Ways of Looking at a State Lottery (WITH APOLOGIES TO THE POET,

WALLACE STEVENS)

by John Manuel

Executive Summary

The history of public lotteries in the United States goes all the way back to the American colonies, which used a lottery to help support troops during the Revolutionary War. Since then, lotteries have periodically surfaced as a means of providing money for education and other purposes—particularly in times of war or soon after, when public dollars were scarce. Soon after the Revolutionary War, Yale, Harvard, and the University of North Carolina at Chapel Hill tapped temporary lotteries to construct college dormitories, including UNC's South Building. Another round of lotteries surfaced after the Civil War. But these early lotteries were project-related. They tended to wither when the buildings were built or when public scandal forced officials to abandon them as a revenue source. They were not sources of continuing funding of governments, and tickets were pricey for the times—aimed at the wealthy rather than the typical day laborer.

Today, the lottery picture is somewhat different, as 37 states and the District of Columbia operate some type of lottery. Funds from these lotteries are either earmarked for various state government programs or go directly into general funds for any state program.

North Carolina is among the 13 states that do not operate a lottery, although bills to create a lottery have been introduced in the legislature every session since 1983. State lawmakers have raised moral, political, and practical objections to the lottery, but a series of events in neighboring states has renewed the hopes of lottery supporters and placed additional pressures on the state to act. Georgia lent new drive to the lottery with its Hope Scholarship Program. Both Alabama and South Carolina elected Democratic governors on the promise of a lottery vote (though the lottery was ultimately defeated in a public referendum in Alabama). And since the founding of the Virginia lottery in 1988, North Carolina citizens have streamed across the state line to purchase lottery tickets, spending an estimated \$86.5 million there in the 1998–99 fiscal year, according to spokespersons for the Virginia lottery. Mike Easley, the Democratic gubernatorial candidate in 2000, supports a citizen referendum on a state lottery with the proceeds going to reducing class size in the public schools and to a pre-kindergarten program for at-risk children. On the Republican side, gubernatorial candidate Richard Vinroot opposes the lottery but has said he wouldn't veto a bill submitting a lottery to a voter referendum.

With the lottery a key issue in the 2000 governor's race and the General Assembly perhaps considering lottery legislation in its 2001 session, the North Carolina Center for Public Policy Research decided the time is ripe for another in-depth discussion of state lotteries. The Center last looked at this question in 1985. The Center now has developed 13 research questions on issues ranging from whether lotteries are a reliable revenue stream to whether they promote compulsive gambling.

According to the latest survey, only seven of the 38 states (the District of Columbia included) allow lottery funds to flow directly to the state's general fund. The remainder earmark funds for particular programs, with 20 of the 31 states that earmark directing all or part of their revenues for education. As a percentage of total state budgets, the revenue from lotteries is small, ranging from 0.33 percent (\$6.3 million) in Montana to 4.07 percent (\$558.5 million) in Georgia. In 1997, total revenues from 37 lottery states and the District of Columbia amounted to 2.2 percent of general revenue collected by those jurisdictions. And, taken as a percentage of total state revenues, lottery revenues are declining. In 1989, the mean percentage of the total state budget provided by lotteries for the 29 states then participating was 3.7 percent. By 1997, the figure for those same states was 1.9 percent. It appears that after decades of remarkable growth, lottery sales are slipping nationwide. Some experts cite "jackpot fatigue"—a need for ever-higher prizes to attract public interest. Others cite competition from other forms of gambling.

To encourage participation in the games, states market lotteries heavily. Marketing includes the number and type of games instituted as well as advertising and promotion. Beyond the initial cost of purchasing and setting up gaming equipment, on-going marketing costs primarily are those associated with media advertising (such as television, radio, and billboard ads) and non-media promotion strategies. States differ in what they count as marketing costs, but on average, these expenditures account for about 1 percent of lottery sales. However, there is a broad range. For fiscal year 1997, marketing costs ranged from 0.02 percent of lottery sales in Massachusetts to 3.6 percent of sales in Montana. Actual dollars spent for marketing ranged from \$650,000 in Vermont to \$59 million in New York.

In promoting lotteries, legislative proponents typically assert that lottery revenues will enhance funding in certain program areas such as education—the primary beneficiary of state lottery dollars nationally. However, there is no guarantee that lawmakers will not merely substitute lottery revenues for normal levels of appropriations. Author Pamela Allen, writing in Education Policy, concluded that normal levels of appropriations for education were merely supplanted

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by lottery funds in California, Florida, Michigan, and Illinois. The substitutions came despite the fact that lotteries in all four states were promoted as boosting funding for education. A 1996 study by Money magazine found that state spending for education as a percentage of total state budgets had remained relatively unchanged during the 1990s—about 50 percent for lottery states and 60 percent for non-lottery states. A 1998 study focusing exclusively on Florida found the state now spends less per student on public education than before the lottery was instituted—about 35 cents of each tax dollar compared to 40 cents on the dollar prior to establishment of the lottery. On the other hand, a July 2000 analysis published by State Policy Reports indicated that lottery states spend more per student, on average, than non-lottery states. Lotteries that direct funds to a narrowly prescribed program or project—such as Georgia's Hope Scholarship Program—are more successful in enhancing funding for education.

Critics contend that the lottery preys on the poor, though lottery advocates dispute this contention vigorously. On the whole, lottery play is spread evenly across almost all income groups. However, research indicates that low-income players spend a higher proportion of their income on lottery tickets than do players who earn more. The amount of money players spend drops sharply as education levels increase. High school dropouts who play the lottery are by far the biggest spenders. African Americans who play spend more than other racial groups. Other socioeconomic groups that play heavily include males, Hispanics, Catholics, laborers, and the middle-aged generally.

As to other social problems often associated with the lottery, research indicates that lotteries are less likely to contribute to problems with compulsive gambling than other forms of gambling. However, there is evidence that lotteries provide an avenue for minors to gamble, even though it is illegal for minors to play in all states with a lottery.

There are many different ways of looking at a blackbird and at state lotteries. Some believe the lottery panders to human weakness, and the state should not operate a lottery—no matter what. Others see the seemingly inexorable march of lotteries from state to state and believe participation by North Carolina ultimately is inevitable to stanch the flow of dollars across state lines. Still others believe the lottery to be a relatively harmless form of entertainment and an easy way to capture a relatively small amount of revenue without raising taxes. The lottery raises anew a time-honored question: How should the government raise money and how should the burden of financing government services be spread fairly among the citizens? Ultimately, the state faces a key policy decision as to whether to adopt a lottery. The Center believes the state's citizens should make an informed choice. otteries have had a long history of financing education and public works in America. The American colonies used them to support their troops during the Revolutionary War. Yale, Harvard, and the University of North Carolina at Chapel Hill used them to finance the construction of college dormitories, including the venerable South Building on the UNC campus, before lotteries were banned in the state on religious and moral grounds in 1834.

Today, state lotteries are back with a vengeance, thanks to the financial needs of state government. Thirty-seven states plus the District of Columbia operate some form of lottery, netting revenue in excess of \$12 billion annually, revenue which goes to pay for ongoing state programs.

Not every state, however, sees the lottery as an unmitigated blessing. In North Carolina, lottery bills have been introduced to the General Assembly every session since 1983, when lottery proponents nearly got a bill through the Senate on their first try. Senate Bill 275 passed second reading in the Senate by a 26-21 vote and seemed to be headed for approval before a few well-placed calls from Zebulon Alley, then Governor Jim Hunt's lobbyist, succeeded in killing it.1 A coalition of liberal Democrats and conservative Republicans has been fending off lottery bills in the legislature ever since, allied against more moderate compatriots of both parties who might favor the lottery to provide funding for favored programs such as public education or infrastructure improvements or to mitigate tax increases. All of the bills have been structured similarly, with 34 percent of revenue going to the state as profit, 50 percent to the players as prizes, and the remaining 16 percent to operating costs.

Hunt, now in his fourth term as governor (1977–85 and 1993–2001), has himself softened his position on the lottery, saying he has personal reservations but would favor allowing the people to vote on the issue. If the vote were favorable, Hunt would want most of the proceeds to go to education, according to his press office.

But though pundits responding to various fiscal crises have more than once declared, "This is the year of the lottery" for North Carolina, the political cards have never fallen just right for lottery proponents. The Senate has passed three different lottery bills but has seen them die in the House without ever being discussed on the floor. (See "Recent Legislative History of the Lottery in North Carolina," p. 10, for more.)

Former House Speakers Dan Blue (D-Wake), who held the office from 1991–94, and Harold

Brubaker (R-Randolph), speaker from 1995 to 1998, both staunchly opposed a lottery and made sure it remained buried in hostile House committees. Three lottery bills were introduced in the 1999–2000 General Assembly. Current Speaker Jim Black (D-Mecklenburg) says he would not prevent a floor vote on the lottery but wants it to be an informed vote. With that in mind, in the spring of 2000 Black appointed the 24-member House Select Committee on the Lottery. "I have said repeatedly that I want the lottery fully debated and understood before any House vote," says Black. "This select committee will ensure that those discussions take place."²

The committee met once before the 2000 session of the General Assembly but did not report. Yet another "year of the lottery" has passed without the General Assembly acting on the matter, but the debate is far from over and may soon intensify, as the lottery has found new friends in gubernatorial politics.

The lottery has been loudly condemned in the Tar Heel press and pulpit, attracting opposition from groups as diverse as the liberal Common Sense Foundation and the conservative N.C. Family Policy Council. (For excerpts from the editorial pages of North Carolina newspapers, see "Editorial Comments on the Lottery," p. 26.) Opponents include two former governors, Democrat Bob Scott (1969-73) and Republican Jim Martin (1985-93), along with former University of North Carolina President Bill Friday. Other foes include conservative and liberal policy groups such as the John Locke Foundation and the N.C. Budget and Tax Center and religious groups of nearly every stripe. Arrayed against these interests in support of the lottery are the public (if polls in general are to be trusted) and firms that would help to operate a lottery. In addition, the N.C. Association of Educators would support a lottery if all of the proceeds were devoted to education. And legislators say they have heard from some Parent-Teacher Association members who would support the lottery if the funds went to education.

The lottery also has been discussed among some environmental groups since past proposals have included support for environmentally friendly causes such as the state's Clean Water Trust Fund. So far none have taken a public stance. Business has been largely silent on the issue as well, although some interests—like the state's broadcast media would likely benefit from lottery advertising.

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Among the concerns of opponents are that a lottery would prey on human weakness, that it would hurt the poor who would spend more than they could afford, and that it would weaken the family by encouraging compulsive gambling. And no matter their politics, there are those who believe the state operations should be financed by fairly imposed, broad-based taxes rather than games of chance.

Despite these arguments, the issue remains very much alive, thanks in part to its popularity with the broader public, many of whom just want to play the game. From the California Gold Rush to the current fascination with the television hit, "Who Wants To Be a Millionaire?", Americans have long been intrigued with the prospect of getting rich quick. The lottery feeds on that kind of thinking. As one lottery promotion put it, "All You Need Is a Dollar and a Dream." The lottery issue assumed importance in recent gubernatorial campaigns in Alabama and South Carolina, where Democrats won election on the promise of a lottery referendum. Previously, support for a lottery had helped elect Democratic governors in Georgia and Kentucky.³ This trend did not go unnoticed in Tar Heel political circles.

In North Carolina's 2000 Democratic primary

election, gubernatorial candidates Attorney General Mike Easley and Lieutenant Governor Dennis Wicker built much of their campaigns around support for a state lottery. The three Republican candidates—Rep. Leo Daughtry (R-Johnston), former Rep. Chuck Neely (R-Wake), and former Charlotte mayor Richard Vinroot—all opposed the lottery, and Daughtry and Neely went so far as to sign a pledge indicating that if elected, they would veto any lottery legislation. Vinroot said he personally opposed the lottery but would allow the public to vote in a referendum. Easley and Vinroot won their respective party primaries, and the lottery will be an issue in the November 2000 gubernatorial race.

A lottery bill was never brought up for a vote in the 1999–2000 session of the General Assembly, but the gubernatorial race keeps the issue alive and creates a strong possibility that the legislature will revisit the lottery question in 2001. Additional pressure may come from a decision by South Carolina voters, who face a yes or no question on the lottery in the November election. Current polls indicate that if such a referendum were held in North Carolina, 70 percent of citizens would vote in favor of the lottery, though lottery opponents would wage a fierce fight against it that could erode support. Such a situation occurred in Alabama, where "And having myself made it a rule never to engage in a lottery or any other adventure of mere chance, I can, with less candor or effect, urge it on others, however laudable or desirable its object may be."

> —THOMAS JEFFERSON "AN ACADEMICAL VILLAGE" THE WRITINGS OF THOMAS JEFFERSON, LETTERS 1810

polls in August 1999 showed 61 percent favored a lottery but voters rejected it in a November referendum, 54 percent to 46 percent.

Given the controversial nature of this subject, many legislators would no doubt prefer to put the decision in the hands of the citizens, or otherwise avoid voting on it. But policymakers and citizens should have an understanding of the potential economic and social costs and benefits of a lottery and of the different ways a lottery can be administered. Thanks to more than two decades of research on state lotteries in the U.S., there is a wealth of information at hand.

A Brief History

A merica's involvement with gambling started in 1607 when settlers at the struggling Jamestown colony petitioned the English Parliament to conduct a lottery in England to support their venture. Even Thomas Jefferson, who in one instance wrote that he "made it a rule never to engage in a lottery or any other adventure of mere chance,"⁴ in the end proposed to sell off portions of his estate through a lottery in order to prevent his heirs from assuming a ruinous debt.⁵ In writings that attempted to justify his lottery proposal, Jefferson mused, "[I]f we consider games of chance immoral, then every pursuit of human industry is immoral, for there is not a single one that is not subject to chance."⁶

Historians cite three waves of lotteries in the U.S. The first, extending from 1607 to 1820, was spurred by the need to finance the Revolutionary War and, later, to provide funding for colleges, capital projects, and private charities. The first wave of lotteries included North Carolina and partial financing of South Building at the University of North Carolina at Chapel Hill. Other beneficiaries of Tar Heel lottery dollars included various civic projects such as the Craven County poor house and even churches in Brunswick and Wilmington.

These early lotteries were project-related—not a source of continuing funding of governments. In



addition, they tended to appeal to the wealthy, since tickets cost more than the average day laborer could afford. The demise of this wave was caused by scandals involving fraud by lottery operators and by the adoption of more stable revenue sources, such as excise taxes.

The second wave of lotteries, running from 1868 to 1895, was spawned by the Civil War, and was employed primarily by the Southern states to finance the rebuilding of infrastructure destroyed during the war. This wave died out due to a major scandal in Louisiana and to a nationwide protest against the use of mails for gambling.

The third wave began in 1964 and continues to the present. It is associated with the demands on government, particularly state government, to provide an increasing array of social services and educational support. In the face of mounting fiscal pressures, 37 states (starting with New Hampshire) and the District of Columbia have initiated lotteries to help support these services.

By most accounts, lotteries remain popular in the states that have adopted them, although the recent defeat of a lottery referendum in Alabama and demise of video poker in South Carolina indicate that the spread of lotteries is not inevitable. Alabama voters defeated a lottery referendum in 1999 by a vote of 54–46 percent, despite a strong push for passage by Governor Donald Siegelman, who was elected on the promise of holding a referendum on a lottery. North Carolina now is bordered

> "[I]f we consider games of chance immoral, then every pursuit of human industry is immoral, for there is not a single one that is not subject to chance." ----THOMAS JEFFERSON

"STATEMENT AND NOTE ON LOTTERIES," 1826

by states on the north (Virginia) and far southwestern corner (Georgia) that have lotteries. These attract a sizable number of North Carolina citizens as players, adding weight to the argument that we should adopt a lottery if for no other reason than to "keep our dollars at home." A South Carolina lottery would attract still more North Carolina players. There are many arguments for and against lotteries that make the process of deciding a complex one.

