ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672
11210 SENATE LABOR & COMMERCE

e. **"Educational Organization"** means a civic, service, or charitable organization in the state, not for pecuniary profit, whose primary purpose is educational in nature and designed to develop the capabilities of individuals by instruction.	24	05.15.690	
f. **"Established Village"** means an unincorporated community that is in A. the unorganized borough and that has 25 or more permanent residents, or B. An organized borough, has 25 or more permanent residents and (i) is on a road system and is located more than 50 miles outside the boundary limits of a unified municipality or (ii) is not on a road system and is located more than 15 miles outside the boundary limits of a unified city	24	05.15.690	
g. **"Police or Fire Department or Company"** means a civic, service, or charitable organization in the state, not for pecuniary profit, consisting of members of a police department or fire company established by the state or a political subdivision of the	27	05.15.690	
h. **"Political Organization"** means an organization or club organized under or formally affiliated with a political party as defined in AS 15.60.010.	27	05.15.690	
i. **"Religious Organization"** means an organization, church, body of communicants, or a group, not for pecuniary profit, gathered in common membership for mutual support and edification in piety, worship, and religious observances, or a society, not for pecuniary profit, of individuals united for religious purposes at a definite place and that is recognized as a religious organization under the federal income tax laws and the selective service laws.	27	05.15.690	
j. **"Veterans Organization"** means a civic, service, or charitable organization in the state, or a branch or lodge or chapter of a national or state organization in the state, not for pecuniary profit, the membership of which consists of individuals who were members of the armed services or forces of the United States or persons who serviced in the Alaska Territorial Guard.			
3. **Permit Application**	31-32	05.15.020	160.200
(1) Department of Revenue provides a form for annual permit application			
(2) Annual fee of $20 to $100 depending on amount of prior year gross receipts is submitted with application. Annual fee of 1% of the net proceeds is submitted with an annual report.	1		
(3) If incorporated, a certified copy of articles of incorporation			
(4) If partnership, copy of partnership agreement			
(5) Copy of bylaws or charter with a provision that provides for disposition of net proceeds from charitable gaming to another qualified charitable organization			
(6) Certification that applicant has at least 25 members who are state residents			
(7) If exempt under IRC as 501©, copy of letter of exemption or certificate			
(8) Must be in existence for 3 years and submit documents to prove it			
(9) Must submit 2 copies of application to each city or borough in the location applicant seeks to conduct a gaming activity.			
(10) Applicant must designate an individual as "member in charge" and an "alternate member in charge"	1		

4. The most common forms of conducting bingo pulltabs and raffles are as follows:

(a) Self Directed - Permittee conducts the games using its own volunteers or paid employees.

(b) Multiple Beneficiary - Up to 6 Permittees join together to form a partnership for the purpose of conducting gaming. Profits from the operation are distributed to the Permittees. 11 05.15.145

(c) Operator - Permittee contracts with an Operator to conduct the gaming activity on its behalf. An Operator must pay an annual fee of $500 and post a bond equal to $25,000 per Permittee, not to exceed a total of $100,000. The Operator collects the gross receipts, pays out the prizes, pays operating costs, including a fee to him or herself, and pays the balance to the Permittee. For Pulltabs, the Operator must pay out at least 30% of adjusted gross income to the Permittee. For Bingo or Raffles, the Operator must pay out at least 10% of the adjusted gross income to the Permittee. Adjusted gross income means gross receipts, less prizes paid out, less taxes calculated on gross receipts. 13 05.15.160

(d) Vendor - Permittee contracts with a Vendor to conduct the sale of Pulltabs on its behalf. The maximum amount a Vendor can charge to a Permittee is 30% of the ideal net (gross receipts - gross prizes). In other words, the Permittee receives 70% of the ideal net from the Vendor when the game is delivered to the Vendor. The Permittee must purchase and deliver the pulltab games to the Vendor. The Permittee incurs the cost of purchasing the game, the State Tax of 3% of the ideal net , and the Federal Excise tax on Wagering. After the Permittee pays the 30% to the Vendor, and pays for the cost of the games, etc. they are usually left with about 19-20 05-15-188

The choice of methods used by Permittees to conduct gaming activities as described above, depends on the Permittee, and how actively involved they want to be in the fundraising process.

The Operator provides the Permittee organization a chance to receive usually from $30,000 to $40,000 per year, depending on the percent of profit on the games sold, with minimal involvement. Many charities like this as it does not distract them or their volunteers from their charitable purpose. Prize limits for pulltabs when you use an Operator are $500,000 per year.

The Vendor provides the Permittee the chance for more funds because they have higher prize limits per organization and they return a higher percent of the ideal net profit to the organization. The Permittee using a Vendor must have volunteers in the organization willing to be involved in purchasing and delivering the pulltab games, and the record keeping is a little more detailed as they have to report sales from specific games purchased. A Permittee maximizing his prize limit of $1,000,000 would net about $120,000 to $135,000 depending on the percentage of profit on the games sold.

The Multiple Beneficiary Permittee is a business partnership between 2 to 6 Permittees. It operates very similar to an Operator, and has the same requirements for returning 30% of pulltabs and 10% of bingo adjusted gross income to its Permittees. However, the prize limits for the MBP are double what an Operator can do per Permittee, and the Operator fee is retained by the organization to pay for management. Any remaining profits are distributed to the Permittees. The MBP provides the Permittee with the opportunity to increase the amount of money they receive annually, if the business is successful.

Some Permittees conduct charitable gaming on their own, however most organizations find that it distracts from their primary purpose if they do much more than just raffles.

5. The State of Alaska currently taxes 3% of ideal net, which is gross receipts less prizes in any given set of pulltabs.

   Certain municipalities also charge sales tax of 3 to 5%. Some charge the tax on the gross receipts and some charge the tax on the ideal net or adjusted gross. For the municipalities that charge the tax on the gross sales, it takes a very large portion of the profit margin out of pulltabs, and it makes it more difficult for Operators and MBP's to return the required minimums to the Permittees. For instance, Juneau has a sales tax of 5% on the gross sales. That is the same as taxing 25% of the ideal net. In order for MBP's and Operators to meet their minimum payouts to their Permittees, they have historically ventured into other parts of the state to open operations where they do not have a sales tax. This allows them to blend their sales from with in Juneau area with sales outside of Juneau, and perhaps meet the minimum payout requirements of 30% of adjusted gross.

   When Permittees from one geographic region venture into other regions, this can and has caused bad results. The most recent example in Fairbanks was a couple years ago when an Operator from Juneau opened up a bingo parlor in Fairbanks. This competition upset the market and resulted in existing Permittees that had run clean operations for years suddenly found they could not meet the minimum payouts. The result is that one of the long-standing Permittees in Fairbanks has recently gone out of the Bingo business.

AS 05.15.040 prohibits a municipality from conducting gaming activities outside the geographic boundaries of the municipality. However, there are no restrictions on Permittees, Operators or MBP's from conducting gaming activities outside of their geographic area. 2 05.15.040

Limiting an organization to geographic boundaries is somewhat troublesome for Permittees that are organized on a statewide basis, and that do not necessarily have a physical presence or office in a community, but clearly do on a state-wide basis.

I believe it is very unfair to tax gross receipts, because such a high percentage of the sales is paid back out to the players as prizes. Also the "playback " phenomenon is very mis-understood by those not directly involved in the gaming industry. The basis of the "playback" phenomenon is that there is a limited amount of money that is spent on gaming on an annual basis. This pool of money that is spent by the players, is basically used in the following areas:

A player buys pulltabs. He has some winners, which he cashes in and plays them back to try to win more. Sometimes the winners are turned in to cash which is used to fund gaming activities on another night.

In either case, the player still has a set amount of money available to spend. Assuming the player had $10,000 over the course of a year. If a player purchased pulltabs only with that money, and the prizes paid out on the games was 80%, then the player would have received back $8,000 of the original $10,000 that he played. Much as is the concept in Los Vegas, most people play until they lose thier stake of money then they have to quit. If you win $8,000, then you have that much left to play with. Now when you spend you $8,000 you soon find that you have $6,400 to play with as the prize pauout was 80% again. Our hypothetical player does this again and again until he has used up his pot of money. The result is that the sales or gross receipts generated by this original $10,000 is almost $50,000 or 5 times what is originally started out as. Games with higher prize payouts will result in higher multipliers, and games with lower prize payouts will result in lower muliplliers.

Taxing the gross receipts or sales at 5% in this example would generate $2,500 of taxes on $50,000. This is really a 25% tax, since the player only had $10,000 to start with.

Sample effects of taxes on gross receipts

	Example A		Example B		Example C	
	Assuming 0% tax on gross		Assuming 5% tax on gross		Assuming 5% tax on gross is absorbed by lower operating	
	Pulltabs	Bingo	Pulltabs	Bingo	Pulltabs	Bingo
Gross receipts	100,000	200,000	100,000	200,000	100,000	200,000
Prizes paid out	(80,000)	(180,000)	(80,000)	(180,000)	(80,000)	(180,000)
Sales tax -5%	-	-	(5,000)	(10,000)	(5,000)	(10,000)
Adjusted gross	20,000	20,000	15,000	10,000	15,000	10,000
Current state tax - 3%	(600)	-	(450)	-	(450)	-
Expenses of operation	(13,400)	(18,000)	(13,400)	(18,000)	(10,050)	(9,000)
Net proceeds to Permittee	6,000	2,000	1,150	(8,000)	4,500	1,000
	30%	10%	8%	-80%	30%	10%

For Pulltabs, ideal net is similar to adjusted gross income when there are no other taxes involved. There is a Federal excise tax of .0025 of gross receipts, however it has been ignored for simplicity of this example.

These examples assume that a player of bingo and pulltabs has a fixed pool of $20,000 to play with. Most players playback their winnings in one form or another, either buying more pulltabs or playing more bingo games. It is very similar to Las Vegas. If you go there with $100 and you lose it, you quit playing and go home. If you have a 5% tax on gross, then you still quit playing when you lose your money.

A higher minimum payout on Pulltab games was suggested as a way to offset the tax that was being proposed on Pulltabs last year. If that was implemented, it would have the same effect. The player is not going to pay more money because he has a limited pool. In fact he may play less because his odds of winning are a 25% less if you increase the ideal net from 20% to 25%. Clearly the player will have 5% less available for playbacks also.

In example B, if the operating expenses do not change from example A, then the Permittee will be out of compliance and will loose his right to conduct gaming activities.

In Example C, if the operating expenses are decreased, then the Permittee can remain in compliance with the minimum requirements. However, in many cases, the Permittee is directly effected by the expenses of operation whether he is self-directed or acting as an MBP. Therefore it is ultimately the Permittee that will be paying any tax on Gross.

Gerry Richards
Testimony before Commerce Committee
9-Nov-03

			Page Ref Green Book	Alaska St tute Ref	Dept Regulation Ref
B.		Ideas for simplifying and or clarify gaming statutes			
	1.	Allow licensed operators to pool gaming activities of all their Permittees. MBP's currently pool their activities. In other words, they combine their daily sales and expenses in one pot and distribute it pro-rata at the end of each month. An Operator on the other hand must keep a separation for each game he conducts for a Permittee and likewise each expense. Operators tend to limit the number of Permittees they conduct games for because of the record keeping requirements. I believe allowing pooling would result in operators spreading the sales between more Permittees and it would result in a more even flow of the net proceeds throughout the year.	41		AAC160.27
	2.	Change the required minimum payout for Operators and MBP's to a fixed payout. The current law reads that authorized expenses shall not exceed 70% for pulltabs and 90% for bingo. Permittees only in rare instances receive more then the required minimum for operators or MBP's. By changing the Statute to read a fixed %, then you could do away with much of the complex reporting that currently is required on monthly, quarterly and annually. Eliminates all disputes over allowable expenses.	13	05.15.160	
	3.	Eliminate the spousal equivalent rules currently in the State Regulations. They serve no purpose when the Permittee is receiving the 30% required minimum on pulltabs. They have no negative effect on the Permittee.	86		AAC160.954
	4.	In many cases gaming operators also own bars and liquor stores that hold beverage dispensary licenses. Operators should be permitted to sell pulltabs in these establishments under their licensed authority as an operator, rather than requiring them to be vendors. As operators they pay higher licensing fees, they provide cash bonds, and they are required to submit a reviewed financial statement annually. Current law needs clarification on this issue.	28	05.15.690	

Department of Revenue
Tax Division
PO Box 110420
Juneau, AK 99811-0420
Telephone 907.465.2320

State of Alaska
2004 Gaming Permit Application
AS 05.15.020

This form is also available on the Internet at www.tax.state.ak.us/programs/gaming/

ORGANIZATION INFORMATION

Federal EIN			Permit Number
Organization Name			Telephone Number
Mailing Address			Fax Number
City	State	Zip Code	E-mail Address

TYPE OF ORGANIZATION (check one box. For definition see AS 05.15.690)

☐ Charitable	☐ Fishing Derby	☐ Non Profit Trade Association	☐ Religious
☐ Civic or Service	☐ Fraternal	☐ Outboard Motor Association	☐ Veterans
☐ Dog Mushers	☐ Labor	☐ Police or Fire Department	☐ IRA/Native Village
☐ Educational	☐ Municipality	☐ Political	

ORGANIZED AS

☐ Corporation ☐ Partnership ☐ Association

PERSONS IN CHARGE OF GAMES. Persons must be active members of the organization, or an employee of the municipality, and designated by the organization. Members may not be licensed as an operator, vendor, or employee of a vendor.

Primary Member First Name	Primary Member Last Name	Alternate Member First Name	Alternate Member Last Name
Social Security Number	Daytime Telephone Number	Social Security Number	Daytime Telephone Number
Mailing Address		Mailing Address	
City	State / Zip Code	City	State / Zip Code
Has the primary member taken and passed the test? ☐ Yes ☐ No Permit number under which the test was taken.		Has the alternate member taken and passed the test? ☐ Yes ☐ No Permit number under which the test was taken.	

MANAGER OF GAMES - As defined in 15 AAC 160.995 and 15 AAC 160.965

Manager Name	Social Security Number	Daytime Telephone Number
Mailing Address	City / State / Zip Code	

THESE QUESTIONS MUST BE ANSWERED. (see instructions)

☐ Yes ☐ No Has any member of management or any person who is responsible for gaming activities ever been convicted of a felony, extortion, or a violation of a law or ordinance of this state or another jurisdiction that is a crime involving theft or dishonesty or a violation of gambling laws?

☐ Yes ☐ No Does any member of management or any person who is responsible for gaming activities have a prohibited financial interest as defined by 15 AAC 160.954 - 959.

We declare under penalty of unsworn falsification, that we have examined this application, including any attachments, and that to the best of our knowledge and belief, it is true and complete. We understand that any false statement made on this application or any attachments is punishable by law.

Primary Member Signature	Printed Name	Date
X		
President or Vice President Signature (see instructions)	Printed Name	Date
X		
Mailing Address of President or Vice President		Daytime Telephone

Permit Fee: Check the appropriate box and enclose the correct amount.
The permit fee is based on 2003 estimated gross receipts. Make Checks Payable to the State of Alaska:

☐ $0 - $20,000 = $20.00 ☐ $20,001 - $100,000 = $50.00 ☐ $100,001 or More $100.00

VALIDATION NUMBER
State office use only:

See instructions for mandatory attachments

Organization Name	Federal EIN	Permit Number

Game Type: check each game type, (use for completing information below.)

☐ Bingo	☐ Deep Freeze Classic	☐ Goose Classics	☐ Race Classics
☐ Raffles	☐ Dog Musher's Contest	☐ Ice Classics	☐ Rain Classics
☐ Pull-Tabs	☐ Dog Musher's Sweepstakes	☐ King Salmon Classics	☐ Salmon Classics
☐ Contest of Skill	☐ Fish Derbies	☐ Mercury Classics	☐ Snow Machine Classics
☐ Canned Salmon Classic			☐ Special Draw Raffle

ACTIVITES CONDUCTED BY ORGANIZATION

Facility Name	Physical Address	Game Type(s)	Is Facility
			☐ Owned ☐ Leased ☐ Donated
			☐ Owned ☐ Leased ☐ Donated
			☐ Owned ☐ Leased ☐ Donated
			☐ Owned ☐ Leased ☐ Donated
			☐ Owned ☐ Leased ☐ Donated
			☐ Owned ☐ Leased ☐ Donated

ACTIVITIES CONDUCTED BY VENDOR (pull-tabs are the only games a vendor can conduct) *Vendor registration and fee must be attached.*

Name of Vendor	Physical Address	Vendor Number

ACTIVITIES CONDUCTED BY OPERATOR

Name of Operator	Physical Address	Game Type(s)	Operator's License

ACTIVITIES CONDUCTED BY MULTIPLE-BENEFICIARY PERMITTEE

Name of MBP	Physical Address	Game Type(s)	MBP Number

DEDICATION OF NET PROCEEDS. The organization must plan to use the net proceeds from gaming activities for political, educational, civic, public, charitable, patriotic or religious uses in Alaska. (See statutes and regulations for specific rules.) In the space provided, tell how your organization intends to use the net proceeds from gaming activities. (Be specific)

Alaska State Legislature

Senator Con Bunde
Senate District P

Vice Chair: Senate Finance Committee
Chair: Senate Labor & Commerce Committee
Member: Legislative Budget & Audit Committee

During Session:
State Capitol
Juneau, AK 99801-1182
Phone: (907) 465-4843
Fax: (907) 465-3871
E-mail: senator.con.bunde@legis.state.ak.us

During Interim:
716 W. Fourth Avenue
Anchorage, AK 99501-2133
Phone: (907) 269-0181
Fax: (907) 269-0184
website: www.akrepublicans.org/bunde

AGENDA
Labor and Commerce Meeting
Wednesday, October 1st 2003
11:00 a.m.-6:00 p.m.
Anchorage LIO, Rm220

I. 11:00- Call to Order and Roll Call

II. 11:15 -11:30- Explanation of Fiscal Note Implications and Comment from Larry Meyers, Department of Revenue

III. 11:30-12:30- Public Testimony on SB 178, SB 186 and Gaming in General Testimony will not be separated by specific bills in an effort to accommodate individuals' schedules.

IV. 12:30-12:40-Break

V. 12:40-2:00- Public Testimony

VI. 2:00-3:00-Lunch

VII. 3:00-4:30- Public Testimony

VIII. 4:30-4:40- Break

IX. 4:40-6:00- Public Testimony

X. 6:00-Adjournment

Senate Labor and Commerce Committee
Wednesday, October 1, 2003

A. Welcoming Words
B. Purpose of this meeting-To hear Public Testimony on Gaming and Lottery Legislation and gaming in general in the State of Alaska
C. Members Present:
D. Members Absent:
E. Today we will hear the following bills, SB 176 and SB 186 and also hear testimony on the subject of gaming in general. We will take several short breaks throughout the meeting and also take a one-hour break between 2:00 p.m. and 3:00 p.m.
F. Agenda:

I. 11:00- Call to Order and Roll Call

II. 11:15 -11:45- Kelly Huber from Senator Taylor's office to introduce bills and give a brief explanation.
Explanation of Fiscal Note Implications and Comment from Larry Meyers, Department of Revenue

III. 11:45-12:30- Public Testimony on SB 176, SB 186 and Gaming in General. Testimony will not be separated by specific bills in an effort to accommodate individuals' schedules.

IV. 12:30-12:40-Break

V. 12:40-2:00- Public Testimony

VI. 2:00-3:00-Lunch

VII. 3:00-4:30- Public Testimony

VIII. 4:30-4:40- Break

IX. 4:40-6:00- Public Testimony

X. 6:00-Adjournment

The Economics of Gambling: Summary Points

Professor Earl L. Grinols, Dept. of Economics, University of Illinois

Senate Finance Committee (30 April 2003, 9:00 am. Room 8E-B, East Wing, Main Capitol, Harrisburg, PA)
House Finance Committee (30 April 2003, 1:30 p.m., Room 205, Ryan Office Building, Harrisburg, PA)

- **Studying economics of gambling since 1990.**
  - Independent research.
  - Not funded by gambling or anti-gambling organizations.

- **Gambling attracts clientele disproportionately**
  - 30% don't gamble at all; most gamble rarely, minority 10% account for 66-80% of wagers.
  - 30-50 % of revenues derive from problem and pathological gamblers (e.g. 48.2% of gaming machine revenue, Aus. Inst. for Gambling Research, 2001; 37 % Montana keno machines; 1/3 Australia National Productivity Commission study, 1999.)
  - Convenience casinos, racinos, draw from nearby (over 70% from less than 35 miles)
  - Bulk of casino revenues are from slot machines.

