As a boy, he had learned the craft of powder making while apprenticed to famed French chemist Antoine Lavoisier. Not long after his arrival in this country, du Pont bought some gunpowder for a day's hunting. He was shocked by its poor quality. This was his impetus to begin DuPont, today one of the world's largest chemical companies.

The Coca-Cola Company was founded by John S. Pemberton, who was a struggling pharmacist before he concocted his famous formula in 1886. Initially, his caramel-colored syrup was invented to relieve indigestion and exhaustion. He added caffeine because he believed it would serve as a headache remedy. Only after Pemberton failed to market his new product as a medicine did he sell it to Atlanta's largest pharmacy, Jacobs'. Later, when it was mixed with a glass of soda, it became the soft drink that billions of people have since enjoyed. Yet, Coca-Cola was not what could be considered an overnight success. Its first year's sales totaled only \$50!

Henry J. Heinz, founder of H.J. Heinz, was another entrepreneur who had a humble start. In 1869, he and his neighbor, L. Clarence Noble, started the famous ketchup company in Sharpsburg, Pennsylvania. They hired two women and a boy, and operated out of Heinz's home. From their kitchen, they peddled their product to grocers, managers of hotel kitchens, and housewives.

In 1920, Walt Disney, an 18-year-old cartoonist, was turned down for a job by the *Kansas City Star*, so he hired on as a graphic artist for

a local advertising firm. He started as a \$40-a-week illustrator with the Kansas City Film Ad Company, a firm that made 60-second animated cartoon advertisements shown in local movie theaters. In 1923, he left Kansas City for a place where he had heard young filmmakers could find financial backing for their projects: Hollywood. With \$40 in his pocket and an unfinished print of *Alice's Adventures* under his arm, Disney boarded a train heading west. Thus began the fabulous career of Walt Disney, one of the legends of the movie industry. Like DuPont, Coca-Cola, and Heinz, the name Disney is known around the world.

Many of America's greatest corporations sprang from humble beginnings. American Express started out as the Pony Express in the 1840s. General Electric dates back to 1878 when Thomas Edison was researching the incandescent lamp. When IBM first began in 1914, it was as a manufacturer of butcher scales.

During the last half of the twentieth century, thousands of companies with modest beginnings became household names in America. In 1954, Roy Kroc was a \$12,000-a-year milkshake mixer salesman for Multimixer. Then he came across the McDonald brothers, who operated a drive-in hamburger restaurant in San Bernardino, California. When Kroc saw the crowds of people lined up to buy the one-tenth of a pound hamburgers for 15 cents each, he envisioned opening McDonald's restaurants across the country, each amply supplied with Multimixers. The inventive salesman then convinced Dick and Mac McDonald to give him the exclusive rights to franchise their operation all over the United States. Thus, at the age of 52, when many businesspeople begin thinking about the day they may retire, Kroc embarked on a new career.

Shortly after World War II, Sam Walton, founder of Wal-Mart, got his start with a \$25,000 loan from his father-in-law to start his own business. Walton opened a Ben Franklin Store in Newport, Arkansas, and by 1950, had developed it into the most successful location in his region. That year, however, he lost his lease. Forced to sell out, he moved to Bentonville, where he purchased another Ben Franklin store, opening it as Walton's Five & Dime. Throughout the 1950s, Sam Walton continued to add "Walton's Ben Franklin Stores" to his little chain within a chain. This was the beginning of what was to become the world's largest company with revenues in 2001 of \$219 billion.

Bill Gates was born in 1955, *after* Kroc and Walton had already started their companies. Still in high school, Gates began programming software with his friend Paul Allen. In December 1974, Allen, four years older than Gates, dropped out of the University of Washington to

start a full-time career in computers. Shortly thereafter, Gates left Harvard to join his friend, and, in the summer of 1975, they founded Microsoft. Gates and Allen were not typical entrepreneurs. They had no business plan, no venture capital, and no bankers or Small Business Administration loans. Not yet 21, Gates couldn't even rent a car. But the young duo had everything necessary for entry into the computer industry at the time: a product, programming expertise, and most importantly, a vision of greater possibilities. With this unassuming start, in a relatively short time, Bill Gates became the richest man in the world, and Paul Allen is a close second.

These stories are a tribute to the free enterprise system. There are literally thousands of stories about self-made Americans who started on a shoestring and built empires. The story of Bill Harrah is one of them.

A Humble Beginning

Like so many of our nation's giant dynasty builders, Bill Harrah had a humble beginning. In 1929, at age 18, he went to work for his father, who owned and operated a bingo parlor, the Circle Game, in the sleepy town of Venice, just south of Los Angeles. This hole-in-the-wall operation was housed in a small storefront on a pier built on wood stilts that extended west, standing tall above the Pacific Ocean.