Arguments For and Against

T hroughout history, people have expressed ambivalence about state-supported gambling. The U.S. has gone through successive waves of acceptance and revulsion, driven by the vicissitudes of economics, politics, the states' need for revenues, and the moral temperament of the times. In his book, *State Lotteries and Legalized Gambling: Painless Revenue or Painful Mirage?*, Boston College economics professor Richard McGowan states:

"The current controversy in the United States about lotteries and government's role in the gambling industry is merely a continuation of a debate that began in the 1600s with the founding of colonial America. This debate has always contained both economic and political elements that cannot be addressed separately. For the question that public policy officials face when they are dealing with the lottery question and gambling in general is: Does the revenue from the lottery or gambling justify the state's 'tolerance' of 'the necessary evil'?"⁷

In North Carolina, arguments for and against the lottery have raged back and forth in the pulpits and the press. The majority of editorial stances, as well as those publicly avowed by legislators, appear to be against the lottery. Yet newspaper polls show that a majority of North Carolina citizens are in favor of it. The latest "Your Voice Your Vote Poll," conducted for a coalition of North Carolina newspaper and broadcast outlets in January and February of 2000 to help guide coverage of the 2000 elections, found 70 percent of respondents favor a state lottery if the proceeds are used for education. This is consistent with previous polls that typically show support of 60 to 70 percent. (For more on this issue, see "What the Polls Say About Public Support for a Lottery in North Carolina, p. 42.) All these polls, however, were conducted in the absence of an organized campaign to turn the public against a lottery. Clearly, each side

of the lottery debate has some merit. The **arguments for a lottery** can be summarized as follows:

- 1. The lottery amounts to a voluntary tax, a painless way to gain additional revenue. Estimates are that North Carolina would raise \$300 million the first year after expenses and prizes.
- 2. Public opinion polls show that a majority of North Carolinians want a lottery. People should be allowed the freedom to play if they so chose. There is no need for the state to play big brother.
- 3. Lotteries have been used to raise money throughout the history of this country, including in North Carolina, and society has not fallen into ruin. Quite the contrary, the lotteries proved invaluable in financing wars, as well as education and infrastructure.
- 4. Thirty-seven states, including the neighboring states of Virginia and Georgia, now offer lotteries. North Carolinians are traveling to these states to gamble, spending an estimated \$86.5 million in the 1998–99 fiscal year on lottery tickets in Virginia alone, according to spokespersons for the Virginia lottery.⁸ That money could be staying in North Carolina. After deducting prize and expense money, about a third of the \$86.5 million went to support state government programs in Virginia.
- 5. Lottery revenues can be earmarked for socially acceptable purposes. The bills introduced in the 1999–2000 North Carolina legislature would use lottery receipts to fund college scholarships, to expand the preschool program Smart Start, to put technology into public schools, and to bolster the Clean Water Trust Fund.
- 6. There is little evidence that modern-day, statesponsored lotteries are corrupted by criminal elements.
- 7. North Carolina already allows gambling in the form of religious and nonprofit-sponsored bingo games and raffles with proceeds going to charity. In addition, there is casino video gambling on the Cherokee Indian Reservation in Western North Carolina.

The **arguments against a lottery** are equally numerous. They include the following:

1. The state should not be sponsoring gambling, a widely recognized societal evil. The lottery

will encourage teenagers and others to participate in gambling.

- 2. Lotteries on average generate only about 2.2 percent of state revenues, hardly worth the expense to market and administer them.
- 3. Lottery revenues drop over time, forcing the states into ever-more aggressive marketing and ever-more cunning games.
- 4. States should raise money honestly through the tax system to generate revenues for perceived needs.
- 5. Studies show that as a percentage of household income, poorer people spend more money on lottery than people in higher income brackets. In effect, the lottery is a regressive tax.
- 6. Lotteries do not necessarily increase the amount of money states spend on programs earmarked for lottery revenues, such as education. On the contrary, states without a lottery spend a greater portion of their budgets on education than states with lotteries earmarked for education.
- 7. Lottery sales do not increase retail sales. On the contrary, dollars spent on lottery tickets are dollars not spent on retail goods.

To help sort out these different arguments, the N.C. Center for Public Policy Research has identified a list of a lucky 13 key questions to which lawmakers and citizens should have answers before voting on a lottery. In recent years, a number of comprehensive studies have been conducted that analyze the experience of other states with lotteries. Their findings provide a picture of what North Carolina would be likely to experience should the state adopt a lottery, as well as options for how to structure a lottery should the state decide to proceed.

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l was of three minds, Like a tree In which there are three blackbirds

----WALLACE STEVENS "THIRTEEN WAYS OF LOOKING AT A BLACKBIRD" For what programs do states earmark lottery revenues, and what are examples of program accomplishments funded by lotteries?

> Key up the Web pages on computer for state lotteries such as Pennsylvania's (*www.palottery. com*) or Georgia's (*www.ganet. org/lottery*), and along with the bold come-ons to play the lottery

will be subtexts reading "Benefits Older Pennsylvanians" or "HOPE Scholarships Available." These subtexts are references to the "good causes" for which lottery revenues are earmarked after subtracting administrative costs and awarding prizes. In Pennsylvania, revenues are distributed among programs for the elderly and for mass transit and ride-sharing programs. In Georgia, the bulk of revenues are earmarked for the HOPE Scholarship program, which provides scholarships for qualified students wishing to attend a Georgia public college or university.

Earmarking of funds is one method of generating public support for lotteries. Rather than throwing money into the general fund to be spent on anything in the state budget, funds are earmarked for specific programs or projects that proponents think the public wants. According to the latest published data from *La Fleur's 2000 World Lottery Almanac*, the leading source of trade information on lotteries, only seven of the 38 states (the District of Columbia included) put lottery revenues exclusively into the general fund.⁹ (See Table 1, p. 14.) Six other states direct part of their earnings to the state's general fund, but most earmark funds for specific programs or projects. Of the 31 states that earmark funds, 20 direct all or part of their revenues to education. The rest include a range of programs from parks and recreation to police and firefighters' pensions.

Asked to cite examples of successful programs funded by state lotteries, policymakers and academicians invariably point to Georgia's HOPE Scholarship Program. Established by Democratic Governor Zell Miller in 1993, the HOPE Scholarship Program provides any in-state student wishing to attend a Georgia public college or university with full tuition, mandatory fees, and a \$150-per-semester book allowance, provided that the student graduates from high school with a "B" average or higher. Students must maintain a "B" average in college to retain the scholarship. Students wishing to attend a Georgia public technical institution also are provided full tuition, mandatory fees, and a \$100-perquarter book allowance. Those wishing to attend a private college in Georgia are eligible for a \$3,000 per year scholarship plus a \$1,000 Georgia Tuition Equalization Grant.¹⁰

As of September 1998, Georgia had awarded more than \$580 million in HOPE Scholarship grants to 319,000 students. The National Association of State Student Grant and Aid Programs now

Among the programs supported by the Georgia Lottery is the Office of School Readiness. Services include Pre-K, Head Start, Child Care Services, Child and Adult Care Food Program, Summer Food Program and Training.



ranks Georgia number one in the nation in student financial aid, with 77.9 percent of undergraduates receiving aid. North Carolina ranks 23rd, with 19.8 percent of undergraduates receiving aid.¹¹ As for percentage of students receiving need-based aid, Georgia ranks 49th at 0.7 percent, while North Carolina ranks 36th at 6.8 percent. In 1996, President Clinton modeled his America's Hope program, a tax credit for the cost of two years of education beyond high school, on Georgia's HOPE program, though he did not propose a national lottery to pay for the program. Instead, the funds would come out of general federal revenues.

The HOPE Scholarship Program has been criticized in North Carolina editorial columns for allegedly relying on the poor-who spend a disproportionate share of their income on the lottery-to shoulder the college costs of the more affluent. The program has also been criticized for not making scholarship money available to students who receive federal Pell grants-need-based scholarships awarded to students from low-income households. Recent news reports also state that 75 percent of students from Atlanta, Ga. and 64 percent of scholarship recipients statewide lose their HOPE scholarship after their freshman year of college.¹² Students who lose their scholarship in their freshman year cannot regain eligibility through improved academic performance until their junior year.

Moreover, the North Carolina Budget and Tax Center points out that a HOPE-style scholarship program for North Carolina would supplant federal tax credits already available for qualifying families with students in college.¹³ Currently, qualifying families with students enrolled in their first two years of college are eligible for a 100 percent federal income tax credit on their first \$1,000 of tuition and fees and a 50 percent credit on their second \$1,000 in tuition and fees. While some families are not eligible-those earning incomes small enough to be eligible for low-income grants and those with incomes above \$100,000, the scholarships would replace much of the tax credit for many North Carolina families, and the loss of the federal subsidy would be "substantial."

However, the HOPE Scholarship Program is popular in Georgia. In-state college attendance rates for high school graduates who enroll in state universities the following fall have increased from 27.5 percent in 1992, the year before HOPE scholarships were instituted, to 30.7 percent in 1997, according to Sue Sloop, assistant director of research for the Board of Regents of the University System of Georgia. It should be noted, however, that other forces "[T]he question public policy officials face ... is: Does the revenue from the lottery or gambling justify the state's 'tolerance' of 'the necessary evil'?"

-RICHARD MCGOWAN,

STATE LOTTERIES AND LEGALIZED GAMBLING: PAINLESS REVENUE OR PAINFUL MIRAGE?

may have been at work. During the same time period, North Carolina, minus any HOPE scholarship program, saw a similar increase in its high school graduates enrolling in state universities the following fall. In 1992, 25.5 percent of graduating high school students enrolled in state colleges and universities, while in 1997, the figure was 30 percent, according to the University of North Carolina General Administration office in Chapel Hill, N.C.

Nevertheless, in 1998, Georgia voters passed a constitutional amendment protecting the HOPE Scholarship Program from legislative and political tampering. The Georgia State Poll, conducted in April 1998 by Georgia State University, asked respondents, "If you could vote today on the Georgia state lottery, would you vote to keep it or discontinue it?"¹⁴ Of 730 respondents, 75 percent said they would vote to keep the lottery, while only 21 percent said they would discontinue it. The remaining respondents did not know or did not answer. The poll had a margin of error of plus or minus 3.6 percent.

Pennsylvania is another state frequently commended for its use of lottery revenues. With 15.83 percent of its population over 65—second only to Florida, Pennsylvania has been faced with the difficult prospect of either trying to raise taxes or finding alternative means of funding to provide services for this sector of the population.¹⁵ The Keystone State chose to initiate a lottery in 1972 and use the proceeds to fund programs in three areas—services for the aged provided through 52 local agencies on aging, a pharmaceutical assistance program for the elderly (PACE), and free and subsidized mass transit and ride-sharing programs. With funds from the lottery, Pennsylvania has provided funds to the elderly totaling \$10.72 billion since 1972.¹⁶

In the 1999–2000 legislative session, North Carolina saw three lottery proposals introduced. Each earmarked lottery revenues, but each differed —continued on page 16

Table 1. How State Lottery Profits Are Spent by States

	Dollar Amounts in Millions			
	Total	Total Lottery		
	Lottery	Expenses (including	Lottery Net	
	Revenue	prizes, agent	Income for	Program or
State	for Fiscal Vear 1999	commissions, and	Fiscal Year 1999	Budget Area Receiving Funds
1) Arizona	\$ 269.16	\$ 188.46	\$ 80.70	A minimum of 30% of all revenues must be directed toward the state's clean air fund, county assistance, economic development, general fund, heritage fund and mass transit.
2) California	2,516.60	1,617.25	899.35	Education
3) Colorado	370.48	285.98	84.50	Conservation trust fund, state parks, capital construction, Great Outdoors Colorado
4) Connecticut	872.82	597.58	275.24	General fund
5) Delaware	527.73	316.60	211.13	General fund
6) District of Columbia	209.51	145.19	64.31	General fund
7) Florida	2,112.97	1,307.19	805.78	Education
8) Georgia	1,957.97	1,309.88	648.10	Education
9) Idaho	91.01	69.56	21.45	Net revenue must be split equally between the public schools and the state permanent building fund.
10) Illinois	1,502.05	976.34	525.71	Public schools
11) Indiana	681.23	477.17	204.05	Education, license plate tax, police/firefighters' pensions, teachers' retirement, economic development
12) Iowa	184.79	139.29	45.51	General fund
13) Kansas	199.89	139.58	60.31	85% of revenue is directed toward economic development, while the remaining 15% is used for prisons.
14) Kentucky	567.39	423.05	144.34	Education, general fund
15) Louisiana	299.01	192.06	106.95	Lottery proceeds fund (appropriated annually)
16) Maine	147.02	107.40	39.62	General fund
17) Maryland	1,080.03	688.45	391.58	General fund, Maryland Stadium Authority
18) Massachusetts	3,381.62	2,572.52	809.09	Assistance for compulsive gamblers, cultural council, revenue sharing

Table 1, continued

	Dollar Amounts in Millions			
State	Total Lottery Revenue for Fiscal Year 1999	Total Lottery Expenses (including prizes, agent commissions, and other expenses	Lottery Net Income for Fiscal Year 1999	Program or Budget Area Receiving Funds
19) Michigan	1,729.28	1,213.95	515.32	Public schools
20) Minnesota	392.04	306.30	85.74	Environment and natural resources fund, general fund sales tax relief
21) Missouri	516.37	357.81	158.56	Education
22) Montana	30.33	23.15	7.18	General fund
23) Nebraska	73.33	55.15	18.19	Assistance for compulsive gamblers, education innovation, environmental trust fund, solid waste landfill closure assistance
24) New Hampshire	202.49	137.91	64.58	Education .
25) New Jersey	1,683.33	1,028.49	654.84	Education, state institutions
26) New Mexico	89.65	70.04	19.61	Education
27) New York	3,702.12	2,288.80	1,413.33	Education
28) Ohio	2,110.77	1,483.28	627.50	At least 30% of all lottery revenues must be directed toward education.
29) Oregon	5,990.83	5,684.22	306.61	Economic development, job creation, public schools
30) Pennsylvania	1,676.62	1,008.39	668.22	Senior citizens programs
31) Rhode Island	742.08	608.68	133.41	General fund
32) South Dakota	556.75	457.99	98.78	General fund, capital construction fund
33) Texas	2,479.13	1,631.57	847.56	Education
34) Vermont	70.43	50.92	19.51	Education
35) Virginia	944.73	627.86	316.88	Education
36) Washington	451.79	360.43	91.36	General fund, Seattle Mariners baseball stadium, and stadium exhibition center
37) West Virginia	2,529.66	2,412.74	116.92	Education, senior citizens, tourism
38) Wisconsin	433.64	293.65	139.99	Property tax relief

States that direct lottery proceeds solely to general fund: 7 States that earmark at least some lottery proceeds for education: 20 States that earmark lottery funds for programs other than education: 11

Sources: La Fleur's 2000 World Almanac, TLF Publications, Inc., Boyds, Md., 2000, pp. 23, 237.





Two North Carolina residents play the Virginia lottery. The child is drawing, not playing the lottery.

slightly as to which programs were earmarked. Senate Bill 21 and House Bill 42-identical bills sponsored by Sen. Tony Rand (D-Cumberland) in the Senate and Rep. Ted Kinney (D-Cumberland) in the House-each allocated 20 percent of net revenues to the state's Clean Water Fund for revolving loans and grants. As much of the remaining funds "as is needed" would be channeled into an Education Improvement Scholarship Program similar to Georgia's HOPE Scholarship Program. Any funds left over from these two programs would be used for technology in the public schools and public school facility and capital needs.