- **Gambling creates economic costs for society and taxpayers, including non-users.**
  - *Crime*: E.g. Aggravated assault, rape, robbery, larceny, burglary, auto theft, embezzlement, fraud.
  - *Business and Employment Costs*: Lost productivity, lost work time, unemployment-related employer costs.
  - *Bankruptcy*
  - *Suicide*
  - *Illness*: E.g. Stress-related, cardiovascular, anxiety, depression, cognitive disorders.
  - *Social Service Costs*: Treatment, unemployment & other social services.
  - *Direct Regulatory Costs*
  - *Family Costs*: E.g. Divorce, separation, child abuse, child neglect, domestic violence.
  - *Abused dollars*
  - *(NB Electronic Gambling Devices typically represent 60-80 % of typical Class III (casino style) revenues.)*

- **Gambling fails a cost-benefit test.**
  - Even using conservative cost & benefit estimates, costs to benefits are greater than $3:$1.
  - Social costs (mid-range) from gambling are approximately $214 per adult annually (of which crime = $63). Costs of introducing gambling depend on starting base, but typically exceed $130 per adult.
  - Social benefits (preferred number) are less than $42 per adult.
  - On a per pathological gambler basis, studies in different parts of the nation conducted since 1994 conservatively estimate costs to be $10,100 per year.

- **Economic Development; Failure of Impact Studies**
  - IMPACT STUDIES ARE NOT COST-BENEFIT STUDIES. More people working next door to you may have nothing to do with the well being of citizens in your area. Well being may actually decline.
  - The value of an additional job has been estimated to be worth as little as zero to the community, or between $0-$1,500.[1] In a typical county of 100,000 adults the introduction of casinos would create additional social costs of $12.7 m annually and direct social benefits of $4.2 m. Using $750 as the average value to the rest of the county of a job means that casinos would have to increase the total number of jobs in the county by more than 11,333 to improve well being of residents, an unlikely outcome.
  - Gambling promoters argue gambling creates regional jobs. This is sometimes possible, as in the case of an Atlantic City or Las Vegas where the area has effectively converted itself into one large casino and entertainment center that serves primarily tourists. In general, however, gambling:
    - Loses area jobs when local gambler dollars are removed from the area (when they otherwise would not have been) in the form of taxes or are spent by the casino owners or employees outside the area.
    - Creates area jobs when outside gambler dollars are spent locally by the casino and,
    - Loses net jobs when the first flow is larger than the second.
    - A full accounting of dollar flows, therefore, is needed to determine if gambling will create more jobs than it loses.

GAMBLING, PSYCHOLOGY, AND STATE POLITICS

BY RICHARD E. VATZ AND LEE S. WEINBERG

"Those who gamble too much and suffer significant losses—whether through lotteries, slots, or other means—choose to do so irresponsibly. No force extrinsic to willpower makes them."

LEGAL GAMBLING has been increasing significantly in recent years, as have the apposed expenditures for pathological or compulsive gambling. Congress created the National Gambling Impact Study Commission (NGISC) in 1999 "to conduct a comprehensive study of the social and economic impacts of gambling in the United States." The NGISC found that, over the last three decades, lotteries have become the most-prevalent form of gambling in America and represent the poorest percentage payoff per player. Lotteries now exist in 37 states and casinos are legal in more than half the states, according to NGISC. Gambling in some form is legal in all states but Hawaii and Utah.

The University of Buffalo's Research Institute on Addictions reported in 2002 that 82% of people gamble. Its previous surveys indicated much-smaller numbers, such as the findings in 1975 that 61% of the public gambled and 63% as recently as 1998. Part of the increase can be attributed to the considerable growth of lotteries.

Gambling in general thus having increased substantially over the years, it is interesting that the desire for slot machines—even limited by venue—to help balance the budgets in state governments is often opposed even by states with extant lotteries. The battle in Maryland over whether to approve a proposal to increase legalized gambling in the form of slots has become a maelstrom, fueled by a variety of issues, but none so basic as the question of whether playing slot machines can lead to the alleged psychiatric disease called pathological or compulsive gambling.

Leading the opposition to slots, Maryland House Speaker Michael E. Busch wants to "study" the issue for a year first. He is motivated, according to *The Washington Post*, by his father's "alcohol and gambling problems which devastated the family." Thus, Busch becomes the equivalent of the reformed addict—in this case, the son of the addict—who is going to make all of Maryland pay for his perceptions or misperceptions regarding the cause of his family's difficulties.

Maryland is an interesting case for the fight over legalized slot machines. The state has run lotteries for years, and people who oppose slots, one would think, would have to justify their apparent distinguishing between the two forms of gambling.

In fact, there has been little effort to reconcile the points of view except for periodic claims that the lottery is acceptable only because it has established a "squatter's right" by being there at the current time. There are loose claims periodically that, somehow, lotteries are less addictive than slots, but this point is made sparingly.

What makes the issue more poignant at this time in Maryland and perhaps in some other locales as well is that the state is facing huge deficits and by law must come up with a balanced state budget. Compounding the frustration of those who support slots is that hundreds of millions of dollars are perceived to be lost to Maryland through its citizens going to nearby states, such as Delaware and New Jersey, and betting large amounts of money that would otherwise be bet in Maryland.

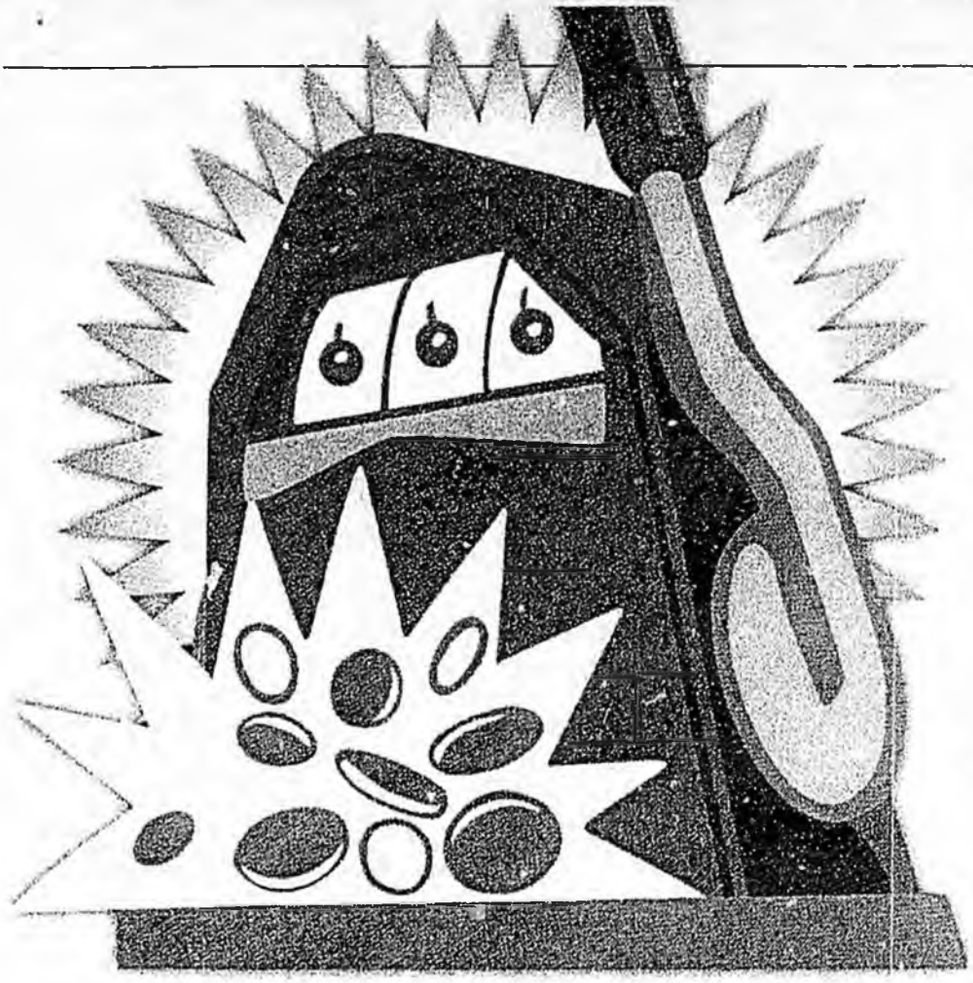
In 2002, in Delaware, the state to which slotless Marylanders often go to gamble, the Rev. Lawrence W. Wright claimed in his bribery and money laundering trial that his slot machine "addiction" made him illegally use most of the $150,000 in city grants that were given to his church in 1999 and 2000. The money had been intended for community programs, including support for senior citizens. Wright pilfered money to subsidize heavy gambling and subsidize the debts from his losses, sparing only $10,000 for social services for which the money was intended.

Maryland Gov. Bob Ehrlich has argued that gambling is an "adult decision" involving the willingness to resist temptation. This is rhetorically as close as a politician can get to denying the fact of compulsive gambling that is out of the control of the individual player. Despite the disinclination of the Governor to acknowledge pathological gambling, his proposals have included an amount of money set aside for compulsive gambling, including 0.1% of the $1,100,000,000 in revenues expected from the eventual passage.

The major newspaper in the state, *The Baltimore Sun*, has utilized its news pages—as opposed to its editorial pages—to argue for more money and concern for gambling "addicts," never questioning the accuracy of the term. The frustration of arguing the proposition that compulsive gambling is a myth is this: So many people who have become accustomed to the term "compulsive gambling" believe that to say it is a myth is to deny that there are individuals who destroy their lives through heavy gambling.

The issue, simply put, is whether it is by conscious *choice* that some people devastate their lives by gambling and losing amounts they cannot afford. The assumption that *compulsive* gambling—again, gambling over which the person has no control—is measurable by behavioral scientists is crucial to the understanding of its mythology. There have been a variety of measures which have purported to gauge the compulsivity of gambling. Years ago, there was the South Oaks Gambling Screen (sample question: "Have people criticized your gambling?") and now, comparably, there is the Diagnostic Interview Schedule (DIS), based on the American Psychiatric Association's Diagnostic and Statistical Manual Version IV (DSM-IV). The DIS gauge has been cited to "prove" the existence of compulsive gambling, but most people do not know it is simply a question-and-answer test that assesses how much misery respondents have suffered through gambling.

In an oft-cited study in the *Journal of Gambling Studies* by John W. Welte, *et al.*, in 2002, it is explained that the DIS contains 13 items that correspond to 10 criteria for alleged compulsive gambling. (It should be noted that the DIS makes specific references to lotteries, which Maryland already *has*.) Typical of such



surveys, this one is administered through the telephone—not a good way, even if the concept were clear, to infer lack of control. While the numbers appear precise, when one looks at the operational definition of "pathological" and "problem" gambler, it is possible to see how arbitrary the terms are. Endorsing three criteria qualifies one as a "problem gambler" and endorsing five equals "pathological gambling." Moreover, even if one accepts the percentage (1.4%) who are *pathological* gamblers as gospel, this estimate represents a much-smaller percentage than the double-digit estimates of the percentage of people who are addicted to alcohol. That said, the criteria of the DSM-IV and the DIS do not—and *can not*—measure volition.

Questions in the DIS include: "Have you ever spent a lot of time thinking about ways to get money together so you could gamble?"; "Have you bet, bought a lottery ticket, or used a slot machine MORE *(sic)* than 5 times in a SINGLE YEAR *(sic)*?"; "In the past 12 months how often has your gambling ever caused you trouble with your spouse/partner or a family member?"

This last question is interesting because it—along with several others—allows the interpersonal ramifications of gambling and the respondent's own allegation of the causal link of problems to gambling to affect what the psychiatrists "diagnose." The only question relating to self-control is: "Have you more than once tried to quit or cut down on your gambling WITHOUT *(sic)* being able to?" How is it validated that the subject was unable to curb his or her actions? It is not.

The DSM-IV diagnostic criteria for the pathological type refer to the intensity of subjects' urges to win back losses as well as the commission of crimes and antisocial acts allegedly as the result of losses. They include as one criterion of self-control the claimed inability to stop gambling, but the psychiatric manual offers no way to measure that either.

A somewhat parenthetical point—one which consistently has implications for the politics of gambling, especially in Maryland, is the alleged disproportionate financial devastation suffered by African-Americans. Yet, Welte points out that blacks actually are less likely to gamble than whites, but those who *did* gambled in greater frequency with larger amounts of money lost. Welte claims that blacks suffer twice as often from pathological or problem gambling as whites, but the number of gamblers is proportionately smaller. Specifically, African-Americans gamble less than whites on lotteries, but evidenced more involvement when they *did* gamble.

To call heavy gambling an "addiction" falsely loads the argument against slots. There are no neurochemical or neurophysiological changes causally linked to heavy gambling, only some that occur as the result of its excitement (increased adrenaline, temporary rise in blood pressure, etc.). Those who gamble too much and suffer significant losses—whether through lotteries, slots, or other means—*choose* to do so irresponsibly. No force extrinsic to willpower makes them.

To some extent, the social battle over whether to legalize more and more gambling has become a liberal-conservative issue. The Cato Institute, a conservative think tank, has issued many policy papers arguing against legal barriers to Internet gambling, which is legal in more than 50 countries and many U.S. states.

The conservative contention, with some dissenters like syndicated columnist William Safire, is that gambling is just another vice in which a free people should be free to engage. Steve Chapman argues in *Slate Magazine*—similar to satirist Tom Lehrer's famous point that the major argument recommending pornography is that "pornography is fun"—that the "central benefit" of gambling is the "diversion and pleasure it provides to millions of people." Chapman neatly sums up by stating that, "To incurable bluenoses, gambling is an infuriating scam. But why assume gamblers are being fooled? It's more reasonable to assume that they know they will probably lose but are happy to take that chance for 1) the pleasure of playing and 2) the chance of coming out ahead. In the end that's a decision they ought to be free to make, unimpeded by moralists and social reformers who think ordinary people cannot be trusted to look after their own interests. If gambling were the grim scourge portrayed by its opponents, it would not have gone from a contemptible vice to an innocent diversion in a single generation. . . . Gambling has become a widespread pastime for the simple and unassailable reason that it adds to the sum of human happiness. That's reason enough to leave it alone."

Even those who believe in gambling addiction cite small percentages relative to the percentages claimed for drug and alcohol addiction (1.6, 6.2, and 13.8%, respectively, according to the Harvard Medical School's Division on Addictions). The arguments that support expanded opportunities short of casinos simply are more persuasive then the psychological warnings of the antigambling forces.

Concern about gambling addiction is not the only argument raised by those opposed to slot machine gambling, casinos, and the like. There are other issues, such as the culture of gambling—especially with expanded opportunities—and the crime increase that some disputedly maintain is unavoidable when gambling takes hold in a state.

To the extent, however, that people cite pathological or compulsive gambling as their reasons for opposing slots or other types of gambling, it reduces their objection to a desire for a "nanny state," one in which the state acts *in loco parentis* to prevent its citizens from hurting themselves. ★

***Richard E. Vatz**, Associate Psychology Editor of* USA Today, *is professor of rhetoric and communication, Towson (Md.) University. **Lee S. Weinberg**, Associate Psychology Editor of* USA Today, *is an associate professor in the Graduate School of Public and International Affairs, University of Pittsburgh (Pa.).*

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OPINION

COMPASS: *Points of view from the community*

Real leaders seek real tax solutions

By THE REV. MICHAEL KEYS

I challenge our representatives and the governor to not be seduced into easy solutions. Do not let Alaska promote values which contradict that which has made Alaska strong — virtues of thrift, hard work and responsibility.

As budget deficits loom over Juneau and other parts of Alaska, many are seeking easy solutions to difficult problems. A series of regressive and flat tax solutions — a first paycheck "head" tax, the elimination of the longevity bonus or the reduction of the Permanent Fund dividend — have been proposed, which target the working poor in ways that show justice, fairness and ability to pay have been abandoned. With reduced federal and state services because of program cuts, the working poor are being hit by a "perfect storm" of economic disaster.

Now gambling is proposed as an easy way to solve Alaska's problems. Gambling promoters will parade the statistics showing how much money lotteries and video poker will generate for the state. "This is a voluntary activity," they will proclaim, "therefore no one is unfairly impacted." Yet, will we honestly evaluate the true costs to Alaska and the poor?

As a pastor, I have sat with many families devastated by the consequences of "playing" video poker, pull-tabs and lotteries. One study of gamblers in Iowa showed that the rate of compulsive gambling rose from 1.7 percent in 1989 (before casinos were introduced) to 5.4 percent of the adult population in 1995 (after several years of casino operation).

In 1995, the Evangelical Lutheran Church in America published a study guide on the impacts of gambling on the community and the poor (www.elca.org/des/gambling.html): "As studies have shown — including those conducted by lotteries themselves — poor people spend a much larger proportion of their income on the lottery than do those in middle- or upper-income brackets. In fact, recent studies suggest that the poor spend more on the lottery in absolute, not merely proportional, terms. If we conduct state lotteries principally because they raise public funds, then lotteries seem to violate our strong commitment to progressive taxation — the idea that those who are better able to pay should bear a greater portion of public burdens. At the very least, the costs of our common projects should not fall disproportionately on the poor."

Those who argue for gambling are not honest about who is targeted. Lottery advertisers target the poor, preying on a sense of economic hopelessness, claiming to offer a real chance of financial success, promising to take you from "your street to easy street." The odds for winning in state-sponsored gambling are often overstated by the promoters; lotteries generally pay out around 50 percent of the amount wagered. The ELCA study reports:

"Billboards and radio commercials focus on lower-income areas and markets, while ad campaigns and new games are timed to coincide with the release of government benefit checks. Lotteries are sold the same way as any other product: identify likely consumers, then stimulate their desire."

When Attorney General John Ashcroft served in the U.S. Senate, he commented that communities embrace gambling because they're buying into a lie, a quick-fix mentality that results in bankruptcy, higher crime and personal destruction. Bishop William Morris of Nashville-United Methodist Church commented:

"There is no other way to say it. A lottery is an immoral means that balances our state budget on the backs of the poor. ... The church has no choice but to be involved. ... We believe gambling is a menace to society. We believe governments need to seek sources of funding that offer balanced, long-term solutions."

Public officials should look at the wide range of concerns expressed by national religious leaders and denominations concerning state-sponsored gambling. I challenge our representatives and the governor to not be seduced into easy solutions. Do not let Alaska promote values that contradict those that have made Alaska strong — virtues of thrift, hard work and responsibility. Public officials need to be held accountable for the fiscal gap and the decisions about taxation. When the common good is at stake, the community should fund it. Regressive or flat taxes are not the solution, nor is promoting gambling. Real solutions require real leadership.

■ The Rev. Michael F. Keys is the pastor of Central Lutheran Church in Anchorage.

VOTE NO ON MEASURE 66

March 12, 1997: "Gambling in Oregon", Report of the Independent Study Committee formally affiliated with the City Club of Portland.

Executive Summary:

Oregon is addicted to gambling.

In less than two decades, the state has gone from being one where gambling activity was mostly illegal, to one where the level of gambling rivals that of Nevada. Revenue from state-sponsored gambling, once an incidental source of funds, is now second only to the income tax as a discretionary source of revenue for this state.

The presence of gambling in our state is not new, but the existence of a virtual state monopoly is relatively recent wrinkle in gambling's history in Oregon.

The purpose of the Lottery, as stated clearly in the original initiative, is to generate revenue in a manner that "is commensurate with the public good." What has never been make clear is what is the State's interpretation of that mandate as it relates to overall public policy. This lack responsibility on the part of our elected officials has led to a host of associated problems; these problems are only compounded by the massive amount of revenues generated by the Lottery. Such problems include:

The presence of the state in actively promoting gambling, which presents a clear conflict of interest with respect to the role of the State in protecting the social, moral and material welfare of its citizens. The State should instead confine itself to a regulatory role in relation to gambling, with the understanding that any other involvement on the part of the State threatens to devolve into a classic case of 'the ends justifying the means.'

Oregon's increasing dependence on video poker revenues specifically, which statistics show to be by far the most addictive form of gambling currently legal in Oregon. A majority of state programs are already hostage to video poker revenues for their ongoing funding, and are therefore subject to a source of revenue which is prone to fluctuation from year to year, rendering precise budget forecasting impossible.

The seemingly "painless" money raised by state-sponsored gambling, which has allowed the Legislature to conveniently duck the greater issues surrounding

...ne need to examine other sources of funding for the State; it cannot be only coincidence that the passage of both Measure 5 and Measure 47 have brought calls for an expansion of gambling products in Oregon..

A marked increase in gambling addiction and related problems with no clear mandate to treat, let alone prevent, such tragedies. National research indicates that as many as 5% of our citizens are at risk of becoming gambling addicts, with all the attendant problems of increasing rates of embezzlement and other white collar crimes, as well as job losses and resulting family dysfunction and disintegration.

February 23, 1997: "Curbing a gambling habit", The Oregonian.

As we've said before, this growing reliance on state gambling to pay for key state services -- education, for example -- is irresponsible because it is a regressive tax on the gullible and because it invites the growth of the gambling industry in Oregon which is not the kind of economic development that will make Oregon a better place to live.

