

Running Head: Gambling for Education

EAD 876 Research Project: Gambling for Education

Patricia Monroe

Michigan State University

May 3, 2011

Introduction

Rising costs and lack of resources are just a few of the many issues effecting higher education these days. Many states and schools are struggling to find money for funding with the poor economy. With opportunities to create lottery systems in each state to help fund part of education, is this the way to go? This paper will address the history of the lottery, who plays the lottery and why, where lottery money is distributed, the pros and cons of having a lottery system in a state, and what the future looks like with lotteries and how it effects higher education.

Background

History of Lotteries

In order to fully understand the lottery, it is important to go back and look at where the lottery originated and the history of it. Lotteries go back to the ancient cultures within India, China, Greece, Japan and Rome who all provided their citizens with lotteries. The Great Wall of China was financed in part by the lottery and there are even reports of lotteries used for casting peoples fate in the Bible. The first publicly run European lottery was in Florence in 1530. The money that was raised was used for public works (Bowden & Elrod, 2004, p. 74).

There were two types of lotteries within the colonies, private drawings for personal profit and legally sanctioned drawings for capital and public projects. Raffles of slaves, merchandise and land were the most common private lotteries. "Lotteries were thought to be an easy method of raising revenue and were used by the colonies to help defray the costs of wars with the French and Indians and for public services" (Kaplan,

1984, p. 92). Many lotteries were held during the 1800s by different states to finance construction of bridges, streets, courthouses, canals, hospitals, libraries, and water systems. The colonies used lotteries to fund projects that were considered important or appealed to a “social conscience” such as a university or a church (Bowden & Elrod, 2004, p. 75). Roughly 200 church groups, 300 lower schools and 47 colleges benefited from lotteries from 1790 to the Civil War including Harvard, Yale, Princeton, Dartmouth, Brown, Columbia, and Rutgers (Kaplan, 1984, p. 92).

Lottery Participation

Who Plays

“State lotteries are often harshly criticized as a regressive form of taxation because lower-income individuals spend a greater percentage of their income on lotteries than wealthier individuals” (Giacopassi, Nichols & Stitt, 2006, p. 83). Laborers and minorities have been found to be more likely to play the lottery than professionals and non-Hispanic whites. It has also been found that men play the lottery more than women do and adults between the ages of twenty-five and sixty-four play more than other adults. In addition, lottery play is found to be negatively correlated with education (p. 84). Bowden and Elrod (2004) found that about 50 to 60 percent of adult Americans play legal lotteries in the states. Heavy players are about 10 percent of all lottery players. The poor, minority, Catholic, uneducated, and middle-aged adults are more likely to play the lottery (p. 77). According to a different study at Duke University, “The heaviest players are blacks, high-school dropouts, and people in the lowest income” (Nelson, 2001, p. 19).

As briefly mentioned earlier, type of religion has a trend with lottery participation. “Evangelical Protestant” includes religions such as Primitive Baptist, Southern Baptist,

Church of Christ and Seventh Day Adventists, are more likely to oppose gambling.

“Mainline Protestant” including Presbyterians and Episcopalians are found to be more moderate and show no impact on lottery participation. Catholics, on their own, are more likely to approve lotteries (Giacopassi, Nichols & Stitt, 2006, p. 90). Nelson (2001) found that 82 percent of lottery bets are made by just 20 percent of players – and this group is disproportionately poor, black and uneducated (p. 19).

Why People Play

There are many reasons why people play the lottery to begin with, but there are two common ones. The first major reason is because people find great enjoyment from playing. Some games create suspense for the player, while other games the player can get instant satisfaction in knowing if they won, which can make them addictive (Kaplan, 1984, p. 94). The other main reason is that people think they can win big. People get this hope that if they play and win the lottery, their lives will be set. “The basic principal of the lottery is that someone can get something for nothing or for very little” (Stearns & Borna, 1995, p.45).

