

Findings

A Lottery Education

Dispelling the Education Lottery Myth

By Stephen Daniels



When selling the idea of state-sponsored gambling to the people in a state, one of the most often cited beneficiaries of lottery dollars is education.

For years, lawmakers in states across the country have yielded to the notion that a lottery would result in big money and big benefits to schools and other public programs. In fact, 20 states currently designate a portion or all of the revenues collected from a lottery to some form of public education.¹ Some, like South Carolina, have even gone so far as to refer to their state's games as an "education lottery."²

But behind the images of big money and perceived public good, the realities of a lottery are very different from the images sold to the people. Far from the benign and seemingly innocent process of transferring funds from willing players to needy schools, the lottery remains an unstable source of income that negatively affects overall state education funding. There are also hidden costs associated with lottery gambling such as addicted gamblers and lost consumer and tax dollars. Perhaps most troubling of all, the lottery has little to do with raising money for education. Education, or some other good cause, is simply the means used to make gambling more attractive and acceptable to the people of the state. If education were not such a politically popular issue, the lottery would be tied to something else—as it has been in previous years in North Carolina. Instead, the lottery is just another way to expand state coffers without having to raise other taxes. It is also pushed hard by the gambling industry because it will generate tens of millions of dollars a year for the company that op-

erates it. The lottery also opens the door for other forms of gambling as citizen's objections to gambling are reduced over time.

This paper addresses the realities behind the promises of an "education lottery" and explains why state-sponsored gambling will have the opposite effect on education in North Carolina than the public is led to believe.

Funding Instability

States that commit themselves to funding a portion of their education programs with gambling dollars run the risk of coming up short when the projected revenues don't materialize. Though the actual amount of money that lotteries contribute to the state's coffers is minor compared to the total state budget, these shortfalls can create havoc for programs that are dependent on the money. Even the most successful lotteries have had trouble.

In many discussions about the benefits of an education lottery, these days the conversation often turns to Georgia's HOPE Scholarship Program, which gives academically successful students money for tuition, books and fees for in-state colleges paid for with lottery revenues.³ Since its inception in 1993, the Georgia lottery has been held up as a model for other lotteries and is frequently mentioned by lottery proponents in North Carolina. However, despite the accolades, Georgia's lottery-supported scholarship program is facing financial difficulties.⁴ As lottery revenues have leveled off and the demand for scholarships continues to grow, state officials are now scrambling to find ways to reduce the number of eligible students or cut the amount of money given to students before the program is unable to serve all eligible participants.⁵ None of these options are appealing to a populous that has become accustomed

to the money, or to lawmakers who have to answer for the cuts that they make. Georgia's experience illustrates that even the most "successful" education lottery in the country cannot escape the pitfalls that come when you link public education funding to gambling.

Georgia's funding problem is indicative of a broader trend nationwide. Many states have faced fluctuating revenues and significant drops in income from their lotteries. In 2001 (months before the events of September 11th), *Business Week* reported that 20 of the nation's lotteries saw profits drop.⁶ The state of Ohio faced the biggest shortfall that year with lottery sales off by 11 percent, leaving the state \$52 million short of its projected income for education. The state had to make up the difference from other funding sources.⁷ In 2003, Ohio showed a loss of \$45.3 million and was behind in its payment to education by \$26 million.⁸ Meanwhile, Texas lottery sales in 2001 were a billion dollars below 1997's record sales, nearly a one-third drop in sales over five years.⁹

These fluctuations in ticket sales are the hallmark of a revenue source that is at the mercy of attitudes within the marketplace, and spells trouble for states that are dependent on lotteries for education each year. When lotteries are first introduced, ticket sales are usually brisk as excited players shell out money to play, many for the first time. However, over time, what is commonly referred to as "jackpot fatigue" sets in and players that were once eager to spend money on the lottery lose interest. This is partly due to the disenchantment that comes with repeated losses. Jackpot fatigue is the reason that states often create new and presumably more exciting games to invigorate interest in playing the lottery. States must increase advertising and add more novel and entertaining methods

of selling tickets to lure their citizens to spend more money on the lottery.

