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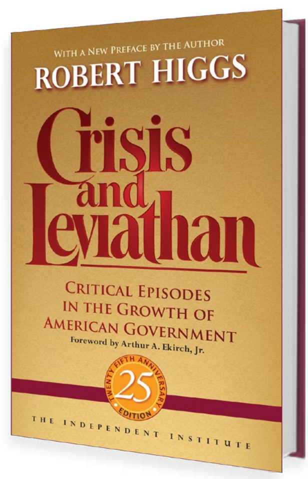

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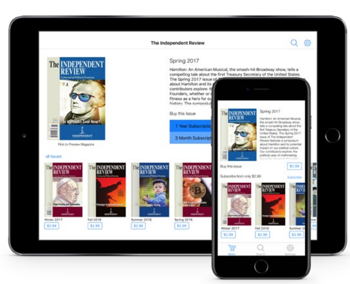

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Adoption of State Lotteries in the United States, with a Closer Look at Illinois

DONALD W. GRIBBIN AND JONATHAN J. BEAN

State lotteries, now widely accepted, once had a seedy reputation. In the late nineteenth century, reformers successfully argued that lotteries were "morally corrupting; they were often operated dishonestly; and they created serious social problems, including economic distress and gambling addiction" (Clotfelter and Cook 1989, 37). Graft and corruption were inherent parts of many state lotteries. When a Louisiana politician died shortly after voting in support of the lottery, $18,000 (more than $200,000 in dollars of 2003 purchasing power) was found on his body. Another legislator found $20,000 under his breakfast plate one morning, presumably an expression of gratitude from a lottery supporter (Blakey 1979, 69). In state after state, reformers succeeded in eliminating this source of corruption. Louisiana, the final state to abolish the lottery, did so in 1895.

A new era for state lotteries began in the 1960s. In 1964, New Hampshire ushered in a wave of government-sponsored lotteries. Politicians viewed lotteries as a panacea for the fiscal woes the state faced. New Hampshire lottery supporters emphasized the potential for generating revenue. Obviously, the political consequences of initiating a state sales tax or income tax would be deleterious, whereas a state lottery (a "voluntary" tax) was more palatable to the general populace. (New Hampshire still does not have a state sales tax or a state income tax.) Governor John King, apparently testing the wind direction, supported the lottery after becoming convinced the people wanted it: "I am

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unwilling to set myself up as a Solomon or a Caesar in the holy assumption that my views are more intelligent or discerning or moralistic than those of our people" (qtd. in Clotfelter and Cook 1989, 143). Many states followed New Hampshire's lead. Today, forty states operate lotteries, ostensibly in the "public interest" (*LaFleur's* 2004).[1]

Despite the claim that the lotteries sprang from the states' fiscal crises, lotteries may simply be the result of politicians' preference for more revenue. Budget deficits are a convenient rationale for expanding the government's revenues. Whether politicians use a "fiscal crisis" to justify lotteries or simply want more revenues, however, the result is the same.

A likely result of increased revenues is the creation of new government programs and a higher rate of spending. Because spending on new government programs becomes "locked in," the postcrisis spending level will not return to the precrisis level. Robert Higgs refers to this asymmetric cycle of government spending as the "ratchet phenomenon." Its upshot is that "a great crisis produces not only a temporarily bigger government but a permanently bigger government" (1987, 59). Future financial crises make the problem even worse by requiring even more taxes.

When faced with the lottery issue, many politicians publicly espouse the benefits accruing to the general public. Three central rationales often used to justify lotteries are as follows: the public benefits because lotteries allegedly increase public-education funds without increases in state income taxes or local property taxes;[2] a lottery (legalized gambling) will decrease illegal gambling; and lotteries are voluntary, as if only those who choose to play the lottery are affected.

The benefits alleged to result from lotteries often do not materialize. Even though the amount of public-education funding may increase after a lottery is adopted, there is no "dollar-for-dollar" increase in public-education funding because "general fund" revenues allocated to public education are often decreased when lotteries are enacted ("bait and switch"). Funds that would have been used for public education are frequently *replaced* by lottery funds. Like other state lotteries, the Illinois lottery (the focus of this article) represents legalized money laundering on a "mega"-scale. Moreover, lotteries often do not decrease illegal gambling. In fact, lotteries may unintentionally increase illegal gambling. And finally, many negative externalities are associated with lotteries, although politicians conveniently overlook them.