Ironically, it was by pure chance that Harrah's father had acquired the bingo parlor. Before the Great Depression, John Harrah had been a prominent attorney; he even served a term as mayor of Venice. He had amassed a small fortune as an owner of several real estate properties. However, during hard times, tenants couldn't pay their rent, so he was unable to meet his mortgage payments. Consequently, he lost nearly everything, but he did manage to keep a lease that he owned on a storefront on the Venice pier. To keep his head above water, he used this unoccupied space to open the Circle Game. It fit right in with the pier's other tenants; it had several concessions including a hot dog stand, a shooting galley, a pool hall, and a hit-the-milk-bottle game operation. The honky-tonk business was not comparable to a thriving law practice, but it did put food on the table. Like many others during the Great Depression, John Harrah did what he could to survive the hard times.

After completing his freshman year of higher education at California Christian College, Bill Harrah enrolled at UCLA with the ambition of becoming a mechanical engineer. At the end of his first term, he dropped out of college. With millions of unemployed Americans

desperate for work, the young college dropout went to work for his father. It was only a temporary summer job, he figured, and both he and his father would find more suitable employment when the Depression ended.

Bingo winners at Circle Game received a carton of cigarettes, which at the time sold for \$1.25. Most people played two sets of five cards, which cost 50 cents. Betting 50 cents to win \$1.25 was a poor payout, but it didn't matter because the customers had a good time. It was an escape from their hard lives. The Circle Game was bingo with a twist; players sat in a circle on one of 33 stools. In the middle of the table, a roll-down hopper connected to a flashboard. Players bought cards from the dealer, then tried to roll a ball into the hopper in such a way that the flashboard would register a card of a suit and number that would match the cards the players had bought, filling in a four-card sequence. Once out of the hopper, where the ball rolled was random. Still, it was considered a game of skill.

Its being a game of skill was essential because bingo was illegal in the Los Angeles area; however, the law did permit games of skill. There was, of course, some debate on whether skill was actually involved in the Circle Game—and the interpretation varied, depending on the mood of the presiding district attorney.

On slow days when there were only a few customers, John Harrah put house players, otherwise called “shills,” in the game to protect the house. Objecting to the use of shills, Bill told his father, “The customers aren't fools. They know when we use shills and it keeps them from playing. Besides, with the extra money we pay for shills, it's bad business.”

“If we get rid of the shills and have only two players at a game that pay 25 cents each, we'll be 75 cents in the hole,” his father claimed.

The father and son disagreed on many things. For instance, Bill wanted to replace the folding chairs with comfortable stools. He suggested putting drapes over the windows to keep out the glaring sun, and it was he who urged improving the decor. “You have to spend money to make money,” he told his father.

An ongoing battle raged between the two Harrahs on how to treat employees. John Harrah would preach to his son, “The help are just like apples or somethin': you need a dozen, you go and buy a dozen.” The elder Harrah came from the school that felt employees were like the seasonal walnut pickers who toiled the fields during the Great Depression. He viewed employees as disposable, able to be replaced whenever their services were needed again.

"Help isn't that way. They have to be good, and they have to make a living, and you just can't put 'em out of work," the son argued.

The treatment of help became a sore point. The senior Harrah insisted on laying off workers when business was slow. The junior Harrah wanted to give them steady working hours, regardless of how business was. He believed that turnover and retraining new employees were too expensive. He intuitively thought that by treating people with respect, they'd be more loyal, and that loyal employees treated customers better.

The Circle Game struggled, and in 1932 when its earnings dropped to \$100 a week, John Harrah offered to sell the company to his son for \$500. The offer was accepted, and the 20-year-old man became the proud sole proprietor of the Circle Game. His first change was the discharging of the skills. This enabled him to lower the price of the bingo cards. In a matter of only a few days, business improved dramatically. Soon afterward, drapes and comfortable stools were purchased. By year's end, the Circle Game was generating between \$100 to \$200 a week.

By 1934, the Circle Game generated \$25,000 in profits, a large sum at the time, for its 24-year-old owner. Later, Harrah purchased two other bingo parlors on the pier—the Plaza and the Vogue.

These were the first of several small-time operations he owned. Some succeeded; others failed. At this stage in his career, Bill Harrah encountered many setbacks. Some of these early reversals were valuable lessons that helped him succeed later in his career. Time, coupled with hard work, slowly taught him the gaming business from the ground up.

One of his biggest hurdles in Venice was the fact that bingo was viewed as a quasi-legal activity. The police would periodically close up his bingo parlors without notice, with little rhyme or reason other than the mood of the governing politicians. Harrah's bingo parlors and the other 20 or so gambling clubs in Southern California would routinely open and close, only to reopen and shut down again.

If there was a pattern, it was political. The Santa Anita racetrack opened on Christmas Day and ran for two or three months. It was no coincidence that when the horses were running, the district attorney would shut down Venice's bingo parlors. Harrah played the cards he was dealt: To remind his customers that he'd be back when Santa Anita closed, he developed a mailing list and sent Christmas presents to his regular customers. This thoughtful treatment of his clientele set a precedent. Throughout Harrah's gaming career, personal touches with customers remained his trademark.

Welcome to Reno

In 1937, the Harrah Venice operation was once more “temporarily” shut down by the local authorities. During that time off, Harrah took a weekend holiday to Reno, Nevada, with friends. After making the rounds at some of the gambling spots in town, Harrah concluded: “What a place! Look at that; they don’t close the bars, and they don’t close the games, and they [the police] leave you alone.” This was in stark contrast to police harassment back home in Venice.

