State Lotteries

Advocating a Social Ill for the Social Good

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Fifty years ago, anyone caught "playing the numbers" might be in serious trouble with the law. At that time, the government acted as if protecting citizens from the evils of gambling was one of its inherent responsibilities. Today, Americans legally bet more than $36 billion a year on the lotteries in thirty-seven states and the District of Columbia (Bresiger 1998). These gambling operations are not only state sanctioned, they are state run and state promoted as well. How could such a complete turnaround have taken place?

In almost every case, the lottery was presented to state legislators as a means of raising revenues *without having to raise taxes.* Not surprisingly, this option had a great appeal to both Republicans and Democrats. The "puritanical" objections to filling state coffers by means of a gambling scheme were quickly diffused by three arguments. First, because people are going to gamble in any event, it is better to place that gambling within the protection of the law rather than to leave it in the seamy environs of gangsters and thugs (Simon 1997). Second, the lottery is one of the most benign forms of gambling. Many do not even consider it "real gambling." Spending a dollar's worth of loose change on a lottery ticket every once in a while bears little resemblance to gambling at Las Vegas or Atlantic City. Besides—the third argument—it's for a "good cause." All remaining misgivings about the state's promotion of a vice disappear when the promoters make clear that all proceeds will be used "for the chil-

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dren" or for some other honorable cause. Eighteen states earmark their lottery revenues for education. Pennsylvania's lottery supports its senior citizen programs.

Once adopted, the lottery certainly delivered as advertised. This painless revenue windfall was treated as if it were manna from heaven. State legislators across the country came to view this "voluntary tax" as a permanent wellspring that released revenues in the general fund for a multitude of other uses. Funds previously earmarked for education were diverted to meet an endless list of "worthy unmet needs." As long as the lottery money continued to roll in, nobody saw the lottery for what it had become: a legislative "bait-and-switch" funding game.

The lottery euphoria, however, almost always subsides as the game's novelty starts to wear off. This cooling usually occurs four or five years into the program. As ticket sales plummet, the dark side of the government's shell game becomes visible. Because the lottery revenues no longer cover the education (or other specific) funding requirements as advertised, some form of corrective action (or coercion) becomes necessary. The options most frequently selected are not pretty: raising taxes, beefing up the ad campaign to entice new players, and devising new, more exciting (and addictive) versions of the game. Most states end up pursuing all three options.

Raising Taxes

The ephemeral infusion of lottery dollars always results in prodigal spending, which, in turn, forces state legislators to raise taxes in order to shore up the budgetary shortfalls that develop when lottery revenue sags. Legislators keep their fingers crossed and hope that nobody remembers that the lottery was supposed to have made additional taxes unnecessary. Obfuscation about proceeds earmarked "for the children" will also keep people from asking probing and potentially embarrassing questions such as, "What happened to all the education money that was in the general fund?" A study by *Money* magazine found that from 1990 to 1995 taxes grew three times faster in lottery states than in nonlottery states. In 1971, Governor Thomas Meskill of Connecticut successfully lobbied for a lottery by arguing, "Giving people the choice to raise money purchasing lottery tickets will let your state hold the line on taxes." In 1991, however, Connecticut legislators enacted the state's first income tax even though lottery sales had reached $671 million in the previous year (Keating 1996).

Aggressive Advertising

Selecting the second option, state governments seek to revitalize interest in the lottery through aggressive advertising campaigns. To do so successfully, the lottery commissions have to know who the core customers are and how much they spend:

- The average player spends $313 a year.
- Those with incomes of less than $10,000 spend on average $597 (the most of any income group).

- Blacks spend $998 on average, whereas whites spend $210.
- Those older than sixty-five spend $475 on average, whereas those between eighteen and twenty-nine spend $152.
- Men spend $368 on average, women $254. (Clotfelter and others 1999, 31)
- High school dropouts spend twice as much as college graduates. (National Coalition 2001)
- The top 5 percent of the players account for more than half of the sales. They spend $3,800 on average. (Kelly 2000)
- Our national capital is also our lottery capital. The average D.C. household spends $1,000. (Glassman 1998, A15)

Given the demographic attributes of the "typical" player, it should come as no surprise that lottery advertisements specifically target the poor. State lottery commissions tend to place more advertisements and sales outlets in lower-income areas ("Slim Chances" 2000). Here are some of the advertising slogans from around the country that have been used to boost ticket sales:

"All you need is a dollar and a dream." (New York)

"Hey, you never know." (New York)

"Don't forget to play every day." (Pennsylvania)

"Work is nothing but heart-attack-inducing drudgery." (Massachusetts)

"A Million a Day—Just Play." (Washington, D.C.)

"His [Martin Luther King's] vision lives on . . . honor the dream—D.C. Lottery."