Background

Various civilizations have used lotteries for different purposes throughout history. Biblical accounts of the casting of lots may be among the earliest written records of

1. Oklahoma was not included in *LaFleur's 2004 World Lottery Almanac,* but was included as part of the forty states because Oklahoma voters approved a lottery in 2004. North Carolina is currently considering a lottery.

2. Sixteen states direct all lottery revenues to education, and seven other states direct part of lottery revenues to education (*LaFleur's* 2004).

a lottery. According to Proverbs 16:33, casting lots may be used to settle disputes: "The lot is cast into the lap, but its every decision is from the Lord." Acts 1:26 states that the eleven remaining apostles, when deciding on a replacement for Judas, "drew lots . . . , and the lot fell to Matthias." Alan Karcher notes that biblical examples of the casting of lots illustrate how people of faith let "Divine Providence" exercise a choice in human affairs (1989, 14). Karcher uses a passage from Acts to make two important points: that early Christians accepted selection by lottery as a value-neutral method of distributing or allocating benefits and burdens; and that the lottery as a morally correct method of distribution and allocation of benefits and burdens was divinely sanctioned (1989, 14). In short, Karcher, using the Bible as his support, contends that our culture today accepts lotteries because they are "fair" and "morally neutral" and controlled by Divine Providence.[3] As he sees it, lotteries are one way "God works His will here on earth" (Karcher 1989, 15). However, in subsequent comments, Karcher qualifies his analysis and notes that "the state lotteries in operation today are a far cry from what we have just reviewed [the biblical examples]" (16).

From the sixteenth century onward, lottery revenues in England were used for building the Westminster bridge, funding the navy, and establishing the British Museum (Raven 1991, 371). When Queen Elizabeth held the first English lottery in 1569, tickets sold for ten shillings (about $2.50), and the prizes ranged from the equivalent of 50 cents to $25,000 (approximately $200,000 in dollars of 2003 purchasing power) (Blanche 1950, 71). Yet lottery revenues were generally a small percentage of total government revenues. After the mid-1790s, lottery revenues never exceeded 3 percent of public income, and after 1810 they were always less than 2 percent (Raven 1991, 380). Even during the war with the North American colonies, the lottery receipts reached only 7 percent of public income (Raven 1991, 380). Before being abolished in 1826, the lottery was never a significant source of government funding except during times of extreme financial need, such as wars.

Nevertheless, the lottery was important in the founding of British North America. The king authorized the Virginia Company of London to conduct a lottery for a one-year period because of its financial difficulties in supporting the Jamestown settlement. The company held the first lottery in London on July 20, 1612. This lottery failed to meet the Virginia Company's financial needs, so three additional lotteries were held in the 1620s (Pierce and Miller 2004, 11). Responding to charges of mismanagement and businessmen's complaints that the lottery siphoned money from honest industry, the House of Commons removed the Virginia Company's authority to conduct lotteries (Blakey 1979, 63).

Notwithstanding the Virginia Company fiasco, lotteries thrived in colonial America, including both private drawings and legally sanctioned ones (Kaplan 1984, 92). Private drawings were for personal profit and usually involved raffling merchandise, land, or slaves. Individuals often used private lotteries to pay debts. Thomas Jefferson,

3. Karcher's hermeneutical analysis and conclusions are beyond the scope of this article.

at the age of eighty-three, tried to pay debts totaling $80,000 by disposing of land through a lottery, but he failed to sell enough tickets to liquidate his debts before he died in 1826 (Kaplan 1984, 92).

States and municipalities held the legally sanctioned lotteries throughout the eighteenth and nineteenth centuries to finance public projects such as roads, bridges, canals, courthouses, hospitals, and schools (Blanche 1950, 71; Kaplan 1984, 92). Between 1790 and 1860, several colleges, including Harvard, Dartmouth, Yale, Princeton, Brown, Columbia, and Rutgers benefited from lotteries. The legally sanctioned lotteries were also used to fund wars and other public programs (Blanche 1950, 71; Kaplan 1984, 92).

In colonial America, governments used lotteries to finance specific public improvements, and the lottery ceased when the project was completed. A group seeking a specific public improvement petitioned the colonial government to permit a lottery. If the government was unable or unwilling to fund the project, it usually would authorize a lottery (Blakey 1979, 65). Today, most state lotteries are permanent.

