

RESOLVED: "In the U.S., state-sponsored gambling lotteries should be abolished."

NATIONAL GAMBLING IMPACT STUDY COMMISSION

LOTTERIES

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

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

Lotteries rank first among the various forms of gambling in terms of gross revenues: total lottery sales in 1996 totaled \$42.9 billion. 1982 gross revenues were \$4 billion, representing an increase of 950% over the preceding 15 years, 1982-1996.²

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

History

Although making decisions and determining fates by the casting of lots has a long record in human history (including several instances in the Bible), the use lotteries for material gain is of more recent origin, although of considerable antiquity. The first recorded public lottery in the West was held during the reign of Augustus Caesar for municipal repairs in Rome. The first recorded lottery to distribute prize money was held in 1466 in Bruges, in what is now Belgium, for the announced purpose of providing assistance to the poor.

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

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

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

Reestablishing the Industry

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

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

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

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

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

A second argument made by lottery promoters is that because illegal gambling already exists, a state-run lottery is an effective device both for capturing money for public purposes that otherwise would disappear into criminal hands and also for suppressing illegal gambling. The evidence suggests that this may be partially true for the so-called "numbers" games. Some lotteries have explicitly designed their games toward this public policy goal. New York's lottery, for example, reports that as a result, "illegal numbers activities have been eliminated for the most part in most areas of the State with the exception of New York City."⁷

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

The Evolution of the Lottery

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

Revenues typically expand dramatically after the lottery's introduction, then level off, and even begin to decline. This "boredom" factor has led to the constant introduction of new games to maintain or increase revenues. Before the mid-

1970s, state lotteries were little more than traditional raffles, with the public buying tickets for a drawing at some future date, often weeks or months in the future. Innovations in the 1970s, however, have dramatically transformed the industry. The first such innovation was the so-called "instant games," especially in the form of scratch-off tickets. These had lower prize amounts, typically in the 10s or 100s of dollars, with relatively high odds of winning, on the order of 1 in 4. As important, the purchaser could immediately determine if he had won or lost, thus increasing the excitement value.

A more far-reaching development was the advent of on-line computerized vending. The first major innovation from this was a daily numbers game, modeled on the illegal numbers games historically present in all major American cities. The advantages to the player of this new, legal game included the ability to choose his own "lucky" number, thereby giving him a greater sense of participation (even if his actual odds of winning remained unaffected by his choices) and allowing him to determine that day if he had won. As the patrons of illegal numbers games typically played quite frequently, many playing every day, the income generated for the state lottery from this activity grew enormously.

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

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

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

The Evolution of Debate

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

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

Critics charge, however, that the "earmarking" of funds is misleading: lottery proceeds used for a specific program, such as public education, in fact simply allow the legislature to reduce by the same amount the appropriations it would otherwise have had to allot for that purpose from the general fund. The money "saved" remains in the general fund, to be

spent on whatever purpose the legislature chooses. Critics add that, as there is little or no evidence that overall funding has increased for the targeted recipients of lottery revenues, the only result has been to increase the discretionary funds available to the legislature, which may be a key reason for the popularity of lotteries in the state houses.

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

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

The problem is not confined to any one state. Jeff Perlee, Director of the New York State Lottery, commenting on past practices, stated that "lottery funding has NOT represented the supplemental funding that education was promised."¹⁷ This conclusion was backed up in a report by the New York State Comptroller regarding the state lottery's role in financing education, which concluded that "the widespread belief that lottery dollars are used to increase funding for education is simply a myth, at least here in New York. The study outlines that Lottery money never supplemented state aid to education and probably never will. We found that over the years the lottery has been used repeatedly as a source for closing budget gaps rather than increasing aid to education."¹⁸

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

Pressures for Revenue

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

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

Although strong sales growth for lotteries has continued -- totaling 11.7%, 12.9%, and 11.7% in 1994, 1995, and 1996 respectively -- these figures obscure an important shift in the sources of revenue in recent years. As the traditional lottery industry has matured and fully penetrated its various markets, sales growth has leveled off. Most of the recent growth has

come from the introduction of new forms of wagering, such as machine keno and video lottery devices, revenues from which grew by 41.8% in 1996 alone.²² These machines are commonly licensed to bars, convenience stores, etc., thus dramatically increasing their presence in public life. They also have prompted concerns that these new games exacerbate existing alleged negative impacts of the lottery, such as the targeting of poorer individuals, increased opportunities for problem gamblers, presenting the latter with far more addictive games, etc.

The evolution of the Massachusetts lottery is instructive: the lottery began operations in 1975 with a 50-cent ticket and a once-a-week drawing. Scratch tickets with instant payoffs were introduced in 1974. In 1993, the lottery introduced keno games and currently there are nearly 1600 keno vendors in Massachusetts, most of them in stores open to the general public. Lottery revenues have risen from \$71 million in 1975 to more than \$3 billion in 1997.²³

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

Advertising

Lotteries have also come under increasing criticism in the area of advertising, especially regarding alleged aggressive advertising practices aimed at lower-income groups. Many critics have long been uncomfortable in general with state governments promoting what they see as a vice. The federal government banned lottery advertising until 1975; once this prohibition was lifted, increasingly larger sums have been devoted to the promotion of lotteries: in fiscal year 1997, state lotteries spent over \$400 million on advertising and promotion.²⁵

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

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

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

Critics charge that much lottery advertising is deceptive, commonly presenting misleading information about the odds of winning the jackpot, inflating the value of the money won (lotto jackpot prizes are usually paid in equal annual installments over 20 years, with inflation and taxes dramatically eroding the current value); and so forth.