"It's ironic that the legislators who absolutely don't want to raise taxes on the people don't define this (gambling) as a tax ...I don't want to reach a point in this state where the need for more gambling drives social policy. " Governor John Kitzhaber

WASHINGTON COALITION FOR TRIBAL SELF-RELIANCE

Related Topics:

Entertainment Industry Coalition Proposal

Electronic Gaming-Current and Proposed

Card Room and Restaurant Revenues

Impacts of Expanded Gambling

Oregon Case Study

Cost to Other Businesses

Oregon Case Study

Relying on gambling revenue is not without its consequences for a state-consider Oregon. In 1991, the Oregon Legislature authorized the Oregon Lottery Commission to operate a state-run electronic gambling system with video lottery and draw poker machines throughout the state. The system was available to establishments that sell alcohol by the drink. In 1992, the Oregon Lottery started collecting revenue from the video lottery and draw poker machines.

In 1997, after a state task force noted its concerns about the social impact of gambling addiction, Oregon Governor John Kitzhaber issued a new policy framework to balance the state's use of gambling revenue with the "the public good."

The following are highlights of Governor Kitzhaber's revised gambling policy after just five years of experience with a system similar to one being considered by some legislators in Washington.

Governor Kitzhaber's Findings

- The legalization of video poker terminals resulted in greater dependence in the restaurant and bar business on video poker revenue.
- There are three categories of gambling "addiction" or dependency in Oregon:
    1. Gambling addiction among individuals.
    2. Dependence on lottery proceeds by certain retailer establishments.
    3. Dependence on lottery proceeds by the State of Oregon itself.
- It is not commensurate with the public good to increase addiction or dependency in any of these three categories.

Governor Kitzhaber's Recommendations

- Reduce gambling addiction among Oregonians by increasing funding for identification outreach, treatment and other measures.
- Reduce the dependence of retail establishments on lottery proceeds by tightening retailer commission regulations.
- Reduce the dependence of the State of Oregon on lottery proceeds with new laws to limit the use and expenditure of gambling revenue.
- Halt the expansion of the Oregon Lottery by prohibiting video line games and imposing a freeze on the number of lottery machines until the accompanying recommendations have been addressed.

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States Place Their Bets on Gaming

As state budgets continue to tighten, lawmakers around the country are hoping to revive their bottom lines by expanding legalized gambling. But gaming initiatives are not a sure thing. Backers often must endure long political battles only to leave the decision to a public referendum. Some highlights from around the country:

Colorado

Even though tourism is Colorado's second largest industry, the state spends less than its neighbors to lure visitors, according to Mike Coffman, state treasurer. To address the shortcoming, Coffman in March submitted a proposal to allow taxes collected from casinos in Black Hawk, Central City and Cripple Creek to be used in an effort to attract more out-of-state visitors. The measure, which is backed by the Colorado Hotel & Lodging Association as well as the Denver Metro Convention and Visitors Bureau, currently is undergoing a review by state legislators. If approved, it could appear on the ballot as early as November 2004.

Montana

Developers in Butte hoped to win state backing when they proposed Destination Montana — an ambitious $1.3 billion plan with blueprints for 10 casinos, music halls, a theme park, golf courses and more than 10,000 hotel rooms. Advocates said the project would generate more than $100 million in annual revenues, but state legislators voted no; supporters vow they will revive the bill at the first opportunity.

Rhode Island

In April, a state commission called for a November referendum that would allow voters to decide if Rhode Island should have a destination resort-style casino. Meanwhile, the Narragansett Indian Tribe has been in talks with Harrah's Entertainment to build a casino in West Warwick, a two-phase project that calls for a 1,200-room hotel, a health spa, meeting space, a special event center and more than 4,000 slot machines.

Maine

In November, voters will decide whether to allow the Passamaquoddy Tribe and Penobscot Nation to build a $650 million casino in the southern part of the state. In addition to gaming options, the new property reportedly would offer convention space, a show room, restaurants and a nature preserve. Under the terms of the referendum, slot-machine revenues must be paid to the state to relieve local taxes and fund education. Critics such as state governor John Baldacci are drumming up grassroots support to defeat the measure.

Nebraska

Legislators in Lincoln are reviewing a proposal to amend the state constitution to legalize Class III, Las Vegas-style gaming. If approved, the measure would appear on the ballot this November. Initial plans call for up to eight casinos operated by Native American tribes.

Hawaii

State officials, facing a nearly $10 billion budget deficit, are considering a proposal to legalize casino gambling. Under the plan, casinos would pay a 15 percent gaming tax on all revenue. The proposal is currently under state review but could appear on a ballot as early as this November.

Wisconsin

In April, residents of Shullsburg, near the Iowa and Illinois borders, voted overwhelmingly to build a casino with a 300-room hotel, a convention center, a spa and a golf course. The project, which awaits federal and state approval, would be operated off-reservation by the Lac du Flambeau Band of the Lake Superior Chippewa Indians. Economic benefits would reportedly include $100 million in annual city and state revenues. Supporters hope to see construction within the next two years. ■ BRUCE WINT

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SB 178
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected:

Title: State Lottery
BRU: Revenue Operations
Component: Tax Division

Sponsor: Senator Taylor
Requester: Senate Labor & Commerce
Component No.: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	*	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*	*	*	*	*	*
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	*	*	*	*	*	*
Part-time	*	*	*	*	*	*
Temporary	*	*	*	*	*	*

Analysis: *DOR was not able to estimate the revenue and expenses associated with passage of this bill. The expense and revenue associated with a state lottery are contingent upon a number of factors including the type and number of games regulated. There is a great deal of variation among states in the type and number of games that their state lotteries administer. For example, the Montana state lottery administers the following four types of games: (1) instant games, (2) powerball, (3) tri-west lotto and (4) cash lotto, but the Oregon state lottery administers the following eight types of games: (1) instant games, (2) pull-tabs, (3) 4-digit, (4) lotto, (5) powerball, (6) keno, (7) sport pools and (8) electronic gaming. Please see attached analysis for some revenue/expenditure information from other states.

Prepared by: Brett Fried
Phone 465-3682
Division: Tax
Date/Time 9/30/03 3:30 PM
Approved by: Steve Porter, Deputy Commissioner
Date 9/30/2003
Agency: Revenue

Revenue/Expenditures

Operating expenditures and revenues will vary from state to state depending on many factors including the number and type of games, size of maximum payoff, payoff percentage, state and local regulations, size of population, geography, population density, propensity to gamble, personal disposable income and history of gaming. For example, according to La Fleur's 2003 World Lottery Almanac, net income (total sales – prizes - expenses) to lotteries (excluding electronic gaming) varies between $8 per person in South Dakota and Montana to $140 per person in Massachusetts.

Even if it was possible to know the exact games that the Alaska State Lottery Corporation would choose, it would still be very difficult to estimate the operating expenses and revenue because of how hard it is to adjust for difference in demographic and socioeconomic characteristics. However, without knowing what type and number of games will be chosen, it is impossible to obtain any useful estimates.

Because South Dakota is the state closest to Alaska in total personal income ($20.5 vs. $20.7 billion) and very close to Alaska in population (761,063 vs. 643,786) it may represent the best proxy for gambling revenues in Alaska. In FY 2002 the net income to South Dakota from lottery games and instant tickets was $6.3 million. This includes powerball (the most popular multi-state game), cash lotto (South Dakota's in-state lottery game) and instant tickets and other lottery games, but does not include electronic gaming machines. If we adjust for the number of potential players in Alaska then our after-prize income estimate would be $10 million. If we then adjust expenses using the average annual pay differential from the Bureau of Labor Statistics then the total expense estimate for Alaska would be $8.7 million. The Alaska lottery would then only generate an estimated net income of $1.3 million. In addition, a lottery will have an effect on charitable gaming. This is particularly true of instant tickets that are very similar to pull-tabs. In fiscal year 2002 the state received $2.5 million from fees and taxes levied on the charitable gaming industry. We expect that a lottery (particularly if it included instant tickets) would reduce this amount.

Of course there are states with higher per person lottery sales and it is possible that Alaska would be closer to the median powerball or instant ticket per person sales. Using the medians, the estimated net income to Alaska from instant tickets ($7.0 million) and powerball ($3.0 million) would then be closer to $10 million a year. This estimate is probably high because it is skewed upwards by those states that attract cross-border traffic and does not account for higher costs in Alaska.

NATIONAL GAMBLING IMPACT STUDY COMMISSION

LOTTERIES

In the words of one lottery director: "Lotteries are different from any other gaming product. Lottery players risk a small amount of money against very long odds to win a large prize, with the net proceeds going to the public good." [1]

The lottery industry stands out in the gambling industry by virtue of several unique features. It is the most widespread form of gambling in the U.S.: currently, lotteries operate in 37 states and the District of Columbia. It is the only form of commercial gambling which a majority of adults report having played. It is also the only form of gambling in the U.S. that is a virtual government monopoly. State lotteries have the worst odds of any common form of gambling (a chance of approximately 1 in 12-14 million for most existing lotto games), but they also promise the greatest potential payoff to the winner in absolute terms, with prizes regularly amounting to tens of millions of dollars.

Lotteries rank first among the various forms of gambling in terms of gross revenues: total lottery sales in 1996 totaled $42.9 billion. 1982 gross revenues were $4 billion, representing an increase of 950% over the preceding 15 years, 1982-1996.[2]

Lotteries have the highest profit rates in gambling in the U.S.: in 1996, net revenues (sales minus payouts, but not including costs) totaled $16.2 billion, or almost 38% of sales. They are also the largest source government revenue from gambling, in 1996 netting $13.8 billion, or 32% of money wagered, for governments at all levels.

History

Although making decisions and determining fates by the casting of lots has a long record in human history (including several instances in the Bible), the use lotteries for material gain is of more recent origin, although of considerable antiquity. The first recorded public lottery in the West was held during the reign of Augustus Caesar for municipal repairs in Rome. The first recorded lottery to

distribute prize money was held in 1466 in Bruges, in what is now Belgium, for the announced purpose of providing assistance to the poor.

Lotteries held a prominent place in the early history of America, including an important role in financing the establishment of the first English colonies. The first such lottery, in 1612, raised 29,000 pounds for the Virginia Company. Lotteries were frequently used in colonial-era America to finance public works projects such as paving streets, constructing wharves, even building churches. In the 18th century, lotteries were used to finance construction of buildings at Harvard and Yale. George Washington sponsored a lottery in 1768 to build a road across the Blue Ridge Mountains, but it was unsuccessful.

Several lotteries operated in each of the 13 colonies in 1776. In the American Revolution, Benjamin Franklin sponsored an unsuccessful lottery to raise funds for cannons to defend Philadelphia against the British. In the year of his death, 1826, Thomas Jefferson obtained permission from the Virginia legislature to hold a private lottery to alleviate his crushing debts. Held by his heirs after his death, it was unsuccessful.

Most gambling, and all lotteries, were outlawed by the several states beginning in the 1870's, following massive scandals in the Louisiana lottery - a state lottery that operated nationally -- that included extensive bribery of state and federal officials. The federal government outlawed use of the mail for lotteries in 1890, and in 1895 invoked the Commerce Clause to forbid shipments of lottery tickets or advertisements across state lines, effectively ending all lotteries in the U.S.

Reestablishing the Industry

The revival of lotteries began in New Hampshire in 1964 with its establishment of a state lottery. Inspired by New Hampshire's positive experience, New York followed in 1966. New Jersey introduced its lottery in 1970, and was followed by 10 other states by 1975. Currently, 37 states and the District of Columbia have operating lotteries.

In virtually every state, the introduction of lotteries has followed remarkably uniform patterns: the arguments for and against adoption, the structure of the resulting state lottery, and the evolution of the lottery's operations all demonstrate considerable uniformity.

The principal argument used in every state to promote the adoption of a lottery has focused on its value as a source

of "painless" revenue: players voluntarily spending their money (as opposed to the general public being taxed) for the benefit of the public good. According to one expert, the dynamic is as follows: "Voters want states to spend more, and politicians look at lotteries as a way to get tax money for free." [3] A key element in winning and retaining public approval is the degree to which the proceeds of the lottery are seen as benefiting a specific public good, such as education.[4] This argument is particularly effective in times of economic stress, especially given the prospect of tax increases or cuts in public programs. But studies have also shown that the popularity of lotteries is not necessarily connected to the state government's actual financial health, as lotteries have consistently won broad public approval even when the state's fiscal condition is good. As Clotfelter and Cook report, "the objective fiscal circumstances of the state do not appear to have much influence on whether or when states adopt lotteries." [5] In this sense it appears that the public's approval of lotteries rests more on the *idea* of lotteries reducing the potential tax burden on the general public than it is on any specific instance of relief.

That being the case, lotteries have proven to be remarkably popular: in authorizing the lottery, virtually every state has required approval by both the legislature and the public in a referendum on the subject. Yet in only one state - North Dakota -- has the public consistently voted against a lottery.

Once established, lotteries retain their broad public support: in states with lotteries, 60% of adults report playing at least once a year.[6] In addition to the general public, lotteries also develop extensive specific constituencies, including convenience store operators (the usual vendors for lotteries); lottery suppliers (heavy contributions by suppliers to state political campaigns are regularly reported); teachers (in those states in which revenues are earmarked for education); state legislators (who quickly become accustomed to the extra revenue), etc. Since New Hampshire initiated the modern era of state lotteries in 1964, no state lottery has been abolished.

A second argument made by lottery promoters is that because illegal gambling already exists, a state-run lottery is an effective device both for capturing money for public purposes that otherwise would disappear into criminal hands and also for suppressing illegal gambling. The evidence suggests that this may be partially true for the so-called "numbers" games. Some lotteries have explicitly designed their games toward this public policy goal. New

York's lottery, for example, reports that as a result, "illegal numbers activities have been eliminated for the most part in most areas of the State with the exception of New York City." [7]

Critics counter, however, that whatever the impact on revenue and illegal gambling may be, the benefits of the lottery are more than offset by its expanding the number of people who are drawn into gambling. Worse, lotteries are alleged to promote addictive gambling behavior, are characterized as a major regressive tax on lower-income groups, and are said to lead to other abuses. Even more troubling, however, is the general criticism that the state faces an inherent conflict in its desire to increase revenues and its duty to protect the public welfare. These criticisms will be discussed further below.

The Evolution of the Lottery

Once established, the various state lotteries have followed similar paths: the state legislates a monopoly for itself; establishes a state agency or public corporation to run the lottery (as opposed to licensing a private firm in return for a share of the profits); begins operations with a modest number of relatively simple games; and, due to constant pressure for additional revenues, progressively expands the lottery in size and complexity, particularly in the form of adding new games.

Revenues typically expand dramatically after the lottery's introduction, then level off, and even begin to decline. This "boredom" factor has led to the constant introduction of new games to maintain or increase revenues. Before the mid-1970s, state lotteries were little more than traditional raffles, with the public buying tickets for a drawing at some future date, often weeks or months in the future. Innovations in the 1970s, however, have dramatically transformed the industry. The first such innovation was the so-called "instant games," especially in the form of scratch-off tickets. These had lower prize amounts, typically in the 10s or 100s of dollars, with relatively high odds of winning, on the order of 1 in 4. As important, the purchaser could immediately determine if he had won or lost, thus increasing the excitement value.

A more far-reaching development was the advent of on-line computerized vending. The first major innovation from this was a daily numbers game, modeled on the illegal numbers games historically present in all major American cities. The advantages to the player of this new, legal game included the ability to choose his own "lucky"

number, thereby giving him a greater sense of participation (even if his actual odds of winning remained unaffected by his choices) and allowing him to determine that day if he had won. As the patrons of illegal numbers games typically played quite frequently, many playing every day, the income generated for the state lottery from this activity grew enormously.

In the 1980s, this on-line system also permitted the introduction of lotto, the game most closely associated with the lottery in the public mind. Lotto differs from its counterparts in having enormous jackpots, often reaching into the millions and even tens of millions of dollars. It is also the only form of lottery game played by the general public. The tremendous publicity generated by the prizes and by the stories of winners has made the lotto part of the general culture. In recent years, the figures for the top prize have continued to increase as multi-state consortia have been formed with a joint jackpot.

The most recent, and most controversial innovation, as well as by far the fastest growing element in revenues for the lottery, is electronic gambling or Video Lottery Terminals (VLTs), most prominently in the form of the machine version of keno. Other types of electronic wagering are in development for use by the lotteries, with a focus on a more intense and repetitive interaction between player and machine, including on-line slot machines installed in public vendors. These new products may further blur the line between casino gambling and the lottery.

The introduction of these new types of games - instant tickets, daily numbers, the lotto, and VLTs - has entirely displaced the original sweepstakes form of the lottery. Driving these and other changes, and the ongoing expansion of the industry, is the "relentless" pressure for revenue. Oregon has been a leader in adding new games to its existing portfolio, introducing sports betting in 1989 as part of its lottery. The pressures to expand show no sign of diminishing, guaranteeing the continuing evolution of new games likely to generate ever-greater controversy: "No one thought they were legalizing slot machines when they voted for the Delaware Lottery, but now any game owned by the state lottery is legal." [8] Nevertheless, innovation in games will almost certainly continue because "it appears that the primary instrument for converting moderate or inactive players into active players is product innovation, rather than advertising." [9]

The Evolution of Debate

innovation in games will almost certainly continue because "it appears that the primary instrument for converting moderate or inactive players into active players is product innovation, rather than advertising." [9]

The Evolution of Debate

Once the lottery has been established, debate and criticism change focus from the general desirability of a lottery to more specific features of its operations, including the problem of compulsive gamblers, alleged regressive impact on lower-income groups, and other problems of public policy. These criticisms both are reactions to, and drivers of, the continuing evolution of the industry.

Promoters of state-run lotteries usually invoke the concept that, regardless of one's views about the morality of gambling, a lottery can be used to support the general welfare, either as a means of increasing funding for public works or by reducing the necessity to raise taxes. In recent years, however, there has been increasing criticism that the public's perception of where the money generated by the lottery is going is incorrect, or even that the public is being deliberately misled. In a minority of states, the proceeds of the lottery are sent directly to the general fund for the legislature to appropriate as it sees fit. Far more common is the "earmarking" of lottery money for identified programs. Currently, 10 states earmark lottery money exclusively for education; in 15 others, it is directed toward uses as varied as tourism, parks and recreation, economic development, construction of public buildings, etc. Colorado targets revenues to environmental protection programs; the Virgin Islands uses part of its earnings to help fund a local children's hospital.[10] In Massachusetts, lottery revenues are redistributed to local governments, amounting to over $500 million in FY 1997 and acounting for 3/4 of the state's aid to cities and towns.[11]

Critics charge, however, that the "earmarking" of funds is misleading: lottery proceeds used for a specific program, such as public education, in fact simply allow the legislature to reduce by the same amount the appropriations it would otherwise have had to allot for that purpose from the general fund. The money "saved" remains in the general fund, to be spent on whatever purpose the legislature chooses. Critics add that, as there is little or no evidence that overall funding has increased for the targeted recipients of lottery revenues, the only result has been to increase the discretionary funds

available to the legislature, which may be a key reason for the popularity of lotteries in the state houses.

Critics cite examples such as Florida. In 1988, the first year of the lottery in that state, Florida spent 60% of its budget on education. In 1993, with lottery revenues earmarked for education, education's share had declined to 51% despite the apparent windfall. Given variables such as inflation, the annual fluctuations in expenditures, etc., such figures in themselves are not conclusive, but neither do they support the contention that the lottery has improved funding for education.[12] A recent study of the impact of lotteries on education funding concluded that "regardless of when or where the lottery operated, education spending declined once a state put a lottery into effect." [13] According to a study by *Money* magazine, states without lotteries spend a greater portion of their total budget on education than do states with lotteries.[14] Gary Landry, spokesman for the Florida Education Association, says "We've been hurt by our lottery...The state has simply replaced general revenues with lottery money - at a time when enrollments are increasing. It's a big shell game." [15]

The perceived utility of tying lottery proceeds to popular causes such as education is so great that real abuses have occurred. For years following the introduction of Virginia's lottery in 1988, for example, lottery spokesmen and state officials publicly touted the benefits to the public schools stemming from lottery revenues. This linkage was emphasized in advertising and in public statements by state and lottery officials. But the proceeds of Virginia's lottery have always gone directly into the general fund, and were only earmarked for education in 1995. But, according to S. Vance Wilkins, Jr., the Minority Leader in the Virginia House: "There's absolutely no point in earmarking except for fooling people into thinking we were doing something for education when we didn't do a thing...It didn't change the budget one penny. It's a sham." In 1997, Virginia lottery officials publicly apologized for implying that lottery funds were added "on top of" the legislature's annual appropriations for education, and the lottery has since changed its advertising to now say that "Lottery profits go to the General Fund which supports education." [16]

The problem is not confined to any one state. Jeff Perlee, Director of the New York State Lottery, commenting on past practices, stated that "lottery funding has NOT represented the supplemental funding that education was

promised." [17] This conclusion was backed up in a report by the New York State Comptroller regarding the state lottery's role in financing education, which concluded that "the widespread belief that lottery dollars are used to increase funding for education is simply a myth, at least here in New York. The study outlines that Lottery money never supplemented state aid to education and probably never will. We found that over the years the lottery has been used repeatedly as a source for closing budget gaps rather than increasing aid to education." [18]

One state which has recently addressed this problem is Georgia. In establishing its lottery in 1994, Georgia's state officials decided to mandate use of the proceeds for funding programs which the state previously had not funded at all. As a result, the sole designated recipients are programs for college scholarships, pre-kindergarten classes, and technology for classrooms; it is illegal to use the funds for any other purpose. As of the end of 1997, lottery proceeds in Georgia paid for 62,000 children to attend pre-kindergarten classes and provided assistance to 275,000 students attending college in the state.[19] New Mexico has adopted a similar approach: in establishing the state's lottery in 1995, the legislature mandated that 60% of the revenues go toward the construction of public schools and 40% to tuition assistance for residents attending state colleges. None of the money may go to the general fund.[20]

Pressures for Revenue

Despite the extensive praise these and other states have received for their innovative programs, it is uncertain how widely their example can or will be copied, as to do so in states with existing lotteries would force legislatures to cover the resulting deficit in the general fund with politically unpopular spending cuts or tax increases. The most basic fact driving all lottery operations is the pressure for revenue: "To judge from their public statements and their actions, all lottery directors feel pressure to maintain, if not to increase, existing levels of revenues," a pressure that is "relentless." [21]

This has produced a second set of issues stemming from the fact that the growth in revenue from traditional forms of lotteries has plateaued, prompting expansion into new games such as keno and video poker, along with a more aggressive effort at promotion, especially through advertising.