House Bill 46, sponsored by Reps. Bill Owens (D-Pasquotank) and Rep. Howard Hunter Jr. (D-Northampton), would have divided lottery revenues four ways. It directed 25 percent of net revenues to the Education Improvement Scholarship Program, 25 percent to public education technology needs, 25 percent to the counties for water and sewer infrastructure improvements, and 25 percent to the General Fund to reduce the State's bonded indebtedness.

House Bill 71, sponsored by Rep. Toby Fitch (D-Wilson) would have directed up to 50 percent of net lottery revenues to the Education Improvement Scholarship Program. It also directed \$1 million annually to public schools for capital improvements and the balance to Governor Hunt's Early Childhood Education and Development Initiatives Program-or Smart Start.

John Wilson, executive director of the North Carolina Association of Educators (NCAE), says the NCAE would support a lottery bill as long as all the money goes to public schools. "We would like to see grants given to kids who are below grade level and who are already in the system," Wilson says. "The money could go for tutors, for technology ... whatever would get them up to grade level.

"We also like the idea of giving all kids the opportunity to go to college, similar to the HOPE Scholarships," Wilson says. "But unlike the HOPE Scholarships, our grants should be distributed evenly among all students that meet the academic criteria, including those who are eligible for Pell

grants." Wilson says the NCAE was not supportive of any of the lottery bills in the 1999–2000 session because they did not commit all of the program revenue to education.

What is the track record of the lottery as a revenue source, and does the reliability or size of the revenue stream depend upon the programs for which the revenue is earmarked?



The principal (if not the only) reason for instituting a state lottery is to increase revenues to state government. Proponents speak of lotteries as a *painless* source of revenue, provided by citizens who voluntarily choose

to play the game as opposed to taxes, which are required to be paid by citizens. How significant are those revenues and how do they vary over time? Revenues from lotteries consist of the money left over after the awarding of prizes, retail sales commissions, and operating revenues. As a fraction of total state budgets, the revenue from lotteries is small, ranging from 0.33 percent (\$6.3 million) in Montana to 4.07 percent (\$558.5 million) in Georgia. In 1997, total revenues from the 37 lottery

states and the District of Columbia amounted to 2.2 percent of the general revenue collected by those states.¹⁷ (See Table 2, p. 18.) Figures developed by the staff of the North Carolina General Assembly suggest that a lottery here would generate approximately \$300 million in net revenue for the state the first year, 2.3 percent of the fiscal year 1999-2000 budget of \$13.3 billion. Kenneth S. Levenbook, an attorney in the legislature's Bill Drafting Division, says the lottery revenue figure was derived by multiplying the average per capita lottery sales in all lottery states-\$155 per yeartimes North Carolina's 1998 population of approximately 7 million. The resulting \$1.08 billion figure was then multiplied by 0.34, the minimum proportion of gross sales required by the pending lottery bills to be used for public purposes. The figure does not account for any erosion of sales tax revenue that may occur if-as some critics suggest-the purchase of non-taxed lottery tickets is substituted for taxed items.

In the 2000 Democratic primary, the Easley campaign has used this \$300 million figure as the estimated amount of revenue available for its education platform, which focuses on reducing class size in the public schools and establishing a pre-kindergarten program for at-risk 4-year-olds. The Wicker campaign used a higher figure of

How Does the Lottery Compare as a Revenue Source?

Lottery dollars sound big on first blush, but how does a state lottery compare to other more traditional state revenue sources? Estimates are that a state lottery would produce some \$300 million in the first year of operation. That represents 2.3 percent of a state budget of \$13.3 billion. But what about taxes? How much would they produce?

According to the legislature's Fiscal Research Division, a 1 cent increase in the state sales tax would produce \$761.4 million annually, more than twice the revenue production estimate for a state lottery. On the other hand, a 1 percent surtax applied to every taxpayer's state personal income tax bill would produce only \$76.3 million---much less than a lottery. As for what the lottery revenue could buy, reducing class size in the public schools—as favored by Democratic gubernatorial candidate Mike Easley, could easily swallow every dime. The Fiscal Research Division estimates that to reduce the current student-teacher ratio allotment for grades K–3 in the state's public schools to 15 students per teacher would cost \$331 million. Currently, the allotted ratio is one teacher per 19 students for grades K–2 and one teacher per 22.23 students in grade 3. Because all teachers are not deployed in the classroom, the actual student-teacher ratio is higher than the allotted ratio. —*Mike McLaughlin*

Mike McLaughlin is editor of North Carolina Insight

(amounts in millions of dollars)					
State		State Revenue	Lottery Revenue	Lottery Revenue As Percent of Total Revenue	
1)	Arizona	\$ 8,262	\$ 79.7	0.96%	
2)	California	73,584	711.9	0.97	
3)	Colorado	7,349	92.7	1.26	
4)	Connecticut	10,071	252.6	2.51	
5)	District of Columbia	2,986	34.2	1.14	
6)	Delaware	2,797	66.7	2.38	
7)	Florida	25,984	802.4	3.09	
8)	Georgia	13,707	558.5	4.07	
9)	Idaho	2,552	17.7	0.70	
10)	Illinois	23,355	571.2	2.45	
11)	Indiana	12,132	172.0	1.42	
12)	Iowa	6,352	42.5	0.67	
13)	Kansas	5,425	55.9	1.03	
14)	Kentucky	8,967	152.0	1.70	
15)	Louisiana	9,200	98.4	1.07	
16)	Maine	2,760	40.0	1.45	
17)	Maryland	11,388	392.3	3.44	
18)	Massachusetts	18,002	696.0	3.87	
19)	Michigan	25,590	563.4	2.20	
20)	Minnesota	13,581	84.1	0.62	
21)	Missouri	10,054	131.3	1.31	

approximately \$410 million in estimated lottery revenue, based on the same estimate of per capita spending of \$155, a more current North Carolina population estimate of 7.5 million, and a slightly higher multiplier of 0.35 based on the 35 percent profit the Georgia Lottery must return to the state.

The legislature's Fiscal Research Division uses the \$300 million figure but considers it to be a conservative estimate. Still, even if the lottery produced at the higher estimate, it would remain a relatively small revenue producer compared to other revenue sources for state government. (See Table 3, p. 21.) For example, the individual income tax produces \$6.6 billion revenue annually—nearly 54 percent of the state's general fund. The sales and use tax produces an additional \$3.4 billion—or 25 percent of the state's general fund revenue. By these standards, the lottery's 2.3 percent contribution is little more than a drop in the bucket.

Critics contend that lotteries are not a dependable source of revenue since states may experience declines in some years and increases in others.

Table 2, *continued*

22)	Montana Nebraska	1,920	6.0	
	Nebraska		6.3	0,33
23)		3,576	19.5	0.54
24)	New Hampshire	1,807	51.3	2.84
25)	New Jersey	20,600	612.4	2.97
26)	New Mexico	4,990	20.5	0.41
27)	New York	44,912	1,530.6	3.41
28)	Ohio	21,799	750.4	3.44
29)	Oregon	7,768	72.8	0.94
30)	Pennsylvania	25,792	691.0	2.86
31)	Rhode Island	2,392	42.2	1.76
32)	South Dakota	1,247	5.9	0.47
33)	Texas	31,746	1,161.1	3.66
34)	Vermont	1,386	23.6	1.70
35)	Virginia	14,545	331.1	2.28
36)	Washington	14,101	94.2	0.67
37)	West Virginia	3,998	43.9	1.10
38)	Wisconsin	13,012	132.6	1.02
Total	l	\$509,691	\$11,205.0	Avg. 2.20%

Source: Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gaming Impact Study Commission," Duke University, June 1, 1999, Table 4.

They frequently cite a 1987 study by Indiana University economists John Mikesell and Kurt Zorn that concludes, "Clearly, a state cannot rely on net revenue from its lottery to be a stable, reliable source of revenue."¹⁸ The North Carolina Budget and Tax Center reports that lottery net revenue to the states dropped by \$180 million from 1997 to 1998, or 1.5 percent.¹⁹ At the same time, overall state government revenue was increasing by 6 percent, or \$50 billion. The Budget and Tax Center makes particular note of a 23 percent decrease in

revenue for the Virginia lottery. However, a recent study by Duke University professors Charles T. Clotfelter and Philip J. Cook indicates that while lottery revenues have indeed shown more volatility than conventional sources of state revenue, *they rarely decline*. Comparing lotteries to conventional state taxes, including the sales tax and individual income tax among others, the authors find that lottery revenues are the most dependable in the sense of showing the lowest frequency of declines in revenue from one year to the next. "Even though lottery revenues are subject to an unusual degree of volatility, much of this has consisted of breathtaking growth," the authors state. "Surely, this is the kind of volatility to which few state legislatures would object."²⁰

Taken as a total percentage of state revenues, however, lottery revenues are declining. In 1989, the mean percentage of the state budget provided by lotteries for the 29 states then operating lotteries was 3.5 percent.²¹ In 1997, that figure for the same 29 states was 1.9 percent. For all 37 states and the District of Columbia, the 1997 mean percentage of the budget provided by lotteries was 2.2 percent. Indeed, it appears that after decades of remarkable growth, lottery sales are slipping nationwide. Some experts blame "jackpot fatigue"-a need for ever-higher prizes to attract public interest. Others say that as more states institute lotteries, there are fewer opportunities to recruit players from the other side of state lines. Still others cite competition from video gambling and casinos.

"It is a difficult time," Terri La Fleur, author of *La Fleur's Lottery Almanac*, told the *Las Vegas Review-Journal* in the spring of 1999. "Sales are beginning to mature in a number of states, [and] many lotteries are not allowed to expand. As a result of other gambling opportunities—casinos, video gaming machines at racetracks—there is a lot of competition for gambling dollars."²² "That the chance of gain is naturally over-valued, we may learn from the universal success of lotteries.... The vain hope of gaining some of the great prizes is the sole cause of this demand." —ADAM SMITH THE WEALTH OF NATIONS

Keon Chi, director of the Center for Trends and Innovations at the Council of State Governments in Lexington, Ky., has conducted a national study of lotteries and casinos. Asked whether the lottery can be a reliable source of state revenue, Chi says, "They can be." However, Chi notes that the success of a lottery varies by state. "Some states, like Arizona, have not been very successful in raising revenue." A number of factors can contribute to inconsistent revenue production, Chi notes, including "poor management, lack of publicity, lack of planning, and perhaps competition with other gaming activities such as casinos."

GAMES FOR THE Common	1999
Pay to the Order of Virginia's Public Sc File Hundred Thirty Six Thousand Silv	chools \$ 536,068.24
By selling Virginia Lottery products,	Penelope W. Kyle, Virginia Lottery Director
contributed the above amount to K-12 education in Virginia, from $\int_{2\pi} 1^{54} 1999$ to $U = 31^{54} 1999$.	THANKS, JEFF

1

Table 3. N.C. General Fund Revenueby Source and Percent of General Fund(amounts in millions)

	1998-1999	1999–2000	Percent of
Tax Revenue	Actual	<u>Authorized</u>	General Fund
	\$ 0,000.3	\$ 7,121.4	
Sales and Use	3,376.2	3,374.3	25.42%
Corporate	848.5	829.2	6.25%
Franchise	409.6	410.9	3.10%
Insurance	291.2	305.7	2.30%
Beverage	158.0	162.2	1.22%
Inheritance	169.9	137.5	1.04%
Cigarette	44.9	42.8	0.32%
Licenses	27.6	30.9	0.23%
Piped Natural Gas	0	30.0	0.23%
Miscellaneous	32.9	23.1	0.17%
Total	\$11,965.3	\$12,468.0	93.92%
Nontor Poronuo			
Investment Income	\$ 2493	\$ 236.2	1 78%
Indicial Fees	121.0	127.1	0.96%
Disproportionate Share Receipts	85.0	105.0	0.79%
Miscellaneous	129.8	156.0	1.18%
Total	\$ 585.1	\$ 624.3	4.71%
Transfers From Highway Funds	183.4	183.6	1.38%
Total General Fund Revenue \$12,733.7		\$13,275.9	100.00%
Projected Revenue from State Lo	ottery	\$ 300.0	2.3%

Source: Fiscal Research Division, N.C. General Assembly.



To what degree does the reliability or size of revenue depend upon the programs for which the revenue is earmarked? Not much, it appears. While some players may be motivated to support state initiatives such as the Georgia scholarship program, the larger factors seem to be changing consumer preference, marketing efforts, the size of lottery prizes, and competition from neighboring states. An Ohio legislative panel examining three straight years of declining revenues cited competition from other states as a major factor.²³ The committee determined Ohio residents were being lured across state lines by riverboat casinos in Indiana and multi-state lotteries such as Powerball, which produce much larger jackpots but are not offered in Ohio. Other factors cited in Ohio included a 30 percent profit requirement that may hurt the state's ability to promote the lottery and even changing retailing practices such as pay-at-the pump gasoline sales and ecommerce.

An analysis of per capita lottery sales compared with type of program funded shows little correlation. For 1998, per capita lottery sales for states directing revenues exclusively to the general fund ranged from \$61 (Iowa) to \$235 (Connecticut). For states earmarking funds exclusively for education, per capita sales ranged from \$48 (New Mexico) to \$238 (Georgia). Massachusetts, the state with far-and-away the highest per capita spending on lottery tickets (\$525), earmarks its funds for a hodgepodge of programs including revenue sharing for cities and towns, a state cultural council, and programs to treat compulsive gambling.24

Shannon Cadres, public relations coordinator for the Massachusetts State Lottery, says the primary factor affecting lottery revenues in her state is the size of the jackpot. In 1997, Massachusetts joined the Big Game Consortium, a group of seven northeastern states that pools

money for larger jackpots. The availability of bigger jackpots in that one game has offset declining revenues for all other games in Massachusetts.

"For fiscal year 1999, our sales of all on-line games experienced a decline," Cadres says. "However, sales of the Big Game went up 74 percent, because of the big jackpot. Last fall, the jackpot hit \$197 million. When jackpots get that high, people who rarely play will come out and buy tickets."

What is the cost of marketing a lottery, and does the cost increase, remain stable, or decrease over time?

3

Beyond the initial decision as to whether to institute a lottery, the most important decisions a state makes with respect to the lottery concern how much the state pays out in prizes and marketing. Marketing includes the number and type of games instituted, as well as advertising and promotion. Initially, states incur a high expense to purchase and set up the hardware and infrastructure required to play the game(s). After that, marketing expenses decline. This initial expense varies based upon the number and type of game chosen. Typical lottery games include:

Scratch-off instant games: These games utilize a paper ticket with spaces that can be scratched off to reveal numbers or words indicating whether the ticket is a winner. This game can be instituted without the investment in computer terminals required by more advanced lottery products. Many states choose to sell tickets through vending machines, which frees the retail outlet from using its staff to sell tickets. Stakes are small but the odds of winning are high, typically one in four.

Daily numbers game: Using computer terminals, players choose three- or-four-digit numbers. One winning combination is posted each day. This game gives players the sense that they are actively involved in the gambling process. The odds of winning in the three-digit game are approximately one in 1,000.

Lotto: The most common of lottery products, lotto asks players to choose a handful of numbers from a much larger set, say, six numbers from a field of 44. Drawings typically take place twice a week. The odds of picking a correct number in lotto are far lower than the daily numbers game—1 in 7 million for the example above versus 1 in 1,000 for picking a three-digit number. Because winning combinations are so hard to come by, the prize money can roll over to several consecutive drawings, reaching into the tens of millions of dollars. This game requires a network of computers to be installed. **Keno:** Similar to lotto, keno requires players to choose a few numbers out of a larger group of numbers. The difference is that players decide how many numbers to choose. The size of the payoff— and the odds of winning—vary according to how many numbers are correctly chosen. This game also requires a network of computers to play.