Jackpot fatigue is also fueled by boredom from jackpots that seem less impressive over time. A payout of \$50 million, once considered substantial, is no longer sufficient to generate excitement.¹⁰ In order to beef up jackpots, some states direct a higher percentage of lottery revenues to prizes by cutting the state's profits, meaning less money for education. New York increased the payout from 55 cents per dollar spent on a lottery ticket to 65 cents. Even though the state saw record sales, the lottery's profits fell to seven percent below what the lottery brought in four years earlier.¹¹ States have also decreased player's chances of winning by increasing the amount of numbers they must choose. This results in higher jackpots, but fewer winners, which also fuels jackpot fatigue.¹²

Another reason that lottery sales decline is the proliferation of other forms of gambling that divert money away from the lottery. Once a state becomes accustomed to lottery gambling, there is less resistance to future forms of gambling that compete for dollars.

Costs Over Benefits

Proponents of the lottery have as their main selling point the prospects of "big money." And there is no question that lotteries have provided a lot of money to states. But the reality is that the lottery brings in only a small fraction of the money necessary to fund education.¹³ So it is appropriate to ask whether it is worthwhile for the state to enter the gambling business to bring in a relatively meager amount of additional revenue. Estimates vary on the exact amount of money that a lottery would generate for North Carolina, but a reasonable estimate is around \$366 million a year.¹⁴ This would account for somewhere around 2.4 percent of the \$14.8 billion state budget¹⁵ and approximately 4.4 percent of the \$8.3 billion that North Carolina appropriated to education this year, far less than the public generally thinks.¹⁶ (See chart)

Lotteries are not an efficient way to raise revenue. For each dollar spent on a lottery ticket, the state would keep approximately 34 cents for education, while 50 cents is returned in prizes and 16 cents goes toward administering the lottery.¹⁷ In other words, the state would keep only a third of every dollar spent on the lottery for education. This is hardly efficient

considering that it presently costs the state less than one cent to collect every dollar in tax revenues.¹⁸

Keeping in perspective the amount of money a lottery would generate diffuses the argument that a lottery is needed to stem the tide of money going to other states. Lottery proponents claim that hundreds of millions of dollars that could benefit education are being lost to surrounding states. This assertion is not true, however, because those states only keep a third of every dollar spent on lottery tickets to fund their education programs. Lottery advocates are misleading the public when

would erode county commissioner support of extra money to the schools."²²

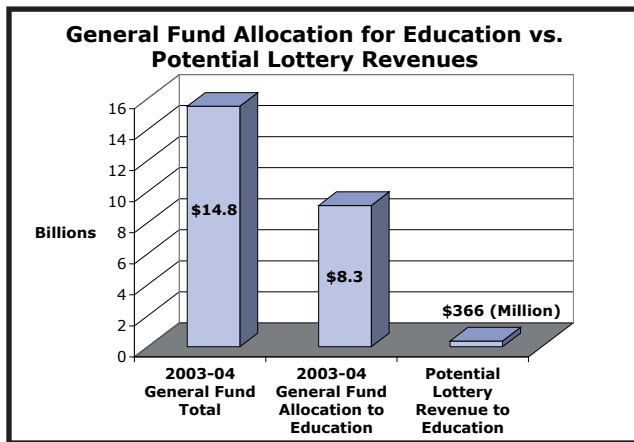
The lottery would also affect state and local tax revenues as lottery players spend money on tickets instead of goods and services. Estimates vary, but a lottery could cost between \$31 million and \$36 million in lost state and local taxes.²³ There is also an adverse affect on consumer sales from households that shift their spending away from items such as food, clothing, and housing to play the lottery.²⁴

One of the big costs associated with the lottery that proponents do not talk about is the cost of the problem and pathological gamblers that would be created once gambling is introduced statewide. Considering that approximately 400,000 North Carolinians will become addicted to gambling over time,²⁵ the costs to the state from crime, lost jobs and wages, bankruptcies and so forth would reach into the hundreds of millions of dollars.²⁶ This does not include the unwritten costs of divorce, child abuse and neglect, domestic violence, suicide and even murder that result when people get addicted to gambling.²⁷

When compared to the social and economic costs associated with the lottery, it becomes clear that committing the state to gambling is not worth it. The state already has legitimate means of collecting revenues to fund education, and gambling should not be among them. Still, some may continue to argue that the lottery helps education. In response, it is important to ask how lotteries have affected funding for education.