Following a few days on the town with his buddies, Harrah decided to relocate to Reno, a city where he could work in harmony with local law enforcers. During this visit, he spread the word that he was interested in buying a bingo parlor in Reno.

One month later, Harrah received a letter from a bingo parlor owner on Center Street. The fellow was putting his business on the market and willing to accept any reasonable offer. What a lucky break, thought the young entrepreneur. A few days later, Harrah went to Reno and made an offer to buy the business at what he thought was a bargain price. The offer was accepted, and shortly afterward, he shut down his parlors in Venice for the last time. In May 1937, Harrah moved to Reno.

After spending five months setting up shop, on the eve of Halloween in 1937 (coincidentally, the 73rd anniversary of Nevada’s admission to the Union), Bill Harrah opened his first bingo parlor in Reno. He paid \$200 per month to his landlord, Bob Douglass, a local internal revenue collector. Douglass had some political clout and used it to obtain a gaming license for his new tenant. It was not long before Harrah realized his location was so far off the beaten path, it was doomed to fail. It was two blocks away from where the real action was—on North Virginia Street. That’s where the hot gaming establishments such as the Owl, the Bank Club, the Palace, and Harold’s operated. Two months later, Harrah rented a vacant building in what he thought was a better location, moved his equipment in, and closed the first parlor. Meanwhile, he continued to pay the rent on his first lease while running an ad in the local newspaper to find a subtenant.

The easy-going Douglass was so impressed that his young renter was attempting to find a subtenant that he refused to accept any more rent for his vacant storefront. Douglass simply tore up the lease! It was a lucky thing because, had the landlord insisted on being paid, Bill Harrah’s fledging gaming career might have come to a crashing halt.

The name of Harrah's second Reno bingo parlor was the Plaza Tango. The name came from a deck of bingo cards that said "Plaza" on them, plus the fact that it was on Commercial Row, whose name changed to Plaza Street a few blocks down the street.

Like his Center Street parlor, the Plaza Tango was also a poor location. Next door stood the Wine House, another struggling bingo parlor. Between the two, there was barely enough business for one bingo parlor to remain open. In 1938, the Wine House shut down and Harrah took over its lease. He purchased its equipment for \$600.

The winter of 1938 was particularly harsh in Reno, so cold that customers frequently voiced their discomfort. Of course, it was the same all over town—it was cold in every bingo parlor. Harrah's competitors comforted their chilly customers with space heaters strategically placed in various corners of their establishments. Bill Harrah could have done the same for his shivering patrons—a good space heater cost \$30 and he could afford to buy a couple. But he went a few steps further, installing an oil-heating furnace in the basement for a staggering \$600.

"It was a first-class job. So we bought it. We did need heat, and we wanted the people to be comfortable," he insisted. "They're not goin' to play if they're not comfortable."

Years later, others would attest that going first-class was always a Harrah trademark. When it came to treating customers, Bill Harrah refused to cut corners.

Early in his career, Harrah preached to his employees: "We want our customers to know we appreciate their business, so we will treat them the way we would like to be treated." He continually repeated, "We want our places clean, because that's what we'd like if we were the customer." This straightforward philosophy became deeply embedded in the company culture.

It soon became evident that Bill Harrah knew how to run a bingo parlor. He was doing a great job at the Plaza Tango, but his business continued to struggle. He was only making ends meet. In time, it dawned on him:

If we got the right location, then there was no reason why we couldn't operate. And there's something I didn't realize, which is very difficult in a new city. Oh, I don't care if you're in the theater business or gas station business or whatever. There's a pattern there, and it looks so great; and you think, "Oh, gee, look at this lot," and you grab it. And all those stations are over here; then you find there's a reason why they're there. The people are used to going there. On the other hand, you can't beat a newcomer.

Sometimes a newcomer can see a lot of things the old-timers can't see. They [the old-timers] are too blind because they're so used to things the way they always were. Just the same, you've got to respect the way a town is laid out. There's a reason for it. And you better really study it before you jump in. Don't just go in and say, "Oh my God, here's a vacant lot! Let me grab it!" If you do, you can sure get fooled.

Bill Harrah discovered early in his career the truth to the real estate aphorism that the three most important qualities that determine the value of a property are location, location, and location. As time passed, Harrah realized that the potential of the Plaza Tango would forever be limited by its poor location, regardless of how well it was managed. All the changes he made to improve the business would not alter its location. That was an irrefutable fact.

Although Harrah longed to buy a bingo parlor on Virginia Street, none was on the market. Then, unexpectedly, along came the opportunity for which Harrah had long waited. A friend who tended bar at the Heart Tango informed Harrah that its owner, Ed Howe, was thinking about retirement. Howe had been in the business for 10 years, working day and night to hold his own against the competition. The word was he was simply tired and wanted out of the business.

Bill wasn't shy about approaching his competitor. He went directly to Howe.