Lotteries were so popular in the early 1800s that eight eastern states raised a total of $66.4 million in 1832. This amount was four times the federal expenditure of the same year (Blakey 1979, 68). A lottery took place every day of the year in 1832 (Kaplan 1984, 93). By the mid–nineteenth century, New York City had 160 lottery shops and Philadelphia more than 200. In 1826, the citizens of Rhode Island spent more than $1 million on the lottery (Kaplan 1984, 93).

The Downfall of Lotteries

Lotteries began to be abandoned after the 1830s for three reasons. First, stronger centralized government had greater ability to collect tax revenue (McGowan 1994, 12). The federal government's expenditures were being financed primarily by tariffs, excise taxes on alcoholic beverages (from the 1860s onward), and proceeds from the sale of land (Niebert 2000, 27). State governments started to collect income taxes, and property taxes were becoming the major source of revenue for both state and local governments (Niebert 2000, 27).

Second, lotteries dwindled away because of the shady methods used to sell lottery tickets. Licensed brokers, who contacted the state or institution authorized to conduct a lottery, sold the tickets. The brokers often were compensated via commissions. Many brokers engaged in illegal schemes, such as selling fake tickets (Blakey 1979, 68; McGowan 1994, 12). Lottery "fixing" also occurred. An investigation in 1818 revealed that the Medical Science Lottery of New York had been fixed (McGowan 1994, 13). After several newspapers reported irregularities surrounding the lottery, an investigation by the New York legislature found that the operators of the lottery informed several prominent people (politicians for the most part) what the winning numbers would be. As a result of the investigation, New York banned the sale of lottery tickets (McGowan 1994, 13).

Third, religious and moral reformers attacked lotteries as a form of gambling (Blakey 1979, 69). Methodists and Presbyterians condemned all forms of gambling in the 1830s and 1840s. The Quakers convinced Pennsylvania to ban all state lotteries in 1833. Church leaders and other reformers succeeded in getting the New Jersey legislature to ban lotteries in 1844, and 1895 the Louisiana lottery, one of the most corrupt in history, was finally banned (Blakey 1979, 69).

The Rebirth of State Lotteries

In 1964, New Hampshire initiated the renaissance of lottery adoptions by becoming the first state to operate a lottery in seventy years. The idea of a lottery in New Hampshire was not new. A lottery bill had been introduced in 1937, and another bill, passed in 1955, was vetoed by the governor (Clotfelter and Cook 1989, 143). New Hampshire's fiscal circumstances resembled those of other states that later enacted lottery legislation. New Hampshire relied heavily on property taxes and excise taxes on alcohol and tobacco (Clotfelter and Cook 1989, 143). This state illustrates why many states have passed lottery legislation: despite tenuous financial conditions, they have been unwilling or unable to increase their taxes.

The arguments that supporters and opponents used in New Hampshire have echoed through the years since 1964 as other states have debated the adoption of a lottery. Advocates emphasize how much revenue a lottery will generate and how much education funding will increase if a lottery is enacted.[4] More important, from a political viewpoint, a lottery is painless in that only the willing pay the "tax." Thomas Jefferson is frequently quoted because he supposedly characterized the lottery as an "ideal fiscal instrument, one exacting payment solely from those who choose to play" (qtd. in Clotfelter and Cook 1989, 215). Pro-lottery politicians frequently portray a lottery as a "voluntary tax." Politicians emphasize that taxes will not increase, but a lottery will generate needed education funding.

Opponents of the lottery in New Hampshire emphasized traditional values. As they saw it, lottery players are expecting a great payoff for little investment, and such get-rich-quick thinking inhibits hard work and thrift. State-sanctioned gambling encourages players to think they can get "something for nothing," and the state should not "promote such idle amusements" (Blakey 1979, 72).

4. Even though New Hampshire earmarked lottery funds for education, the state's relative ranking in average funds spent per pupil did not increase significantly. Its relative ranking was thirtieth, thirty-fourth, twenty-ninth, and thirtieth for 1960, 1965, 1970, and 1980, respectively. In 1960, four years before the lottery was adopted, New Hampshire ranked only thirtieth among the states in the average funds spent per pupil in average daily attendance but still had that same ranking sixteen years after the lottery was adopted (1980) (*Statistical Abstract of the United States,* various years).