Video lottery: Video lottery games are played on terminals (VLT's) similar to arcade video machines. They can be programmed to carry a variety of games, and the odds of winning vary. Like conventional slot machines, video lottery games offer bettors the chance to receive immediate payouts for winning bets. This potential for instant payouts brought video poker under fire in South Carolina on the belief that it encouraged compulsive gambling.

Once a state has incurred the initial cost of purchasing and setting up gaming equipment, ongoing marketing costs are primarily those associated with media advertising (e.g. television, radio, billboards ads) and non-media promotion strategies. States differ in what they count as marketing costs. For example, one state may count a promotional event centered on the lottery as advertising while another state may not. But on average, these costs account for approximately 1 percent of lottery sales. For fiscal year 1997, advertising costs for the 38 states ranged from 0.02 percent of lottery sales in Massachusetts to 3.6 percent of lottery sales in Montana. Dollars spent ranged from \$650,000 in Vermont to \$59 million in New York.²⁵

Over time, marketing expenses will vary based upon how heavily a state wants to promote its games. The conventional wisdom holds that, as with any product, lotteries must continuously be advertised and new games introduced to maintain the public's interest and keep revenues flowing.

"It was Saturday night, I took my change Down to the store for the lotto game. I got two chances at a buck a pair, And by 7:05 I was a millionaire."

> ---WASHINGTON STATE LOTTERY ADVERTISEMENT, 1987 FROM SELLING HOPE: STATE LOTTERIES IN AMERICA, BY CHARLES T. CLOTFELTER AND PHILIP J. COOK



Looking at states' advertising budgets over two years and comparing that with ticket sales over those same two years, the results are quite mixed.²⁶ Of the eight states that decreased advertising budgets between fiscal years 1989 and 1990, three saw corresponding decreases in lottery sales, while five saw increases. On the other hand, of the ten that increased advertising revenues, eight saw corresponding increases in sales. In Maryland, for ex-

"It is commonly observed that a sudden wealth, like a prize drawn in a lottery or a large bequest to a poor family, does not permanently enrich. They have served no apprenticeship to wealth, and with the rapid wealth come rapid claims which they do not know how to deny, and the treasure is quickly dissipated." —RALPH WALDO EMERSON "THE CONDUCT OF LIFE," 1860 ample, the fiscal year 1990 advertising budget was increased by 12 percent and sales increased by 9 percent. Oregon saw a 6 percent increase in sales when the advertising budget was increased by 11 percent. A longer look might produce a clearer picture of the correlation between lottery revenues and spending on advertising, but state spending on advertising varies from year to year. A state might spend more one year, less the next, then increase advertising spending again in year three. A twoyear look provides a snapshot approach.

In 1995, the Massachusetts legislature put a cap of \$400,000 on its lottery marketing expenditures and limited that amount to point-of-sales promotions. Despite these limitations, lottery revenues in that state have continued to grow. But despite the Massachusetts experience, the consensus is that lotteries must advertise to succeed. The Council of State Governments' Chi cautions that because lotteries are run by states, they should establish policies on advertising content. "State officials need to be careful about advertising," says Chi. "They should not exaggerate the odds or target low-income groups."

Clotfelter, the Duke economist, notes that North Carolina does not have to adhere strictly to the national model in promoting its lottery. Instead, the state could choose to restrict advertising and pay out more in prizes, reducing what Clotfelter calls the "implicit tax"—the amount retained by the state after expenses and prizes. "There is no rule that an N.C. lottery has to look like everyone else's," notes Clotfelter. "The state could choose to assess a lower implicit tax rate or it could limit the amount and kind of ads. Both of those would reduce the revenue potential, though."

Do lottery revenues supplement state funding for specific program areas such as education or supplant it?



In promoting their lotteries, legislative proponents typically imply that lottery revenues will enhance funding in certain program areas such as education. However, there is no guarantee that state legislatures will not merely

substitute lottery revenues for normal appropriations. Determining the degree to which lottery funds either *supplement* or *supplant* state revenues is complicated by several factors. First, it is extremely difficult to track funds through state systems, even when they are earmarked. Second, one has to determine what the level of funding in a targeted area such as education *would* have been without the lottery. "When changes in education funding occur after a lottery begins, it is difficult to tell whether this reflects substitution, or simply changes in the state's larger economic picture," the Educational Research Service states in *State-Run Lotteries: Their Effect on School Funding*. "Also, enrollments, funding formulas, educational priorities, special programs, and other issues all have an effect on the final funding amount for education. Comparisons of funding in lottery and non-lottery years, or between lottery and non-lottery states, have to account for these influences."²⁷

Despite these difficulties, researchers have attempted to answer this "supplement versus supplant" question for a number of states. In an article in *Educational Policy* journal, Pamela J. Allen details how lottery funds were substituted for normal education appropriations in California, Florida, Illinois, and Michigan, despite the fact that the lotteries had been promoted as boosting educational expenses. Allen says that states may initially intend for lottery funds to increase funding in a certain area, but that changes in the economy or politics or changing state budget priorities may cause them to redirect those funds if not specifically prohibited by law.

"As the revenue begins to accrue, they [lottery funds] become a convenient source from which to fund other high priority state services, such as mass



Against

"North Carolina does not need a gigantic, state-sponsored media campaign urging the poor and unsophisticated to tie their futures to chance. The best way to assure that such a campaign will not hit the North Carolina air waves is to assure that there is no lottery to advertise."

> ---Winston-Salem Journal, Winston-Salem, N.C., Feb. 12, 1999

"Maybe we're old-fashioned, but we reject the idea that the relationship between government and citizens should be that of hustler to sucker. Politically, a lottery may be an idea whose time is soon to come. That doesn't make it a good idea."

> ----The Charlotte Observer, Charlotte, N.C., March 8, 1999

transit or social services," Allen writes. "If the funds are able to be held within the education budget, they become a convenient source for financing recurrent costs, such as salaries. The degree to which lottery monies are available for such purposes is a function of the specificity of laws and statutes which govern the use of lottery funds."²⁸

When spending needs for program areas earmarked for lottery funds continue to rise, or when spending within the program area actually drops following the institution of a lottery, public cynicism about the lottery is likely to follow. Such has been the case in Florida, where citizens were initially persuaded to vote for the lottery on the promise that it would enhance funding of public education. However, a 1998 study of Florida's funding of public schools by the *Palm Beach Post* found that the state now spends 35 cents on the state tax dollar for education compared to 40 cents out of each dollar before the lottery was instituted.²⁹

Neutral

"If the majority of voters want it, they should have it. What they should *not* do is vote for it blindly, assuming that it's a pie-in-the-sky scheme that (1) hurts nobody and (2) will do good works forever and ever. The first is demonstrably untrue, and the second is questionable."

> --Fayetteville Observer-Times, May 7, 1997

"... Our system of government is supposed to be by, for and of the people. The lottery debate is one of those things, of many, that the majority should be allowed to decide. Give both sides a chance to air their views, and then let the final question rest with the people."

> ---Tom Joyce (signed editorial), *The Mount Airy News*, December 29, 1998

"When the lottery was inaugurated in 1988, we were led to believe that it would be used to *enhance* and *supplement* public education monies," says John Ryor, executive director of the Florida Teaching Profession-NEA. "Instead, lottery funds have been used to supplant normal appropriations going to education.... They've made some feeble efforts to restore general revenue funding, but it's tough in this environment of 'no new taxes.' If you don't have specific language that prevents it, the legislature will rob Peter to pay Paul in an instant."

A 1996 study by *Money* magazine found that state spending dedicated to education remained relatively unchanged from 1990 to 1995—about 50 percent for lottery states and 60 percent for nonlottery states—despite the growth in lottery revenues. North Carolina will spend approximately 60 percent of general fund revenues in the 1999– 2000 fiscal year on public schools, community colleges, and universities, according to the Fiscal Research Division of the N.C. General Assembly. One might reasonably assume that lottery revenues would allow states to minimize new taxes. On the contrary, the study found that per capita taxes had increased by 21.7 percent during the five-year period in states with lotteries compared to 7.2 percent in states without a lottery. Connecticut, for example, enacted the state's first income tax in 1991 despite strong lottery sales. "[M]ost states create a lottery because they need all the money they can possibly generate," the authors of the Money magazine study write, adding that in 1995, when many states were cutting taxes, the odds of seeing taxes go up or down were about the same whether a state had a lottery or not.³⁰ However, a July 2000 analysis by State Policy Reports of Washington, D.C. (Vol. 18, No. 15, p. 10), indicates that lottery states, on average, spend more per student on education than do non-lottery states. Lottery proponents argue that while education spending in lottery states may have dropped as a percentage of overall state spending in the early 1990s, it had more to do with rising costs in other areas of state budgets such as Medicaid and Corrections than with decreased support for education. Since lottery states generally are more populous and urban, these costs may represent a larger proportion of the budget than in nonlottery states. (North Carolina is the most populous state in the nation without a state lottery.)

Experience dictates that in order to keep track of where lottery revenues go and what their effect is, they must be directed to a narrowly-prescribed program or project, such as Georgia's HOPE Scholarships. "The problem with most states is that lottery revenues are allocated to such a large program area that they get lost," says Philip J. Cook, professor of public policy and economics at Duke University and co-author of Selling Hope: State Lotteries in America. "The key is to allocate funds to a new program or to one that has a small budget you can keep track of."

All three bills before the 1999–2000 General Assembly would have used a substantial portion of lottery proceeds to establish a new program in North Carolina tailored on the HOPE Scholarship Program in Georgia. However, Attorney General Mike Easley, the winner of the 2000 Democratic gubernatorial primary, focused his lottery proposal on using the revenues to reduce class size in the public schools. Such a program might be more sus-

A North Carolina resident picks his numbers for The Big Game lottery at S and J Grocery in South Boston, Virginia. S and J is the first lottery site north of the North Carolina state line on U.S. Highway 501.



ceptible to supplanting existing education dollars since it does not create a new earmarked program as such. Indeed, the North Carolina Budget and Tax Center reached just such a conclusion when it compared Easley's plan with that of his primary opponent, Lieutenant Governor Dennis Wicker.³¹ Moreover, not everyone agrees that creating new educational programs is such a grand idea. "These types of issues make for good political debate, but we have current educational programs that are not fully funded now," notes Rep. Charlotte Gardner (R-Rowan), a lottery foe. "New programs will simply create new need in the future."

Who plays the lottery?



A common criticism of state lotteries is that they prey on the poor and under-educated, enticing them to spend money on a game they have little chance of winning and with money they can ill-af-

ford to lose. The issue of exactly who plays lotteries and with what frequency is one of the most contentious areas of debate about lotteries.

In their 1999 Report to the National Gambling Impact Study Commission, Charles Clotfelter, fellow Duke economist Philip Cook, et al. reported the results of a nationwide survey on gambling, which included questions on lottery play. The report states that lottery play is common in the U.S., with 51.5 percent of the adult population participating in 1998. The survey revealed little variation between racial and ethnic groups in terms of who plays the lottery. However, the survey found that African Americans who play spend more, on average, than other racial groups.

The report states that participation rates do not vary much by education, but that the amount of money spent by players drops sharply as education levels increase. High school dropouts who play the lottery are by far the biggest spenders. With respect to household income, the report found that participation rates increase as income rises up to \$100,000. However, players with incomes of less than \$50,000 spend more than others, and the lower income categories have the highest spending in real dollars. Based upon this finding, the authors conclude, "Lottery expenditures represent a much larger burden on the household budget for those with low incomes than for those with high incomes. [M]ales, blacks, high-school dropouts, and people in the lowest-income category are heavily over-rep"Now Mister the day the lottery I win,
I ain't never gonna ride in no used car again."
—BRUCE SPRINGSTEEN

"USED CARS"

resented among those who are in the top 20 percent of lottery players."³²

No sooner was the report out than the criticisms began. Cathy Heatherington is senior vice president of the Angus Reid Group, a public opinion and market research firm. Angus Reid has a Lottery and Gaming Research Division, based in Calgary, Canada, and has done lottery research for a number of states. Heatherington, in a letter to the National Gambling Impact Study Commission, questions the report's conclusions about who plays the lottery. "We have conducted numerous studies exploring lottery behaviors and attitudes in many U.S. states and Canadian provinces," Heatherington writes. "After review of the [Clotfelter, Cook, et al.] report, we became concerned about the discrepancies in this report with what we have found to be true over twenty years of market research in the gaming sector."

Based on the Angus Reid Group's own survey of lottery players in Texas, Heatherington states, "We find that there are no significant differences between the proportion of low income groups in the top vs. the bottom proportion of spenders. In fact, the top spenders on lottery games are disproportionately over-represented in the middle-income groups.... Contrary to Clotfelter and Cook's assertions, we have found no empirical evidence of lottery gaming acting as magnet for lower incomepopulations."³³

However, Cook points out that the Angus Reid Group represents the lottery industry, "whereas our study was conducted for an independent agency that had no connection to either the industry or to any organization that opposes gambling." Cook also notes that even if the Angus Reid findings in Texas are true, Texans who gamble may not be representative of the nation as a whole.

A study compiled by the Texas lottery indicates that Texans with the lowest incomes are the least likely to play and represent the smallest percentage of those spending more than \$205 annually



on lottery tickets. Indeed, the percentage spending \$205 or more annually increased by income group, with the greatest number of respondents, 30 percent, earning \$50,000 or more.³⁴ Texans earning \$30,000–\$49,999 were most likely to play the lottery, with 75 percent indicating that they had participated in the previous year. Still, a majority of all income groups were likely to play the lottery, including 64 percent of those Texans earning less than \$10,000.

Other state studies have produced similar findings. In Virginia, a year-long consumer tracking survey conducted from July 1997 to July 1998 by Chilton Research Service, then of Radnor, Pa., showed the highest percentage of Virginia lottery players to have incomes in the \$35,000 to \$49,999 range (17.6 percent), while the highest percentage of spending (28.6 percent) came from players earning \$50,000 or more.³⁵ The Iowa lottery reports that, based on a 1999 study, approximately 64 percent of its players live in a household with an income of more than \$35,000. Roughly half of lottery players have some college education.³⁶ Such findings give weight to the argument that lotteries do not necessarily "prey on the poor," although it should be noted that studies also consistently find high numbers of lottery players in every income group. "[D]ifferences among groups are much greater with respect to amount played than with respect to participation rate," note Clotfelter and Cook.³⁷ "Indeed, with a few exceptions there is remarkable uniformity in participation."

Whether individual low-income players spend more or less than their middle-income counterparts in *actual dollars* remains subject to debate. However, there is no question that low-income players, since they earn less, spend *proportionally more* of their income on lottery tickets. Lottery proponents say the same is true for the purchase of a bar of candy or a gallon of milk. Opponents bristle at this comparison, saying lottery spending is more like a regressive tax that falls more heavily on the poor. Proponents say the lottery is not a tax, since the purchase is voluntary, and around and around the argument goes.

Clotfelter notes that lottery agencies like to

focus on broad participation rates across income groups and ignore the regressive nature of lottery spending. Virtually every study [of lottery spending] says that the percentage of income spent falls as income rises," Clotfelter says.

In their earlier work on state lotteries, *Selling Hope: State Lotteries in America*, Clotfelter and Cook indicated that income is less important than other socioeconomic factors in determining who plays the lottery.