"Would you consider selling this place?"

"I don't know," Howe replied. "I do pretty good here. Let me think about it," was all he said.

Howe apparently saw the offer as a chance to "live the good life" in his trailer down in Arizona because two days later when Harrah stopped by, Howe told him the Heart Tango could be bought for \$25,000.

To that, Harrah responded, "I'll have to think about it."

A man is entitled to ask whatever he wants for his business, Harrah thought. After all, it belongs to him. But that doesn't mean I have to pay him all he asks, he reasoned. I'll offer him what I want to pay for it.

The following day, Harrah went back to Howe. "Okay, Ed, I thought about it, and I'm not going to give you \$25,000 for this place. I'm gonna give you three. And it's not gonna be cash, it's gonna be a thousand dollars down, a thousand dollars in 30 days, and a thousand dollars in 60 days."

"Let me think about it," Howe said.

"Well, at least he didn't throw me out," Harrah thought. "At least he's thinking about it."

The following afternoon, Howe agreed to sell the Heart Tango at the price and terms Harrah had offered. It was a good lesson for the young entrepreneur: Offer the price that makes sense to you instead of blindly agreeing to the other party's deal.

By the end of the 1930s, there were 17 gaming establishments in Reno. One of the best was the Reno Club, and like the Heart Tango, it, too, was on the main drag. Its owner, Freddie Aoyama, was an Asian who also owned a number of bingo parlors in California with his Japanese silent partners. Harrah would have given his eyeteeth to purchase the thriving casino, but it had never been available. However, when the Japanese bombed Pearl Harbor on December 7, 1941, Aoyama suddenly had a strong incentive to sell. Prejudices against American Japanese literally swelled overnight. So strong was this bigotry that a Japanese entrepreneur could not feel safe operating a business. One week after the bombing of Pearl Harbor, Bill Harrah solicited some partners for financial backing and an offer was made to Aoyama that he couldn't refuse. The deal included ownership of the business, plus a long-term lease with the landlord. Thereafter, the marquis out front read "Harrah's Reno Club."

Once more, Harrah gave the shills the boot, coughed up some customer comforts, and the business rapidly increased. Before long, Harrah's Reno Club was the most successful bingo parlor in Reno.

By now, what attracted customers to Harrah's bingo parlors wasn't just the nicer atmosphere. Harrah casinos had also established a reputation for high integrity. In an industry known for attracting sleazy operators, a reputation as an honest businessman was a highly valued asset. While customers understood that the odds always favor the house, there was comfort in knowing that they could gamble without fear of being dealt from the bottom of the deck.

Early Las Vegas

Today, Las Vegas is synonymous with gambling. Indeed, in the world of gambling, it is Mecca. Although Bill Harrah intentionally stayed far away from the world's gaming Mecca, Las Vegas plays an integral role in his story—as the famed city does in *any* story about casinos.

Around the world, the word *Vegas* conjures up an instant image of flamboyance, excess, and glamour. Few places project such a sensational image by the mere mention of their names—cities like New York, Paris, London, Rome, and Hong Kong. Compared to such a metropolis with a centuries-old history, Las Vegas is an anomaly. As recently as the 1940s, it was a one-horse town with a population under

5,000, yet its spectacular growth and rapid rise to international fame are unmatched throughout the chronicles of modern civilization.

Travel anywhere in the world, and just being from Las Vegas creates immediate interest. "What's it like living there?" people inquire. "You mean people actually live there?" others ask. Youngsters from Las Vegas who attend college in the East invariably get nicknamed "The Vegas Kid" and "Doc Holliday."

In the early 1800s, Spanish-speaking traders routinely visited the gushing springs in the oasis they called *Las Vegas* (English translation: "the meadows"). By 1844, Las Vegas appeared on many Spanish maps. The southwestern desert was still Mexican territory, but the U.S. Army Corps of Topographical Engineers was already at work on a systematic mapping program of its own. By the 1850s, Mormon wagon trains made regular stops at the oasis on their way to California. In 1855, Brigham Young dispatched 30 men to go to Las Vegas to build a fort to protect immigrants from the Indians. Later, the town became a railroad stopover between Los Angeles and Salt Lake City. Ranchers were attracted to the oasis that provided a steady water supply in the otherwise arid desert land. The surrounding mountains contained rich deposits of ore and silver, which, in turn, attracted miners. In an isolated railroad stopover occupied by ranchers and miners, the male population greatly exceeded the female population. Therefore, as in many other towns of the Old West, saloons, gambling joints, and whorehouses became the local source of entertainment. The early town was nothing more than a tent city, a dusty desert depot housing a handful of small trading companies and the railroad office. However, in 1909, Las Vegas became the county seat, giving the site an important government connection. The state legislature named the new county *Clark County* after William Clark, a Montana copper baron and real estate speculator who had also served as a senator.