"This could be your ticket out." (Illinois)

"How to Get from Washington Boulevard to Easy Street." (Illinois) (Note: Washington Boulevard is located in a depressed Westside Chicago neighborhood.)

The state lotteries spent $400 million on advertising and other promotion costs in 1997 (Kelly 2000). Sad to say, the states spend more to encourage citizens to play the lottery than they do for any other state-sponsored message, such as "Stay in School." Charles Clotfelter and associates have identified a number of common approaches used in lottery advertising:

- Overemphasize the chances of winning. In 70 percent of the TV ads, those pictured playing the lottery . . . won!

- Encourage players to minimize regret. Remind them of how bad they would feel if they missed playing the lottery on the day when their numbers "hit."
- Provide misleading information about the true odds, or don't provide any information at all (Reno 1998). Only 20 percent of the lotteries list the odds of winning (Bast 1994).

The lotteries can get away with misleading advertisements because the state governments serve as both promoter and regulator; hence, there is no one to protect the consumer from abuses by the state. With respect to the lottery, government is no longer even pretending to "stand up for the little guy." Instead, it is preying on the elderly and the poor with a state-sponsored get-rich-quick scam. The states are exempt from the Federal Trade Commission's (FTC) truth-in-advertising standards. Although the FTC requires Publisher's Clearing House and McDonald's to provide the odds of winning their sweepstakes, it does not require the same aboveboard standards for state lotteries (Houser 1999).

The Missouri lottery originally carried the following disclaimer with its advertisements: "This message is not intended to induce any person to participate in a lottery or purchase a lottery ticket." Unfortunately, this responsible practice was dropped in 1988 because it was *hurting sales* (Scoppe 2000). It is probably safe to assume that a private firm would not be permitted to drop its government-mandated warning label if its sales were slack.

Introducing New Games

The final option to respond to sagging lottery sales is "product innovation." Seeking greater participation from a smaller base of hard-core lottery players, states may introduce new games. Even in Georgia, which has been billed as having the most successful lottery in the country, declining ticket sales prompted the introduction of new games designed both to lure new players and to squeeze more dollars from existing players. Thanks to these new games, ticket sales did remain high, yet the net proceeds to the state fell below the required 35 percent. The shortfall was blamed on the new games' larger payouts. To remedy this situation, the Georgia lottery simply reduced the payouts. Not surprisingly, the strategy backfired by driving players away (see Palmetto Family Council 2000).

The sixteen-year-old Michigan Lotto was replaced in February 2001 with the new Michigan Millions game. According to Don Gilmer, the Michigan lottery commissioner, "Many players have been looking for a fresh new game that offers more prizes and bigger jackpots." Perhaps the real reason for the change stems from the fact that Lotto sales had dropped from $529.7 million in 1988 to $161.4 million in 1999 and then even further to $102.6 million in 2000 ("Lotto Cashes It In" 2001 A2).

Would a Pact with the Devil Have Been Worse?

Those who originally opposed the lottery on moral grounds were ridiculed as being unenlightened or naive. In hindsight, however, it would be difficult to make a case that a pact with the devil would have had worse results.

Exploitation of the Poor

Although state governments go to great lengths to sugarcoat the lottery by calling it "voluntary," this characterization does not change the fact that its effects resemble those of a highly regressive tax. (By the same logic, a case might be made that a state sales tax is not really a "tax" because it is borne only by those who "voluntarily" purchase the goods and services on which it is levied.) Every study of the lottery has shown that its burden falls disproportionately on the poor and that most of the benefits go to those who are well off. Redistribution of wealth is offensive when it rewards the poor at the expense of the rich, but it is even more egregious when it works in the opposite direction. Instead of operating as a Robin Hood tax, the lottery is more akin to a Sheriff of Nottingham tax because it takes from the poor to give to bureaucrats, politicians, and the rich (Thornton 1999).

In Georgia, lottery proceeds are used to support the HOPE college scholarship program. As elsewhere, the heaviest players of the lottery in Georgia reside in the poorer neighborhoods. If a poor student qualifies for a need-based federal Pell Grant of as much as $3,300, however, he is disqualified from receiving a HOPE scholarship. Consequently, the principal beneficiaries of the Georgia lottery are the middle and upper middle classes, not the poor. In 1994–95, the average family income of HOPE scholarship recipients was $45,000, or $13,000 more than the state's average household income ("Frequently Asked Questions" 2000).

Life Is Hopeless

Government should seek to bring out the best in citizens by promoting the value of education, hard work, initiative, responsibility, perseverance, and saving and investment. Instead, our state governments send the message that luck is all that counts and that our country is permanently divided into "haves" and "have-nots." Unless you were born wealthy, everything is stacked against you. On your own, you will never get anywhere or amount to anything, so why even bother trying to improve yourself or your family? Outside of winning the lottery, life is hopeless.