The Illinois Lottery

In 1973, Illinois became the tenth state to enact lottery legislation in the twentieth century. This legislation mentions two specific purposes for the lottery: to support the state's General Revenue Fund and to provide a means of curbing illegal gambling (Illinois Lottery Law 1973, 5). In 1985, Illinois revised the lottery legislation and "earmarked" lottery funds for public education. This legislation requires the net lottery receipts to be used specifically for education. Prior to 1985, lottery funds increased the state's General Revenue Fund. In this article, in due course, we assess whether the 1985 legislation actually increased education funding or merely diverted it from General Revenue expenditures on schools.

Origins of the 1973 Illinois Lottery Law

In April 1972, the lottery legislation's sponsor, Rep. E. J. Giorgi (D., Rockford), argued the lottery was "the only way to produce much-needed new state revenue without raising taxes" (Elmer 1972). The legislation required that at least 30 percent of the net lottery revenues be used for public schools (Elmer 1972, 1). Rep. George Hudson (R., Hinsdale) opposed the bill, declaring that "it would work a hardship on families by encouraging gambling by persons who could least afford it" (Elmer 1972). The House Executive Committee approved the bill.

On June 1, 1972, the Illinois House passed Rep. Giorgi's lottery bill by a vote of one hundred to sixty-four and sent it to the Senate (Seslar 1972a). The votes split within the two parties, with thirty-five Republicans and sixty-five Democrats voting in support of the bill, and fifty-one Republicans and thirteen Democrat voting against it (Seslar 1972a). The bill's supporters estimated that it would increase school funding by $100 million per year. Opponents argued that its passage "would shift to poor persons an unreasonable share of responsibility for supporting state and local governments and ultimately would result in sharp tax increases" (Seslar 1972a). One of Rep. Giorgi's arguments was that the lottery would help to deter illegal gambling (Seslar 1972a). Speaking against the bill, Rep. Hudson again questioned "how many months it would be before we start raising payments for welfare so that these people can purchase more lottery tickets" (Seslar 1972a).

The *Chicago Tribune* consistently and emphatically opposed the lottery. It criticized the legislature for not accepting responsibility for the state's fiscal condition, editorializing that some members of the legislature were considering a lottery because "they cannot face their responsibilities. . . . [T]hey seek easy, superficial, painless solutions to the state's pressing revenue problems" ("No to the State Lottery" 1972). In 1973, the *Tribune* further criticized legislators for trying to get "some relatively painless state revenue" and for stacking the lottery against the players because the payout was only 45 percent of the revenues ("Gamblers Lose" 1973). The newspaper's editors noted that Illinois legislators should heed a comment made by Ralph Batch of the New Jersey Lottery Commission: "I don't think lotteries will solve the financial woes of the states, nor are they the salvation of the taxpayers. They simply don't generate enough money. They should be thought of as incidental revenue" (qtd. in "Gamblers Lose" 1973).

On June 23, 1972, the Illinois Senate rejected the lottery bill. The Democrats again voted heavily in favor of the bill. Democrats cast all of the twenty votes in support of the legislation, whereas eighteen Republicans and four Democrats voted against it (Seslar 1972b). Opponents argued that state involvement in gambling was "immoral" and that the lottery "would shift an unfair share of the burden for providing government revenue to the poor" (Seslar 1972b). Even though the Senate failed to pass lottery legislation in 1972, the issue would not go away.

Various factors contributed to the passage of lottery legislation one year later. First, Republican Richard B. Ogilvie ended his term as Illinois governor in 1972, and Democrat Daniel Walker took office. Second, Mayor Richard Joseph Daley of Chicago publicly supported the lottery in 1973. Even though it is impossible to attribute the passage of lottery legislation in 1973 to either of these two factors, legislators agreed that Mayor Daley's support greatly increased the chances of passage ("Mayor Daley" 1973). Third, at a hearing before the Illinois Senate Revenue Subcommittee, four expert witnesses testified in support of the lottery. One expert estimated that annual lottery revenues would total approximately $115 million, of which the state would net 45 to 50 percent (Petersen 1973).

The government of Illinois finally enacted lottery legislation on December 1, 1973, and the first lottery tickets were sold on July 30, 1974. Remarkably, the politicians created the Chicago area Regional Transportation Authority (RTA) on the same date and authorized $171 million of annual funding for it. Even though the lottery legislation did not mention that lottery funds were to be used for the RTA, the legislators apparently reached an informal agreement to that effect (Gilbert 1973b). In effect, the state was undertaking a money-laundering scheme (legal because the state made it so) in which lottery revenues funded the RTA.