"At least three measures of lottery involvement may be used to measure the play of a given population group. The first is the participation rate, the percentage of group members who bought at least one ticket during a given period of time. Second is the average expenditure by members of the group—the total expenditure over some period of time divided by the number of people belonging to the group. Third is the prevalence of heavy players within the group the percentage of group members who spent a relatively large amount over the specified time period."³⁸

In practice, note the authors, the three measures are closely related. For example, California lottery players without a high school degree tend to participate in high numbers, spend a lot as a group, and include relatively high numbers of players who are also big spenders. However, Clotfelter and Cook note that "lottery expenditures appear to be remarkably uniform across a broad range of income groups."

According to the authors' analysis, factors that influence play include: gender—males play more than females; age—people in their middle years tend to play more than either the elderly or the young; and religion—Catholics play more than Protestants, perhaps, the authors surmise, because the Roman Catholic Church tolerates moderate gambling. Education also is an important determinant, with lottery participation falling as education levels rise. In addition, occupation plays a role as laborers and service workers play more than advanced professionals. And, the authors indicate lottery play varies by race and ethnic group with African Americans and Hispanics/Latinos playing more than non-Hispanic whites.

Whatever the statistical surveys may say, the image persists that the lottery is most appealing to those who see little chance of achieving their dreams through traditional avenues of work or investment. The concern is not so much that people will stop working to play the lottery, but that they will spend money on lottery tickets that they ought to be putting into savings or consumer expenses. Walter Reinhart is president of Capital Investor Group, a Durham, N.C., financial planning firm that offers payroll deduction pension plans for public school employees. Reinhart says that his firm has had particular difficulty in selling these plans to custodial staff and first-year teachers in counties bordering Virginia, as these people would rather spend that money on lottery tickets purchased across the border.

"We explain that if they will set aside \$50-\$100 a month for a pension plan, they could expect to accumulate \$500-\$1000 a year in supplemental retirement," Reinhart says. "They compare that [savings] to what they imagine they can win by playing the lottery and consider it chump change. Savings for retirement is taking a back seat to the sale of lottery tickets in counties all along the Virginia line and beyond."

Who is most likely to benefit from lottery revenues?



Along with the question of who plays the lottery is that of who benefits from the revenue. Aside from those holding winning tickets and those directly involved in the administration, sale, and mar-

keting of lottery games, the answer is as varied as the programs funded. Nationwide, lottery funds are used to provide services to such varied groups as police and fire departments (Indiana), compulsive gamblers (Iowa), Vietnam veterans (Kentucky), juvenile delinquents (Montana), senior citizens (Pennsylvania), handicapped children (Virgin Islands), and even baseball fans (the state of Washington). Wisconsin dedicates its lottery profits to property tax relief, directing more than 32 percent of gross revenues to that purpose (nearly \$140 million) in 1998–99.

But because the largest amount of lottery revenue is directed towards education, one might conclude that students of all races and income levels are the greatest beneficiaries of lottery funds. Lotteries as a whole have not had a huge impact on the amount of spending for education in states that host the games. But in states such as Georgia where lottery funds are specifically targeted to supplement new educational programs without sacrificing others, students clearly benefit, as do the parents who might otherwise pay their college bills.

Do lottery ticket sales displace other retail spending, or do they stimulate more sales?

One criticism of state lotteries is that they do not generate income, but rather displace spending in other areas, particularly in retail sales. Owners of stores where lottery tickets are purchased, primarily convenience stores, typi-

cally receive a 5 percent commission on ticket sales—the same 5 percent figure included in the 1999–2000 North Carolina lottery bills. These bills set overall administrative costs at 16 percent of gross revenue, retain 34 percent as revenue for the state, and return 50 percent of the gross to the players as prizes. In some states, storeowners have argued for an increase in commissions claiming that sales of other items have fallen since implementation of the lottery. If that is true, states instituting a lottery also may suffer a loss of revenue to the degree that non-taxed lottery sales displace the sale of taxed items such as soap and soft drinks.

To address these questions, University of North Florida economists Mary Borg, Paul Mason, and Stephen Shapiro conducted a survey of 2,000 households in Georgia and Florida in the years immediately before and after the institution of a state lottery. Of that number, 355 households participated. The survey asked respondents to estimate monthly expenditures on items such as housing, utilities, groceries, and restaurants. The survey included people who play the lottery and who do not play the lottery.

The results of this survey, published in The Economic Consequences of State Lotteries, indicate that lottery players are not spending less than other households on necessities such as food, clothing, or shelter, although players earning less than \$20,000 annually were found to spend less on utilities.³⁹ The study found overall, lottery players significantly reduced their spending in only one category—alcohol—by an average of \$4.39 a month.⁴⁰ With the exception of the reduction in alcohol spending, the authors noted that they could not explain how players found the money in their budgets to spend some \$25 on the lottery each month. The authors speculated that the money may have come from very small reductions in spending from a broad range of categories. Except for the reduction in utilities spending for lower-income players, the study countered the notion that lottery players are skimping on necessities. But it bore out the complaints of some convenience store operators that the sale of at least some items (beer and wine) have fallen since the institution of a lottery. The study did not include a separate category for discretionary convenience items such as soft drinks and snacks.

Despite the latter finding, associations representing convenience stores in neighboring Virginia and Georgia are both supportive of their state lotteries. "Some locations are profitable and some are not, but overall our membership is supportive," says Michael O'Connor, executive vice-president of the Virginia Petroleum Marketers Association. "If a competitor down the street has the lottery and you do not, you're definitely at a disadvantage."

According to Gary Harris, executive vicepresident of the N.C. Petroleum Marketers Association, most convenience store operators in North Carolina are opposed to a lottery. "The problem we have found out at the retailing end is that the benefits of selling lottery tickets do not offset the increased hassle," Harris says. "If you have someone standing in line buying 20 lottery tickets, you can't service the people who are buying gas and groceries. That ends up turning customers away." The association has said they would oppose bills introduced to the legislature that include a 5 percent commission, but "not oppose" bills that upped the ante to 7 percent.

Wade Hargrove, a Raleigh attorney and lobbyist for the North Carolina Association of Convenience Stores, says the trade association opposes the lottery if the commission for retailers is less than 7 percent. Hargrove argues that the lottery affects more than just alcohol sales. "People buy fewer Coca-Colas, bags of potato chips, and other discretionary items," Hargrove says. "It's not just alcohol. People buy less of other things, and the profit margin on other things is much higher." For example, a dollar spent on a soft drink might yield a merchant 30 cents profit. That same dollar would produce only a nickel in profits if used to purchase a lottery ticket under lottery legislation currently before the General Assembly.

In addition, convenience store operators worry that when jackpots get large, long lines could turn away some shoppers. "People shop at convenience stores because it's convenient," says Hargrove. "The moment it becomes inconvenient, people don't stop."

Lowell Simon is a past president of the N.C. Association of Convenience Stores and a vice president for operations of the 24-store Quik Chek chain, based in Troy, N.C. Simon, who has worked with convenience store operations in New York and Boston, argues that with the additional expense of operating a lottery, convenience store operators will not make money on the lottery even with a 7 percent commission. Primary among these added costs is the need to hire additional part-time help to handle the extra business generated by the lottery. Simon says problems such as shoplifting and people driving off without paying for their gasoline increase when attendants are tied up with lottery transactions. He estimates that the average convenience store would generate \$250,000 a year in lottery ticket sales but would need to generate \$400,000 in annual sales to break even at the 5 percent commission level.





Tracing the lottery's effect on state sales tax revenue is complicated by the fact that sales tax receipts tend to rise year after year due to general economic growth trends. The question is how much faster would the sales tax have risen without the lottery? The University of North Florida economists' study finds this varies widely based upon the state's tax structure. States without a state income tax (North Carolina has a state income tax) and with high rates associated with sales and excise taxes, lose considerably more non-lottery revenue as a result of instituting a lottery. Borg, Mason, and Shapiro indicate that while these revenue losses are generally less than 15 percent of each dollar of revenue from the lottery, some states may be forfeiting as much as 23 percent of their supposed lottery proceeds indirectly through the impact of the lottery on other sources of state revenue. "Policymakers need to be aware, and even expect, that their other state revenue sources will decline proportionately with the growth of lottery revenues and prepare their budgets accordingly," the authors state.42

The N.C. Budget and Tax Center has attempted to address I make a profit on every transaction, but that's not the reason. In an industry where rent is frequently in excess of 5% and labor always in excess of 12%, it would take some extremely creative accounting to believe that selling a product with a 5-6% profit will pay [its] way.

The reason I want to have a lottery machine in [my] store is because I believe that it brings traffic through the door; customers who will spend money on other, more profitable products.

> —EXECUTIVE OF SOUTHLAND CORPORATION, ON WHY HIS 7-ELEVEN STORES ARE LOTTERY RETAILERS FROM SELLING HOPE: STATE LOTTERIES IN AMERICA, BY CHARLES T. CLOTFELTER AND PHILIP J. COOK

the issue of sales tax revenue loss for North Carolina.⁴³ Using an effective sales tax rate that takes into account that all goods are not subject to the full sales tax, the Budget and Tax Center found that on lottery sales of \$882 million, the state would lose \$23.6 million in sales tax revenue and local governments would lose \$12.7 million. The Budget and Tax Center assumed that a dollar spent on a lottery ticket would result in one less dollar in retail sales, so the sales tax payment that would have been generated by that dollar of retail spending would be lost.

Do lotteries contribute to problems with compulsive gambling?



Along with the contention that lotteries prey on the poor, critics contend that lotteries contribute to problems of compulsive or pathological gambling. In 1996, President Clinton established the

National Gambling Impact Study Commission (NGISC) to study the social and economic impacts of gambling in the United States. Section 4(a)(2)(c) of the NGISC Final Report Recommendations calls for "an assessment of pathological or problem gaming, including its impact on individuals, families,

businesses, social institutions, and the economy."44

To carry out this mission, the National Research Council established the Committee on the Social and Economic Impact of Pathological Gambling. The committee's charge was to identify and analyze studies on pathological and problem gambling, highlighting key issues and data sources that provide scientific evidence of prevalence and multiple effects. The committee's findings are summarized in *Pathological Gambling: A Critical Review*.

Pathological gambling is defined as "a mental disorder characterized by a continuous or periodic loss of control over gambling, a preoccupation with gambling and with obtaining money with which to gamble, irrational thinking, and a continuation of the behavior despite adverse consequences." Problem gambling is defined as "gambling behavior that results in any harmful effects to the gambler, his or her family, significant others, friends, coworkers, etc."⁴⁵

The committee's research indicates that approximately 0.9 percent of the adults in the United States, or 1.8 million people, meet the definition of compulsive gamblers. For pathological and problem gambling combined, the figure is 2.9 percent or 5.7 million people.⁴⁶

The committee analyzed the effects of many different types of games on compulsive gambling, but *had relatively little to say about state lotteries*.

The report notes that there have been numerous studies on links between legalization and compulsive gambling, several of which showed increases and others not. One study found that participation in a state lottery was associated with a greater involvement in general gambling, which is in turn linked with problem gambling.⁴⁷ But another study found that the Minnesota lottery switched adolescents from illegal to legal gambling and did not increase overall gambling in the state.⁴⁸

The report by the Committee on the Social and Economic Impact of Pathological Gambling states, "Legal gambling could increase the number of people who gamble at least a few times; if pathological gambling is some constant proportion of people who experiment with gambling, then the number of pathological gamblers will also increase. Another possibility is that legalization encourages people to gamble more frequently and to spend more money on gambling. This increased gambling activity could place more people at risk for developing gambling problems by increasing their comfort with games, their familiarity with gambling as entertainment, and their likelihood of socialization with other gamblers."⁴⁹

The North American Association of State and Provincial Lotteries (NASPL) acknowledges that problem gamblers do play the lottery, but it asserts that lotteries by nature do not appeal to problem gamblers. "Problem gamblers are attracted to games for a variety of reasons," the NASPL states. "One is a sense of high excitement, usually involving considerable sensory stimulation. Lottery tickets do not provide this. A second factor is a sense of mastery or skill. Lotteries have no skill element. A third is the immediacy of the result and reward

Winning the Lottery: What Are the Odds?

A lmost everyone has heard the adage that your chances are better to be struck by lightning than to win the big prize in a state lottery. But is this statement really true? The answer is less than clear cut. Lottery proponents argue that the average person's chances of winning at least some money are much better than most people believe and are far better than the odds of being struck by lightning. However, a Kentucky coal miner who invests a few dollars in the Powerball game every week in hopes of hitting the jackpot actually might have a better chance of catching a lightning bolt.

In a recent study of the Kentucky lottery, statistical data showed that the odds of guessing the correct six numbers for the Kentucky Powerball game were roughly 1 in 81,000,000, according to a spokesperson for the Kentucky lottery. In contrast, the National Weather Service estimates that a person's chance of being struck by lightning over the course of a lifetime as 1 in 600,000. If these numbers are correct, a player would indeed stand a better chance of being struck by lightning than winning the lottery. However, Edward J. Stanek, director of the Iowa lottery, says Powerball is not an "all or nothing" game, and the player is not required to get all six numbers right to win some amount. In fact, being less than perfect in picking the correct numbers can still result in winning \$100, \$1,000, or even \$100,000.¹ Kentucky lottery officials note the chance of winning \$1,000 playing Powerball are 1 in 364,041. That means a player is roughly twice as likely to win the \$1,000 prize in a single play as to be struck by lightning over the course of a lifetime, though the odds of winning Powerball are still remote.

In a speech delivered to the North American Association of State and Provincial Lotteries (NASPL), Stanek further addressed the comparison between lottery wins and lightning strikes. He noted that in 1995, lightning in the United States and Canada killed 91 people while in that same year, 1,136 people won \$1 million or more playing lotteries. Also, using data from the National Safety Council, Stanek calculated that the odds of an average American being killed by lightning on any particular day were about 1 in 1,178,989,420. Thus, according to his analysis, a player would be 21.44 times more likely to win a typical Powerball game than to *—continued*

and the ability to play repeatedly and quickly. Numbers game drawings typically take place some time after the purchase is made, and players have to wait between a day and a week to play again. Even instant or scratch tickets have much less immediacy than other forms of gambling.50

In its report to President Clinton, the NGISC makes a number of recommendations with respect to compulsive gambling. Among these, the NGISC recommends that all governmental gambling regulatory agencies require applicants for gambling licenses to adopt a "clear mission statement" as to

"I figure you have the same chance of winning the lottery whether you play or not."

-FRAN LEBOWITZ

their policy on problem and pathological gambling, and refuse to service any customer who appears to have a gambling disorder. The NGISC also recommends that states fund research, education, and treatment programs on problem gambling. It urges states to mandate

that private and public insurers and managed care providers identify successful treatment programs, educate participants about pathological gambling and treatment options, and cover appropriate programs under their plans.⁵¹

A number of states already have programs designed to raise awareness about the problems of

Odds, continued

be killed by lightning on a day when Powerball numbers were being drawn.²

In contrast to the National Weather Service's 1 in 600,000 figure, however, Stanek's number reflects the odds of being struck and *killed* by lightning on any particular day while the National Weather Service's odds reflect a person's chance of only being *struck* by lightning during their entire lifetime. So both lottery proponents and opponents can use the lightning statistic to argue their case.

Aside from Powerball, there are other less complicated games such as scratch-off cards where the odds are much more player friendly. For example, in the Kentucky study, scratchoffs were the most widely played lottery game in the state, garnering 37 percent of player participation (as opposed to Powerball's 30 percent participation rate). When surveyed, 27 percent of players indicated they liked knowing if they win or lose immediately, while another 23 percent said they enjoy the opportunity to win often (the odds of winning at least something in Kentucky's scratch-off games are 1 in 4).³ Therefore, those who do think the odds of being struck by lightning and winning the Powerball jackpot are comparable are probably more inclined to participate in games like scratch-offs where the odds of winning are much more in their favor.