For most of the nineteenth century, gambling was legal in Nevada. But public opinion can be fickle, and, like alcohol, gambling came to be viewed as a decadent evil. In 1910, under intense pressure from reformers, the state of Nevada banned all forms of gambling. It took the Great Depression to cast gambling in a different light. Twenty-one years later, in 1931, legislation again legalized gambling, making Nevada the only state in the Union to give gambling sanction. It was a desperate effort to boost the economy—and it worked. In time, gaming became Nevada's number one industry. Prostitution—another added attraction—was also legal in Nevada and also prospered.

The federal government played an important role in the growth of Las Vegas. In 1928, Congress passed the Boulder Canyon Act,

authorizing spending to construct the world's largest dam on the Colorado River at a site just southeast of Las Vegas. Later named Hoover Dam, millions of dollars were poured into the area while the rest of the nation suffered from the misery brought on it by the Depression. At its peak, the dam supplied jobs to more than 5,100 laborers, almost double the population of Clark County. The dam also became an important source for Las Vegas' water and electricity needs. Equally important, in 1933, Hoover Dam attracted 132,000 visitors and more than 230,000 came to Las Vegas. No wonder the chamber of commerce promoted the city as "the gateway to Hoover Dam."

During the early 1940s, still more millions of dollars in federal government spending poured into the area when the Army Air Corps built the Las Vegas Army Air Corps Gunnery School just eight miles north of downtown Las Vegas. The desert location was chosen because its weather provided excellent year-around flying conditions. In 1949, the Department of Defense changed its name to Nellis Air Force Base. With more than three million acres of ground space and more than five million acres of air space, the base is the largest of its kind in the world.

By the late 1930s, Las Vegas, a city of only 8,000 residents, had a quarter of a million visitors annually. Before long, hotels and small casinos began springing up to accommodate tourists.

One of the earliest visionaries was Thomas Hull, a man who became wealthy building Spanish-style resort hotels in California that featured large pools and recreational facilities in a sprawling, garden setting. In 1941, when he built the El Rancho Vegas in the same style, he threw in a casino. The El Rancho's early success demonstrated the feasibility of combining a casino with a large resort hotel. Moreover, Hull convinced hotel builders everywhere that the spacious tracts bordering the Los Angeles highway were ideal locations to build the mammoth resorts that would eventually make the town famous. One of Hull's early innovations was hiring singers and comedians to entertain his guests. It caught on, and this marked the birth of the legendary Las Vegas lounge act.

Another entrepreneur was R. E. Griffith, a man who made a fortune building and operating theaters during the war. On visiting Las Vegas in the 1940s, Griffith recognized the city's tremendous potential and, with his nephew, built a second casino-resort just south of the city on the Los Angeles highway. They chose a Western motif and designed a huge building with elaborate interior furnishings. Their Last Frontier resort, with a large bar and restaurant, epitomized the grand Western cowboy style of the old Southwest and became an overnight success.

The El Rancho and the Last Frontier were the first casino-resorts, as well as the first theme resorts, in Las Vegas.

A Gangster Called Bugsy

Perhaps the most colorful individual in America's most colorful city was Benjamin Siegel, also known as "Bugsy," a name that no one dared say in his presence. Known for his psychopathic temper, Siegel had a rap sheet that included assault, burglary, bookmaking, bootlegging, extortion, hijacking, murder, mayhem, narcotics, numbers, rape, and white slavery by the time he was 18. Years later, he boasted that he personally killed 12 men.

None of these activities is likely to appear on the resume of a casino owner or employee today, but indeed these were Bugsy Siegel's credentials in the 1940s when gang boss Meyer Lansky dispatched him to Los Angeles on a business trip. Siegel's assignment was to "take care" of some matters with local racketeers who were running what promised to be a potentially lucrative business. Using strong-arm tactics, Siegel's mission was to take control of the "wire" for his boss. The wire was the publication that brought the results of horse races, prize-fights, and other sporting events to gamblers in California and throughout the West. Most importantly, it delivered the odds to bookmakers across the country. Siegel did his job well. His recreational activities included visits to Las Vegas, gambling at the El Rancho and the Last Frontier.

Throughout his life, Siegel had been enamored with movies. On arriving in Los Angeles, he renewed his friendship with actor George Raft, one of his closest friends since they were together as kids in the slums of New York. Like Raft, Bugsy had ambitions of being a movie star, but his lack of acting talent prevented him from fulfilling his dream. Raft, one of Hollywood's biggest stars in the 1930s and 1940s, and Siegel formed a mutual admiration society. Known as a tough guy, Raft played leading roles in crime movies. On film, Raft mimicked his good pal, Bugsy, the real-life gangster; he even combed his hair like Siegel's for his gangster parts. In addition to being a dapper dresser, Siegel was handsome—and vain. America's favorite tough guy reputedly slept with a strap on his chin to keep it firm.

On one of his visits to Las Vegas in 1946, Siegel made his usual rounds to the El Rancho and the Last Frontier. He loved everything about them and became determined that he should also own a casino resort, but his would be far more elaborate than anything previously built. After convincing his East Coast Mafia associates—among whom

were the notorious Meyer Lansky and Lucky Luciano—to back him with a cool million, Bugsy bought a majority interest in a half-finished Vegas strip hotel being built by Billy Wilkerson Jr., who had put in \$600,000 before running out of cash. Wilkerson was the owner of the *Hollywood Reporter* and several upscale Sunset Strip clubs in Los Angeles. Siegel promptly renamed the hotel the Flamingo, and set out to turn it into a playground for the Hollywood elite he was so eager to impress. During the coming months, Siegel got his mob backers to invest more and more cash until \$6.5 million had gone into the Flamingo. Rumors had spread that some of the mob's money was going directly into Siegel's pocket.