The RTA comprises six transit systems in the six-county Chicago area. All six systems, except for the Chicago & North Western Transportation Co., stood on the brink of financial disaster in 1973 (Gilbert 1973b). The $171 million funding plan approved for the RTA drew $80 million from the state's General Revenue Fund. In turn, the lottery receipts increased the state's General Revenue Fund. In other words, the lottery receipts would not fund the RTA *directly,* but the General Revenue Fund would act as a conduit for lottery funds that would finance the RTA indirectly. Democratic legislative leaders openly acknowledged this plan. The *Chicago Tribune* stated: "the Democratic legislative leaders reported they were ready to offer a plan that would fund the RTA from proceeds from a lottery and half of the revenues from license plate sales in the six counties" (Gilbert 1973a). When Governor Walker signed the lottery bill on December 14, 1973, he admitted that "it [the lottery] is expected to yield $70 to $100 million for state coffers to help offset the cost of the proposed Regional Transit Authority" (Keegan 1973).

Many Republicans opposed the lottery for various reasons. Some thought it was immoral. Sen. Hudson Sours (R., Peoria) denounced it as "another step toward the destruction of our ethical values and sense of direction" (Elmer 1973). Echoing this sentiment, Rep. Roscoe Cunningham (R., Lawrenceville) referred to the lottery as "the pathological pursuit of the unattainable—an effort to get something for nothing" (Gilbert 1973b). Cunningham further deplored the lottery, declaring that "[t]his will convert the Land of Lincoln into the Nevada of the Midwest. The public good would be better served if we legalize prostitution" (Gilbert 1973b). Republicans also ridiculed the lottery as an "immoral money grab aimed at the poor" (Elmer 1973). Moreover, they and downstate legislators thought that upstate Illinois was benefiting at the expense of downstate Illinois. The RTA package benefited the Chicago area in the amount of $171 million and left downstate Illinois with only a residual. The RTA package expanded the downstate highway bond program from $600 million to $800 million—a mere loan to be repaid by future taxpayers (Gilbert 1973b).

Rep. John Hirschfeld (R., Champaign) referred to the RTA deal as "blackmail" because Mayor Daley and Governor Walker forced downstate legislators to vote for the transit system in order to increase the downstate highway bond program (Gilbert 1973b). He expressed his disgust with these political leaders by referring to Daley as the "mayor of Illinois" and to Walker as a "politician with one-eyed morality" (Gilbert 1973b).

Downstate legislators opposed the lottery funding of the RTA for various reasons. First, although the lottery was expected to contribute $171 million of funding (on an annual basis) for the RTA, which serves the six-county Chicago area, the lottery in this same area was expected to generate only $50 million to $60 million annually (Gilbert 1973a). Consequently, lottery players in areas not served by the RTA would be subsidizing the enterprise. Second, areas outside of the six-county area did not have representation on the nine-member appointed board that operated the RTA. Four of the members were to be from Chicago, two from suburban Cook County, two from the remaining five counties, and a ninth member would be a professional transportation expert (Gilbert 1973b).

Were the Lottery's Objectives Fulfilled?

State Fiscal Condition

States facing financial difficulties may turn to lotteries in a search for more funds. Various studies have examined the relationship between state finances and lottery adoptions. In order to study this relationship, the state's financial condition must be measured. Total state debt and long-term debt are among the measures used.

After considering these various approaches, Melanie Patrick used the ratio of short-term debt to total state revenues as her measure of fiscal stress to assess whether states facing financial difficulties are more likely to adopt lotteries (1999, 296–97). She found that more of the states that adopted lotteries during the early adoption period, 1964–77, had higher levels of fiscal stress than did the states that adopted lotteries later (297). Fiscal stress may have been a contributing factor to Illinois's adoption of a lottery. Short-term debt climbed steadily from 1966 through the 1970s, increasing seventeenfold as a percentage of state revenue by 1974. Short-term debt skyrocketed to $147,206,000 at the end of fiscal year 1974 (the year the first lottery tickets were sold), and this sum amounted to a staggering 3.2 percent of state revenue for fiscal year 1974.[5] The Illinois fiscal data clearly support Patrick's assertion that fiscal stress may lead states to adopt a lottery (296–97). This fiscal stress may reflect mismanagement and pork-barrel spending, at least in part. Without additional lottery revenues, state politicians would probably receive greater pressure to operate government more efficiently through privatization, competitive bidding, and so forth.