North American lotteries in 1998 awarded \$52 million in prizes each day. This equates to \$36,000 being given away every minute of every day.⁴ While those who cite the minuscule chances of winning a \$100 million jackpot in a Powerball game are correct, the opportunity to win smaller amounts is much greater. Thus, while the lightning analogy may add a certain electricity to anti-lottery arguments, it may not be entirely accurate. Still, people lose much more often than they win, no matter what game they play.

-Gregory Gunter

FOOTNOTES

¹Edward J. Stanek, "A Critique of Lottery Critics" (from the speech "Take the High Road and Keep the Upper Hand" delivered to the North American Association of State and Provincial Lotteries at its Twenty-Third Annual Meeting in Boston, Mass. on Sept. 29, 1997, p. 10.

²*Ibid*, p. 10.

³ "Kentucky Lottery Corporation Participation and Attitude Study, University of Louisville Center for Urban and Economic Research, 1994. A total of 1599 adults over 18 years of age took part in the survey conducted from February 1994 until April 1994. The information was obtained through telephone conversations with participants throughout the state.

⁴ See Stanek, note 1 above, p. 10.

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compulsive gambling. Iowa runs a Gambling Treatment Program funded by the lottery, riverboat casinos, and racetracks. The Missouri Lottery is part of that state's Alliance To Curb Compulsive Gambling. In Ohio, the lottery provides tuition funding for a counseling certification program that trains professionals in treating gambling problems.

Kenneth Levenbook, a staff attorney in the North Carolina General Assembly's Bill Drafting Division, has suggested that if North Carolina goes ahead with a lottery, it should first conduct a survey to measure the incidence of pathological and problem gambling to serve as a baseline from which to measure the lottery's effect over time.

Are present-day lotteries plagued by scandal, or are they relatively scandal-free?



Throughout history, lotteries have been plagued by the occasional, and sometimes not so occasional, scandal. Economist Richard McGowan attributes the decline of the "golden age" of

lotteries from 1810 to 1840 primarily to scandals. In 1818, after local newspapers informed readers that New York's Medical Science Lottery was fixed, the state legislature launched an investigation. The probe revealed that lottery operators regularly informed prominent people, mostly politicians, what the winning numbers would be. This led to the ban of lottery sales in New York.

In 1823, Congress launched the Grand National Lottery in order to pay for improvements to the District of Columbia. Tickets were sold and the drawing took place, but the agent sponsoring the lottery fled town with several hundred thousand dollars in prizes. The winner of the grand prize subsequently sued the District of Columbia for the prize money.⁵²

Present day lotteries differ from those of the past in that most are owned and run by the states rather than by private brokers. Many games are computerized with direct lines running from gaming machines to state headquarters, reducing the possibility of tampering. This has reduced the number of scandals, but has by no means eliminated them. Pennsylvania suffered a scandal in the early 1980s when it was discovered that one of the operators of the daily number drawing was weighting balls bearing the number "6" heavier than the others.⁵³ In 1996, an executive with GTECH, the largest private operator of government lotteries in the

U.S., was convicted for defrauding his employer through a kickback scheme involving state government lobbyists in New Jersey.⁵⁴ And in 1999, Massachusetts suspended three employees at one of the local lottery offices after an investigation turned up serious problems there, including missing scratch tickets.⁵⁵

Other than these few instances, modern day state lotteries are remarkably free of scandal. As Clotfelter and Cook write, "Finally, let us note one objection that is not an issue in current opposition to lotteries: the corruption, fraud, and criminality that characterized the operation of many lotteries in the nineteenth century and other more recent forms of gambling.... [A]fter two decades of largely honest and efficient operation by state lottery agencies, this argument has all but disappeared."⁵⁶

Are there additional social consequences to the operation of state lotteries?



Aside from the problem of compulsive gambling and the occasional administrative scandal, some are concerned about other social costs that lotteries may entail. Editorial pages are full

of anecdotal stories and claims of social ills that presumably emanate from state-sponsored lotteries—corrupted youth, increased crime, bankruptcies, and general moral decline. However, there is a dearth of solid research to back up most of these claims.

One concern is that state-run lotteries may be a "gateway" to induce people to engage in other forms of gambling, particularly illegal gambling. —continued

> "I guess I think of lotteries as a tax on the mathematically challenged."

—ROGER JONES A MATHEMATICIAN, ON THE ODDS OF WINNING POWERBALL ON THE *"NBC NIGHTLY NEWS"*

Table 4. Lottery Revenue Allocations (in percentages)

States with Lotteries	Revenue to State	Prizes Ad	Cost of ministration	Retailers	Other
1) Arizona	29%(a); 21.5(b)	at least 50%	18.5%	max. 7%	
2) California	34	51.5	7.9	6.6	
3) Colorado	26.1	59.3	8.9	5.7	
4) Connecticut	32.6	58.5	3.4	5.3	0.2%(c)
5) Delaware	min. 30; 26.8(d)	min. 45; 11.2(d)	max. 20; 0.6(d)	min. 5; 49.8(d)	11.6(e)
6) Florida	38	50	6.5	5.5	
7) Georgia	35	51	7	7	
8) Idaho	varies	at least 45	max. 15	5	max. 3.5
9) Illinois	37	54	balance	5 to 6	
10) Indiana	30	56	2	10	2
11) Iowa	28	54	12	6	
12) Kansas	31.25	53	10.15	5.6	
13) Kentucky	27.1	59.7	5.7	6	1.5(f)
14) Louisiana	35	50	10	5	
15) Maine	27.8	56.2	8.4	6.9	0.7(g)
16) Maryland	37.68	52.75	4.29	5.28	
17) Massachusetts	22	70	2.2	5.8	
18) Michigan	37	51	3	7	2(h)
19) Minnesota	variable	variable	max. 15	6	
20) Missouri	31	55	7.75	6.25	
21) Montana	23(i)	51(j)	10(k)	5(1)	11(m)
22) Nebraska	25	53	2	5	15(n)
23) New Hampshire	30		2		68(o)
24) New Jersey	41	51	1	7	
25) New Mexico	(p)	at least 50	not limited	<u> </u>	2(q)
26) New York	38	51	5	6	
27) Ohio	32.5	56.98	4.02	6.28	0.22(r)
28) Oregon	22(s); 56(t)	62(s); 89.9(u)	5(s); 10(t)	(v)	5(w)
29) Pennsylvania	40(x)	50	3	5	2(y)
30) Puerto Rico	35	50	10	5	

Table 4, continued

States	Revenue to	*	Cost of		
with Lotteries	State	Prizes Ad	ministration	Retailers	Other
31) Rhode Island	at least 30	67.61	.60; 31(d)	8(a); 5(b)(z);	1(aa)
32) South Dakota	20(b); 25(bb);	6.5(b);	9.5(b); 19.5(bb);	5.5(b); 5.5(bb);	
	49.5(d)	50-55(bb); (cc)	0.5(d)	(dd)	
33) Texas	35	53	7	5	
34) Vermont	30.7	59.6	1.1	5.3	3.3(0)
35) Virginia	30 to 35	50 to 55	less than 10	5 to 6	
36) Washington	22.4	63.3	7.5	6.1	0.7(ee)
37) West Virginia	30 to 40	50 to 60	11	6.25	22(ff)
38) Wisconsin	32.7	56	6.1	5.2	
*Average *Median	32.1 32.5	53.62 53	6.98 7	6.54 6	

Key:

*For states with a range or breakdown by type of lottery game, figures are averaged; figures do not include states with an undefined variable rate.

- (a) online sales
- (b) instant sales
- (c) miscellaneous/Wet Inc.
- (d) video lottery
- (e) video vendors
- (f) ticket costs
- (g) Outdoor Heritage Fund
- (h) game-related expenses
- (i) after prizes, admin., and retailer costs
- (j) min. of 45 percent
- (k) no limit
- (l) no more than 10 percent
- (m) cost of tickets and vendor fees
- (n) vendors and marketing
- (o) cost of sales
- (p) of net revenues: 60 percent to critical capital outlay for schools; 40 percent to scholarships
- (q) to reserve fund

- (r) non-operational revenue 0.07 percent; net income 0.15 percent
- (s) of gross income for traditional lottery
- (t) of net for video lottery
- (u) of gross for video lottery
- (v) increasing base of 5 percent of gross for traditional; decreasing base of 3.5 percent of gross for video (sliding scales based on retailers' sales)
- (w) to vendors of gross for traditional and fixed lease rates for video
- (x) Older Pennsylvanians' Benefits
- (y) commissions to vendors and bonuses
- (z) plus 1 percent bonus for prize earnings exceeding \$1,000
- (aa) video lottery for cities and towns
- (bb) lotto tickets
- (cc) other costs are paid after prizes for video lottery
- (dd) remainder to operators and establishments for video lottery
- (ee) baseball stadium construction
- (ff) vendor fees; 6 percent of on-line gross sales and 16.25 percent of all gross net sales

Source: Keon S. Chi and Drew Leatherby, "States Ante Up: Regulating Lotteries and Casinos," *Solutions*, Council of State Governments, Lexington, Ky., Vol. 6, No. 2, October 1998, p. 9. Copyright 1998 The Council of State Governments. Reprinted with permission from *Solutions*.



Shawn Smith of Durham holds the flier that was posted in the S & J Convenience Store in Alton, Virginia, indicating he held the winning ticket for \$5 million.

"A [state] lottery is bad criminal policy," says Coy Privette, a former member of the N.C. House of Representatives and former executive director of the Raleigh-based Christian Action League of North Carolina. "The illegal lottery rides 'piggyback' on the legal lottery. People who play the lottery extensively prefer the illegal lottery."⁵⁷

The Center could not find any studies that confirm a link between state lotteries and illegal gambling. However, there is evidence to show that state lotteries provide an avenue for minors to gamble, despite the fact that every state lottery prohibits the sale of lottery tickets to minors. Clotfelter and Cook cite numerous studies indicating adolescents do find ways to play the lottery.58 States have come up with various strategies to discourage play by minors, but the effectiveness of these measures is widely questioned. Former Arizona Governor Bruce Babbitt told the Los Angeles Times in 1984 that a ban on sale of lottery tickets to minors would be unenforceable.⁵⁹ Bills introduced in the 1999-2000 General Assembly would have prohibited the sale of lottery tickets to persons under age 18, directed retailers to determine the age of potential lottery purchasers, and adopted guidelines for lottery advertising to minimize the appeal of the lottery to minors.

Another concern is that *lotteries sap the work ethic of a state's citizenry* by promoting the idea that the way to get ahead in life is through luck rather than hard work. Clotfelter, Cook, *et al.* suggest that lottery states may actually suffer a reduction in government revenues over the long run by reducing economic growth. "Specifically, if the lottery promotion erodes the propensities to work, save, and self-invest in education and training, the consequence will eventually attenuate growth in productivity," they state.⁶⁰ However, the authors cite no studies that demonstrate this effect.

Closely associated with concerns about undermining the work ethic is the notion that *government is diminished in the eyes of its citizens* by promoting an activity that is otherwise declared illegal. Indeed, lottery states find themselves in the hypocritical position of aggressively promoting one form of gambling (lotteries) while criminalizing others (such as betting on college athletics). In some states, citizens have demanded that their governments eliminate some forms of gambling, reduce expenditures on marketing, or both as a means of reducing problems of underaged and compulsive gambling. But as with any product, a cutback in lottery marketing and availability can mean a drop in sales—putting the states in a Catch-22 situation. The Catch-22 is that restrictions that reduce underage and compulsive gambling may also reduce overall sales, thus cutting revenue. The need for increased revenue is what leads states to institute lotteries in the first place.

Another potential cost to state governments is the loss of credibility should the lottery fail to raise overall spending or performance in targeted areas such as education, or when tax increases are still deemed necessary to keep pace with rising costs. Public cynicism toward the lottery ran high in Florida, for example, when it was revealed that per pupil educational expenditures actually declined following the institution of the lottery.

Political influence: To what extent do firms associated with the administration or operation of lotteries become heavy contributors to political campaigns?

11

Surveys and anecdotal evidence indicate that lottery-related firms do become heavy contributors to political campaigns

or ballot measures, at least during those times when crucial votes or lawmaking affecting the industry is in the offing. In 1997, the citizens group Common Cause, based in Washington, D.C., conducted a study showing that gambling interests contributed \$8.6 million to national political committees from 1988 through 1996. Of that amount, \$3.9 million came in 1996 as Congress debated whether to create the NGISC to study the effects of legalized gambling in the United States. "Gambling interests quickly became Washington high rollers, using the soft money to load the dice in their favor," says Ann McBride, president of Common Cause.⁶¹ The study also found that gambling interests increased their "soft money" donations at the state level to counter growing voter opposition to legalized gambling. Soft money donations do not go directly to political candidates and thus are exempt from laws limiting campaign contributions.

In Arkansas, gambling interests spent an estimated \$8 to \$10 million to support a referendum to legalize casinos in the town of Hot Springs. In Ohio, gambling interests spent an equal amount to support a referendum legalizing eight dockside casinos. However, these plans were both defeated by anti-gambling forces.⁶²

Gambling interests also have lent their weight to individual political races. In 1998, Democrat Jim Hodges defeated incumbent Republican South



Carolina Governor David Beasley in a hard-fought race for governor that centered on the issue of video poker, then a \$2.5 billion dollar business in South Carolina. Declaring video poker to be a "cancer" on the state, leaving "troubled children, broken homes and overwhelmed social agencies," Beasley campaigned to have video poker outlawed.⁶³ Hodges, a former critic of video gambling, said the issue of video poker's continued legality should be put to a public referendum. Hodges also came out in favor of a state lottery as a way of raising money for education.⁶⁴ Video poker, while lucrative for vendors, produces only \$60 million per year for the state of South Carolina through a franchise tax. A state share of more than 30 cents per dollar spent on lottery tickets would yield a much larger take.

While campaign disclosure laws don't require parties to report their soft money receipts, news

What the Polls Say About Public Support for a State Lottery in North Carolina

Polls dating back to the 1980s have consistently shown that North Carolinians favor a state lottery. Support hovers around 60 percent but rises to about 70 percent when the question links using lottery proceeds for public education.

In January and February of 2000, for example, KPC Research of Charlotte, N.C., asked 1,020 residents about support for a state lottery as part of the "Your Voice, Your Vote" survey intended to help guide coverage of the 2000 election for 15 media organizations statewide.¹ Respondents were asked, "Would you support or oppose a state lottery for North Carolina if the profits were used for public education? Of those who answered (3 percent refused), 70 percent said they would support a lottery for that purpose, 27 percent said they would not, and 3 percent said they were not sure. The poll had a margin of sampling error of plus or minus 3.1 percent.

A question on the fall 1999 Carolina Poll, conducted by the School of Journalism and the Institute for Research in Social Science at the University of North Carolina at Chapel Hill, was worded similarly but *did not mention earmarking the profits for public education.*² Of the 714 persons responding, 62 percent said they supported a state lottery, 31 percent were opposed, and 7 percent said they did not know or declined to answer. The margin of sampling error for this poll was 3.7 percent.

The Carolina Poll, conducted each spring and fall, has asked about support for a state lottery numerous times over the past two decades, yielding fairly consistent results. The poll features a random telephone sample of adult North Carolinians with respondents within the household selected randomly by asking for the adult with the nearest birthday. The survey uses an unweighted sample, meaning the results are not adjusted to account for any underrepresentation of subgroups in the population. In the fall of 1990, respondents were told, "Here are some questions about other issues in the news. Do you support or oppose a state lottery in North Carolina?" Of 822 respondents, 61 percent said they supported a state lottery, while 24 percent said they were opposed. An additional 12 percent said they didn't know, and 2 percent did not answer. (Margin of sampling error was plus or minus 3.4 percent) The question regarding a state lottery was worded identically in the fall of 1989. In that poll, 66 percent of 634 respondents said they would support a lottery, while 25 percent were opposed. An additional 8 percent said they did not know, and 1 percent did not answer. (Margin of sampling error was plus or minus 3.9 percent.) The 1989 poll was conducted about one year after institution of the Virginia lottery in September 1988. This might have accounted for a slight increase in support (66 percent) compared to other years in which the Carolina Poll question did not mention using the proceeds for education.