Education Funding?

In state after state the people have been sold the idea that a lottery is a way to create additional revenue without having to raise taxes. But the reality is that states with lotteries do not spend more on education than states without them. In fact, research shows that lottery states are likely to decrease the rate of growth in education spending, compared to non-lottery states.²⁸ In other words, states that do not have a lottery actually increase education spending at a higher rate than lottery states. As one study put it: "Lottery revenue is unlikely to materially increase funding for education...Citizens should recognize that the claims that lotteries will improve education funding are likely to be as misleading as the odds of their winning those lotteries are meager."²⁹ Another study that set out to demonstrate that



they talk about the gross dollars spent on tickets, not the net dollars kept by the states. This means that if North Carolinians spend approximately \$250 million in surrounding states, as has been reported, the estimated revenues taken in by those states is around \$82.5 million, which is less than one percent of North Carolina's education budget.¹⁹ Tar Heel players win back half the money they gamble in other state lotteries, because fifty cents of every dollar is returned in prizes.²⁰

A lottery would also jeopardize the potential for the passage of local education bonds because the general public's perception that the lottery is a windfall of cash would erode public support for these bonds. One education official in Florida, where the lottery is suspected to have caused the defeat of school bonds, said: "Voters thought the order of magnitude of money would be tremendous. They thought they would never have to pass a tax or a bond issue because with the lottery you'd hit the jackpot."²¹ Former Chairman of the North Carolina State Board of Education Phil Kirk expressed his concerns this way: "I am strongly opposed to the lottery, not only for the philosophical reasons. We would never pass another local school bond and it

lotteries play a significant role in generating money for education concluded: “This relationship has not been supported by analysis of the data.”³⁰ This may come as a surprise considering the number of states that earmark lottery money for education. However, designating money for educational purposes does not insure increased funding, despite what the general public is told.

Even though funds are promised to education, there is no way to insure that they will stay there. Lawmakers have regularly shifted monies away from education to fund other priorities. In his analysis of how the New York state lottery was redirecting lottery money elsewhere, state comptroller H. Carl McCall pointed out: “The truth is that the Legislature and Governor decide how much state aid will go to local schools and the amount from the lottery is just a small part of that total. Lottery money has never supplemented state aid; it doesn’t today and it likely never will.”³¹ Georgia’s acclaimed lottery was diverting money to pay for all sorts of projects not related to education including museums, security fences and the renovation of historic buildings.³² Even Ohio, which has a constitutional amendment requiring lottery funds to go education, took funds away from education to help balance the budget.³³ Duke professors Charles Clotfelter and Philip Cook commented on the problem in their report to the National Gambling Impact Study Commission saying: “When expenditures on the earmarked purpose far exceed the revenues available from the lottery, as is the case with the general education budget, there is no practical way of preventing a legislature from allocating general revenues away from earmarked uses, thus blunting the purpose of the earmarking.”³⁴

In addition to periodically dipping into lottery money for other projects, there is also the possibility that the legislature may someday decide to completely redirect the money somewhere else. Just because lawmakers decide one year that education is the beneficiary, it does not prevent future lawmakers from deciding otherwise. This is exactly what happened in Montana when, after nine years of earmarking lottery dollars to education, the legislature designated the money solely to the general fund.³⁵