One of the Illinois lottery's objectives was to increase state revenues for the General Revenue Fund. Net lottery receipts (gross receipts less distributions for prizes and administrative costs) have ranged from 0.36 percent (in fiscal year 1980) to 4.20 percent (in fiscal year 1986) of state revenues since the lottery was adopted. As recently as 2002, the percentage was 1.40 (U.S. Department of Commerce, *State Government Finances,* various years). Thus, the lottery has never contributed a significant percentage of funds to the General Fund.

Did the Lottery Curb Illegal Gambling?

As noted earlier, a common justification used by lottery proponents is that the lottery will help to curb illegal gambling. Rep. Giorgi declared that the lottery would "cripple syndicate gambling operations" (Seslar 1972a). The evidence does not support this justification, however. In fact, it indicates that the legalization of gambling brings about the reverse: a growth of illegal gambling (Weinsetin and Deitch 1974; Kaplan 1984; Thomas and Webb 1984).

There is a lack of research systematically examining how the lottery has affected illegal gambling in Illinois.[6] However, in 1988 Sharon Sharp, director of the Illinois lottery, estimated the state was losing approximately $200 million a year to illegal lottery activities (qtd. in O'Brien 1988). This amount equaled approximately 30 percent of the Illinois lottery's annual net revenues. In 1989, the Chicago Police Department uncovered an illegal lottery operation that it estimated was taking in about $3 million a year (Gorman 1989). The investigation also revealed that the illegal operation had the following advantages over the legal lottery: "the illegal operators had bigger payoffs, winnings were delivered each day in cash, wagers were taken over the telephone, credit was extended and bettors could avoid reporting their winnings for income tax purposes" (Koziol 1989).

A recent *Chicago Sun-Times* example supports John Ifediora's conjecture that complex technology facilitates illegal gambling (1989, 80). James "Jimmy the Man" Marcello actively controlled his Chicago criminal empire from a federal prison two

5. The source of all amounts and percentages is the Council of State Governments' *The Book of the States,* various years.

6. This lacuna may exist at least in part because illegal activities escape mandatory reporting requirements. Police reports capture only the illegal activities that have been investigated.

hundred miles away in Milan, Michigan. In this case of electronic gambling, video gambling machines were installed in bars and restaurants. Because each machine can generate $100,000 per year in profits, the forty bars and restaurants with the machines were generating millions of dollars for the Chicago mob (Warmbir and Herguth 2005). No one knows how much "high-tech" illegal gambling goes undetected.

Do Lotteries Increase Education Funding? The Myth of Earmarking

Lottery proponents most frequently argue that the lottery will enhance education funding. Is this true, or is such an argument simply another *claim* by politicians that they are acting in the public's best interest? Borg and Mason analyze the trend of educational expenditures in Illinois before and after 1973 to ascertain whether "diversion" of education funds took place. In other words, did the lottery cause funds that would have been used for education to be used instead for other programs? These investigators conclude: "the evidence overwhelmingly suggests" that such redirection has occurred (1988, 81).

In 1985, the Illinois legislature revised the law to require that net lottery funds be used to support the state's Common School Fund (Illinois Revised Statutes 1985), a practice known as "earmarking." Did this change lead to an increase in education funding? Every annual lottery report since 1985 claims it did so. For example, the *1992 Annual Report* states: "Winning is what the Illinois Lottery is all about. That is the reason Lottery sales soared to a record-breaking $1.637 billion, with a record $610 million in profits transferred to the Common School Fund. Since 1985, when direct school fund transfers became law, the Lottery has recorded more than $10.4 billion in sales with $4.2 billion returned to the fund." (Illinois State Lottery 1992, X).

Yet earmarking of funds for education has sparked much debate. Some view it as simply a political ploy that makes the lottery more acceptable but does not actually increase education funding. Susan MacManus summarizes this view succinctly in the *Wall Street Journal:* "earmarking lottery proceeds for education is a very effective political gimmick to gain voter support for a new revenue source. But there is little evidence that it solves the fiscal problems confronting schools in those states" (1989). An unnamed veteran chairman of a legislative tax committee readily acknowledged that earmarking facilitates the political process: "Earmarking gets us the votes to pass bills" (qtd. in Gold 1987, 30). Likewise, Borg and Mason conclude: "earmarked lotteries have not benefited the statutory recipients, rather, they have led to opportunities for state legislators to project the image that they are increasing overall allocations to the designated recipients without really doing so" (1990, 300).