Years later, Wilkerson's son told the *Las Vegas Sun* that his father had received a late-night visit from Siegel. "Siegel told my dad, 'You're going to turn over your interest to me and if you don't give it to me, I'm going to kill you.'" His father quickly signed over his 48 percent of the unfinished hotel and fled to Paris. Siegel gave this share to his mob cronies to get them off his back.

At the time Siegel made his investment in the Flamingo, the Las Vegas business community was unaware that the source of Siegel's cash—money from the National Distillers—was connected to the money that Murder Incorporated used to go legitimate. National Distillers was one of several Mafia-owned fronts.

Siegel's level of taste finally exceeded his backers' deep pockets. The Flamingo had landscaped lawns and gardens studded with palm trees, an elegant waterfall by its front entrance, plus a variety of distractions for its guests, including a pool, a health club, tennis and golf, stabling for 40 horses, show rooms, and shops. The hotel, low and spacious, had only 105 rooms but reeked of luxury.

As unscheduled Flamingo construction expenses continued to skyrocket, Siegel's mobster partners became wary. Was he cheating them? It didn't help matters that his girlfriend, Virginia Hill, kept shuttling back and forth to Europe, where they suspected she was depositing their money in a secret Swiss bank account. These suspicions put Bugsy in jeopardy. As the story goes, a meeting of the bosses was held in Havana on Christmas Day, 1946, where it was decided that if the Flamingo succeeded, Siegel would be reprieved and have the opportunity to pay back what he owed. If it failed, Bugsy was a marked man.

The Flamingo's grand opening on the day after Christmas made national headlines. Siegel chartered flights, filled them with Hollywood celebrities, and flew everyone into Las Vegas to watch comedian Jimmy Durante open the resort's theater. The casino dealers

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wore tuxedos, and male patrons were required to wear suits and ties; women wore gloves. The Hollywood crowd partied for three days and then flew home, leaving the casino empty. Local gamblers and tourists were too intimidated to gamble there, and rumors spread that Siegel was pilfering what little profits there were.

Business was so bad that the high-priced entertainers lined up by Bugsy appeared before tiny crowds, sometimes in front of audiences consisting of only a handful of people. The losses were enormous; two weeks after the Flamingo opened, it closed. Two months later, it reopened and, with some changes, began to show a steady profit. However, by then, Siegel's fate had been sealed. On June 20, 1947, while reading a newspaper in the living room of the Hollywood mansion he had purchased for his girlfriend, Virginia Hill, Bugsy's number was up. Nine shots were fired from an army carbine through his living room's quarter-inch-thick pane of window glass. Five shots went wild, but two shots in the head and two more in the chest killed Bugsy Siegel.

It's said that 20 minutes after Bugsy was murdered in Hollywood, three men appeared at the Flamingo in Las Vegas to inform the casino staff that they were taking over. Gus Greenbaum, a man with a casino management background, was put in charge, and the Flamingo became a highly profitable business.

Siegel's funeral was held two days after he died. Although he had spent the last years of his life making friends with a slew of Hollywood celebrities, only five mourners attended his brief service.

Credit is given to Siegel for being the first to recognize the important role that Hollywood would play in the growth of Las Vegas. The gangster called Bugsy added a touch of glitz and glamour, an important influence that has drawn millions of tourists to this gaming Mecca.

Surprisingly, the presence of gangsters in Las Vegas eventually became somewhat of a tourist attraction. Visitors felt as though they were living vicariously when they came to a casino owned and operated by the underworld. Whenever they spotted somebody walking with a violin case, they suspected it contained a lethal weapon—and this excited them. Presumably, they even felt a sense of security with the mob's presence, because they believed the Mafia had an unwritten law that dictated killing only people who were supposed to be killed. Civilians were never murdered by the Mafia—only other bad guys! Many of the tourists felt overly safe in Las Vegas because it was as if there were two police forces. Organized crime worked overtime to foster these feelings—it didn't want to kill its golden goose!

While Bugsy Siegel was the first big-time mobster to arrive in Las Vegas, his arrival marked the beginning of nearly four decades of control under organized crime. To Mafia chieftains, Vegas was heaven on earth, a place where they could set up shop without breaking the law. Among other advantages, it presented an ideal opportunity to launder money. With millions of cash dollars flowing in on a daily basis, skimming—the practice of pocketing cash before it was accounted for—was a temptation no mobster could resist. As infamous Meyer Lansky once put it, “They’ve given us a license to steal.” Mob-operated casinos also enjoyed another edge: a very effective way to collect bad debts. Strong-arm collection tactics greatly reduced the odds of getting stiffed by a deadbeat customer. The Mafia also had an effective way to eliminate the competition. Tales are told to this day about desert burials of those who dared to defy the mob.