Although strong sales growth for lotteries has continued -- totaling 11.7%, 12.9%, and 11.7% in 1994, 1995, and 1996 respectively -- these figures obscure an important shift in the sources of revenue in recent years. As the traditional lottery industry has matured and fully penetrated its various markets, sales growth has leveled off. Most of the recent growth has come from the introduction of new forms of wagering, such as machine keno and video lottery devices, revenues from which grew by 41.8% in 1996 alone.[22] These machines are commonly licensed to bars, convenience stores, etc., thus dramatically increasing their presence in public life. They also have prompted concerns that these new games exacerbate existing alleged negative impacts of the lottery, such as the targeting of poorer individuals, increased opportunities for problem gamblers, presenting the latter with far more addictive games, etc.

The evolution of the Massachusetts lottery is instructive: the lottery began operations in 1975 with a 50-cent ticket and a once-a-week drawing. Scratch tickets with instant payoffs were introduced in 1974. In 1993, the lottery introduced keno games and currently there are nearly 1600 keno vendors in Massachusetts, most of them in stores open to the general public. Lottery revenues have risen from $71 million in 1975 to more than $3 billion in 1997.[23]

There have been several controversies regarding these issues in Massachusetts and elsewhere, as well as several attempts to deal with them. The legislature passed the Keno Reform Act in 1996 to address some of the more prominent complaints, reforms which included allowing communities to ban keno or restrict without suffering a fiscal penalty (money from the lottery is distributed to local communities on a complicated formula that is based on how much money each community generates for the lottery), capping the number of keno licenses statewide, etc. However, neither opponents or proponents have indicated any satisfaction with the existing situation.[24]

Advertising

Lotteries have also come under increasing criticism in the area of advertising, especially regarding alleged aggressive advertising practices aimed at lower-income groups. Many critics have long been uncomfortable in general with state governments promoting what they see as a vice. The federal government banned lottery advertising until 1975; once this prohibition was lifted,

increasingly larger sums have been devoted to the promotion of lotteries: in fiscal year 1997, state lotteries spent over $400 million on advertising and promotion.[25]

Because the lotteries are run as a business with a focus on maximizing revenues, advertising necessarily focuses on persuading target groups to spend their money on the lottery. The questions are 1) does this promotion of gambling lead to negative consequences for the poor, problem gamblers, etc.?; and 2) even if these problems are minimal, is this an appropriate function for the state? Is running a lottery at cross-purposes with the larger public interest?

Critics charge that lottery advertising seeks "to stimulate rather than merely accommodate demand," a role for the state that "may be inconsistent with other functions of government...Lottery advertisements must either encourage existing players to buy more tickets or entice non-players into becoming players." [26] These and other opponents allege that lottery advertising is targeted to appeal to the irrational elements in the public's imagination, seeking to persuade potential players that they can influence their odds through the choices of numbers they pick and also that it attempts to convince the individual player that his chance is winning is far greater than the odds would suggest. In the words of one, lottery play depends on encouraging people's "magical thinking," which advertising must target.[27] According to New Jersey's lottery director, the purpose of advertising is to "tak[e] an infrequent user and [try] to convert him into a more frequent user." [28]

To this end, lotteries use traditional marketing methods, such as identifying likely players, compiling extensive socio-economic profiles, conducting focus group research, test marketing new products, etc. The media plan for the Iowa lottery stated its strategy as "to target our message demographically against those that we know to be heavy users, while encouraging purchases among light or non-users." [29] The research leaves few areas untouched: the Colorado state lottery reportedly "spent $25,000 for a study called Mindsort to analyze the left and right sides of the human brain to understand how to manipulate player behavior." [30]

Critics charge that much lottery advertising is deceptive, commonly presenting misleading information about the odds of winning the jackpot, inflating the value of the money won (lotto jackpot prizes are usually paid in equal

annual installments over 20 years, with inflation and taxes dramatically eroding the current value); and so forth.

Growing criticism has helped to persuade some legislatures to mandate restrictions on lottery advertising. In Massachusetts, the legislature imposed a significant reduction in the money allotted for lottery advertising, from $12 million in 1993 to $400,000 in 1997. Lottery advocates claim that the Massachusetts lottery spent no money on advertising in 1997 outside of point-of-purchase sites (i.e., no television, radio, newspaper, or billboard advertising). As a direct result, there was an absolute decline in lottery revenue for the first time. Despite the increasing salience of the issue, only three states -- Minnesota, Virginia, and Wisconsin -- have imposed significant restrictions on lottery advertising (Massachusetts' legislature did the same by means of its virtual elimination of the advertising budget; other states have similarly reduced the advertising budget, but for a variety of reasons). But many state lottery organizations claim to have significantly reduced their overall advertising on their own initiative, or to have changed it in ways to make it more "socially responsible."

Criticism of the advertising practices of lotteries is not confined to critics outside of the industry. Speaking to a meeting of his fellow lottery directors, Jeff Perlee, Director of the New York State Lottery, warned that although most lottery advertising was responsible in its claims, lottery officials:

> must confront the fact that the product they market is a vice that is not universally accepted...[Some state lottery advertisements] are so far-fetched and so fanciful that they would not stand up to the same "truth-in-advertising" standards to which advertising conducted by private industry is held. Add to that the fact that our advertising is often relentless in its frequency, and lottery critics and even supporters are left wondering what public purpose is served when a state's primary message to its constituents is a frequent and enticing appeal to the gambling instinct. The answer is none. No legitimate public purpose justifies the excesses to which some lottery advertising has resorted.[31]

A Maryland state budget examiner's report on that state's lottery advertising stated that it contained "misleading gimmickry" that exaggerated the benefits to the public from lottery revenues.[32] In fact, state lotteries are exempt from the Federal Trade Commission's truth-in-advertising

standards because they are state entities and, in terms of their advertising, can in fact operate in a manner that true commercial businesses cannot.[33]

Regressivity

The focus on convincing non-players or infrequent players to utilize the lottery, as well as persuading frequent players to play even more, is the source of an additional array of criticisms. Giving force to this concern is the widespread conception that the lottery is a regressive tax because it draws a disproportionate amount of its revenues from lower-income groups. The image of the state promoting a highly regressive scheme among its poorest citizens by playing on their unrealistic hopes is a highly evocative one. The most frequently cited, and most egregious, example of this was a billboard in one of Chicago's poorest neighborhoods that touted the lottery as: "How to go from Washington Boulevard to Easy Street - Play the Illinois State Lottery." [34]

This assumption, however, may not be accurate. Much depends on the definition of "regressive." Economists define a regressive tax as one that takes an increasing percentage of income as income falls. In that sense, given the fact that a lottery ticket is the same price to all, regardless of income, it is by definition regressive (and is considered an "implicit" tax because the revenues go to the state). But this simple approach does not capture such variables as frequency of play and the amounts of money generated by the lottery by income group. Here the evidence divides by the type of game played. The data suggests (although is far from conclusive) that the bulk of lotto players and revenues come from middle-income neighborhoods, and that far fewer proportionally come from either high-income or low-income areas. Clotfelter and Cook cite one study in the 1970s which concluded that "'the poor' participate in the state lottery games at levels disproportionately less than their percentage of the population." [35] By contrast, those playing the daily numbers games, including scratch tickets, are drawn quite heavily from lower-income neighborhoods.

The popular belief is that the poor are much heavier users of the lottery than the rich and the middle classes. In fact, however, although "lottery play is systematically related to social class, [it is] perhaps not always as strongly as the conventional wisdom would suggest." The data "do not demonstrate any consistent relationship between lottery play and household income over the broad middle range;

the average expenditure in dollars for households making $10,000 is about the same as for those making $60,000." [36] "On average, people bet the same amount on the state lottery regardless of income. Absolute expenditures appear to be remarkably uniform over a broad range of incomes." [37]

Assuming this is true, the lottery may still be termed regressive because the state takes greater percentage of income from those with lower incomes.[38] Whatever similarity between income groups there may be regarding absolute amounts spent on the lottery, Clotfelter and Cook agree that the poor spend a larger proportion of their incomes on the lottery.[39]

Although total expenditures on the lottery may be broadly similar by income group, the type of game they play differs considerably. An analysis by the Chicago Sun-Times revealed that lower-income individuals concentrate much more heavily on the numbers games, "trading lower payoffs with a higher chance of winning. They also are likely to be frequent players, often daily players. Lotto - with its big-money jackpots and slim odds -- appears to appeal more to upper-income groups, most of whom are only occasional players, usually when the prize money reaches large proportions." [40]

This tendency toward regressivity in certain types of lottery games is also borne out in the figures for the Massachusetts lottery. In FY1997, the Massachusetts lottery grossed $3.2 billion, of which instant games (of which the lower-income groups played disproportionately) accounted for 65%, numbers for 12%, and keno for 13%, all other, including the lotto, 10%.[41] The data from the Massachusetts lottery do seem to bear out the disproportionate impact: although the state-wide per capita amount spent on the lottery was $547 in 1996 (the highest in the country), the Boston Globe reported that the per capita lottery expenditures in the economically depressed Boston suburb of Chelsea had climbed to over $900 in 1996.[42]

Less compelling, although significant, evidence exists in the media plans of the lotteries. Clotfelter and Cook report that lottery marketing strategies do seem to explicitly target lower-income groups. For example, the advertising plan for Ohio's SuperLotto game stated that lottery promotions should be timed to coincide with the receipt of "Government benefits, payroll and Social Security payments."

Income aside, there are clear differences in lottery play by socio-economic group and other factors. Men tend to play more than women; blacks and Hispanics more than whites; the old and the young play less than those in the middle age ranges; and Catholics tend to play more than Protestants. Interestingly, "lottery play falls with formal education" even though non-lottery gambling in general tends to increase.

Other Criticisms

Compulsive Gambling

There is growing evidence that the new games the lotteries have introduced to increase sales are more addictive, and are compounding the problem of compulsive gamblers. Dr. Lance Dodes, Director of the Center for Problem Gambling at Mt. Auburn Hospital in Cambridge Massachusetts, estimates that 40% of his patients are lottery players.[43] A 1996 survey in New York found that 9% of lottery players, and 14% of keno players, have been compulsive gamblers at some point in their lives. The study also concluded that keno in particular fosters addiction.[44] One study of the effect of VLTs on compulsive gamblers found that the number of individuals in South Dakota seeking treatment for problem gambling declined significantly during a temporary downtime for the lottery's VLTs and rose sharply once they were returned to service.[45]

This link is widely recognized, even by those in the industry. In the words of one lottery director: "[G]ambling, including playing the lottery, is ... potentially addictive and can be dangerous and destructive for some people, some of the time." [46] The new games "have created what was once an almost unthinkable link between lotteries and compulsive behavior." [47]

Despite significant annual revenues from the lottery, however, treatment of compulsive gambling receives relatively little money from the state. In Massachusetts, for example, the state budgeted only $450,000 in FY 1996 on compulsive gamblers, including only $120,000 for actual treatment, even though the lottery revenues for the state amounted to $720 million.[48] The Ohio lottery is one of only a few that operates a compulsive gambling treatment operation as part of its regular operations, employing six problem gambling experts. Five states require a telephone number for help for problem gamblers

be printed on its lottery tickets.[49]

Underage Gambling

The sale of lottery games to minors is illegal in every state. However, by all measures, it is commonplace. A survey in Minnesota of 15- to 18-year-olds found that 27% had purchased lottery tickets for themselves.[50] Even higher levels of 32%, 34%, and 35% were recorded in Louisiana, Texas, and Connecticut, respectively.[51] In Massachusetts, Connecticut, and other states, lottery tickets are available to the general public through self-service vending machines. When one store owner in Boston was asked if minors purchased tickets from the lottery ticket dispenser in his lobby, he replied: "How would I know? No one's watching it." [52] Thus, it is not surprising that a survey conducted by the Massachusetts Attorney General's office found that minors as young as 9 years old were able to purchase lottery tickets on 80% of their attempts, and that 66% of minors were able to place bets on keno games. 75% of Massachusetts high school seniors report having played the lottery.[53]

Charitable Gambling

The lottery has also apparently had a negative impact on charitable gambling. In 1984, charitable gaming in Massachusetts, such as church bingo, had revenues of $250 million. By 1995, those figures had declined to $200 million. Competition from the lottery is usually blamed, especially following the introduction of keno. "We're getting slaughtered by Keno," said one local rabbi.[54]

Impact on State Politics

The negative impact on state politics of money connected with the lotteries is often cited by critics, with the commercial suppliers and operators commonly used as examples. GTech and Automated Wagering International (AWI) are the two companies that dominate the lottery supply and lottery operations businesses. In 1997, of the 38 lotteries, GTech had contracts to operate 29; AWI had 7; Massachusetts and Virginia run their own systems. These two companies have contributed heavily to state races. When GTech won the contract to operate the California lottery in 1986, it had been the 6th largest contributor to state campaigns that year, having donated a total of $300,000 to individual state races. In addition, both companies devote substantial sums to lobbying state legislatures and officials. GTech is alleged to have spent

$11 million on lobbyists in 1993 alone.[55]

Public Policy

It needs to be emphasized that although lottery officials are often lightening rods for criticism, they are not free agents operating on their own; they must respond to directions from state officials, which often contain conflicting goals. Thus, they may be told to reduce advertising even as their performance is measured by their ability to increase lottery revenues.

This schizophrenic approach can lead to many problems. For example, in Massachusetts, the pressure on the lottery to produce additional revenue remained even after the legislature dramatically reduced the funding for advertising. One result was that the lottery began using its "free play" coupons as money, reportedly using $8 million of them to pay for advertising (although the budget had been cut, no prohibition was made against advertising per se). This in turn generated an investigation by the Massachusetts Attorney General's office, but also prompted the IRS to investigate the alleged non-reporting of income (in its eyes, the coupons were being used as money).[56]

The most important issue regarding lotteries is the ability of government at any level to manage an activity from which it profits. In an anti-tax era, many state governments have become dependent on "painless" lottery revenues, and pressures are always there to increase them. A study done in Oregon found that one result common to every state financial crisis over the past couple of decades was that a new form of gambling had been legalized for the state to profit from. As a consequence, Oregon currently has more forms of legal gambling than any other state outside of Nevada. Clearly there are conflicting goals which can only be prioritized by political officials, be they in the executive or legislative branch. There have been surprisingly few attempts to grapple with this problem.

The evolution of state lotteries is a classic case of public policy being made piecemeal and incrementally, with little or no general overview. Authority - and thus pressures on the lottery officials -- is divided between the legislative and executive branches and further fragmented within each, with the result that the general public welfare is taken into consideration only intermittently, if at all. Few, if any states, have a coherent "gambling policy" or even a "lottery policy." Policy decisions taken in the

establishment of a lottery are soon overcome by the ongoing evolution of the industry. It is often the case that public officials inherit policies and a dependency on revenues that they can do little or nothing about.

Many public officials, including some charged with overseeing the lottery, have expressed public and private discomfort about many aspects of their state's lottery or even about the wisdom in general of the state's running a lottery, and often add that they and their colleagues are powerless to change the system. This raises the troubling question of whether the state itself has become addicted to lottery revenues. In the words of Harvard University professor Michael Sandel:

> "No politician, however troubled by the lottery's harmful effects, would dare raise taxes or cut spending sufficiently to offset the revenues a lottery brings in. With state hooked on the money, they have no choice but to continue to bombard their citizens, especially the more vulnerable ones, with a message at odds with the ethic of work, sacrifice, and moral responsibility that sustains democratic life." [57]

Footnotes

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[5] Charles T. Clotfelter and Philip J. Cook, Selling Hope: State Lotteries in America, (Cambridge, Ma: Harvard University Press, 1989, p. 159.

[6] Charles T. Clotfelter and Philip J. Cook, "On the Economics of State Lotteries," *Journal of Economic Perspectives*, vol. 4, No. 4, Fall 1990, p. 105.

[7] May 15, 1998 letter from Jeff Perlee, Director of the New York State Lottery.

[8] Bernie Horn of the National Coalition Against Legalized Gambling.

[9] Charles T. Clotfelter and Philip J. Cook, "On the Economics of State Lotteries," *Journal of Economic Perspectives*, vol. 4, No. 4, Fall 1990, p. 112

[10] Ellen Perlman, "The Game of Mystery Bucks," *Governing*, January 1988, p. 21

[11] Meg Vaillancourt, "Lawmaker: Casinos Face Tough Sell," *Boston Globe*, April 10, 1997, p. A26.

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[14] Peter Keating, "Lotto Fever: We All Lose!" *Money*, May 1996, pp. 144, 147.

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[16] April 15, 1998 letter from Edward A Scarborough, Director of Public Affairs, Virginia Lottery.

[17] Perlee, ibid.

[18] April 23, 1998 letter from H. Carl McCall, New York State Comptroller.

[19] Perlman, op.cit, p. 22.

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[22] *Gross Annual Wager*

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[25] Patricia A. McQueen, "Investing in Tomorrow," *International Gaming and Wagering Business*, January 1998, p. 48.

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[27] Charles T. Clotfelter and Philip J. Cook, "Lotteries in the Real World," Journal of Risk and Uncertainty, Vo. 4, pp 227-232, 1991.

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[33] Ellen Perlman, "Lotto's Little Luxuries," *Governing*, December 1996, p. 18.

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[44] Daniel Golden and David M. Halbfinger, "Lottery Addiction Rises, and Lives Fall," *Boston Globe*, February 11, 1997, p. A1.

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STATES HOPE LOTTERIES WILL BRING LUCKY BUDGET NUMBERS TO EDUCATION

CHARLESTON, S.C. -- Lottery proponents hit the jackpot in South Carolina on Election Day as voters approved a state lottery to fund education programs, including college scholarships. It was a hard-won victory, with activists both for and against the measure lobbying vigorously in television and newspaper advertisements. It passed with just 55 percent of voters approving the ballot question.

Debate over the issue mirrored arguments that have erupted since the first modern state lottery was created more than three decades ago. Advocates' predictions of a bonanza for school funding and critics' fears of moral degradation and a gambling trap for the poor are not necessarily in line with the evidence, according to a new study on state lotteries.

Of the 38 jurisdictions -- 37 states and the District of Columbia --with lotteries, 20 earmark a portion of the proceeds for public education, according to La Fleur's 2000 World Lottery Almanac. But the additional money may substitute for normal appropriations rather than supplement them, according to "13 Ways of Looking at a State Lottery," a study published in the October issue of North Carolina Insight. The journal, published by the nonpartisan North Carolina Center for Public Policy Research, found "four pluses, five minuses and four questions where the research findings are inconclusive," according to editor Mike McLaughlin.

"There are a lot of claims and counter-claims about state lotteries," he said. "We hoped to shed light on the issue."

The study found that while lotteries are a small but relatively stable source of income, revenues have declined as a percentage of state income, from 3.5 percent in 1989 to 1.9 percent in 1997.

The research is inconclusive on how much lottery revenues benefit education. In Georgia, the money has been a boon for college students, providing more than $600 million in HOPE scholarships since 1993. But, the study says that in at least three states -- California, Florida and Michigan -- lottery funds "have merely substituted for normal levels of appropriations, despite the tact that lotteries had been promoted as boosting spending for education."

Moreover, a 1996 study by Money magazine found that states with lotteries spend a lower percentage of their operating budgets on education than those without a lottery. Pn the other hand, some criticism of lotteries may contradict reality, according to the study. Lottery tickets are purchased proportionally among participants from all economic backgrounds and they do not lead to excessive gambling, the journal found.

In South Carolina, 55 percent of voters approved a constitutional amendment that will allow for a state lottery to pay for college scholarships and fund public schools. Officials estimate that South Carolina residents cross the state border to Georgia to spend as much as $100 million on lottery tickets.