In the early 1970s, before the Illinois lottery was authorized, educational funding as a percentage of "own source revenue" was consistently in the 22–24 percent range.[7] After the lottery began operation, the percentage started a downward trend,

7. "Own source general revenue" is defined as all tax revenue, all current change revenue (including lottery proceeds), and all miscellaneous revenue (interest, special assessments, property sales, and so forth). It does

leveling off in the 15–16 percent range by the late 1990s. No significant increase in the amount or percentage of education funding occurred in 1985 or 1986.[8] Education expenditures for fiscal year 1985 were $2 billion, and the 1986 net lottery revenues were $552 million. If the net lottery revenues resulted in a dollar-for-dollar increase in education expenditures, then 1986 education expenditures should have been $2.53 billion, but the amount was only $2.26 billion, or approximately $300 million less. Because the preceding analysis ignores how total state expenditures vary from year to year, this consideration is incorporated in the following analysis.

For fiscal year 1985, before the earmarking legislation, education expenditures as a percentage of total state expenditures were 12 percent. If lottery revenues really provide a dollar-for-dollar increase in education funding, then fiscal year 1986 education expenditures should have been 12 percent of 1986 total state expenditures *plus* the 1986 net lottery revenues. Fiscal year 1986 total expenditures were $17.82 billion, and net lottery revenues were $552 million, so *expected* education expenditures should have amounted to $2.70 billion (that is, 12 percent of $17.82 billion plus $552 million). The *actual* education expenditures for 1986 were only $2.26 billion, or approximately $440 million less than "predicted."

Politicians' emphasis on education *funding* may also be misguided in its implicit assumption that more education funding translates into better education. Empirical evidence does not support this assumption. Hanushek succinctly states the consistent result of studies that have examined the relationship between expenditures and student performance: "There is no strong or systematic relationship between school expenditures and student performance" (1989, 47). Improving education is a multidimensional problem that cannot be solved by focusing *only* on expenditures. The schools' decision-making process and their methods of rewarding teachers also must be examined (Hanushek 1997, 154–55).

In summary, even though Illinois lottery receipts must go to the state's Common School Fund, nothing guarantees that these receipts actually increase education funding dollar for dollar. Funds that otherwise would have been allocated to education are routinely diverted to other causes. Moreover, politicians and school officials need to reexamine the emphasis placed on education funding.

Conclusion

Illinois passed lottery legislation in 1973 for two purposes: to increase the General Revenue Fund and to curb illegal gambling. In line with other states' trends, however, this

not include intergovernmental assistance received, utility or liquor sales, or insurance trust revenue. All data used in the following analysis come from U.S. Bureau of the Census, *Government Finances* and *State Government Finances,* various years.

8. The revised Illinois lottery law (House Bill no. 710) was approved and became effective August 28, 1985. Because the data do not correspond to the Illinois fiscal-year end of June 30, both 1985 and 1986 education funding data are considered in this analysis.

lottery has provided a very small percentage of the state's General Revenue Fund, typically 2–3 percent, with a maximum of 4.2 percent in 1986. And illegal gambling continues to be reported, but no one knows its extent. Contrary to these two official reasons advanced for the lottery legislation, Illinois legislators in actuality gave in to the interests of Chicago. They diverted the initial lottery revenues to save the RTA, arguably a worthwhile goal for six Chicago-area counties served, but not for the rest of the state.

The lottery legislation was revised in 1985 to earmark net lottery revenues for education. Analysis of financial data indicates that earmarking did not increase education funding, but simply diverted funds to other uses. In sum, the Illinois lottery seems to have fallen short of meeting its intended objectives. In the words of one lottery advertisement, state legislators must have been thinking: "When I watch that Big Money ball roll, even my dreams get bigger. Whether I'm imagining myself on my own Caribbean island or watching my kids go off to college, the Big Game reminds me that life is full of opportunities" (Illinois State Lottery 1997, 2). In reality, the politicians have created a huge money-laundering scheme. The state lottery in Illinois, like those in other states, does not operate as the painless, voluntary tax for which Thomas Jefferson hoped.

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