Distribution of Money

Where and How the Money is Distributed

“In the United States, state lotteries have been viewed as a means of generating revenue without raising taxes from which higher education benefited” (Bowden, & Elrod, 2004, p. 75). With lotteries run by states, each state lottery system is set up how they want it. “To legislators and governors, lotteries prove to be particularly attractive methods of producing revenue because they are a voluntary form of taxation: individuals pay the tax because they want to pay the tax” (Miller & Pierce, 1997, p. 34). All lotteries

are not created equal; the revenue generated by lotteries may vary considerably over time and across states (p. 35). “Since lotteries were introduced primarily to generate revenue for financially beleaguered states, the cogent question is whether they have achieved or can achieve this objective” (Kaplan, 1984, p. 94). Overall, state revenues from lotteries increased 45 percent in the last decade from \$12 billion in fiscal 1998 to \$17.4 billion in 2007 (Dadayan, Giguashvili, & Ward, 2008, p. 3).

State-sponsored lotteries are used to raise revenue for such areas as education and the arts, the lotteries are deemed as good causes. “Worldwide the annual value of tickets bought in 1998 exceeded \$51 billion” (Hartley & Lanot, 2003, p. 89). Often states contract out operating companies to run the games with a proportion of the cost of each ticket going to good causes or to the general tax revenue with the contractor taking a further proportion as operating costs; most of the remainder is returned to participants as prizes. Most lotteries have a common feature that if there is no winner in a given draw; the jackpot prize pool from that draw is added to the pool for the next draw (a rollover). The rollover is typically where the level of participation is increased which in turn raises more good-cause revenue (p. 89).

For Education

Many states adopted the lottery by advertising that it supports education. In fact, education has been the most popular recipient of lottery funds (Miller & Pierce, 1997, p. 34). However, it seems as if many states deemed it “for educational purposes.” Because the state legislatures termed it in that way, the lottery is set up for almost anything as long as they can justify it as an educational purpose (Knich, 2007). In South Carolina in 2007, more than \$422 million in lottery proceeds has been spent by the state since the lottery

began on many different things including assistance to public libraries, buying textbooks and printing and mailing school report cards (Knich, 2007). “The money raised was supposed to benefit education. We now know that it simply freed up general funds for other projects” (Chiles, 1993).

It seems as time goes on, the money generated from the lottery that is supposed to be used on educational purposes is being used in other areas that should be paid for by the state’s general fund (Chiles, 1993). “But these days, as the state faces one of its most difficult budget years in recent memory, lottery money is looking less like a supplement and more like a lifeline” (Bruce, 2003). With the poor economy and all the cuts, it seems that more is being taken out of this fund. Shifting that money is only a one-time fix. As noted over time, lottery dollars have accounted for less and less of education spending, 7.1% of a \$21 billion education budget in Florida in 2008. Of that, 27.8% was given to the Bright Futures scholarships, 26.3% to public schools, 20.5% for construction bonds, 14.5% to state universities, 8.2% for community colleges and 2.4% for other financial aid (Dolinski, 2008). Yet, according to Knich (2007) on the state of South Carolina, “Since the lotteries launch five years ago, \$1.45 billion has gone to 46 different programs. While \$759.6 million has gone directly to students through scholarships, grants and tuition assistance, \$696.9 million, or 48%, has gone to institutions to cover program costs such as luring in big researchers, school buses, to digitalize ETV, to expand nursing and allied health programs at technical colleges, textbooks and to print and mail school report cards” (Dolinski, 2008). Some states have created trust funds for the lottery for scholarships, special education and technology improvements to be able to use in the

future. The endowments grow so future generations can use it, like that in Florida (Hill, 1995).

View Points

Pros

Since the lottery has passed in so many different states, there obviously has to be some pros to having one. State sponsored lotteries are extensively used to raise revenue for good causes such as education and the arts. Worldwide the annual value of tickets brought in 1998 exceeded \$51 billion (Hartley & Lanot, 2003, p. 89). Regardless of percentages going to education, that's money going towards educational purposes that was not there before. "In states where lottery proceeds are at least partly earmarked for education, 18 of the 39 states with lotteries as of 2000, some \$76 billion has been contributed to educational beneficiaries" (Bowden & Elrod, 2004, p. 80).