A state lottery has been proposed and rejected by legislators in North Carolina during every legislative session since 1983. But with tight budgets expected over the next several years, and with residents spending an estimated $86 million on ticket purchases in neighboring Virginia, pressure may mount again.

Voters in the states of Washington and Virginia approved measures to earmark lottery funds for education, but Arkansas voters rejected a lottery proposal.

By Kathleen Kennedy Manzo

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SNAKE EYES

Even education programs can't redeem state lotteries

Contents

In 1990, ZELL MILLER, RUNNING FOR Governor of Georgia, figured out a way to increase spending on education without raising taxes: Create a lottery to fund scholarships for high school achievers. Miller's proposal, "Helping Outstanding Pupils Educationally" (HOPE) caught on and helped sweep him into office.

HOPE works. It has financed higher education for hundreds of thousands of students in Georgia. It also) seems wondrously simple: a voluntary tax (no one is forced to buy lottery tickets) to fund a clear, concise, and universally acclaimed goal. Every high school student in Georgia with at least a B average now has the opportunity to attend one of Georgia's universities; if they keep up their Bs in college they're funded until graduation. HOPE brought Miller national attention and numerous state governments are considering copying the program.

But despite HOPE's success, there's a trap in its seeming simplicity. Lotteries aren't taxes, but they certainly aren't free. They compromise values, feed a very dangerous industry, and end up snuffing out the success of even the most well-intentioned initiatives. Other states should copy the educational blueprint of the HOPE program, but they shouldn't copy the funding.

The trouble with lotteries begins when you hand over your dollar in a convenience store. The money doesn't go straight to the state government or to its college education fund; it is processed by a Rhode Island corporation called Gtech. Gtech prints the tickets for the states, provides the software for the gambling devices, organizes the drawings, and even trains convenience-store owners on how to run their computers. Gtech was founded in the early 1980s and, of the 38 lotteries run nationally, the company has won the contracts to manage 29--getting about a nickel from every dollar ticket sold. It doesn't seem like much, but these nickels have added up. The company has annual revenues of just under $1 billion, and is traded on the New York Stock Exchange.

Much of Gtech's success comes because it has something good to sell and it sells it well. It has always been able to work efficiently and, by most accounts, it has scrupulously fulfilled its contracts.

But to many people in the business, Gtech's extraordinary success doesn't just come because it gets up at dawn and eats its vegetables. It's because the company knows how to work the back alleys with sweet talk, hard bargains, and, its critics say, coercion. In California, a Gtech lobbyist on trial for bribing lawmakers was caught by a hidden tape recorder calling state lottery director Sharon Sharp "our gal" Sharp had handed Gtech the California contract without opening the process to competitive bidding. In Georgia, Lottery Director Rebecca Paul called a closed-door session with the company when Gtech's bid came in $50 million above the low bidder. After Gtech agreed to drop its price by just $23 million, Paul inked the deal. Did Paul cut Gtech a break because she was offered a job? Probably not, but she certainly knows that the company takes good care of lottery directors who show it consideration. Three directors of the New York state lottery have gone to work for the company as lobbyists or consultants, as have numerous directors from other states. After a conflict over Massachusetts' lottery, director James Hosker, a close friend of Gtech's, took the job managing Kentucky's lottery and secured a sweet deal for the company in that state. Where did Hosker move next? A lucrative job on the Gtech payroll.

As one person close to the company said anonymously, "If it loses a contract, it sues everybody. But it usually wins because it offers future jobs to every state lottery director" When asked why he insisted on being quoted off the record, he responded: "It's the third rail of the gambling industry. You touch it, you die"

But Gtech doesn't just make sure that what goes around comes around; it runs an operation that would make any K Street lobbying firm proud. One former gambling industry reporter recalled being taken out to play golf by Gtech. "I played 18 holes with the Gtech guy and he shot something like a 70 on a very hard course. That's almost like a pro and I was very impressed. I asked him at the end how he was so good if he also had to work for Gtech. He told me that Gtech had just hired him to play golf with clients."

Nor would Gtech be Gtech if it didn't understand the importance of well-placed friends, and the company corrals power from any angle it can find. In Texas, it hired the boyfriend of the state lottery director. In New York, it hired a dear childhood friend of Lottery Director Peter Lynch. In other states it retains former influential politicians simply to work the dinner-party circuit. In Texas, the company hired Ben Barnes--legendary former speaker of the Texas House of Representatives and the man who, according to many reports, got young George W. Bush out of the draft and safely into the National Guard--for the princely annual salary of $3 million. Other prominent Gtech lobbyists have included William Daley (now secretary of commerce) and William Broadhurst, an extremely close political advisor to the governor of Louisiana when Gtech was fighting for that state's contract. Broadhurst, of course, first came to the public's attention when he chartered the "Monkey Business" and introduced Donna Rice to his close friend Gary Hart. Hubert Plummer, the former president of one of Gtech's competitors famously once said, "We'd go out to dinner with the lottery director and find that Gtech had hired a yacht and taken out the whole goddamn legislature."

But if many of the company's critics are to be believed, Gtech doesn't just buy and schmooze with people, it intimidates them--charges that Gtech emphatically denies. When Bruce Mayberry, the Arizona lottery director in 1993 (now an employee of one of Gtech's competitors) got into a dispute with the company, he soon found a crate of rotten mutton on his doorstep with a note attached: "Enjoy." A gruff Gtech spokesman explained that the meat was, of course, a goodwill present gone bad through a combination of Arizona heat and DHL's slow service. As he said later in a terse interview, "It's a rough business" Indeed.

Capitol Hill Roulette

But the rough business doesn't stop with Gtech. It climbs all the way up the political chain. Americans spent close to $600 billion last year gambling--more than we spent on movies, theme parks, and sporting events combined. Not surprisingly, swimming in this muddy river of cash, gambling and lottery interests have turned themselves into one of the most powerful interest groups in America. When Jim Hodges ran for governor of South Carolina, he was virtually pronounced dead until he decided that, despite his prior vehement opposition, he wanted to introduce an education lottery to South Carolina. Bingo. Money started pouring in and, with strong evidence of as much as $30 million dumped into his bank account by gambling interests, he was able to defeat Republican incumbent David Beasley. As Glen Stanton, a South Carolina activist who worked on that election, said to Harper's Magazine, "Hodges just took the lottery, turned it into a blunt instrument and clubbed Beasley senseless"

The gambling industry knew that introducing a lottery into South Carolina would help open the gates for casinos. Having a lottery empowers gambling advocates and undercuts government authority to prohibit gambling. If it's moral for the state to do it, why should it be absolutely immoral for Donald Trump or a Native American tribe to do it too? Patrick Pierce of St. Mary's College in Indiana has shown statistically that by far the most important variable determining whether a state will introduce a casino in a given year is the existence of a lottery--it's much more important than state income, tax level, or even political makeup. Lotteries are "the camel's nose" for legalized casino gambling, writes Pierce.

Gambling interests also know that a lottery in one state often puts political pressure on its neighbors. Georgia estimates that 12 percent of their lottery ticket sales come from residents of neighboring states--one of the main arguments that Don Siegelman used while running for governor of Alabama in 1998 on a platform dominated by a proposal to create an initiative mimicking HOPE. Why, he argued, should residents of Alabama be supporting Georgia's educational system? Siegelman invoked the Georgia example 17 times in a 400 word op-ed piece in the Birmingham News supporting the initiative one year later. This also shows one of the core problems in our federalist system--when one state cuts harmful industries some slack, be they lotteries or sludge-belching factories, its neighbors often have to follow suit to stay competitive.

The Industry

The momentum of lotteries becomes particularly troubling for opponents because the gambling industry has wrapped itself around much of America's political leadership. House Leader Richard Gephardt's chief fundraiser, David Jones, has enlisted Mirage Resorts owner, Steve Wynn, in an effort to raise $1.5 million in soft money for upcoming congressional campaigns. Wynn has given at least that much to Republicans, but like many other casino tycoons, he knows that a good way to win in politics is to bet on every horse in the race. An aide to Henry Hyde was covertly offered $10 million by Primadonna Resorts (see Memo of the Month) in return for landing them a casino license in Illinois; the plan was only foiled when a man chasing an unrelated conspiracy theory stumbled upon the critical files in a trash can. Senate Minority Whip Harry Reid (D-Nev.) unabashedly admits that he owes his career to gambling interests; Senate Majority Leader Trent Lott (R-Miss.) is deeply involved in the National Republican Senatorial Committee (NRSC) that, according to the non-profit watchdog Public Citizen, received $1.26 million from

the gambling industry in 1997-98. Mitch McConnell (R-Ky.), the man commanding the jihad against campaign finance reform, has raised at least $1 million for the GOP in the last three years from the gambling industry.

To see how clearly this money can burn up an open political process, consider what happened in March of 1998, when Sen. Dan Coats (R-Ind.) proposed eliminating the federal tax deduction for gambling losses-a tax deduction which counts money lost on the blackjack table as equivalent to money donated to Habitat for Humanity. Within five days, casino interests came up with at least $450,000 to donate to the NRSC and both the Democratic and Republican leadership grabbed their golden hatchets and worked to kill the bill before it could be debated. Sen. Reid promised to gut the bill with amendments. Senate Minority Leader Tom Daschle (D-S.D.) immediately denounced it. Trent Lott tried to work out compromises that could railroad the bill before it came to the floor. According to one Republican aide cited by Public Citizen, "Lott did not want us to get down there on the floor and debate it, because it was very difficult to defend." Not: surprisingly, the bill died a sudden death--just like virtually every other attempt to regulate gambling in the public interest. A bill to give the casino industry a special tax exemption for free meals provided to workers made a slightly different journey one month later. Senator Lott slipped it, without debate, into a House-Senate conference version of the IRS Reform Bill.

Selling Sloth

The trouble with lotteries, however, extends well beyond Gtech and the gambling industry lobbying machine. By adopting lotteries, state governments put themselves in the awkward and self-defeating position of having to betray the values that they usually hold dear.

First of all, lottery officials rely on deceptive advertising of the sort that state governments normally try to harness. The whole business of lotteries depends on convincing people that their number might come up-in fact that their number will come up if only they play enough. After all, lottery officials reason, if people don't buy tickets there isn't as much money to fund education. The result is advertising like one television spot in Connecticut that showed a smiling young man: "When I was younger I suppose I could have done more to plan my future. But I didn't. I guess I could have put some money aside. But I didn't. Or I could have made some smart investments. But I didn't. Heck, I could have bought a one-dollar Connecticut Lotto ticket, won a jackpot worth millions, and gotten a nice big check every year for 20 years. And I did! I won!" A voice-over followed as the young man grinned, "Overall chance of winning is one in 30" One in 30, of course, was the chance of winning a small prize and a smile from your convenience store owner, not of striking it rich.

Unlike other sweepstakes and raffles, state lotteries are not required to publish the honest odds of winning. Why don't they? Because the odds are virtually zero. Perhaps the best example of the likelihood of success comes from the North American Association of State and Provincial Lotteries, a pro-lottery lobbying organization seemingly oblivious to its own irony. 'Anyone can be struck by lightning any time, any day. You can only win Powerball if you buy a ticket and then only on drawing days...Here's something to think about. Of the people struck by lighting in 1995, some were golfing, some were picnicking, fishing, boating or hiking-not one was playing lotto at the time."

States that run lotteries also focus their efforts, and in many ways their deception, on the people who are most susceptible to their message--the people who the state normally tries the hardest to support: the poor. One Massachusetts study found that the average resident of relatively unaffluent Chelsea spent $455 a year on the lottery while residents of nearby, prosperous Weston spent only $30. Taking advantage of this bias, an advertising plan for Ohio's SuperLotto read, "Schedule heavier media weight during those times of the month where consumer disposable income peaks .... Government benefits, payroll and Social Security payments are released on the first Tuesday of each calendar month."

States also often try to sell sloth as a way to convince potential customers that a lottery ticket offers a free ride to the high life. A 1996 Massachusetts state lottery ad contrasted two possible paths to millions on parallel sides of a poster. The first option: "Start studying at about seven years old, real hard. Then grow up and get a good job. From then on, get up at dawn every day. Flatter your boss. Crush competition ruthlessly. Climb over backs of co-workers... Do this every day for 30 years, holidays and weekends included. By the time you are ready to retire, you should have your money." The second option: two lottery tickets.

Worst of all, state lottery officials have incentives to turn moderate lottery players into compulsive gamblers. Five percent of the population buys 50 percent of all lottery tickets and these people need constant fixes. Although state lotteries started out 20 years ago as simple, uninspired raffles (write your name on the back of this piece of paper and one day we will tell you if you have won), lottery officials soon realized that, in America, instant gratification sells. In due course, states started promoting instant games, supergames, and even started running flashing casino-like games. The worst of the lot is high paced poker played on video terminals--frequently referred to as "video crack" because of its addictive powers. "Almost without exception, my video poker patients report not excitement but anesthetized nothingness. It's a twilight-zone experience for them," says Robert Hunter, an expert on compulsive gambling. Video poker is run by the governments of eight different states. "There was one machine that I could confuse the most," said Betty Yakey to The Washington Post. Yakey, a 65-year-old widow, wiped out her grandson's college saving fund (set up by the sale of her family farm) by playing state-sponsored video poker in Louisiana for five or six hours daily. "When I played that machine, I didn't worry about nothing."

Sleeping Watchdogs

Although state lottery ads are not regulated by the FTC or the Better Business Bureau, the press, particularly television, has not stepped in to play a watchdog role. One would be hard-pressed to find a TV station that explains the insane odds against winning when showing lottery drawings on the 7 o'clock news or that reports on state lottery ads with the same vigor with which it peers into political campaign commercials. There have been some exceptions, but the trend veers away from intense scrutiny.

The euphoric side of lotteries does of course fit better into our common television format: One winner jumping and screaming plays better than 20 million poor saps kicking the floor after they lose; a busty woman picking glowing balls out of a hopper has more appeal if there isn't a voice in the background explaining the futility of the charade. But another explanation for this one-sided coverage deserves consideration. State lotteries spend more than half a billion dollars a year on advertising on television, radio, posters, and in any other rewarding medium. The Maryland state lottery, for example, bought well over $1 million worth of ads with major television stations in the first nine months of 1999. As with all media advertising, there is scant direct proof that the purchases influence coverage, but commercial television producers know where every dollar their station or network: gets comes from. And like lottery advertisers who can justify their machinations by the greater good created in the long run (manipulative advertising may be bad, but it does help education), the news media have the same argument on hand. If they can't maintain their revenue stream, they won't be able to fund their public services.

Unfortunately, the propaganda is getting through to Americans. According to a July 1999 poll by the Consumers Federation of America and Primericam, 27 percent of Americans believe that winning the lottery is their "best chance to obtain half a million dollars or more in [their] lifetime." This is a grim statistic which would surely change if states were to cancel their lottery ads and instead publicize the wonders of compound interest: $50 invested weekly with a 9 percent return would yield over $1 million in 40 years.

Betting on Schools

In his victorious race for the governorship of South Carolina, David Hodges milked the Georgia lottery issue as well as one could, arguing over and over again that mimicking the HOPE program would be his state's ticket to success. One of his ads showed a convenience store clerk in a Georgia Bulldogs T-Shirt, "Here in Georgia, we appreciate you South Carolinians buying our lottery tickets, over $100 million worth. Those Georgia tickets y'all buy pretty much pay for our worldclass preschools."

Hodges is right to want to imitate Georgia's educational success but he is wrong to draw inspiration from the way Georgia funds its HOPE program. Instead, he should draw inspiration from one of his predecessors, Richard Riley.

In 1985, Governor Riley, now Clinton's Secretary of Education, decided that his state needed an educational overhaul. He didn't, however, look to a lottery. He convinced leaders in the business community that more skilled laborers would help South Carolina's commerce. He then convinced teachers' unions to support merit pay by offering them a 16 percent pay increase. Riley then mailed out thousands of copies of his plan to voters across the state and described his plan in hundreds of speeches. He pushed his plan through a reluctant state legislature by twisting arms, asking constituents to phone their representatives and arguing his case until he was hoarse. Although he had initially met with near universal opposition, Riley's reforms passed and were paid for with a 1 percent increase in state sales tax. A RAND corporation study that year declared that Riley's plan was "the most comprehensive single piece of legislation improving education to come out of any state" SAT scores went up and more and more of the most talented high school students decided to continue their education.

Next fall, South Carolina voters will have the chance to accept or reject a referendum on Gov. Hodges' plan for a lottery to fund educational improvements. There's little doubt that gambling interests will provide the referendum with strong financial support. But even so, there are encouraging signs that voters are starting to turn against gambling and realizing that, as Riley did, it is possible to create good programs without funding them through lotteries. In Alabama, voters recently rejected Don Siegelman's lottery referendum based on the HOPE program only a year after electing him in no small part because of his lottery proposal. Even in South Carolina, the state supreme court and state legislature recently banished video poker, against the wishes of Governor Hodges, with polls indicating that 60 percent of the population was in favor of the decision. Of the 25 state referendums on gambling since 1994, anti-gambling advocates have won 19.

That's good news for South Carolina and it's not terribly surprising: Pro-gambling sound bites work well when there's a lot of other stuff on voters' minds. Anti-gambling arguments work well when there's time to think. This is why governors can often use the issue as a wedge to get elected when there are scores of other issues on voters' minds; but it's also why referendums fail more often than not when they are put under the microscope

South Carolinians will have plenty of time to consider the issue next fall and, if I were a betting man, I'd put my money against the initiative. After all, the HOPE program helps to create winners; but lotteries, no matter how well-intentioned, make losers of us all.

By Nicholas Thompson

Research assistance provided by Nicole Morgan

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Alaska State Senate

Senator Robin Taylor
District A

SPONSOR STATEMENT

Senate Bill 178
Establishing A State Lottery

Senate Bill 186
Electronic Gaming Machines

Senate Bill 178 and Senate Bill 186 were both introduced for one purpose and one purpose only -- to explore a new source of revenue for the State of Alaska.

SB 178 establishes a state lottery through the creation of a lottery corporation as a public corporation of the state. The bill provides for the membership, powers and employees, including an executive director of the corporation. It is this quasi-governmental entity that would set the rules and regulations for implementation of a state lottery.

SB 186 adds electronic gaming to current statutes. The main section of the bill (Section 20) authorizes permittees to conduct electronic gaming through registered vendors. The bill establishes minimum percentages that must be paid from the net machine income of each electronic gaming machine to the state, the permittee, the vendor and the municipality. The legislation also limits the number of machines for which a permittee may have endorsements for and the number a vendor may have and requires a minimum 80% payout.

In past years, similar bills have been introduced in both bodies of the Legislature. However, this year the issue takes on a new perspective as both the Governor and Legislature research ways to increase revenues. SB 178, the lottery bill, and SB 186, allowing electronic gaming machines, provide realistic revenue options for consideration.

According to the Department of Revenue, a state lottery such as powerball with multiple games and prizes is estimated to bring in approximately 5 - 10 million dollars annually. The expansion of pull-tabs and bingo to electronic gaming has the potential of generating 50 million dollars annually after prizes are awarded but before state operating expenses.

There are many elements of the gaming industry that must be thoroughly reviewed and discussed. Expanding gaming within the state is a choice that must be examined by individual legislators and their constituency. It is, however, an option that I believe should be included in the revenue generating discussions because it is an option of individual choice and is an optional expenditure rather than a mandated tax inflicted on all Alaskans.

SB 178 and SB 186 are the initial concepts to work from should the Senate decide to pursue the expansion of gaming on any level in Alaska. Finally, it is important to me as the sponsor to ensure Alaska's charities still reap the benefits of the proceeds.

State Capitol, Rm 30 · Juneau, AK 99801 · (907) 465-3873 phone · (907) 465-3922 fax
Senator.Robin.Taylor@legis.state.ak.us

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Senator.Robin.Taylor@legis.state.ak.us

July 21, 2003

Proposed "Charitable Gaming" Legislation

Frequently Asked Questions (FAQs)

Introduction:

The Alaska Legislature is entertaining the concept of Electronic Gaming Machines (EGMs) as a means of generating revenue to fill Alaska's annual budget shortfall of approximately $400 million. In late Fall, members of the 22nd Legislature asked the Anchorage affiliate of the Cabaret, Hotel and Restaurant Retailers (CHARR) to form a task force comprised of members of Anchorage's diverse community to study the issue. The Charitable Gaming Task Force was formed with current, or former, members of the Anchorage Education Association, the Alaska Department of Public Safety, a representative non-profit, the Anchorage Assembly, the Anchorage School Board and the Anchorage Baptist Temple.

Traditionally, gambling has carried a negative stigma of dishonesty and ties to organized crime! With today's secure technology, gambling has become a respectable method of revenue production. Every state in the United States has legalized some form of gaming except Hawaii and Utah. The proposed EGM program is still in the conceptual stage but would be patterned mainly after the very successful EGM program operated by the State of Oregon. Pari-mutuel off-track horse race wagering and other types of gambling are also legal in Oregon, but are not included in the proposal. Oregon has generated billions of dollars for the state legislature to fund its general operating budget. Oregon's EGM program has been in affect for ten years (since April of 1992) and generates 80% of Oregon's lottery earnings for the state.