And finally, in 1983, the Carolina Poll asked, "Some people have proposed that North Carolina hold a lottery to raise money for state government expenses. Do you think a state lotreports state that video poker interests spent heavily to defeat Beasley. USA Today, in a systematic analysis of the campaign, estimates that video poker interests spent at least \$3 million in direct and indirect giving (issue ads, bumper stickers and billboards) on the South Carolina race.⁶⁵ Compared to video poker, lottery-related spending in the state has thus far been modest, though the vote on whether to amend the South Carolina Constitution to allow a lottery is still months away. Two multinational lottery firms, Rhode Island-based GTECH and Montana-based Automated Wagering International spent some \$135,000 in South Carolina in 1999, according to published reports.⁶⁶ Of that amount, Automated Wagering International donated \$10,000 to the state Democratic Party and \$3,500 to Gov. Jim Hodges' campaign for reelection in 2002. The remainder went to Columbia, S.C., lobbying firms.

tery would be a good idea or a bad idea?" Some 59 percent of the 599 respondents said a state lottery would be a good idea, while 28 percent said it would be a bad idea, and 13 percent said they did not know. (Margin of sampling error was plus or minus 4 percent.)

But if polls have shown consistent support for a state lottery in North Carolina, another important issue is intensity of support. While this is difficult to measure, a number of polls have made the attempt. A March 1998 Carolina Poll set the question up thusly: "Some people favor a state lottery to raise revenue for the North Carolina educational system. Other people oppose a lottery on moral or economic grounds. Do you strongly favor, favor, oppose, or strongly oppose a state lottery with the revenue used to support education?" Of the 370 persons responding, 29 percent said they strongly favored a state lottery, 41 percent said they favored a lottery, 16 percent opposed a lottery, and 10 percent strongly opposed a lottery. A total of 4 percent said they did not know or did not answer. (Margin of sampling error was plus or minus 5 percent.)

The Chapel Hill, N.C., polling firm FGI asked the question differently in May 1994 and got somewhat different results.³ In a poll sponsored by *The News and Observer* of Raleigh, N.C., a total of 608 North Carolina residents were asked, "Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose a state lottery?" About 48 percent said they strongly favored a state lottery, while 16 percent somewhat favored a state lottery. Of those opposed, about 10 percent were somewhat op-

posed, while 22 percent were strongly opposed. Another 4 percent said they did not know or did not answer. (Margin of sampling error was plus or minus 4 percent.)

Because the track record of public support for a state lottery is strong in North Carolina, most lottery legislative proposals call for a vote of the people in a statewide referendum. That's the poll that really counts. While lottery referenda of various stripes have passed across the nation, the last statewide vote, which came in November 1999 in Alabama, was a loser, 54%-46%.

-Mike McLaughlin

FOOTNOTES

¹ Information on the "Your Voice Your Vote" poll is taken from www.yvyv.com. The Your Voice Your Vote project is a consortium of broadcast and print media outlets that use a poll to determine what voters are concerned about in a particular election year, then attempts to tailor campaign coverage to address those concerns. Such efforts to involve the public in coverage are discussed in Tom Mather, "Civic Journalism: Strengthening the Media's Ties With the Public," *North Carolina Insight*, N.C. Center for Public Policy Research, Raleigh, N.C., Vol. 15, No. 4/Vol. 16, No. 1, March 1995, pp. 70–87.

² The Carolina Poll is a joint project of the School of Journalism and the Institute for Research in Social Science at the University of North Carolina at Chapel Hill. Poll results are accessible through the IRSS data archive at www.irss.unc.edu. All Carolina Poll results mentioned in this article are taken from this source.

³ IRSS data archive at www.irss.unc.edu. Similar to the Carolina Poll, this poll featured a random telephone sample, with adults selected within households using the nearest birthday method. The results were adjusted to balance male and female responses.

Mike McLaughlin is editor of North Carolina Insight.

Gambling interests now are beginning to focus on North Carolina political races as well. The News & Observer of Raleigh, N.C., reported that video poker interests donated \$133,680 to four of the five major gubernatorial candidates (Republicans Leo Daughtry and Richard Vinroot and Democrats Mike Easley and Dennis Wicker) leading up to the May 2000 primary. North Carolina law allows video poker as long as no cash prizes are awarded.⁶⁷ However, in the waning days of the 2000 General Assembly, the North Carolina legislature enacted Senate Bill 1542, which placed further restrictions on video poker out of fear that thousands of video poker machines idled by the South Carolina ban would be deployed across state lines. Under the new law, video poker machines are limited to no more than three per location, video poker locations must be separated by at least 300 feet, and no new video poker machines may be introduced to the state that were not in place on June 30, 2000. In addition, minors are forbidden from playing, and each video poker machine must be registered with the county sheriff.

Video poker and lotteries are two different entities, but there is still a lesson to be drawn. Should a party or candidate mount a serious challenge to an existing state lottery, or should the immediate opportunity arise to start or expand a lottery, lottery interests will no doubt weigh in with campaign contributions, as is their right under current campaign finance laws.

Are most state lotteries publicly or privately operated, and does either type of game generate more revenue than the other?



While states certainly have the option of structuring lotteries as private operations, all state lotteries are presently run by an agency of state government. Clotfelter and Cook cite two

distinct advantages to this option. First, provision by a state agency gives state governments substantial control over all aspects of a lottery's operation. Second, operation by a state agency reduces the potential for corruption.

"One persistent problem in forms of commercial gambling that rely on private providers, especially casinos, is preventing the involvement of organized crime," the authors write. "In contrast, the state agency model that has been the rule for modern lotteries has been quite successful in avoiding A Lottery is a Taxation, Upon all the Fools in Creation; And Heav'n be prais'd, It is easily rais'd, Credulity's always in Fashion: For, Folly's a Fund, Will never lose Ground, While Fools are so rife in the Nation. —HENRY FIELDING, 1732

even the appearance of corruption or influence by organized crime."⁶⁸

While all state lotteries are currently administered by a state agency, states vary in the degree to which the lottery agency is administered differently from the rest of state government. Presently, 14 of the 38 lottery agencies are part of a traditional state agency, usually the department of revenue. In all but one of those cases, the lottery is subject to state regulations covering procurement and the employment and compensation of state employees. In the remaining 24 jurisdictions, separate agencies have been established, some being independent, quasipublic entities, not bound by the state's civil service requirements or rules of procurement. This independence allows the agency to operate more like a business, including the ability to pay salaries to top managers that would exceed those permissible to similar state workers.

Legislation proposed in the 1999–2000 General Assembly called for the creation of a North Carolina Lottery Commission consisting of nine members, five appointed by the Governor and four by the General Assembly. The bills called for a director to be appointed by the governor to direct the operations of the Commission and serve as chief executive officer.

While all state lotteries are under the control of a state agency, the actual operation and marketing of the games is invariably contracted out to one or more private firms such as SciGames, which specializes in instant ticket games, and GTECH, which specializes in on-line games. These companies provide, install and maintain all the gaming machines, communications infrastructure, and tickets, as well as select and award prizes. The Council of State Governments recommends that states study the feasibility of privatizing lottery operations "for the purpose of separating regulatory and operational functions."⁶⁹ Legislation proposed in North Carolina encouraged the lottery director to contract out as much of the services as possible. Levenbook says this is to discourage the creation of additional bureaucracy within state government. The bills also prohibited contracting with any one firm to provide all services as a way of discouraging a monopoly situation.

Could the North Carolina General Assembly put the question of whether to institute a lottery to the voters in the form of a public referendum, or would that be a violation of the state constitution?



Some lottery proposals envision an up-or-down vote by the legislature. By contrast, Sen. Tony Rand (D-Cumberland) and others have suggested that the issue of a state lottery in North Carolina be put to a referendum of

the voters. Indeed, this is how every piece of lottery legislation has been drawn in the state since 1983, says Levenbook of the legislature's Bill Drafting Division. A referendum provides a measure of political cover for legislators who can maintain a personal opposition to the lottery while allowing a "vote of the people." Of the major gubernatorial candidates in 2000, Democrats Easley and Wicker supported a referendum. Republicans Leo Daughtry and Chuck Neeley signed a pledge

As one legislator said, "I'd rather give [the voters] the option of voting for or against the lottery bill than give them the option of voting against me because I didn't support the lottery." —FROM CHARLES T. CLOTFELTER

AND PHILIP J. COOK SELLING HOPE: STATE LOTTERIES IN AMERICA from the Christian Coalition and the Christian Action League of North Carolina indicating they would veto any gambling legislation, including legislation calling for a referendum on a lottery. Richard Vinroot also signed the pledge but marked out the "including a referendum" language before he signed it. With Vinroot capturing the Republican nomination and Easley the Democratic nomination, both major candidates would allow a lottery referendum to go forward.

However, some people hold the opinion that allowing the public to authorize a lottery through a referendum would be an unconstitutional delegation of legislative authority. The North Carolina Constitution states, "The legislative power of the State shall be vested in the General Assembly, which shall consist of a Senate and a House of Representatives."⁷⁰

John L. Sanders, a former director of the Institute of Government at the University of North Carolina at Chapel Hill and a specialist in state constitutional law, is among those who believe a binding lottery referendum would be unconstitutional. Sanders examined the issue of a lottery referendum in a 1994 article for *Popular Government* and has testified before legislative study committees on the issue. Sanders writes:

"The general rule laid down by the North Carolina Supreme Court that the legislative power may not be delegated by the General Assembly, and the absence of any decision in which the supreme court has established an exception to that rule so as to allow the General Assembly to delegate the final decision on the statewide effectiveness of legislation to the voters in a statewide referendum, support the conclusion that such a delegation, if challenged in the state courts, probably would be found to be unconstitutional."⁷¹

However, Gerry Cohen, director of bill drafting for the N.C. General Assembly, disagrees with Sanders' interpretation. "The Bill of Rights of our state constitution says, 'For the purpose of amending and strengthening the laws, elections shall frequently be held,"⁷² Cohen states. "To me, that says you can hold elections, of which a referendum is one form, to amend the laws."

Sanders disagrees. "[T]hat provision has nothing to do with referendums but instead guarantees frequent elections for members of the General Assembly," he says.

The North Carolina Attorney General's Office also has issued an opinion that a lottery referendum would be legal on grounds that power rests with the people unless limited by the constitution.

Table 5. State Lotteries, Method of Authorization, Approval Rate, and Date Begun

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29) OregonBallot Initiative66April 25, 1985	28)	Ohio	Legislation		Aug. 13, 1974
	29)	Oregon	Ballot Initiative	66	April 25, 1985

Table 5, continued

Lottery	Method of Authorization	Approval Rate If Voter Referendum	Date Begun			
30) Pennsylvania	Legislation		Mar. 7, 1972			
31) Rhode Island	Referendum	N.A.*	May 18, 1974			
32) South Dakota	Referendum	60	Sept. 30, 1987			
33) Texas	Referendum	65	May 29, 1992			
34) Vermont	Referendum	66	Feb. 14, 1978			
35) Virginia	Referendum	57	Sept. 20, 1988			
36) Washington	Legislation	· · · · ·	Nov. 15, 1982			
37) West Virginia	Referendum	67	Jan. 9, 1986			
38) Wisconsin	Referendum	65	Sept. 18, 1988			
Total	Referendum – Ballot Initiative – Legislation –	23 5 10				
* Results of the Rhode Island referendum were not available. Source: La Fleur's '98 World Lottery Almanac, TLF Publications Inc., Boyds, Md., 1999, p. 5.						

"[T]he great emphasis placed by our appellate courts on the nature of the North Carolina Constitution as being one of limitation, rather than of grant, strongly suggests the conclusion that the enactment of legislation conditioned upon a favorable vote of the people must be constitutional," states the opinion.⁷³

Of the 38 jurisdictions in the U.S. that have lotteries, 23 were authorized by referendum.⁷⁴ (See Table 5, above.) However, these were not exactly comparable to the referendum proposed for North Carolina. Cohen says these other states all had provisions in their constitutions that banned gambling, and the referenda were needed to change the constitutions. This is the case in South Carolina, for example, which will hold a referendum on the lottery in November.

Alabama is the most recent state to decide on the issue of a lottery by state referendum. In the largest voter turnout (53 percent) for a referendum in the state's history, Alabama citizens in October 1999 voted against creating a state lottery by a vote of 54.3 percent against versus 45.7 percent for. Governor Donald Siegelman had lobbied strongly for the lottery, but it was successfully opposed by a coalition of religious groups, according to David Azbell, spokesperson for Alabama Secretary of State Jim Bennett.

South Carolina's lottery referendum is scheduled for November 7, 2000. Governor Jim Hodges is lobbying strongly in favor of the lottery as a means of financing education. The lottery is opposed by leading Republicans and religious groups. Polls show two-thirds of South Carolina voters are in favor of a lottery.⁷⁵ Meanwhile, a South Carolina Supreme Court ruling has resulted in the banning of video poker effective July 1, 2000.⁷⁶ In 1999, the South Carolina legislature enacted the law to ban video poker and submitted the act to the voters for approval or disapproval. In a suit brought by video poker interests, the state's highest court held that while the legislature could by simple act abolish video poker, it could not delegate its authority by submitting that act to a vote of the people. But the court found that the act was complete without the referendum feature and thus was effective to abolish video poker. Four months after abolition of video poker takes effect, South Carolinians go to the polls to decide on a lottery.

Conclusion

Lotteries have a long history in this country, having been used to raise funds for key programs and projects at times when generating revenue by other means was not feasible or politically acceptable. Public sentiment about the appropriateness of lotteries has waxed and waned over time. Currently, the nation is in its third wave of "lottery fever" with 37 states plus the District of Columbia sponsoring the games. As more states add lotteries, the pressure grows on neighboring states to do the same. However, questions about the constitutionality of a lottery referendum in North Carolina and defeat of a lottery referendum in Alabama suggest that the spread of a lottery to North Carolina is not inevitable.

If a referendum on the lottery is put to the voters of North Carolina, polls indicate that it could pass. The most recent "Your Voice Your Vote" poll-sponsored by a consortium of North Carolina broadcast and print media outlets to help guide coverage of the 2000 elections, placed support for a lottery at 70 percent of North Carolinians if the revenue were spent on education. This is consistent with previous poll findings. But the passage of a lottery referendum is not automatic, as Alabama politicians will testify. The lottery remains highly controversial in North Carolina, with many prominent political and religious figures opposed. "How can the state itself engage in activity it condemns as illegal in law?" asks Sen. Hamilton Horton (R-Forsyth).

And whether the referendum could ever be held is at question, since a public vote on the lottery could well be challenged as unconstitutional. How the courts would ultimately decide is uncertain, as legal scholars interpret the state constitution in different ways. This is a question that could be avoided with a straight up-or-down vote of the General Assembly, but the issue is viewed as too controversial for a direct legislative vote. That sort of thinking perplexes some legislators, such as Rep. Martin Nesbitt Jr. (D-Buncombe). "You've got one way to do it that might be legal and one way you know is legal. Why not do it the right way?" asks Nesbitt, who opposes a state-operated lottery. Republican Sen. Jim Forrester (R-Gaston), also a lottery foe, agrees with Nesbitt's assessment. "If we're elected to represent the people, we ought to stand up and vote on it one way or the other," says Forrester.