Harrah’s First Casino

When liquor licenses were in short supply during World War II, Bill Harrah approached Murray Jacobs, owner of a clothing store adjoining the Reno Club. Jacobs had never been keen on operating the small men’s shop that had been passed down to him by his father. So, when Harrah suggested they join forces by converting the front of the property into a liquor store and jointly operating a bar in the back in conjunction with his bingo parlor, Jacobs jumped at the opportunity. Thus, the two men formed a partnership to jointly own the bar.

Because blackouts were common during the war, the new enterprise was appropriately named the Blackout Bar. Bill Harrah had set up many deals with other businesses with little or no money down, and the Blackout Bar was another of the many partnerships that he participated in. These deals ran the gamut. In some cases, a partner owned an interest in a bingo parlor; in other cases, it was a piece of the real estate, or ownership in a slot machine concession. Clothier Murray Jacobs was Harrah’s partner in the Blackout Bar.

Had there been other options, Harrah would have preferred being a sole proprietor in his ventures. This way, he could make each important decision on his own without anyone insisting on doing it another way. Simply put, he liked the independence that came with being his own boss and not held accountable to a partner. There was another thing about Harrah that made him want to be a solo act. He was always looking for ways to expand his business. He thought big, and partners tended to slow him down. This was especially true with

conservative partners, which is what most business people were when compared to a highly aggressive man like Bill Harrah.

Bill Harrah was one of those guys who “just did it.” For instance, in the 1940s, there were many restrictive wartime regulations. When there was a freeze on construction and a wall had to be torn out or a bathroom installed, governmental approval was required. The red tape made it extremely difficult to apply for and have permission granted. This didn’t stop Harrah. He simply did it before any official board stopped him. “So the trick was just get it done before they knew about it,” Harrah is quoted to have said. He believed that when you go to the government to ask permission, it opens a can of worms. Then when bureaucrats turned you down, you’d be in serious trouble by going against their denial. He didn’t want a reluctant partner to get in his way. “He who hesitates loses,” Harrah believed. And most people hesitated. No wonder he vowed that the day couldn’t come too soon when he would no longer have to bring in a partner.

The Blackout Bar attracted an elite crowd, and here Bill Harrah was able to meet many of the leading citizens in Reno, a majority of whom, at the time, he didn’t know. To cater to this upscale clientele, he installed his first blackjack table and first crap table. The bar also had a handful of slot machines, and, in fact, a one-dollar slot machine—which, at the time when penny and nickel slots were popular, was a big deal. This small operation was his first entry into the casino business.

On June 20, 1946, Bill Harrah took a bold step beyond bingo parlors when he opened Harrah’s Club, his first casino, and he did it sans partners. He borrowed heavily. How well he knew that it would take only a few unpredictable things to go wrong and the risky venture would go under. Despite the risks, he took the plunge, eyes wide open. Harrah’s Club had the right location; it was on Virginia Street, the same place that was formerly the Mint, and before that, the Block N. It had 35 feet of frontage and was 140 feet deep. When it first opened, it had a keno game, a faro bank game, two wheels, six crap tables, three crap games, and 40 slot machines. There was also a horse race booking operation in the back room.

One reason for the name Harrah’s Club was its location next door to Harold’s Club, the area’s most successful casino. Harrah figured that people would remember it better because Harold’s was so well known. They might even get it confused with Harold’s, and this would work in Harrah’s favor. Raymond I. Smith, founder of Harold’s, came to Reno in the early 1930s, shortly after gambling became legal again in Nevada. Along with his two sons, Raymond A. and Harold Smith, he

eventually built an empire from his initial investment of \$600. (In 1962, in a sale and leaseback arrangement, they cashed it in for \$16,675,000.) The Smiths ran a reputable business and, like Harrah, were well regarded in the community. They were also great promoters. To advertise their casino, they plastered every available barn wall and roof across the western United States with the slogan, "Harold's Club, Reno or Bust." From the Arctic Circle to Jerome Avenue in the Bronx, there were signs promoting Harold's. The key to all Harold's advertising was twofold: the challenge to go west and the total absence of any mention of gambling. This brought in hordes of people by trains, buses, and automobiles. The Smiths ran all sorts of games, including a roulette wheel featuring a live mouse that ran around on the wheel instead of the usual white ball. The mouse would finally tire and sit on a number.

Harold's didn't quite deliver what its advertising promised. When customers came from afar to Reno, they would soon discover that Harrah's Club, although less known, was better run. Like Harrah's other gaming enterprises, Harrah's Club didn't employ skills. From the beginning, Harrah did everything first class. For example, before its grand opening, the bar was redecorated. Although a considerable amount was spent to have it gold-leaf painted, Harrah wasn't satisfied with its look. When he gave the order to remove the gold leaf, the artist informed him that real gold had been used.

"I don't care what it is, if it don't look good, it don't look good," Harrah replied. With that, the bar was stripped with paint remover and the gold was scrapped. This was the way Bill Harrah did things—it didn't seem to matter that he was in debt to most of the gamblers in town for money he borrowed to get his first casino started.