Alaska's system would differ from Oregon's in that in addition to the State and vendor's incomes, a portion of the income generated would go directly to local governments and certain non-profit organizations including charities. The Legislature would determine the percentage of total income generated and distributed to each group.

For clarity, the terms used in the legislation are:

Vendor = Liquor licensee
Permittee = Certified non-profit organization.
Endorsement = Authority by the State to the Permittee to place EGMs.
Permit = Authorization to a permittee to operate an EGM.
Manufacturer = builder of the EGMs.
Distributor = A manufacturer or a manufacturer's representative.
Department = Alaska Department of Revenue.

Frequently Asked Questions:

 # 1) Q. What are EGMs?

A. Electronic Gaming Machines (EGMs) are video monitors similar to your TV set or computer screen. They are electronically connected to a state owned and operated, central computer system. The EGMs would be connected by wireless communication, timed, programmed, and constantly monitored. At the first sign of any irregularities or tampering, the machine will automatically shut down. No reporting would be required by the permittee or vendor, as it would all be done electronically. The types of games played on an EGM will be at the discretion of the State, but would not play like Slot Machines!

 # 2) Q. How do they operate?

A. The central computer system provides for each EGM unit to be programmed with electronic directions that determine which games the machine can play. It also monitors and records all plays and transactions incurred by that machine.

Bill acceptors in the EGMs taking up to a $20 bill, give electronic "credits" on the machine, which are then used electronically, to pay for each play. Credits may also be used to pay for options, which may increase your odds of winning or increase your wager level. No more than $2 in credits could be bet on any one play of a game.

"Credits" can be "cashed in" at any time on the EGM. When "cashing-in", the EGM prints out a receipt for the value of the remaining credits. The receipt is then exchanged for cash from the in-house vendor's cashier. A maximum of $600 worth of credits could be redeemed at one time.

 # 3) Q. Where would EGMs be authorized?

A. Vendors (liquor licensees), are already licensed, limited in number, regulated by the state and generally prohibit individuals under 21 from entering the their premises. EGMs would be placed only in bars. Restaurants and "beer and wine" establishments would not have EGMs, as minors are allowed access to those establishments. The legislation allows for EGMs to be operated in non-alcoholic clubs in "dry" bush communities (similar to VFWs, Elks, American Legion and Moose Lodges). These clubs would not be, nor could they ever become, with this legislation, casinos.

 # 4) Q. Who owns the EGMs?

A. Each EGM would be purchased from an EGM manufacturer, and thereby owned, by the permittee (i.e., Easter Seals, Boys and Girls Club, Ducks Unlimited, etc). Each EGM would cost approximately $8,400. As proposed, the vendor may have up to ten EGMs on premise. Each permittee could place up to five EGMs

with various vendors. The vendor would decide which permittee's EGMs would be allowed in their establishment. A contract between the vendor and the permittee is required which would also include a provision for the sharing of maintenance costs between the two. Each EGM would be labeled, so the person gaming could decide, through play, to which charity to donate. There would be no maximum limit on a permittee's revenue.

 # 5) Q. What would be the start-up cost to the State for the EGM program?

A. Since all EGMs would be purchased by permittees, the only cost to the state would be the initial cost and installation of the central computer and recurring annual operating costs. The approximate one time cost of the central computer, monitors, back-up systems, printers, etc. and associated operating software is $3-5 million dollars. Maintenance costs to the State for salaried technicians and associated operating expenses are indeterminate, however, Oregon at a very high maintenance level was at 9%. There would be no cost to the State until the entire system is installed and operating. Recovery of those start-up costs would begin immediately with the first EGM being installed and operating.

 # 6) Q. What could the State expect in annual revenues, from EGM's?

A. Using Oregon's EGM income numbers, (total income after payouts), a conservative estimate of Alaska's gross income from a "mature" EGM environment in 2002 would have been $294 million. The State's share, (30%) would have been approximately $88.4 million. In a beginning environment, that number could be somewhat less. It is estimated that Alaska would achieve maturity in approximately 3-5 years.

 # 7) Q. How is the revenue distributed?

A. The actual cash in the EGM would be periodically removed by the vendor and deposited in the vendor's separate EGM bank account. Each week, funds, in the proper percentage, are electronically withdrawn (swept) from that bank account and transferred:

1) To the State,
2) To the endorsed permittee owning the rights to that EGM and
3) To the local community.

The vendor retains their remaining share. The amount of money transferred to each contingent, depends on the percentage split as determined by the legislature. The current proposed proportion is 30% to the State, 30 % to the permittee, 30 % to the vendor and 10 % to the local community. This proposal, if approved, would be the first in the Nation to feature a distribution of this magnitude to charities and the State, in partnership!

 # 8) Q. How will pull-tabs and bingo gaming be affected?

A. Pull tab and Bingo gaming laws and regulations would not be affected by this EGM legislation. They would both operate as they do now. EGMs and pull tabs are compatible. Vendors who place EGMs can, and may, also sell pull tabs.

 # 9) Q. What would be the effect of EGMs on Native gaming rights?

A. Native communities are regulated the same as everyone else in the State. Native gaming on Native reservations, Native allotment sites and Native trust lands in Alaska are under the jurisdiction of the Federal Indian Gaming Commission. Owners of those sites cannot engage in any gaming activities that are not allowed in the rest of the State. To prevent "high stakes" gaming on Native lands listed above, casino nights were outlawed in Alaska, several years ago. Under a compact with the State, these sites are now allowed to operate pulltabs and bingo. They would have to enter into a new compact with the State, to allow EGMs. Also see Question #3.

 # 10) Q. Won't EGMs promote increased drinking?

A. Expendable income spent on gambling cannot be spent on alcohol. Drinkers tend to consume less alcohol while gaming than when not gaming. Many persons who participate in gaming do not drink. Gaming "payouts" do however, become discretionary income.

 # 11) Q. What's to prevent obsessive gamblers from gambling away the family's paycheck?

A. Legal gambling in the form of pulltabs and bingo already exist. Illegal gambling is also very prevalent in Alaska and Internet gambling casinos are also available. Allowing EGM gaming will not alter a person's gambling habits. EGMs would be limited to a maximum wager of $2 on any play of a game. A "separate accounting" of a $100 license fee on each EGM, would allow the legislature to provide an equal amount of funding for abuse programs.

#12 Q. How would illegal gaming machines be kept from "mingling" with legal EGMs?

A. Legal EGMs would be required to have posted on each machine, the endorsement of the permittee, the permittee's authorized location and the odds of winning each game. The illegal, so-called, "gray machines" are similar to legal EGMs but are not part of the central computer system and would not have the required postings. A substantial reward for reporting "gray machines" and a subsequent substantial penalty against the vendor having placed those machines, could be implemented to prevent such an occurrence.

 # 13) Q. Would the State benefit from Non-residents?

A. Potential income from non-residents is essentially lost since only a few communities have a sales tax and Alaska has no income tax. Liquor establishments are frequented by non-residents in a higher percentage than the general, resident public. Gaming revenue from tourists, conventioneers, hunters, commercial and sport fishermen, oilfield workers, cannery and other seasonal workers would generate considerable EGM income that would otherwise be spent outside of the State and thereby be unavailable.

 # 14) Q. Could EGMs be place on State ferries?

A. Yes, but because the liquor licensee on a ferry is owned by the State, a different set of laws apply. These laws could easily be changed to provide for EGMs. They could provide the needed revenue for running the ferry system.

Summary

If EGMs were pursued as an income source, all segments of Alaska's society would benefit. Eighty-five percent (85%) of EGM gross income would be required to be paid out in prizes. Any beginning economics student can verify that this monetary infusion into the economy would be an economic stimulus that would provide economic benefits to the State, similar to what our Permanent Fund Dividend yields, when spent in our local economies.

State funded and non-profit charity funded programs would benefit enormously from the "net machine income" (income after payouts) of EGMs. The non-profit charities provide beneficial programs for the disadvantaged, the disabled and the elderly. State and municipal programs would benefit education, roads, parks, trails, tourism, resource management and law enforcement.

Implementation of EGMs for charitable gaming, and as a revenue producer for Alaska, is a responsible and prudent alternative solution to reduce our looming deficit.

Estimated Annual Revenue from EGM's

21-Jul-03							
The estimated revenues listed below were arrived at by taking the number of Licensees eligible to participate (Beverage Dispensary and Clubs)							
times an average number of EGMs per establishment (we've chosen 5) times the average weekly "net machine income" in Oregon.							
No. of Licensees*	**No. of EGMs**	**Total No. of Terminals**	**Avg. Weekly Net/Terminal****	**Estimated Weekly Revenue**			
Statewide 708	5	3540	$1,012.00	$3,582,480.00	Est. Weekly Revenue Statewide		
				$186,288,960.00	**Est. Annual Revenue Statewide**		
Distribution:			Based on Est. Annual Revenue Statewide				
	30% Charities			**$55,886,688.00**			
	30% Licensees			**$55,886,688.00**			
	30% State Gov			**$55,886,688.00**			
	10% Local Gov			**$18,628,896.00**			
				$186,288,960.00	**Est. Annual Revenue Statewide**		
State's Highest Populated Areas				Annual Revenue			
				(10% Share)			
Anchorage 173	5	865	$1,012.00	$4,551,976.00			
Fairbanks 94	5	470	$1,012.00	$2,473,328.00			
Juneau 31	5	155	$1,012.00	$815,672.00			
Kenai Pen 84	5	420	$1,012.00	$2,210,208.00			
Ketch 27	5	135	$1,012.00	$710,424.00			
Kodiak 20	5	100	$1,012.00	$526,240.00			
Nome 10	5	50	$1,012.00	$263,120.00			
Sitka 12	5	60	$1,012.00	$315,744.00			
* Includes Beverage Dispensary and Club licenses. Does not include the Ferry System.							
** Based on FY '02 statistics from Oregon. Represents "net machine income", after prize payouts.							

Estimated Annual Revenue from EGM's including package store licenses

7/21/2003

	No. of Licensees*	No. of Machines	Total No. of Terminals	Avg. Weekly Net/Terminal**	Weekly/Annual Revenue	
Statewide	1032	5	5160	$1,012.00	$5,221,920.00	Weekly Revenue Statewide
					$271,539,840.00	Annual Revenue Statewide
Anchorage	299	5	1495	$1,012.00	$7,867,288.00	Annual Revenue
Fairbanks	115	5	575	$1,012.00	$3,025,880.00	Annual Revenue
Juneau	55	5	275	$1,012.00	$1,447,160.00	Annual Revenue
KP Borough	109	5	545	$1,012.00	$2,868,008.00	Annual Revenue

Distribution:		
	30% Charities	$81,461,952.00
	30% Licensees	$81,461,952.00
	30% State Gov	$81,461,952.00
	10% Local Gov	$27,153,984.00

* Includes Beverage Dispensary, Club and Restaurant/Eating Place Licenses. Does not include the Ferry System.

** Based on FY 02 statistics from Oregon. Represents net proceeds, after prize payouts.

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STATES HOPE LOTTERIES WILL BRING LUCKY BUDGET NUMBERS TO EDUCATION

CHARLESTON, S.C. -- Lottery proponents hit the jackpot in South Carolina on Election Day as voters approved a state lottery to fund education programs, including college scholarships. It was a hard-won victory, with activists both for and against the measure lobbying vigorously in television and newspaper advertisements. It passed with just 55 percent of voters approving the ballot question.

Debate over the issue mirrored arguments that have erupted since the first modern state lottery was created more than three decades ago. Advocates' predictions of a bonanza for school funding and critics' fears of moral degradation and a gambling trap for the poor are not necessarily in line with the evidence, according to a new study on state lotteries.

Of the 38 jurisdictions -- 37 states and the District of Columbia --with lotteries, 20 earmark a portion of the proceeds for public education, according to La Fleur's 2000 World Lottery Almanac. But the additional money may substitute for normal appropriations rather than supplement them, according to "13 Ways of Looking at a State Lottery," a study published in the October issue of North Carolina Insight. The journal, published by the nonpartisan North Carolina Center for Public Policy Research, found "four pluses, five minuses and four questions where the research findings are inconclusive," according to editor Mike McLaughlin.

"There are a lot of claims and counter-claims about state lotteries," he said. "We hoped to shed light on the issue."

The study found that while lotteries are a small but relatively stable source of income, revenues have declined as a percentage of state income, from 3.5 percent in 1989 to 1.9 percent in 1997.

The research is inconclusive on how much lottery revenues benefit education. In Georgia, the money has been a boon for college students, providing more than $600 million in HOPE scholarships since 1993. But, the study says that in at least three states -- California, Florida and Michigan -- lottery funds "have merely substituted for normal levels of appropriations, despite the tact that lotteries had been promoted as boosting spending for education."

Moreover, a 1996 study by Money magazine found that states with lotteries spend a lower percentage of their operating budgets on education than those without a lottery. Pn the other hand, some criticism of lotteries may contradict reality, according to the study. Lottery tickets are purchased proportionally among participants from all economic backgrounds and they do not lead to excessive gambling, the journal found.

In South Carolina, 55 percent of voters approved a constitutional amendment that will allow for a state lottery to pay for college scholarships and fund public schools. Officials estimate that South Carolina residents cross the state border to Georgia to spend as much as $100 million on lottery tickets.

A state lottery has been proposed and rejected by legislators in North Carolina during every legislative session since 1983. But with tight budgets expected over the next several years, and with residents spending an estimated $86 million on ticket purchases in neighboring Virginia, pressure may mount again.

Voters in the states of Washington and Virginia approved measures to earmark lottery funds for education, but Arkansas voters rejected a lottery proposal.

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By Kathleen Kennedy Manzo

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SNAKE EYES

Even education programs can't redeem state lotteries

Contents

In 1990, ZELL MILLER, RUNNING FOR Governor of Georgia, figured out a way to increase spending on education without raising taxes: Create a lottery to fund scholarships for high school achievers. Miller's proposal, "Helping Outstanding Pupils Educationally" (HOPE) caught on and helped sweep him into office.

HOPE works. It has financed higher education for hundreds of thousands of students in Georgia. It also) seems wondrously simple: a voluntary tax (no one is forced to buy lottery tickets) to fund a clear, concise, and universally acclaimed goal. Every high school student in Georgia with at least a B average now has the opportunity to attend one of Georgia's universities; if they keep up their Bs in college they're funded until graduation. HOPE brought Miller national attention and numerous state governments are considering copying the program.

But despite HOPE's success, there's a trap in its seeming simplicity. Lotteries aren't taxes, but they certainly aren't free. They compromise values, feed a very dangerous industry, and end up snuffing out the success of even the most well-intentioned initiatives. Other states should copy the educational blueprint of the HOPE program, but they shouldn't copy the funding.

The trouble with lotteries begins when you hand over your dollar in a convenience store. The money doesn't go straight to the state government or to its college education fund; it is processed by a Rhode Island corporation called Gtech. Gtech prints the tickets for the states, provides the software for the gambling devices, organizes the drawings, and even trains convenience-store owners on how to run their computers. Gtech was founded in the early 1980s and, of the 38 lotteries run nationally, the company has won the contracts to manage 29--getting about a nickel from every dollar ticket sold. It doesn't seem like much, but these nickels have added up. The company has annual revenues of just under $1 billion, and is traded on the New York Stock Exchange.

Much of Gtech's success comes because it has something good to sell and it sells it well. It has always been able to work efficiently and, by most accounts, it has scrupulously fulfilled its contracts.

But to many people in the business, Gtech's extraordinary success doesn't just come because it gets up at dawn and eats its vegetables. It's because the company knows how to work the back alleys with sweet talk, hard bargains, and, its critics say, coercion. In California, a Gtech lobbyist on trial for bribing lawmakers was caught by a hidden tape recorder calling state lottery director Sharon Sharp "our gal" Sharp had handed Gtech the California contract without opening the process to competitive bidding. In Georgia, Lottery Director Rebecca Paul called a closed-door session with the company when Gtech's bid came in $50 million above the low bidder. After Gtech agreed to drop its price by just $23 million, Paul inked the deal. Did Paul cut Gtech a break because she was offered a job? Probably not, but she certainly knows that the company takes good care of lottery directors who show it consideration. Three directors of the New York state lottery have gone to work for the company as lobbyists or consultants, as have numerous directors from other states. After a conflict over Massachusetts' lottery, director James Hosker, a close friend of Gtech's, took the job managing Kentucky's lottery and secured a sweet deal for the company in that state. Where did Hosker move next? A lucrative job on the Gtech payroll.

As one person close to the company said anonymously, "If it loses a contract, it sues everybody. But it usually wins because it offers future jobs to every state lottery director" When asked why he insisted on being quoted off the record, he responded: "It's the third rail of the gambling industry. You touch it, you die"

But Gtech doesn't just make sure that what goes around comes around; it runs an operation that would make any K Street lobbying firm proud. One former gambling industry reporter recalled being taken out to play golf by Gtech. "I played 18 holes with the Gtech guy and he shot something like a 70 on a very hard course. That's almost like a pro and I was very impressed. I asked him at the end how he was so good if he also had to work for Gtech. He told me that Gtech had just hired him to play golf with clients."

Nor would Gtech be Gtech if it didn't understand the importance of well-placed friends, and the company corrals power from any angle it can find. In Texas, it hired the boyfriend of the state lottery director. In New York, it hired a dear childhood friend of Lottery Director Peter Lynch. In other states it retains former influential politicians simply to work the dinner-party circuit. In Texas, the company hired Ben Barnes--legendary former speaker of the Texas House of Representatives and the man who, according to many reports, got young George W. Bush out of the draft and safely into the National Guard--for the princely annual salary of $3 million. Other prominent Gtech lobbyists have included William Daley (now secretary of commerce) and William Broadhurst, an extremely close political advisor to the governor of Louisiana when Gtech was fighting for that state's contract. Broadhurst, of course, first came to the public's attention when he chartered the "Monkey Business" and introduced Donna Rice to his close friend Gary Hart. Hubert Plummer, the former president of one of Gtech's competitors famously once said, "We'd go out to dinner with the lottery director and find that Gtech had hired a yacht and taken out the whole goddamn legislature."

But if many of the company's critics are to be believed, Gtech doesn't just buy and schmooze with people, it intimidates them--charges that Gtech emphatically denies. When Bruce Mayberry, the Arizona lottery director in 1993 (now an employee of one of Gtech's competitors) got into a dispute with the company, he soon found a crate of rotten mutton on his doorstep with a note attached: "Enjoy." A gruff Gtech spokesman explained that the meat was, of course, a goodwill present gone bad through a combination of Arizona heat and DHL's slow service. As he said later in a terse interview, "It's a rough business" Indeed.

Capitol Hill Roulette

But the rough business doesn't stop with Gtech. It climbs all the way up the political chain. Americans spent close to $600 billion last year gambling--more than we spent on movies, theme parks, and sporting events combined. Not surprisingly, swimming in this muddy river of cash, gambling and lottery interests have turned themselves into one of the most powerful interest groups in America. When Jim Hodges ran for governor of South Carolina, he was virtually pronounced dead until he decided that, despite his prior vehement opposition, he wanted to introduce an education lottery to South Carolina. Bingo. Money started pouring in and, with strong evidence of as much as $30 million dumped into his bank account by gambling interests, he was able to defeat Republican incumbent David Beasley. As Glen Stanton, a South Carolina activist who worked on that election, said to Harper's Magazine, "Hodges just took the lottery, turned it into a blunt instrument and clubbed Beasley senseless"

The gambling industry knew that introducing a lottery into South Carolina would help open the gates for casinos. Having a lottery empowers gambling advocates and undercuts government authority to prohibit gambling. If it's moral for the state to do it, why should it be absolutely immoral for Donald Trump or a Native American tribe to do it too? Patrick Pierce of St. Mary's College in Indiana has shown statistically that by far the most important variable determining whether a state will introduce a casino in a given year is the existence of a lottery--it's much more important than state income, tax level, or even political makeup. Lotteries are "the camel's nose" for legalized casino gambling, writes Pierce.

Gambling interests also know that a lottery in one state often puts political pressure on its neighbors. Georgia estimates that 12 percent of their lottery ticket sales come from residents of neighboring states--one of the main arguments that Don Siegelman used while running for governor of Alabama in 1998 on a platform dominated by a proposal to create an initiative mimicking HOPE. Why, he argued, should residents of Alabama be supporting Georgia's educational system? Siegelman invoked the Georgia example 17 times in a 400 word op-ed piece in the Birmingham News supporting the initiative one year later. This also shows one of the core problems in our federalist system--when one state cuts harmful industries some slack, be they lotteries or sludge-belching factories, its neighbors often have to follow suit to stay competitive.