Why not a yes or no vote by the legislature? The answer is simple to lottery proponents such as Rep. David Redwine (D-Brunswick). "A straightup vote wouldn't pass," says Redwine. "We're just following the pattern of what most states have done." Though not a personal fan of the lottery, Redwine does not like the flow of lottery revenue to other states from North Carolina—estimated at \$86.5 million in the 1998–99 fiscal year for Virginia alone, according to a spokesperson for the Virginia lottery. That flow will only intensify if South Carolinians vote yes on the lottery in November 2000.

Should a North Carolina referendum be authorized by the General Assembly, pass constitutional muster, and be approved by the voters, North Carolina could expect to earn in excess of \$300 million in net revenue the first year—2.3 percent of the total state budget of \$13.3 billion, according to the legislature's Fiscal Research Division. Depending upon which bill is passed, North Carolina could see the bulk of those funds earmarked for an Education Improvement Scholarship Program modeled after Georgia's HOPE Scholarships.

Democratic gubernatorial candidate Mike Easley campaigned and won his party's nomination on a promise to use lottery funds to reduce class size in the public schools and establish a prekindergarten program for at-risk four-year-olds. Legislation featuring his priorities also could surface in a future session of the General Assembly. Additional lottery funds might be directed to the state's Clean Water Fund, to counties for water and sewer infrastructure improvements, to local school districts for capital improvements, to Governor Jim Hunt's Smart Start child care initiative (the Early Childhood Education and Development Initiatives Program), or to the General Fund to reduce the state's bonded indebtedness.

However, there would be a cost. North Carolina would likely see some increase in problem and compulsive gambling—exactly how much is not certain. Despite rules to the contrary, minors would succeed in playing the lottery. It would be unlikely that the state could eliminate illegal play by minors entirely without sacrificing lottery revenues. Evidence suggests that a majority of players would not skimp on necessities (food, shelter,



clothing) to finance their gambling, but might cut back on spending for alcohol. Convenience stores might see some decrease in revenue, but this might be offset by commissions for lottery ticket sales. Any decline in retail sales would be reflected in a corresponding loss of sales tax revenue to the state and local governments. In addition, there could be increased resistance to tax increases to meet rising government costs if the public perceives that lottery money is or should be adequate to meet the need for increased revenue.

Scandals involving lottery administration would be unlikely. However, once the games are established, public acceptance combined with pressure and political contributions from the gaming *—continued on page 56*

"In each show a life was transformed (for better or sometimes worse) by the tax-free gift of \$1 million from an eccentric philanthropist."

----CHARLES T. CLOTFELTER AND PHILIP J. COOK

SELLING HOPE: STATE LOTTERIES IN AMERICA

REGARDING THE 1950S TELEVISION SERIES, "THE MILLIONAIRE"

-continued from page 49

industry would make it difficult for anyone to successfully challenge the existence of the lottery.

The experience from other states suggests that people eventually lose interest in the basic games, forcing the state (or rather its vendor) to keep raising jackpots and to continuously come up with new, more exciting games to keep revenues growing. This would not inevitably lead to the legalization of casinos and riverboat gambling.⁷⁷ But should interest in traditional games wane and the state be unwilling to legalize more exciting (e.g. addictive) forms of gambling, sales might decline.

If one views a state lottery as harmless entertainment and a way to gain state revenue from a voluntary source, these costs may seem negligible. The costs may seem larger to people who are opposed to gambling from a moral perspective, or to those who believe the state should not be engaged in encouraging people to spend their money in ways that may not be wise.

In the end, the question of a state lottery is a policy decision—whether made directly by the people or by their elected representatives. The Center believes that decision should be an informed one. π

FOOTNOTES

¹For more on the lottery discussions in the early 1980s, see Steve Adams, "The Numbers Game—The Lottery for North Carolina?" *North Carolina Insight*, N.C. Center for Public Policy Research, Raleigh, N.C., Volume 7, No. 4 (April 1985), pp. 24–33.

² "House Speaker Creates Select Committee on Lottery," press release issued by office of N.C. House of Representatives Speaker Jim Black, Raleigh, N.C., March 14, 2000, p. 1.

³ Democratic political consultant James Carville is credited with using the lottery to help get Wallace Wilkinson elected governor of Kentucky in 1987 and Zell Miller elected governor of Georgia in 1990. See Jonathan Dube, "N.C. watches as states add lotteries," *The Charlotte Observer*, Charlotte, N.C., Dec. 9, 1998, p. 23A.

⁴Thomas Jefferson, "An Academical Village," *The Writings of Thomas Jefferson, Letters 1810*, The Library of America, New York, N.Y., 1984, p. 1222.

⁵ Dumas Malone, Jefferson and His Time--The Sage of Monticello. Little, Brown & Co., Boston, Mass., 1981, pp. 473-482. ⁶Thomas Jefferson, "Statement and Note on Lotteries," Manuscript Division of the Library of Congress, Washington, D.C., February 1826, image 918 of 1,153. Document may be viewed on the Library of Congress web site at http:// memory.loc.gov/ammem/mtjhtml/mtjhome.html

⁷Richard McGowan, State Lotteries and Legalized Gambling: Painless Revenue or Painful Mirage, Quorum Books, Westport, Conn., 1994, p. 4.

⁸ The Virginia estimate is based on the 9.3 percent of North Carolina residents who won more than \$600 in the lottery and thus had to provide information to lottery officials. This percentage, applied to the lottery's gross revenue for the year yielded the estimate of \$86.5 million.

⁹ Teresa La Fleur and Bruce La Fleur, *La Fleur's 2000 World Lottery Almanac*, TLF Publications, Boyds, Md., 2000, p. 23.

¹⁰ "Georgia's HOPE Scholarship Program" fact sheet published by Georgia Finance Commission. www.hope.gsfc.org/ press_release/hopefaq.cfm

¹¹ 30th annual survey report of state-administered student financial aid available for the 1998–99 academic year, New York State Higher Education Services Corporation, Albany, N.Y., Table 15, p. 74.

¹² "Keeping HOPE tougher than qualifying for it" Atlanta Journal & Constitution, Atlanta, Ga., Dec. 30, 1999, p. 1A.

¹³ "The Lottery Tax: Still a Bad Idea for North Carolina," *BTC Reports*, the newsletter of the North Carolina Budget and Tax Center, Raleigh, N.C., Vol. 5, No. 5, February 1999, pp. 4–5.

¹⁴ Results from the Georgia State Poll are taken from the website of the Howard W. Odum Institute for Research in Social Science data archive at the University of North Carolina at Chapel Hill, N.C. www.irss.unc.edu

¹⁵ These rankings are based on 1999 figures from the U.S. Bureau of the Census. Top-ranked Florida's percentage of persons over 65 is 18.14, followed by Pennsylvania's 15.83 percent. North Carolina ranks 27th in the nation in percentage of its population over age 65, at 12.48 percent. For more, see the Census website at www.census.gov

¹⁶ Pennsylvania State Lottery web page. www.palottery.com ¹⁷ Charles T. Clotfelter, Philip J. Cook, Julie A. Edell, and Marian Moore, "State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission," unpublished, Duke University, Durham, N.C., 1999, Table 4.

¹⁸ John Mikesell and Kurt Zorn "State lotteries as fiscal savior or fiscal fraud" *Public Administration Review*, American Society for Public Administration, Washington, D.C., July/ August, 1986, p. 314.

¹⁹ "Lotteries: Don't Bet on Their Revenue," *BTC Reports*, the newsletter of the North Carolina Budget and Tax Center, Raleigh, N.C., Vol. 6, No. 6, May 2000, p. 1.

²⁰ Charles T. Clotfelter and Philip J. Cook, *Selling Hope: State Lotteries in America*, Harvard University Press, Cambridge, Mass., 1989, p. 218.

²¹ The 1989 calculations are by the author and based on "Lottery Dollars—Percentage of State Expenditures Paid for by Lottery Proceeds," a table published in *Governing* magazine, March 1991, pp. 52–53. 1997 calculations also are by the author and based on data included in Table 2 of this article.

²² Associated Press, "State lotteries feel squeezed by market and political forces," *Las Vegas Review-Journal*, Las Vegas, Nev., May 31, 1999, p. 1D. www.lvrj.com

²³ Report of the Lottery Profit Review Commission, Ohio General Assembly, Columbus, Ohio, March 23, 200, pp. 1–10.

²⁴ Teresa and Bruce La Fleur, note 9 above, p. 23.

²⁵ Ibid., p. 261.

²⁶ Author's analysis of information provided to the North Carolina General Assembly's Bill Drafting Division by the National Association of State and Provincial Lotteries.

²⁷ David P. Brandon, *State-Run Lotteries: Their Effects on School Funding*, Educational Research Service, Arlington, Va., 1993, p. 8.

²⁸ Pamela J. Allen, "The Allocation of Lottery Revenues to Education in Florida, California, Michigan and Illinois," *Educational Policy*, Newbury Park, Calif., Vol. 5, No. 3, September, 1991, pp. 296–311.

²⁹ Shirish Date, "State spends less on students than in 1998," *Palm Beach Post*, Palm Beach, Fla., August 20, 1998, p. 1A.

³⁰ Peter Keating and Joan Caplin, "Lotto fever: We all lose!" *Money*, New York, N.Y., May, 1996, pp. 142–149.

³¹ Kimberly Cartron, "Easley and Wicker Lottery Spending Plans Are Both Unsatisfactory," *BTC Reports*, the newsletter of the North Carolina Budget and Tax Center, Raleigh, N.C., Vol. 6, No. 6, April 2000, pp. 3–5.

³² Clotfelter, Cook, et al., note 17 above, p. 13.

³³ Angus Reid Commentary on Clotfelter, Cook, *et al.* report. www.naspl.org/sltcrept.html

³⁴ Demographic Study of Texas Lottery Players, Texas Lottery, January 1999, p. 13. The survey was conducted in October and November 1998 by the Office of Survey Research in the College of Communication, University of Texas, Austin, Texas. A total of 1,720 interviews were conducted, producing a margin of sampling error of 2.4 percent.

³⁵ Consumer tracking survey conducted by Chilton Research Services, Radnor, Pa. A total of 10,991 Virginians were surveyed by telephone July 7, 1997, to July 5, 1998. The margin of sampling error from this type of survey is less than 1 percent. Additional information is available from the Virginia lottery by telephone at (804) 692-7521.

³⁶ Iowa Lottery Baseline Study, May 1999, unpublished. Available from Iowa Lottery Headquarters, 2015 Grand Ave., Des Moines, Iowa, 50312. Additional information is available from the Iowa Lottery at (515) 281-7900.

³⁷Clotfelter, Cook, et al., note 17 above, p. 12.

³⁸ Clotfelter and Cook, note 20 above, p. 95.

 ³⁹ Mary O. Borg et al., The Economic Consequences of State Lotteries, Praeger Publishers, New York, 1991, pp. 92–95.
 ⁴⁰ Ibid., p. 89.

⁴¹ Keon S. Chi and Drew Leatherby, "States Ante Up: Regulating Lotteries and Casinos," *Solutions*, Council of State Governments, Lexington, Ky., Vol. 6, No. 2, October 1998, p. 9.

42 Borg et al., p. 60.

⁴³N.C. Budget and Tax Center, note 13 above, p. 4.

⁴⁴ U.S. Public Law 104-169, 4(a)(2)(C).

⁴⁵ National Research Council, *Pathological Gambling: A Critical Review*, National Academy Press, Washington, D.C., 1999, pp. 20–21.

⁴⁶ *Ibid.*, p. 99.

⁴⁷ J. Hraba, W. Mok, and D. Huff, "Lottery play and problem gambling," *Journal of Gambling Studies*, Duluth, Minn., Vol. 6, 1990, pp. 355–377.

⁴⁸ K.C. Winters, R.D. Stinchfield, and L.G. Kim, "Monitoring adolescents and gambling in Minnesota," *Journal of Gambling Studies*, Duluth, Minn., Vol. 11, 1995, pp. 173–185.

⁴⁹ National Research Council, note 45 above, p. 249.

⁵⁰ Taken from http://www.naspl.org/faq.html

⁵¹ Unpublished. National Gambling Impact Study Commission Report Recommendations, Chapter 4.

⁵² McGowan, note 7 above, p. 13.

⁵³ *Ibid.*, p. 20.

⁵⁴ Peter Elkind "GTECH Executive Convicted for Kickback Scheme with State Political Consultants," *Fortune Magazine*, New York, N.Y., Nov. 11, 1996, p. 184.

⁵⁵ "Lottery Faces A New Scandal," *Boston Globe*, Boston, Mass., Sept. 2, 1999, p. B1.

⁵⁶ Clotfelter and Cook, note 20 above, p. 48.

⁵⁷ Coy C. Privette "No: It's just a bad policy" *Greensboro* News & Record, April 7, 1991, p. B3.

⁵⁸ Clotfelter and Cook, note 20 above, p. 134.

⁵⁹ Paul Jacobs, "State Lotteries Create 'Culture of Gambling,' Arizona Governor Says," *Los Angeles Times*, Los Angeles, Calif., October 31, 1984, Part I, p. 3.

⁶⁰Clotfelter, Cook, et al., note 17 above, p. 21.

⁶¹ "Gamblers Unanimous," Common Cause News. http:// www.commoncause.org/publications/062697_sdy3.htm#ngisc

⁶² Ibid.
⁶³ Jim Drinkard and William Welch, "Gambling industry ups the ante in politics," USA Today, Arlington, Va., Jan. 8, 1999, p. 1A.

⁶⁴ David Plotz, "Busted Flush—South Carolina's videopoker operators run a political machine," *Harper's Magazine*, New York, N.Y., August, 1999, pp. 63–72.

⁶⁵ Jim Drinkard and William Welch, note 63 above.

⁶⁶ Robert Hainer, "Lottery operators investing in S.C. politics, lawmakers," *Spartanburg Herald Journal*, Spartanburg, S.C., Jan. 21, 2000, p. 1A.

⁶⁷ Matthew Teague, "Video poker industry finances candidates," *The News & Observer*, Raleigh, N.C., April 23, 2000, p. 1A.

⁶⁸Clotfelter and Cook, note 20 above, pp. 247–248.

⁶⁹ Chi and Leatherby, note 41 above, p. 13.

⁷⁰ Article II, Section 1 of the Constitution of North Carolina.

⁷¹ John L. Sanders "Can the Fate of the Lottery Be Left to the Voters?", *Popular Government*, Institute of Government, University of North Carolina at Chapel Hill, Chapel Hill, N.C., Winter, 1994, p. 16.

⁷² Article I, Section 9 of the Constitution of North Carolina.

⁷³ Andrew A. Vanore Jr. and Norma S. Harrell, "Advisory Opinion: Constitutionality of legislation conditioning the establishment of a lottery upon approval of the voters in a statewide referendum; Article II, Section 1 of the North Carolina Constitution," March 2, 1999, p. 11.

⁷⁴ Teresa and Bruce La Fleur, note 9 above, p. 5.

⁷⁵ Bill Swindell, "Lottery opponents kick off drive to defeat the Nov. 7 referendum," *The Post and Courier*, Charleston, S.C., April 19, 2000, p. 1A.

⁷⁶ Joytime Distributors v. South Carolina, 528 S.E. 2d 647 (1999).

⁷⁷ Casino boats used for offshore gambling already operate just south of the North Carolina line in Little River, S.C. Rep. David Redwine's 1999 bill to ban casino boats from North Carolina waters (H.B. 19) became caught up in opposition from legislators who hope cruise ships that offer gambling as entertainment will make stops in North Carolina, Redwine says. The bill died in a Senate committee.

"Is that your final answer?"

----REGIS PHILBIN

"WHO WANTS TO BE A MILLIONAIRE?"