

Raleigh News & Observer
March 1, 2007

WHAT IF THE LOTTERY WERE RUN FOR LOTTERY PLAYERS?

Charles T. Clotfelter and Philip J. Cook

DURHAM - After the disappointment of seeing lottery sales falling some \$200 million short of projections in its first full year of operation, Gov. Mike Easley now wants to raise the percentage of sales returned in the form of prizes. According to the budget he proposed last week, this change would produce a 50 percent jump in lottery sales and a 25 percent increase in state revenues.

We think the governor's proposal deserves attention -- not because it would increase state revenues (we're skeptical of Easley's rosy projections), but because it would serve the interests of lottery players.

Unfortunately, the idea of serving lottery players rather than exploiting them has received little attention from the politicians.

The political debates over adoption of our lottery touted it as an opportunity to finance valuable education programs with a "painless" tax. Basically, it's a cash cow. And there's lots of milking going on.

Under current rules the North Carolina lottery has a built-in profit rate -- we may as well call it a tax rate -- of about 54 percent. (Here's the math: 35 cents goes to the government for every 65 cents spent on prizes and operating expenses, and $35/65 = 54$ percent.) That rate is far higher than the excise taxes the state imposes on more problematic items such as beer, liquor and tobacco.

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Rather than following this cash cow model, imagine another sort of lottery -- one that is dedicated to serving the widespread interest in this form of gambling, without encouraging it.

We have a model close at hand -- the ABC stores. They earn some revenue for government programs, sure, but their main purpose is to accommodate "unstimulated" demand in an orderly fashion.

This vision of a public service lottery is not so far fetched. The lottery is, after all, a state agency that is providing millions of state residents with something that they want. More people play the lottery than enjoy other amusements provided by the state -- such as the state parks or UNC sports. Why not improve the quality of this service by providing it on better terms, rather than exploiting it?

What then about the revenue? If the lottery raised the payout rate as the governor suggests, sales

would surely go up. Although no one can say precisely how much the increase would be, the 50 percent jump suggested by the governor's budget is optimistic. And if sales were to increase by less than 25 percent, then state revenues would actually fall.

What we can say with confidence, however, is that the lottery-playing public would be better and more fairly served with a lower percentage of sales raked off for state revenues.

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Whatever the payout rate, the lottery will remain too unstable to be the sole revenue source for important public programs like preschool education and college scholarships for low-income students. If state support for early childhood education, school construction and college scholarships is in the public interest, then let's arrange secure funding for those programs, rather than linking their budgets to inherently unstable lottery revenues. If we want to earmark lottery revenues, then put them into a trust fund like those we have for highways or Social Security, so that annual expenses are not held hostage to annual revenues.

Imagine: a public service lottery. It would mean raising the payout rate and lowering our revenue expectations, but with the assurance the state is not milking its citizens excessively or unfairly.

(The authors are professors at Duke University and co-authors of the 1989 book "Selling Hope: State Lotteries in America.")