Our government's defeatist message appears to be gaining acceptance. A Consumer Federation of America/Primerica poll in October 1999 found that a majority of Americans believe it is easier to get rich by winning the lottery than by saving and investing (Markels and Slivinski 2000).

Promoting Vice

What are we to make of our government's ambivalent attitude toward gambling? We are bombarded with public-service announcements telling us that Internet gambling is the road to ruin, yet at the same time government-sponsored advertisements encourage lottery gambling. Many in the liberal and libertarian camps declare that the government ought not to dictate morals to its citizens. Fair enough. But does this position apply only when the government attempts to promote positive morals? If the morals being pushed are negative, is government promotion any less obnoxious? Gambling is not just legal; the government aggressively promotes it. Our government has crossed the moral Rubicon by using a vice allegedly for the public good. Why stop with gambling? Why not adopt state-sanctioned, state-run, and state-promoted prostitution as well? This vice, too, is a victimless crime that will take place with or without government approval. As in the lottery, all proceeds might be earmarked "for the children," and participation would, of course, be "strictly voluntary." We might even save money on the marketing expenses by recycling some of the existing lottery advertisements. How about: "All you need is a *Franklin ($100)* and a *fantasy*" (New York); or "Don't forget to play *around* every day" (Pennsylvania); or "How to get to *easy make* street" (Illinois)?

Not So Benign After All

One of the initial major selling points of the lottery was that it was not really "gambling" in the traditional sense. That claim now appears to be false. Yes, some people will gamble with or without a lottery, but many people never would have begun to gamble but for the government's prodding. Ronald Reno states that Clotfelter and Cook have estimated that the government trappings of legitimacy help to entice 25 percent of the lottery players from the ranks of nongamblers (Reno 1998). Interestingly, in states with a lottery, the rate of participation in other forms of gambling is higher (Reno 1996).

The National Helpline for problem gamblers (1-800-GAMBLER) has been tracking calls since 1983. Lottery-gambling problems are usually the second most common reason for calling (behind casino gambling). In 1998 and 1999, 54 percent and 44 percent, respectively, of the Helpline callers indicated that the lottery was no longer *just a game* (O'Neill 2000). In addition, the National Opinion Research Center estimates that problem gamblers generate 14 percent of total U.S. lottery revenues (Houser 1999). In other words, with regard to the lottery, our government actually wears three hats: it is the regulator, the promoter, and the enabler of self-destructive gambling behavior.

Education Is Not *Better Off*

In spite of all the rhetoric to the contrary, the states have been unable to deliver on their promise to increase spending on education by adopting the lottery. Ironically, states *without* lotteries actually maintain and increase their education spending more than states *with* lotteries (Keating 1996). A 1997 study of the impact of lotteries on education funding concluded: "regardless of when or where the lottery operated, education spending declined once a state put a lottery into effect." For example, Florida spent 60 percent of its budget on education in the first year of its lottery's operation, in 1988. By 1993, however, education's share of the budget had dropped to 51 percent (*National Gambling Impact Study* 1999). When Ohio introduced its lottery in 1973, total spending for education amounted to 42 percent of total state expenditures. By 1994, however, education spending had dropped to 29 percent of the total. Like all other state legislatures, the Ohio legislature apparently siphoned off the existing education funds for other state programs (Garrett and Lawson 1998).

The *Money* magazine study quotes Mary Fulton as saying, "There's a deep and widespread perception among the public that lottery revenues are being used to substantially fund education" (Keating 1996). In reality, however, such funding does not amount to much. According to a 1999 Educational Research Service report, lottery contributions constitute less than 4 percent of state and local education budgets in the states that assign their lottery revenues to education ("Slim Chances" 2000).

Thus, instead of helping, lotteries have the potential to hurt education funding in the long run because they serve to undermine public support. When voters cast their votes regarding millages, school-bond referendums, or sales-tax increases for education, they are increasingly saying "No!" This rejection should come as no surprise. They were led to believe that additional monies for education would not be needed—at least, this expectation was the subtle message that actually registered in their minds. Such a claim, after all, served as one of the major selling points for the adoption of the lottery in the first place. When Susan MacManus, a University of South Florida political scientist, asked local voters why they had voted against a sales-tax increase for local schools, more than 80 percent gave the same reason: the lottery ("A Review" 2000).

Voters can now rationalize a "no vote" without feeling guilty. The states have only themselves to blame for the recalcitrant electorate that they have created. State governments now find themselves in the awkward position of having to send the back-peddling message that "the lottery was never meant to totally fund education." The overused "for the children" appeal no longer resonates with the public. Instead, it now elicits only public cynicism.

Any Real Winners?