The Industry

The momentum of lotteries becomes particularly troubling for opponents because the gambling industry has wrapped itself around much of America's political leadership. House Leader Richard Gephardt's chief fundraiser, David Jones, has enlisted Mirage Resorts owner, Steve Wynn, in an effort to raise $1.5 million in soft money for upcoming congressional campaigns. Wynn has given at least that much to Republicans, but like many other casino tycoons, he knows that a good way to win in politics is to bet on every horse in the race. An aide to Henry Hyde was covertly offered $10 million by Primadonna Resorts (see Memo of the Month) in return for landing them a casino license in Illinois; the plan was only foiled when a man chasing an unrelated conspiracy theory stumbled upon the critical files in a trash can. Senate Minority Whip Harry Reid (D-Nev.) unabashedly admits that he owes his career to gambling interests; Senate Majority Leader Trent Lott (R-Miss.) is deeply involved in the National Republican Senatorial Committee (NRSC) that, according to the non-profit watchdog Public Citizen, received $1.26 million from

the gambling industry in 1997-98. Mitch McConnell (R-Ky.), the man commanding the jihad against campaign finance reform, has raised at least $1 million for the GOP in the last three years from the gambling industry.

To see how clearly this money can burn up an open political process, consider what happened in March of 1998, when Sen. Dan Coats (R-Ind.) proposed eliminating the federal tax deduction for gambling losses-a tax deduction which counts money lost on the blackjack table as equivalent to money donated to Habitat for Humanity. Within five days, casino interests came up with at least $450,000 to donate to the NRSC and both the Democratic and Republican leadership grabbed their golden hatchets and worked to kill the bill before it could be debated. Sen. Reid promised to gut the bill with amendments. Senate Minority Leader Tom Daschle (D-S.D.) immediately denounced it. Trent Lott tried to work out compromises that could railroad the bill before it came to the floor. According to one Republican aide cited by Public Citizen, "Lott did not want us to get down there on the floor and debate it, because it was very difficult to defend." Not: surprisingly, the bill died a sudden death--just like virtually every other attempt to regulate gambling in the public interest. A bill to give the casino industry a special tax exemption for free meals provided to workers made a slightly different journey one month later. Senator Lott slipped it, without debate, into a House-Senate conference version of the IRS Reform Bill.

Selling Sloth

The trouble with lotteries, however, extends well beyond Gtech and the gambling industry lobbying machine. By adopting lotteries, state governments put themselves in the awkward and self-defeating position of having to betray the values that they usually hold dear.

First of all, lottery officials rely on deceptive advertising of the sort that state governments normally try to harness. The whole business of lotteries depends on convincing people that their number might come up-in fact that their number will come up if only they play enough. After all, lottery officials reason, if people don't buy tickets there isn't as much money to fund education. The result is advertising like one television spot in Connecticut that showed a smiling young man: "When I was younger I suppose I could have done more to plan my future. But I didn't. I guess I could have put some money aside. But I didn't. Or I could have made some smart investments. But I didn't. Heck, I could have bought a one-dollar Connecticut Lotto ticket, won a jackpot worth millions, and gotten a nice big check every year for 20 years. And I did! I won!" A voice-over followed as the young man grinned, "Overall chance of winning is one in 30" One in 30, of course, was the chance of winning a small prize and a smile from your convenience store owner, not of striking it rich.

Unlike other sweepstakes and raffles, state lotteries are not required to publish the honest odds of winning. Why don't they? Because the odds are virtually zero. Perhaps the best example of the likelihood of success comes from the North American Association of State and Provincial Lotteries, a pro-lottery lobbying organization seemingly oblivious to its own irony. 'Anyone can be struck by lightning any time, any day. You can only win Powerball if you buy a ticket and then only on drawing days...Here's something to think about. Of the people struck by lightning in 1995, some were golfing, some were picnicking, fishing, boating or hiking-not one was playing lotto at the time."

States that run lotteries also focus their efforts, and in many ways their deception, on the people who are most susceptible to their message--the people who the state normally tries the hardest to support: the poor. One Massachusetts study found that the average resident of relatively unaffluent Chelsea spent $455 a year on the lottery while residents of nearby, prosperous Weston spent only $30. Taking advantage of this bias, an advertising plan for Ohio's SuperLotto read, "Schedule heavier media weight during those times of the month where consumer disposable income peaks .... Government benefits, payroll and Social Security payments are released on the first Tuesday of each calendar month."

States also often try to sell sloth as a way to convince potential customers that a lottery ticket offers a free ride to the high life. A 1996 Massachusetts state lottery ad contrasted two possible paths to millions on parallel sides of a poster. The first option: "Start studying at about seven years old, real hard. Then grow up and get a good job. From then on, get up at dawn every day. Flatter your boss. Crush competition ruthlessly. Climb over backs of co-workers... Do this every day for 30 years, holidays and weekends included. By the time you are ready to retire, you should have your money." The second option: two lottery tickets.

Worst of all, state lottery officials have incentives to turn moderate lottery players into compulsive gamblers. Five percent of the population buys 50 percent of all lottery tickets and these people need constant fixes. Although state lotteries started out 20 years ago as simple, uninspired raffles (write your name on the back of this piece of paper and one day we will tell you if you have won), lottery officials soon realized that, in America, instant gratification sells. In due course, states started promoting instant games, supergames, and even started running flashing casino-like games. The worst of the lot is high paced poker played on video terminals--frequently referred to as "video crack" because of its addictive powers. "Almost without exception, my video poker patients report not excitement but anesthotized nothingness. It's a twilight-zone experience for them," says Robert Hunter, an expert on compulsive gambling. Video poker is run by the governments of eight different states. "There was one machine that I could confuse the most," said Betty Yakey to The Washington Post. Yakey, a 65-year-old widow, wiped out her grandson's college saving fund (set up by the sale of her family farm) by playing state-sponsored video poker in Louisiana for five or six hours daily. "When I played that machine, I didn't worry about nothing."

Sleeping Watchdogs

Although state lottery ads are not regulated by the FTC or the Better Business Bureau, the press, particularly television, has not stepped in to play a watchdog role. One would be hard-pressed to find a TV station that explains the insane odds against winning when showing lottery drawings on the 7 o'clock news or that reports on state lottery ads with the same vigor with which it peers into political campaign commercials. There have been some exceptions, but the trend veers away from intense scrutiny.

The euphoric side of lotteries does of course fit better into our common television format: One winner jumping and screaming plays better than 20 million poor saps kicking the floor after they lose; a busty woman picking glowing balls out of a hopper has more appeal if there isn't a voice in the background explaining the futility of the charade. But another explanation for this one-sided coverage deserves consideration. State lotteries spend more than half a billion dollars a year on advertising on television, radio, posters, and in any other rewarding medium. The Maryland state lottery, for example, bought well over $1 million worth of ads with major television stations in the first nine months of 1999. As with all media advertising, there is scant direct proof that the purchases influence coverage, but commercial television producers know where every dollar their station or network: gets comes from. And like lottery advertisers who can justify their machinations by the greater good created in the long run (manipulative advertising may be bad, but it does help education), the news media have the same argument on hand. If they can't maintain their revenue stream, they won't be able to fund their public services.

Unfortunately, the propaganda is getting through to Americans. According to a July 1999 poll by the Consumers Federation of America and Primericam, 27 percent of Americans believe that winning the lottery is their "best chance to obtain half a million dollars or more in [their] lifetime." This is a grim statistic which would surely change if states were to cancel their lottery ads and instead publicize the wonders of compound interest: $50 invested weekly with a 9 percent return would yield over $1 million in 40 years.

Betting on Schools

In his victorious race for the governorship of South Carolina, David Hodges milked the Georgia lottery issue as well as one could, arguing over and over again that mimicking the HOPE program would be his state's ticket to success. One of his ads showed a convenience store clerk in a Georgia Bulldogs T-Shirt, "Here in Georgia, we appreciate you South Carolinians buying our lottery tickets, over $100 million worth. Those Georgia tickets y'all buy pretty much pay for our worldclass preschools."

Hodges is right to want to imitate Georgia's educational success but he is wrong to draw inspiration from the way Georgia funds its HOPE program. Instead, he should draw inspiration from one of his predecessors, Richard Riley.

In 1985, Governor Riley, now Clinton's Secretary of Education, decided that his state needed an educational overhaul. He didn't, however, look to a lottery. He convinced leaders in the business community that more skilled laborers would help South Carolina's commerce. He then convinced teachers' unions to support merit pay by offering them a 16 percent pay increase. Riley then mailed out thousands of copies of his plan to voters across the state and described his plan in hundreds of speeches. He pushed his plan through a reluctant state legislature by twisting arms, asking constituents to phone their representatives and arguing his case until he was hoarse. Although he had initially met with near universal opposition, Riley's reforms passed and were paid for with a 1 percent increase in state sales tax. A RAND corporation study that year declared that Riley's plan was "the most comprehensive single piece of legislation improving education to come out of any state" SAT scores went up and more and more of the most talented high school students decided to continue their education.

Next fall, South Carolina voters will have the chance to accept or reject a referendum on Gov. Hodges' plan for a lottery to fund educational improvements. There's little doubt that gambling interests will provide the referendum with strong financial support. But even so, there are encouraging signs that voters are starting to turn against gambling and realizing that, as Riley did, it is possible to create good programs without funding them through lotteries. In Alabama, voters recently rejected Don Siegelman's lottery referendum based on the HOPE program only a year after electing him in no small part because of his lottery proposal. Even in South Carolina, the state supreme court and state legislature recently banished video poker, against the wishes of Governor Hodges, with polls indicating that 60 percent of the population was in favor of the decision. Of the 25 state referendums on gambling since 1994, anti-gambling advocates have won 19.

That's good news for South Carolina and it's not terribly surprising: Pro-gambling sound bites work well when there's a lot of other stuff on voters' minds. Anti-gambling arguments work well when there's time to think. This is why governors can often use the issue as a wedge to get elected when there are scores of other issues on voters' minds; but it's also why referendums fail more often than not when they are put under the microscope

South Carolinians will have plenty of time to consider the issue next fall and, if I were a betting man, I'd put my money against the initiative. After all, the HOPE program helps to create winners; but lotteries, no matter how well-intentioned, make losers of us all.

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By Nicholas Thompson

Research assistance provided by Nicole Morgan

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NATIONAL GAMBLING IMPACT STUDY COMMISSION

LOTTERIES

In the words of one lottery director: "Lotteries are different from any other gaming product. Lottery players risk a small amount of money against very long odds to win a large prize, with the net proceeds going to the public good." [1]

The lottery industry stands out in the gambling industry by virtue of several unique features. It is the most widespread form of gambling in the U.S.: currently, lotteries operate in 37 states and the District of Columbia. It is the only form of commercial gambling which a majority of adults report having played. It is also the only form of gambling in the U.S. that is a virtual government monopoly. State lotteries have the worst odds of any common form of gambling (a chance of approximately 1 in 12-14 million for most existing lotto games), but they also promise the greatest potential payoff to the winner in absolute terms, with prizes regularly amounting to tens of millions of dollars.

Lotteries rank first among the various forms of gambling in terms of gross revenues: total lottery sales in 1996 totaled $42.9 billion. 1982 gross revenues were $4 billion, representing an increase of 950% over the preceding 15 years, 1982-1996.[2]

Lotteries have the highest profit rates in gambling in the U.S.: in 1996, net revenues (sales minus payouts, but not including costs) totaled $16.2 billion, or almost 38% of sales. They are also the largest source government revenue from gambling, in 1996 netting $13.8 billion, or 32% of money wagered, for governments at all levels.

History

Although making decisions and determining fates by the casting of lots has a long record in human history (including several instances in the Bible), the use lotteries for material gain is of more recent origin, although of considerable antiquity. The first recorded public lottery in the West was held during the reign of Augustus Caesar for municipal repairs in Rome. The first recorded lottery to

distribute prize money was held in 1466 in Bruges, in what is now Belgium, for the announced purpose of providing assistance to the poor.

Lotteries held a prominent place in the early history of America, including an important role in financing the establishment of the first English colonies. The first such lottery, in 1612, raised 29,000 pounds for the Virginia Company. Lotteries were frequently used in colonial-era America to finance public works projects such as paving streets, constructing wharves, even building churches. In the 18th century, lotteries were used to finance construction of buildings at Harvard and Yale. George Washington sponsored a lottery in 1768 to build a road across the Blue Ridge Mountains, but it was unsuccessful.

Several lotteries operated in each of the 13 colonies in 1776. In the American Revolution, Benjamin Franklin sponsored an unsuccessful lottery to raise funds for cannons to defend Philadelphia against the British. In the year of his death, 1826, Thomas Jefferson obtained permission from the Virginia legislature to hold a private lottery to alleviate his crushing debts. Held by his heirs after his death, it was unsuccessful.

Most gambling, and all lotteries, were outlawed by the several states beginning in the 1870's, following massive scandals in the Louisiana lottery - a state lottery that operated nationally -- that included extensive bribery of state and federal officials. The federal government outlawed use of the mail for lotteries in 1890, and in 1895 invoked the Commerce Clause to forbid shipments of lottery tickets or advertisements across state lines, effectively ending all lotteries in the U.S.

Reestablishing the Industry

The revival of lotteries began in New Hampshire in 1964 with its establishment of a state lottery. Inspired by New Hampshire's positive experience, New York followed in 1966. New Jersey introduced its lottery in 1970, and was followed by 10 other states by 1975. Currently, 37 states and the District of Columbia have operating lotteries.

In virtually every state, the introduction of lotteries has followed remarkably uniform patterns: the arguments for and against adoption, the structure of the resulting state lottery, and the evolution of the lottery's operations all demonstrate considerable uniformity.

The principal argument used in every state to promote the adoption of a lottery has focused on its value as a source

of "painless" revenue: players voluntarily spending their money (as opposed to the general public being taxed) for the benefit of the public good. According to one expert, the dynamic is as follows: "Voters want states to spend more, and politicians look at lotteries as a way to get tax money for free." [3] A key element in winning and retaining public approval is the degree to which the proceeds of the lottery are seen as benefiting a specific public good, such as education.[4] This argument is particularly effective in times of economic stress, especially given the prospect of tax increases or cuts in public programs. But studies have also shown that the popularity of lotteries is not necessarily connected to the state government's actual financial health, as lotteries have consistently won broad public approval even when the state's fiscal condition is good. As Clotfelter and Cook report, "the objective fiscal circumstances of the state do not appear to have much influence on whether or when states adopt lotteries." [5] In this sense it appears that the public's approval of lotteries rests more on the *idea* of lotteries reducing the potential tax burden on the general public than it is on any specific instance of relief.

That being the case, lotteries have proven to be remarkably popular: in authorizing the lottery, virtually every state has required approval by both the legislature and the public in a referendum on the subject. Yet in only one state - North Dakota -- has the public consistently voted against a lottery.

Once established, lotteries retain their broad public support: in states with lotteries, 60% of adults report playing at least once a year.[6] In addition to the general public, lotteries also develop extensive specific constituencies, including convenience store operators (the usual vendors for lotteries); lottery suppliers (heavy contributions by suppliers to state political campaigns are regularly reported); teachers (in those states in which revenues are earmarked for education); state legislators (who quickly become accustomed to the extra revenue), etc. Since New Hampshire initiated the modern era of state lotteries in 1964, no state lottery has been abolished.

A second argument made by lottery promoters is that because illegal gambling already exists, a state-run lottery is an effective device both for capturing money for public purposes that otherwise would disappear into criminal hands and also for suppressing illegal gambling. The evidence suggests that this may be partially true for the so-called "numbers" games. Some lotteries have explicitly designed their games toward this public policy goal. New

York's lottery, for example, reports that as a result, "illegal numbers activities have been eliminated for the most part in most areas of the State with the exception of New York City." [7]

Critics counter, however, that whatever the impact on revenue and illegal gambling may be, the benefits of the lottery are more than offset by its expanding the number of people who are drawn into gambling. Worse, lotteries are alleged to promote addictive gambling behavior, are characterized as a major regressive tax on lower-income groups, and are said to lead to other abuses. Even more troubling, however, is the general criticism that the state faces an inherent conflict in its desire to increase revenues and its duty to protect the public welfare. These criticisms will be discussed further below.

The Evolution of the Lottery

Once established, the various state lotteries have followed similar paths: the state legislates a monopoly for itself; establishes a state agency or public corporation to run the lottery (as opposed to licensing a private firm in return for a share of the profits); begins operations with a modest number of relatively simple games; and, due to constant pressure for additional revenues, progressively expands the lottery in size and complexity, particularly in the form of adding new games.

Revenues typically expand dramatically after the lottery's introduction, then level off, and even begin to decline. This "boredom" factor has led to the constant introduction of new games to maintain or increase revenues. Before the mid-1970s, state lotteries were little more than traditional raffles, with the public buying tickets for a drawing at some future date, often weeks or months in the future. Innovations in the 1970s, however, have dramatically transformed the industry. The first such innovation was the so-called "instant games," especially in the form of scratch-off tickets. These had lower prize amounts, typically in the 10s or 100s of dollars, with relatively high odds of winning, on the order of 1 in 4. As important, the purchaser could immediately determine if he had won or lost, thus increasing the excitement value.

A more far-reaching development was the advent of on-line computerized vending. The first major innovation from this was a daily numbers game, modeled on the illegal numbers games historically present in all major American cities. The advantages to the player of this new, legal game included the ability to choose his own "lucky"

number, thereby giving him a greater sense of participation (even if his actual odds of winning remained unaffected by his choices) and allowing him to determine that day if he had won. As the patrons of illegal numbers games typically played quite frequently, many playing every day, the income generated for the state lottery from this activity grew enormously.

In the 1980s, this on-line system also permitted the introduction of lotto, the game most closely associated with the lottery in the public mind. Lotto differs from its counterparts in having enormous jackpots, often reaching into the millions and even tens of millions of dollars. It is also the only form of lottery game played by the general public. The tremendous publicity generated by the prizes and by the stories of winners has made the lotto part of the general culture. In recent years, the figures for the top prize have continued to increase as multi-state consortia have been formed with a joint jackpot.

The most recent, and most controversial innovation, as well as by far the fastest growing element in revenues for the lottery, is electronic gambling or Video Lottery Terminals (VLTs), most prominently in the form of the machine version of keno. Other types of electronic wagering are in development for use by the lotteries, with a focus on a more intense and repetitive interaction between player and machine, including on-line slot machines installed in public vendors. These new products may further blur the line between casino gambling and the lottery.

The introduction of these new types of games - instant tickets, daily numbers, the lotto, and VLTs - has entirely displaced the original sweepstakes form of the lottery. Driving these and other changes, and the ongoing expansion of the industry, is the "relentless" pressure for revenue. Oregon has been a leader in adding new games to its existing portfolio, introducing sports betting in 1989 as part of its lottery. The pressures to expand show no sign of diminishing, guaranteeing the continuing evolution of new games likely to generate ever-greater controversy: "No one thought they were legalizing slot machines when they voted for the Delaware Lottery, but now any game owned by the state lottery is legal." [8] Nevertheless, innovation in games will almost certainly continue because "it appears that the primary instrument for converting moderate or inactive players into active players is product innovation, rather than advertising." [9]

The Evolution of Debate

innovation in games will almost certainly continue because "it appears that the primary instrument for converting moderate or inactive players into active players is product innovation, rather than advertising." [9]

The Evolution of Debate

Once the lottery has been established, debate and criticism change focus from the general desirability of a lottery to more specific features of its operations, including the problem of compulsive gamblers, alleged regressive impact on lower-income groups, and other problems of public policy. These criticisms both are reactions to, and drivers of, the continuing evolution of the industry.

Promoters of state-run lotteries usually invoke the concept that, regardless of one's views about the morality of gambling, a lottery can be used to support the general welfare, either as a means of increasing funding for public works or by reducing the necessity to raise taxes. In recent years, however, there has been increasing criticism that the public's perception of where the money generated by the lottery is going is incorrect, or even that the public is being deliberately misled. In a minority of states, the proceeds of the lottery are sent directly to the general fund for the legislature to appropriate as it sees fit. Far more common is the "earmarking" of lottery money for identified programs. Currently, 10 states earmark lottery money exclusively for education; in 15 others, it is directed toward uses as varied as tourism, parks and recreation, economic development, construction of public buildings, etc. Colorado targets revenues to environmental protection programs; the Virgin Islands uses part of its earnings to help fund a local children's hospital.[10] In Massachusetts, lottery revenues are redistributed to local governments, amounting to over $500 million in FY 1997 and acounting for 3/4 of the state's aid to cities and towns.[11]

Critics charge, however, that the "earmarking" of funds is misleading: lottery proceeds used for a specific program, such as public education, in fact simply allow the legislature to reduce by the same amount the appropriations it would otherwise have had to allot for that purpose from the general fund. The money "saved" remains in the general fund, to be spent on whatever purpose the legislature chooses. Critics add that, as there is little or no evidence that overall funding has increased for the targeted recipients of lottery revenues, the only result has been to increase the discretionary funds

available to the legislature, which may be a key reason for the popularity of lotteries in the state houses.