With our economy, alternative revenue sources such as lottery funds and special trust funds are becoming increasingly important sources of support for scholarships and higher education operating budgets (Bowden & Elrod, 2004, p. 79). With a study on the adoption of the lottery, Miller and Pierce (1997) found some interesting numbers. It was found that states generally increase education spending prior to the lottery adoption by about \$12 annually per capita. In the first year of the lottery, the state is expected to raise educational spending by \$50 per capita. After the lottery is in effect, spending now increases only \$6 annually – but still an increase (p. 39).

Another rationale for the reintroduction of the lottery has been the government's attempt to combat organized crime (Kaplan, 1984, p. 94). This may sound a bit backwards, but it does actually make sense. It was thought that the lotteries could

capitalize on the public's desire for betting, especially in states where illegal numbers games are abundant, and put organized crime out of business. Lotteries are a voluntary form of fund raising, and even though a lot of people participate, most do not spend much money on them (p. 94).

Cons

When the assessment of lotteries is taken as a whole, according to Sterns and Borna (1995), four major areas of criticism emerge: (1) lotteries are a form of regressive taxation; (2) state governments should not be involved in any sort of legalized gambling; (3) lotteries have a detrimental impact on society in that they undermine certain core values crucial for the continued efficient and effective functioning of our social economic system; and (4) methods used to promote lotteries employ destructive themes and deceive prospective consumers (p. 44). I will break each of these down individually to look at them in more detail.

The first issue to touch on is that lotteries are a form of a regressive tax. According to Kaplan (1984), lotteries are quite regressive. The national commission on gambling conducted a survey that revealed that over 50% of the people in the states that have the lottery, purchase tickets. The commission found that people with high income and education spent more, on the average, on lottery tickets than people with low income and education. Poorer people spent proportionately more of their earnings, making lotteries more regressive than sales taxes (p. 100). "The [Michigan] state lottery is one of the most repressive taxes known and imposes by far the heaviest relative burden on those least able to pay" (p. 100).

The second issue to touch on is government being involved in legalized gambling. “There is something cruelly perverse about states encouraging, even proselytizing, their poorest and least educated citizens to gamble often for the purpose of generating funds for education” (p. 101). Nelson (2001) believes that perhaps the worst thing about lotteries is that they put states into the business of gambling, which generates its own downward spiral of increasing regressivity and deception (p. 20). When speaking about ethics, Stearns & Borna (1995) find that the most fundamental criticism of lotteries is that government has no business being involved in an activity that is otherwise illegal and generally is considered to be harmful to individuals and society (p. 44). It seems that Giacomassi, Nichols, and Stitt (2006) say it best, “The attempt to maximize revenues and the marketing behind this effort has brought criticism to state lotteries as some wonder whether promoting gambling to maximize tax revenue conflicts with a government’s purpose and sound public policy” (p. 84)

The third issue is how lotteries negatively impact society. “Critics of these early lotteries used arguments familiar today – lotteries undermine the work ethic, lead to social problems, and sell false hope” (Stearns & Borna, 2006, p. 43). While lotteries can be good clean fun for some, psychiatrists attach the addictive nature of gambling and lament that the availability of legal gambling creates many new addicts and feeds their addiction (p. 44). According to a study completed by Miller and Pierce (1997), states without lotteries actually maintain and increase their education spending more so than states with lotteries (p. 40).

The final con to present is that methods used to promote lotteries employ destructive themes and deceive prospective consumers. Graves (1998) brings up a great

point in that supporting education through gambling money might send the wrong message to children (p. 1). With the claims that the lottery is a burden on lower-income and non-white residents, it reemphasizes that it is a regressive tax (Miller, 2009). And according to Bowden and Elrod (2004) there is substantial evidence that high school kids participate in the lottery even though it is illegal (p. 77). “In lottery states, three-fourths of high school seniors report having bet in a lottery (Nelson, 2001, p. 19). The concern here is that we are sending the wrong message to society and are making gambling too accessible across the board. When we increase advertising, create new games, and strategically locate lottery machines in the poorest areas, it seems like we are encouraging bad, addictive behavior, not to mention giving people false hope that they have a good chance of winning (Kaplan, 1984, p. 45).