Studies have shown that most multi-million-dollar lottery winners claim that their winnings have made their lives worse, not better. About once a month, a lottery millionaire files for bankruptcy. Indeed, approximately one-third of all the "big winners" eventually go broke (Reno 1998). One would think that after winning the lottery, people would be satisfied, but typically they are not. Winning the lottery does not seem to suppress the desire for still more wealth.

Clotfelter and associates (1999) found that lottery jackpot winners substantially increase their spending on lottery tickets after winning the lottery. A recent story in the *Flint Journal* illustrates this bizarre finding. A fifty-five-year-old man won $1 million in the Michigan lottery, but "he did not let the money go to his head. He was pretty calm about it. In fact, he came in the next day and bought *more tickets*" ("Ticket Worth" 2001, A1).

Indirectly, even the states themselves suffer because of the lottery. A "robbing Peter to pay Paul" phenomenon occurs. A dollar people spend on the lottery would otherwise probably have been spent on taxable goods and services. Does the state want revenues from the lottery or from the sales tax?

A Malevolent Government

Our governments do not have a good record of curing social ills. They continue, for example, to lose the war on poverty. With the Great Society programs, the government's intentions were in the right place, however misguided their policies might have been. The same cannot be said for the lottery. When the government intentionally and aggressively advocates a social ill, no matter how noble the end purpose, it undermines its moral authority. When government malevolence becomes public policy, something is terribly wrong.

A Less than Satisfactory Solution

In Greek mythology, Cassandra had the power of prophesy. Unfortunately, Apollo changed this blessing into a curse so that none of her prophecies would ever be believed. Evidently, a Cassandra-like curse afflicts opponents of the lottery. Since 1964, whenever a lottery was proposed, all of the critical arguments in opposition were disparaged or ignored. In the end, the siren song of "free tax dollars" always marginalized these modern-day Cassandra warnings. This tragedy has been repeated again and again, thirty-eight times. In part because of this curse and because of what amounts to a government blessing, supporters have found it easy to introduce the lottery. Unfortunately, once a lottery has been implemented, it proves nearly impossible to terminate even when its dark side becomes apparent.

In the 1870s, the United States had to face up to the lottery problem as a result of numerous bribery scandals involving state and federal officials. This situation led the Supreme Court to conclude that lotteries have "a demoralizing influence upon the people." Not until 1890, however, did President Benjamin Harrison and Congress enact legislation that outlawed the "swindling and demoralizing" lotteries along with most other forms of gambling. (On this background, see Lottery History.)

Given our current, liberal perspective—"everybody's doing it"—it seems unlikely that lotteries will be subjected to a similar ban any time soon. The best that we can hope for is a mitigation of the damage caused by the existing lotteries and by our government's role in the process. A necessary first step would be to remove the exemption of government agencies from oversight by the FTC. This step would help to rein in some of the more egregious marketing abuses. The next step would be to disengage the government from acting as both the promoter and the regulator of the lottery. This dual role constitutes a serious conflict of interest, especially because the promoter function appears always to trump the regulator function.

For certain activities, such as law enforcement and national defense, the government should have a monopoly. "Running a numbers game," however, is not such an activity. In fact, a strong case might be made that the government should not even be in this vice business at all. If the government's link to the lottery were severed, many people might become more reluctant to play: private enterprises are often viewed as motivated by corporate greed in pursuit of obscene profits, whereas government enterprises are generally not so perceived. Rightly or wrongly, many people view democratically elected governments as honorable institutions even though, as their operation of lotteries attests, they are as capable of using predatory marketing practices and raking in obscene profits as private enterprise.

The government can tax a vice without directly promoting it at the same time. For example, the government does not encourage alcohol consumption or cigarette smoking, yet it still receives tax revenues from the sale of alcoholic beverages and tobacco products in the private sector. Governments should adopt such an arrangement for the lottery as well. Privatizing the lottery will get the government out of the vice-promotion business and limit its involvement to regulation.

Epilogue

In November 2000, the people of South Carolina made it clear that they wanted to be next in line for all the "free money" that comes from the operation of a state lottery. Fifty-five percent of the voters approved an amendment to the state constitution to allow such a lottery. African Americans supported the lottery by a ratio of three to one ("State Lotteries Approved" 2000). The South Carolina state legislature is currently establishing the details of how the lottery will be run and how the revenues will be used.

Will South Carolina's state lottery differ from the other thirty-eight? Will the state act responsibly this time around and not shamelessly exploit the poor and the elderly, siphon off nonlottery education funds to support other programs, or eventually increase taxes as a result of the evolution of the lottery? Given the sorry track record of all the other state lotteries, I wouldn't bet the farm on such sanguine outcomes. But, as they say in New York when the odds are only one in fourteen million: *"Hey, you never know!"*

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