Critics cite examples such as Florida. In 1988, the first year of the lottery in that state, Florida spent 60% of its budget on education. In 1993, with lottery revenues earmarked for education, education's share had declined to 51% despite the apparent windfall. Given variables such as inflation, the annual fluctuations in expenditures, etc., such figures in themselves are not conclusive, but neither do they support the contention that the lottery has improved funding for education.[12] A recent study of the impact of lotteries on education funding concluded that "regardless of when or where the lottery operated, education spending declined once a state put a lottery into effect." [13] According to a study by *Money* magazine, states without lotteries spend a greater portion of their total budget on education than do states with lotteries.[14] Gary Landry, spokesman for the Florida Education Association, says "We've been hurt by our lottery...The state has simply replaced general revenues with lottery money - at a time when enrollments are increasing. It's a big shell game." [15]

The perceived utility of tying lottery proceeds to popular causes such as education is so great that real abuses have occurred. For years following the introduction of Virginia's lottery in 1988, for example, lottery spokesmen and state officials publicly touted the benefits to the public schools stemming from lottery revenues. This linkage was emphasized in advertising and in public statements by state and lottery officials. But the proceeds of Virginia's lottery have always gone directly into the general fund, and were only earmarked for education in 1995. But, according to S. Vance Wilkins, Jr., the Minority Leader in the Virginia House: "There's absolutely no point in earmarking except for fooling people into thinking we were doing something for education when we didn't do a thing...It didn't change the budget one penny. It's a sham." In 1997, Virginia lottery officials publicly apologized for implying that lottery funds were added "on top of" the legislature's annual appropriations for education, and the lottery has since changed its advertising to now say that "Lottery profits go to the General Fund which supports education." [16]

The problem is not confined to any one state. Jeff Perlee, Director of the New York State Lottery, commenting on past practices, stated that "lottery funding has NOT represented the supplemental funding that education was

promised." [17] This conclusion was backed up in a report by the New York State Comptroller regarding the state lottery's role in financing education, which concluded that "the widespread belief that lottery dollars are used to increase funding for education is simply a myth, at least here in New York. The study outlines that Lottery money never supplemented state aid to education and probably never will. We found that over the years the lottery has been used repeatedly as a source for closing budget gaps rather than increasing aid to education." [18]

One state which has recently addressed this problem is Georgia. In establishing its lottery in 1994, Georgia's state officials decided to mandate use of the proceeds for funding programs which the state previously had not funded at all. As a result, the sole designated recipients are programs for college scholarships, pre-kindergarten classes, and technology for classrooms; it is illegal to use the funds for any other purpose. As of the end of 1997, lottery proceeds in Georgia paid for 62,000 children to attend pre-kindergarten classes and provided assistance to 275,000 students attending college in the state.[19] New Mexico has adopted a similar approach: in establishing the state's lottery in 1995, the legislature mandated that 60% of the revenues go toward the construction of public schools and 40% to tuition assistance for residents attending state colleges. None of the money may go to the general fund.[20]

Pressures for Revenue

Despite the extensive praise these and other states have received for their innovative programs, it is uncertain how widely their example can or will be copied, as to do so in states with existing lotteries would force legislatures to cover the resulting deficit in the general fund with politically unpopular spending cuts or tax increases. The most basic fact driving all lottery operations is the pressure for revenue: "To judge from their public statements and their actions, all lottery directors feel pressure to maintain, if not to increase, existing levels of revenues," a pressure that is "relentless." [21]

This has produced a second set of issues stemming from the fact that the growth in revenue from traditional forms of lotteries has plateaued, prompting expansion into new games such as keno and video poker, along with a more aggressive effort at promotion, especially through advertising.

Although strong sales growth for lotteries has continued -- totaling 11.7%, 12.9%, and 11.7% in 1994, 1995, and 1996 respectively -- these figures obscure an important shift in the sources of revenue in recent years. As the traditional lottery industry has matured and fully penetrated its various markets, sales growth has leveled off. Most of the recent growth has come from the introduction of new forms of wagering, such as machine keno and video lottery devices, revenues from which grew by 41.8% in 1996 alone.[22] These machines are commonly licensed to bars, convenience stores, etc., thus dramatically increasing their presence in public life. They also have prompted concerns that these new games exacerbate existing alleged negative impacts of the lottery, such as the targeting of poorer individuals, increased opportunities for problem gamblers, presenting the latter with far more addictive games, etc.

The evolution of the Massachusetts lottery is instructive: the lottery began operations in 1975 with a 50-cent ticket and a once-a-week drawing. Scratch tickets with instant payoffs were introduced in 1974. In 1993, the lottery introduced keno games and currently there are nearly 1600 keno vendors in Massachusetts, most of them in stores open to the general public. Lottery revenues have risen from $71 million in 1975 to more than $3 billion in 1997.[23]

There have been several controversies regarding these issues in Massachusetts and elsewhere, as well as several attempts to deal with them. The legislature passed the Keno Reform Act in 1996 to address some of the more prominent complaints, reforms which included allowing communities to ban keno or restrict without suffering a fiscal penalty (money from the lottery is distributed to local communities on a complicated formula that is based on how much money each community generates for the lottery), capping the number of keno licenses statewide, etc. However, neither opponents or proponents have indicated any satisfaction with the existing situation.[24]

Advertising

Lotteries have also come under increasing criticism in the area of advertising, especially regarding alleged aggressive advertising practices aimed at lower-income groups. Many critics have long been uncomfortable in general with state governments promoting what they see as a vice. The federal government banned lottery advertising until 1975; once this prohibition was lifted,

increasingly larger sums have been devoted to the promotion of lotteries: in fiscal year 1997, state lotteries spent over $400 million on advertising and promotion.[25]

Because the lotteries are run as a business with a focus on maximizing revenues, advertising necessarily focuses on persuading target groups to spend their money on the lottery. The questions are 1) does this promotion of gambling lead to negative consequences for the poor, problem gamblers, etc.?; and 2) even if these problems are minimal, is this an appropriate function for the state? Is running a lottery at cross-purposes with the larger public interest?

Critics charge that lottery advertising seeks "to stimulate rather than merely accommodate demand," a role for the state that "may be inconsistent with other functions of government...Lottery advertisements must either encourage existing players to buy more tickets or entice non-players into becoming players." [26] These and other opponents allege that lottery advertising is targeted to appeal to the irrational elements in the public's imagination, seeking to persuade potential players that they can influence their odds through the choices of numbers they pick and also that it attempts to convince the individual player that his chance is winning is far greater than the odds would suggest. In the words of one, lottery play depends on encouraging people's "magical thinking," which advertising must target.[27] According to New Jersey's lottery director, the purpose of advertising is to "tak[e] an infrequent user and [try] to convert him into a more frequent user." [28]

To this end, lotteries use traditional marketing methods, such as identifying likely players, compiling extensive socio-economic profiles, conducting focus group research, test marketing new products, etc. The media plan for the Iowa lottery stated its strategy as "to target our message demographically against those that we know to be heavy users, while encouraging purchases among light or non-users." [29] The research leaves few areas untouched: the Colorado state lottery reportedly "spent $25,000 for a study called Mindsort to analyze the left and right sides of the human brain to understand how to manipulate player behavior." [30]

Critics charge that much lottery advertising is deceptive, commonly presenting misleading information about the odds of winning the jackpot, inflating the value of the money won (lotto jackpot prizes are usually paid in equal

annual installments over 20 years, with inflation and taxes dramatically eroding the current value); and so forth.

Growing criticism has helped to persuade some legislatures to mandate restrictions on lottery advertising. In Massachusetts, the legislature imposed a significant reduction in the money allotted for lottery advertising, from $12 million in 1993 to $400,000 in 1997. Lottery advocates claim that the Massachusetts lottery spent no money on advertising in 1997 outside of point-of-purchase sites (i.e., no television, radio, newspaper, or billboard advertising). As a direct result, there was an absolute decline in lottery revenue for the first time. Despite the increasing salience of the issue, only three states -- Minnesota, Virginia, and Wisconsin -- have imposed significant restrictions on lottery advertising (Massachusetts' legislature did the same by means of its virtual elimination of the advertising budget; other states have similarly reduced the advertising budget, but for a variety of reasons). But many state lottery organizations claim to have significantly reduced their overall advertising on their own initiative, or to have changed it in ways to make it more "socially responsible."

Criticism of the advertising practices of lotteries is not confined to critics outside of the industry. Speaking to a meeting of his fellow lottery directors, Jeff Perlee, Director of the New York State Lottery, warned that although most lottery advertising was responsible in its claims, lottery officials:

> must confront the fact that the product they market is a vice that is not universally accepted...[Some state lottery advertisements] are so far-fetched and so fanciful that they would not stand up to the same "truth-in-advertising" standards to which advertising conducted by private industry is held. Add to that the fact that our advertising is often relentless in its frequency, and lottery critics and even supporters are left wondering what public purpose is served when a state's primary message to its constituents is a frequent and enticing appeal to the gambling instinct. The answer is none. No legitimate public purpose justifies the excesses to which some lottery advertising has resorted.[31]

A Maryland state budget examiner's report on that state's lottery advertising stated that it contained "misleading gimmickry" that exaggerated the benefits to the public from lottery revenues.[32] In fact, state lotteries are exempt from the Federal Trade Commission's truth-in-advertising

standards because they are state entities and, in terms of their advertising, can in fact operate in a manner that true commercial businesses cannot.[33]

Regressivity

The focus on convincing non-players or infrequent players to utilize the lottery, as well as persuading frequent players to play even more, is the source of an additional array of criticisms. Giving force to this concern is the widespread conception that the lottery is a regressive tax because it draws a disproportionate amount of its revenues from lower-income groups. The image of the state promoting a highly regressive scheme among its poorest citizens by playing on their unrealistic hopes is a highly evocative one. The most frequently cited, and most egregious, example of this was a billboard in one of Chicago's poorest neighborhoods that touted the lottery as: "How to go from Washington Boulevard to Easy Street - Play the Illinois State Lottery." [34]

This assumption, however, may not be accurate. Much depends on the definition of "regressive." Economists define a regressive tax as one that takes an increasing percentage of income as income falls. In that sense, given the fact that a lottery ticket is the same price to all, regardless of income, it is by definition regressive (and is considered an "implicit" tax because the revenues go to the state). But this simple approach does not capture such variables as frequency of play and the amounts of money generated by the lottery by income group. Here the evidence divides by the type of game played. The data suggests (although is far from conclusive) that the bulk of lotto players and revenues come from middle-income neighborhoods, and that far fewer proportionally come from either high-income or low-income areas. Clotfelter and Cook cite one study in the 1970s which concluded that "'the poor' participate in the state lottery games at levels disproportionately less than their percentage of the population." [35] By contrast, those playing the daily numbers games, including scratch tickets, are drawn quite heavily from lower-income neighborhoods.

The popular belief is that the poor are much heavier users of the lottery than the rich and the middle classes. In fact, however, although "lottery play is systematically related to social class, [it is] perhaps not always as strongly as the conventional wisdom would suggest." The data "do not demonstrate any consistent relationship between lottery play and household income over the broad middle range;

the average expenditure in dollars for households making $10,000 is about the same as for those making $60,000." [36] "On average, people bet the same amount on the state lottery regardless of income. Absolute expenditures appear to be remarkably uniform over a broad range of incomes." [37]

Assuming this is true, the lottery may still be termed regressive because the state takes greater percentage of income from those with lower incomes.[38] Whatever similarity between income groups there may be regarding absolute amounts spent on the lottery, Clotfelter and Cook agree that the poor spend a larger proportion of their incomes on the lottery.[39]

Although total expenditures on the lottery may be broadly similar by income group, the type of game they play differs considerably. An analysis by the Chicago Sun-Times revealed that lower-income individuals concentrate much more heavily on the numbers games, "trading lower payoffs with a higher chance of winning. They also are likely to be frequent players, often daily players. Lotto - with its big-money jackpots and slim odds -- appears to appeal more to upper-income groups, most of whom are only occasional players, usually when the prize money reaches large proportions." [40]

This tendency toward regressivity in certain types of lottery games is also borne out in the figures for the Massachusetts lottery. In FY1997, the Massachusetts lottery grossed $3.2 billion, of which instant games (of which the lower-income groups played disproportionately) accounted for 65%, numbers for 12%, and keno for 13%, all other, including the lotto, 10%.[41] The data from the Massachusetts lottery do seem to bear out the disproportionate impact: although the state-wide per capita amount spent on the lottery was $547 in 1996 (the highest in the country), the Boston Globe reported that the per capita lottery expenditures in the economically depressed Boston suburb of Chelsea had climbed to over $900 in 1996.[42]

Less compelling, although significant, evidence exists in the media plans of the lotteries. Clotfelter and Cook report that lottery marketing strategies do seem to explicitly target lower-income groups. For example, the advertising plan for Ohio's SuperLotto game stated that lottery promotions should be timed to coincide with the receipt of "Government benefits, payroll and Social Security payments."

Income aside, there are clear differences in lottery play by socio-economic group and other factors. Men tend to play more than women; blacks and Hispanics more than whites; the old and the young play less than those in the middle age ranges; and Catholics tend to play more than Protestants. Interestingly, "lottery play falls with formal education" even though non-lottery gambling in general tends to increase.

Other Criticisms

Compulsive Gambling

There is growing evidence that the new games the lotteries have introduced to increase sales are more addictive, and are compounding the problem of compulsive gamblers. Dr. Lance Dodes, Director of the Center for Problem Gambling at Mt. Auburn Hospital in Cambridge Massachusetts, estimates that 40% of his patients are lottery players.[43] A 1996 survey in New York found that 9% of lottery players, and 14% of keno players, have been compulsive gamblers at some point in their lives. The study also concluded that keno in particular fosters addiction.[44] One study of the effect of VLTs on compulsive gamblers found that the number of individuals in South Dakota seeking treatment for problem gambling declined significantly during a temporary downtime for the lottery's VLTs and rose sharply once they were returned to service.[45]

This link is widely recognized, even by those in the industry. In the words of one lottery director: "[G]ambling, including playing the lottery, is ... potentially addictive and can be dangerous and destructive for some people, some of the time." [46] The new games "have created what was once an almost unthinkable link between lotteries and compulsive behavior." [47]

Despite significant annual revenues from the lottery, however, treatment of compulsive gambling receives relatively little money from the state. In Massachusetts, for example, the state budgeted only $450,000 in FY 1996 on compulsive gamblers, including only $120,000 for actual treatment, even though the lottery revenues for the state amounted to $720 million.[48] The Ohio lottery is one of only a few that operates a compulsive gambling treatment operation as part of its regular operations, employing six problem gambling experts. Five states require a telephone number for help for problem gamblers

be printed on its lottery tickets.[49]

Underage Gambling

The sale of lottery games to minors is illegal in every state. However, by all measures, it is commonplace. A survey in Minnesota of 15- to 18-year-olds found that 27% had purchased lottery tickets for themselves.[50] Even higher levels of 32%, 34%, and 35% were recorded in Louisiana, Texas, and Connecticut, respectively.[51] In Massachusetts, Connecticut, and other states, lottery tickets are available to the general public through self-service vending machines. When one store owner in Boston was asked if minors purchased tickets from the lottery ticket dispenser in his lobby, he replied: "How would I know? No one's watching it." [52] Thus, it is not surprising that a survey conducted by the Massachusetts Attorney General's office found that minors as young as 9 years old were able to purchase lottery tickets on 80% of their attempts, and that 66% of minors were able to place bets on keno games. 75% of Massachusetts high school seniors report having played the lottery.[53]

Charitable Gambling

The lottery has also apparently had a negative impact on charitable gambling. In 1984, charitable gaming in Massachusetts, such as church bingo, had revenues of $250 million. By 1995, those figures had declined to $200 million. Competition from the lottery is usually blamed, especially following the introduction of keno. "We're getting slaughtered by Keno," said one local rabbi.[54]

Impact on State Politics

The negative impact on state politics of money connected with the lotteries is often cited by critics, with the commercial suppliers and operators commonly used as examples. GTech and Automated Wagering International (AWI) are the two companies that dominate the lottery supply and lottery operations businesses. In 1997, of the 38 lotteries, GTech had contracts to operate 29; AWI had 7; Massachusetts and Virginia run their own systems. These two companies have contributed heavily to state races. When GTech won the contract to operate the California lottery in 1986, it had been the 6th largest contributor to state campaigns that year, having donated a total of $300,000 to individual state races. In addition, both companies devote substantial sums to lobbying state legislatures and officials. GTech is alleged to have spent

$11 million on lobbyists in 1993 alone.[55]

Public Policy

It needs to be emphasized that although lottery officials are often lightening rods for criticism, they are not free agents operating on their own; they must respond to directions from state officials, which often contain conflicting goals. Thus, they may be told to reduce advertising even as their performance is measured by their ability to increase lottery revenues.

This schizophrenic approach can lead to many problems. For example, in Massachusetts, the pressure on the lottery to produce additional revenue remained even after the legislature dramatically reduced the funding for advertising. One result was that the lottery began using its "free play" coupons as money, reportedly using $8 million of them to pay for advertising (although the budget had been cut, no prohibition was made against advertising per se). This in turn generated an investigation by the Massachusetts Attorney General's office, but also prompted the IRS to investigate the alleged non-reporting of income (in its eyes, the coupons were being used as money).[56]

The most important issue regarding lotteries is the ability of government at any level to manage an activity from which it profits. In an anti-tax era, many state governments have become dependent on "painless" lottery revenues, and pressures are always there to increase them. A study done in Oregon found that one result common to every state financial crisis over the past couple of decades was that a new form of gambling had been legalized for the state to profit from. As a consequence, Oregon currently has more forms of legal gambling than any other state outside of Nevada. Clearly there are conflicting goals which can only be prioritized by political officials, be they in the executive or legislative branch. There have been surprisingly few attempts to grapple with this problem.

The evolution of state lotteries is a classic case of public policy being made piecemeal and incrementally, with little or no general overview. Authority - and thus pressures on the lottery officials -- is divided between the legislative and executive branches and further fragmented within each, with the result that the general public welfare is taken into consideration only intermittently, if at all. Few, if any states, have a coherent "gambling policy" or even a "lottery policy." Policy decisions taken in the

establishment of a lottery are soon overcome by the ongoing evolution of the industry. It is often the case that public officials inherit policies and a dependency on revenues that they can do little or nothing about.

Many public officials, including some charged with overseeing the lottery, have expressed public and private discomfort about many aspects of their state's lottery or even about the wisdom in general of the state's running a lottery, and often add that they and their colleagues are powerless to change the system. This raises the troubling question of whether the state itself has become addicted to lottery revenues. In the words of Harvard University professor Michael Sandel:

> "No politician, however troubled by the lottery's harmful effects, would dare raise taxes or cut spending sufficiently to offset the revenues a lottery brings in. With state hooked on the money, they have no choice but to continue to bombard their citizens, especially the more vulnerable ones, with a message at odds with the ethic of work, sacrifice, and moral responsibility that sustains democratic life." [57]

Footnotes

[1] Michael Jones, "Lotteries Must Strike Balance Between Letter of the Law and Unwritten Contract with Players," *Gaming Law Review*, Volume 2, No. 1, February 1998, p. 9.

[2] International Gaming and Wagering Business, *Gross Annual Wager*, August 1997

[3] Peter Keating, "Lotto Fever: We All Lose," *Money*, May 1996, p. 142.

[4] Funding Public Goods with Lotteries: Experimental Evidence John Morgan and Martin Sefton. Discussion Papers in Economics #185, Woodrow Wilson School, Princeton University, June 1997.

[5] Charles T. Clotfelter and Philip J. Cook, Selling Hope: State Lotteries in America, (Cambridge, Ma: Harvard University Press, 1989, p. 159.

[6] Charles T. Clotfelter and Philip J. Cook, "On the Economics of State Lotteries," *Journal of Economic Perspectives*, vol. 4, No. 4, Fall 1990, p. 105.

[7] May 15, 1998 letter from Jeff Perlee, Director of the New York State Lottery.

[8] Bernie Horn of the National Coalition Against Legalized Gambling.

[9] Charles T. Clotfelter and Philip J. Cook, "On the Economics of State Lotteries," *Journal of Economic Perspectives*, vol. 4, No. 4, Fall 1990, p. 112

[10] Ellen Perlman, "The Game of Mystery Bucks," *Governing*, January 1988, p. 21

[11] Meg Vaillancourt, "Lawmaker: Casinos Face Tough Sell," *Boston Globe*, April 10, 1997, p. A26.

[12] Ibid., p. 20

[13] Donald E. Miller and Patrick A. Pierce, "Lotteries for Education: Windfall or Hoax?" *State and Local Government Review*, Winter 1997, pp. 40-41.

[14] Peter Keating, "Lotto Fever: We All Lose!" *Money*, May 1996, pp. 144, 147.

[15] Ibid., p. 147

[16] April 15, 1998 letter from Edward A Scarborough, Director of Public Affairs, Virginia Lottery.

[17] Perlee, ibid.

[18] April 23, 1998 letter from H. Carl McCall, New York State Comptroller.

[19] Perlman, op.cit, p. 22.

[20] Ibid., p. 22.

[21] Selling Hope, p. 169.

[22] *Gross Annual Wager*

[23] Daniel Golden and David M. Halbfinger, "Lottery