Selling the Lottery

The gambling industry has devised a clever strategy to lure states into sponsoring gambling by linking state profits to a worthy cause like education. Selling

the lottery as a benefit for something like education makes it much easier to garner popular support for an activity that has traditionally been considered unseemly. Citizens would be much less likely to support a lottery to increase funding for the Department of Revenue or to raise legislator’s salaries. Pennsylvania earmarks its lottery money exclusively for senior citizen programs, including a prescription drug benefit.³⁶ In the nature-loving state of Colorado, lottery money funds parks and recreation, wildlife protection and open space initiatives.³⁷ Even in North Carolina, the lottery has not always been proposed to help education. A survey of previous bills introduced over the years shows that the lottery has been linked to many different programs including the General Fund, Local Infrastructure Fund, Clean Water Management Trust Fund, Natural Gas Expansion Fund and many others.³⁸ What’s important is that the general public is led to believe that the lottery is providing for a needed benefit so that the gambling industry can profit from gambling.

Contradictions

The lottery is state-sponsored gambling. And because it is gambling, it presents a number of contradictions. Because the state profits from lottery sales, it places itself in the precarious position of having to entice its citizens to keep gambling in order to maintain profits. This often takes the form of flashy advertising (not bound by the Federal Trade Commissions’ truth-in-advertising standards) that emphasizes luck and instant gratification over hard work and wise investing. New York’s “All you need is a dollar and a dream” ad campaign is one example.³⁹ These messages are in stark contrast to the messages of responsibility, good judgment and self-discipline taught to students in public schools through character education. Lottery advocates must reconcile their support for education while promoting a system that profits from sending a counterproductive message to students. All this is in addition to the fact that all other gambling is still illegal.

Another contradiction is that the lottery helps students. In a landmark series of court rulings in a case commonly referred to as the “Leandro” case, Superior Court Judge Howard E. Manning Jr. determined that North Carolina’s “at-risk” children were not being given an equal chance at a sound, basic education and ordered the state to find a way to address the problem. The judge identified some of the causative factors that contribute to a child being “at-

risk” including low level of parental education and poverty. This ruling prompted lottery supporters to push for a lottery to finance the judge’s order.⁴⁰ Ironically, the lottery would hurt the very people that the Leandro ruling seeks to help. Studies have shown that people with low levels of education and limited income are more likely to spend an inordinate amount of their incomes on the lottery.⁴¹ An analysis by the *Atlanta Journal-Constitution* found that lottery players in poor Georgia communities were largely financing HOPE scholarships for students in middle and upper class families (students who would likely attend college without a HOPE scholarship).⁴² A study by the Maryland Department of Planning found that the Zip codes with the highest lottery sales were home to the largest minority population, highest poverty rate, lowest educational attainment and lowest median household income.⁴³

Georgia’s lottery funded scholarships may best illustrate how a lottery can negatively impact academics. Concerns have been growing about the possibility of grade inflation as teachers feel pressure to give higher grades to students so they will be eligible for a lottery-funded college scholarship.⁴⁴ As a result, many students who graduate from high school with high grade point averages are ill equipped for the rigors of college. In fact, 40 percent of HOPE scholars who entered college in the fall of 2000 could not maintain the B average necessary to keep their scholarship after just 30 credit hours (or the equivalent of one year of college).⁴⁵ Perhaps most shocking, though, is the fact that Georgia is ranked 50th in the state rankings on the SAT.⁴⁶

Conclusion

The lottery has nothing to do with helping education. It has everything to do with providing more revenue for lawmakers to spend. It is also a way for gambling companies to make millions of dollars, while reducing citizen’s objections to future forms of gambling. Unfortunately, the lottery is a false promise that does not deliver and is an unreliable way to raise money that does not increase funding for education. For these and other reasons, many of North Carolina’s education leaders have spoken out against the lottery.⁴⁷ One of the most prominent, UNC’s President Emeritus Bill Friday, had this to say:

“I do not want to see my state that has done so much for so many—always manifesting strong positive leadership—now to say to its young people:

'Yes, we're going to provide the best educational opportunity possible, but we must resort to gambling to find the dollars to do it.' Throughout our long history, North Carolinians have always responded promptly to the established needs of their children...So this is why I do not believe it to be sound public policy to risk the quality and indeed the future of our educational system on an unstable gambling enterprise that uses our most vulnerable citizens as a primary revenue source."⁴⁸

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