Growing criticism has helped to persuade some legislatures to mandate restrictions on lottery advertising. In Massachusetts, the legislature imposed a significant reduction in the money allotted for lottery advertising, from \$12 million in 1993 to \$400,000 in 1997. Lottery advocates claim that the Massachusetts lottery spent no money on advertising in 1997 outside of point-of-purchase sites (i.e., no television, radio, newspaper, or billboard advertising). As a direct result, there was an absolute decline in lottery revenue for the first time. Despite the increasing salience of the

issue, only three states -- Minnesota, Virginia, and Wisconsin -- have imposed significant restrictions on lottery advertising (Massachusetts' legislature did the same by means of its virtual elimination of the advertising budget; other states have similarly reduced the advertising budget, but for a variety of reasons). But many state lottery organizations claim to have significantly reduced their overall advertising on their own initiative, or to have changed it in ways to make it more "socially responsible."

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

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

A Maryland state budget examiner's report on that state's lottery advertising stated that it contained "misleading gimmickry" that exaggerated the benefits to the public from lottery revenues.³² In fact, state lotteries are exempt from the Federal Trade Commission's truth-in-advertising standards because they are state entities and, in terms of their advertising, can in fact operate in a manner that true commercial businesses cannot.³³

Regressivity

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

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

The popular belief is that the poor are much heavier users of the lottery than the rich and the middle classes. In fact, however, although "lottery play is systematically related to social class, [it is] perhaps not always as strongly as the conventional wisdom would suggest." The data "do not demonstrate any consistent relationship between lottery play and household income over the broad middle range; the average expenditure in dollars for households making \$10,000 is about the same as for those making \$60,000."³⁶ "On average, people bet the same amount on the state lottery regardless of income. Absolute expenditures appear to be remarkably uniform over a broad range of incomes."³⁷

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

Although total expenditures on the lottery may be broadly similar by income group, the type of game they play differs considerably. An analysis by the Chicago Sun-Times revealed that lower-income individuals concentrate much more

heavily on the numbers games, "trading lower payoffs with a higher chance of winning. They also are likely to be frequent players, often daily players. Lotto - with its big-money jackpots and slim odds -- appears to appeal more to upper-income groups, most of whom are only occasional players, usually when the prize money reaches large proportions."⁴⁰

This tendency toward regressivity in certain types of lottery games is also borne out in the figures for the Massachusetts lottery. In FY1997, the Massachusetts lottery grossed \$3.2 billion, of which instant games (of which the lower-income groups played disproportionately) accounted for 65%, numbers for 12%, and keno for 13%, all other, including the lotto, 10%.⁴¹ The data from the Massachusetts lottery do seem to bear out the disproportionate impact: although the state-wide per capita amount spent on the lottery was \$547 in 1996 (the highest in the country), the Boston Globe reported that the per capita lottery expenditures in the economically depressed Boston suburb of Chelsea had climbed to over \$900 in 1996.⁴²

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

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

Other Criticisms

Compulsive Gambling

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

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

Despite significant annual revenues from the lottery, however, treatment of compulsive gambling receives relatively little money from the state. In Massachusetts, for example, the state budgeted only \$450,000 in FY 1996 on compulsive gamblers, including only \$120,000 for actual treatment, even though the lottery revenues for the state amounted to \$720 million.⁴⁸ The Ohio lottery is one of only a few that operates a compulsive gambling treatment operation as part of its regular operations, employing six problem gambling experts. Five states require a telephone number for help for problem gamblers be printed on its lottery tickets.⁴⁹

Underage Gambling

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

played the lottery.⁵³

Charitable Gambling

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

Impact on State Politics

The negative impact on state politics of money connected with the lotteries is often cited by critics, with the commercial suppliers and operators commonly used as examples. GTech and Automated Wagering International (AWI) are the two companies that dominate the lottery supply and lottery operations businesses. In 1997, of the 38 lotteries, GTech had contracts to operate 29; AWI had 7; Massachusetts and Virginia run their own systems. These two companies have contributed heavily to state races. When GTech won the contract to operate the California lottery in 1986, it had been the 6th largest contributor to state campaigns that year, having donated a total of \$300,000 to individual state races. In addition, both companies devote substantial sums to lobbying state legislatures and officials. GTech is alleged to have spent \$11 million on lobbyists in 1993 alone.⁵⁵

Public Policy

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

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

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

The evolution of state lotteries is a classic case of public policy being made piecemeal and incrementally, with little or no general overview. Authority - and thus pressures on the lottery officials -- is divided between the legislative and executive branches and further fragmented within each, with the result that the general public welfare is taken into consideration only intermittently, if at all. Few, if any states, have a coherent "gambling policy" or even a "lottery policy." Policy decisions taken in the establishment of a lottery are soon overcome by the ongoing evolution of the industry. It is often the case that public officials inherit policies and a dependency on revenues that they can do little or nothing about.

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

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