The same thing happened with the rubber tile, inlaid square flooring installed to complement the casino's fine oak and mahogany hardwood fixtures. He didn't like the floor, so he replaced it with terazzo and carpet. The results were astounding. If nothing else, the carpet set a tone for the place that was far more refined than had ever been displayed in Reno. *Life* magazine had called Harold's "as garish and as nakedly ugly as an unshaded light bulb hanging from the ceiling of a flophouse dormitory." Nor did it hurt to build in a steam pipe beneath Harrah's pavement so customers would not slip on ice or snow. In fact, it was a stroke of genius, for that first winter was bitter—almost bad enough to threaten stillbirth to the new casino.

Here, too, employees were instructed to treat customers the way they'd want to be treated if their roles were reversed. This decree became the *modus operandi* for all of Harrah's enterprises.

Two pitfalls demand the attention of every casino owner. First, because it's a cash business, an owner must make sure employees don't rob him blind. For this reason, it had always been a sacred ritual for a casino owner to personally supervise the counting room—the place where the cash is counted on a nightly basis. In short, with thousands and thousands of dollars being transacted, when the counting room isn't well guarded and supervised, cash has a way of “disappearing.” Although Bill Harrah was a man who ran a tight ship, he delegated the management of the counting room to Bob Ring, a trusted employee who had worked for him since his early days in Venice. When Ring wasn't available, Harrah's father would pinch hit. As the business grew, however, Harrah hired consultants to set up counting room systems—systems that later served as a model for the gaming industry.

Exorbitant expenses are the other pitfall that wrecks startup casino owners. During the first winter when heavy snowfalls kept customers away from Virginia Street, Harrah's Club was also devoid of activity, yet Harrah was reluctant to lay off employees.

“I went in the club and there wasn't a customer. And here we had all our dealers and all our bartenders working. I thought, ‘Brother, at this rate and our \$8,000 nut, or whatever it was, it isn't going to take long to go out of business,’” Harrah said.

“Many executives in any line of business are very slow to act; they want to quit spendin' the money but they don't want to hurt anybody, and usually you have to hurt somebody. You have to lay people off,” Harrah explained. And eventually, he did.

Laying off employees was a hard thing for him to do, especially at a time in his career when he personally knew all of his employees and so many were his good friends. But business is business, and he realized that if the overhead was not reduced, there'd be no business—and everyone would be out of a job.

Owning a Casino Is Not Risk-Free

The start of a new casino is a risky business. Yet, some people think a gaming casino doesn't gamble. True, the odds are in the house's favor, but just like the customers, the casino plays the same games of roulette, baccarat, and blackjack. Hence, the house can and does lose. Even slot machines can lose! Over a period of time, however, the Law of Large Numbers kicks in and favors the casino.

Suppose you toss a coin in the air. The Law of Large Numbers does not tell you that the average of your throws approaches 50 percent as you increase the number of throws; simple mathematics can

tell you that, sparing you the tedious business of tossing the coin over and over. Rather, the law states that increasing the number of throws correspondingly increases the probability that the ratio of heads thrown to total throws varies from 50 percent by less than the same stated amount, no matter how small. The word *vary* is what matters. The search is not for the true mean of 50 percent but for the probability that the error between the observed average and the true average is less than, say, 2 percent. In other words, the higher the number of throws, the greater the probability that the observed average will fall within 2 percent of the true average.

Like all businesses, casinos are profit driven, and it is the Law of Large Numbers that provides the house with its profits. In manufacturing and retailing, profits are generated by markups—the difference between the cost of goods and the price received by customers for those goods. Still, like a company with a built-in gross profit, a casino also has overhead that, when too high, can create a stream of red ink. So, even with odds at the gaming tables favoring the house, there is always the additional risk of an unlucky streak, and even casinos have losing streaks. In this respect, a casino owner takes his chances as does any other entrepreneur. Simply winning at the gaming tables does not ensure that a casino will operate in the black.

In a free enterprise system where competition flourishes, it's only a matter of time before the strong become stronger, and the weak fall by the wayside. In a fiercely competitive marketplace like Las Vegas, there is no such thing as a sure thing. Casinos are no different from other companies with expenses that include rent, salaries, advertising, and utilities. If, for instance, expenses run out of control, or marketing efforts fail to get enough customers into the casino, the end may be near. Names such as the El Rancho, Maxim, and Continental can be found on tombstones in the casino graveyard in the Nevada desert. Older casinos such as the Dunes and the Desert Inn—all prominent showplaces in their day—have been imploded to make room for newer and more lavish casinos.

In recent years, several casinos have been built at prices in the \$1 billion to \$2 billion range. At 8 percent interest, the annual debt service on \$2 billion is \$160 million, or nearly \$500,000 a day! That's just the interest. With thousands of people on the payroll, coupled with expenses for marketing, advertising, maintenance, utilities (imagine the electric bill for all those glitzy Vegas lights), and so on, owning a casino is anything but a sure bet!