Conclusion

“Lottery money is looking less like a supplement and more like a lifeline” (Bruce, 2003). With that statement alone, it seems like money that was initially set aside for (higher) education is now on the back burner. These monies are being spent first where there is a need, and second on education. In order to get this money back towards education, each state will need to specify how their money is spent, not just using the general term “educational purposes,” and force it to be put in the right direction. If it does not, I can see how Bruce is right, that the money will be used as back up money for other shortcomings. However, it is possible to just create a new tax for everyone to get the money that is wanted by the lottery (Bowden & Elrod, p. 81).

“By legalizing more types of gambling and making it easier for people to engage in such activities, states may be creating a moral dilemma: a choice between their

responsibility to provide for the general welfare of citizens on the one hand, and encouraging people to participate in activities that may be pathological on the other” (Kaplan, 1984, p. 103). On the flip side, lotteries have raised a lot of money that have been put towards education. Even if all the money is not going towards what it originally was intended to, it is helping pay for things that are of the “educational purpose” and still helping fund education. Bowden and Elrod (2004) sum it up well,

“Lotteries were not intended to restrict access of any potential college-bound student to an education from any state. The design was to provide needed resources to schools, colleges, and universities and relief in other areas of state budgets. The fallout is that lotteries create a system of much needed funding to support state endeavors, often to the exclusion of low income and minority groups (p. 83).

As a lottery participant, I buy a ticket knowing that I’m helping support education and giving myself a chance to win some money. I am among the group that plays occasionally for fun. I would rather pay this voluntary tax than have yet another tax placed on me by the state or government. In all, it seems as if the lottery is not going away. Each state that has voted the lottery through seems to have enough participants. Directing the money appropriately is now what needs to be done. We do not need our educational institutions to suffer anymore than they already are – we’re gambling enough with them as it is.

References

- Bowden, R, Elrod. (2004). State lotteries: their effect on equal access to Higher education. *Journal of Hispanic Higher Education*, 3:73
- Bruce, A. (2003, June 1). Lottery funding spread thin; legislators debate where dollars go. *The Post and Courier*: p. 1B
- Chiles, G. (1993, May 2). An old bugaboo: lottery revenues and education. *The Orlando Sentinel*, p. G5
- Dadyan, L., Giguashvili, N., & Ward, R.B. (2008, June 19). *From a bonanza to a blue chip? Gambling revenue to the states*. The Nelson A. Rockefeller Institute of Government, SUNY-Albany. <http://www.rockinst.org>
- Dolinski, C. (2008, September 11). Lottery school aid falls short. *The Tampa Tribune*, p. 1
- Giacopassi, D., Nichols, M. W., & Stitt, Grant. (2006). Voting for a lottery. *Public Finance Review*, 34, 80-100
- Graves, Rachel. Eckstrom wants vote on lottery. *The Post and Courier*. September 23, 1998. B, pp. 1
- Hartley, R., & Lanot, G. (2003). On the design of lottery games. *The Journal of the Operational Research Society*, 54, No. 1, 89-100
- Hill, G. (1995, January 24). Lottery may help finance education. *The Oregonian*, p. B04
- Kaplan, Roy H. (1984, July). The social and economic impact of state lotteries. *Annals of the American Academy of Political and Social Science*, Gambling: Views from the Social Sciences, 474, 91-106

Knich, D. (2007, March 26). Bus repairs, funding gaps and more take bite out of state lottery revenue series: the education lottery: is it a good bet? *The Post and*

Courier, p. A1x

Miller, D. E., & Pierce, P. A. (1997). Lotteries for education: windfall or hoax? *State & local government review*, 29, No. 1, 34-42

Miller, J. (2009, May 12). Proposed lottery makeover proves much debated ticket. *The Press Enterprise*, p. A01

Nelson, M. (2001, June 4). The lottery gamble. *The American Prospect*, 19-21

Stearns, J. M., & Borna, S. (1995). The ethics of lottery advertising: issues and evidence. *Journal of Business Ethics*, 14, No. 1, p. 43-51