STATE LOTTERIES: FEASIBILITY STUDY IN MONTANA

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ABSTRACT

This study examines the feasibility of instituting a successful state lottery in Montana. After discussing the various issues surrounding state supported gambling and gathering "expert" commentary and documentation, it can be concluded that myths and misunderstandings persist in public attitudes toward private and state supported gambling. Many of these myths, however, have been laid to rest by analyzing results of existing lotteries and surveying those people who participate.

An awareness of the factual aspects of lotteries and public gaming as could be administered by state government is measured in this study by using the survey technique. The survey shows that even with organized church resistance, the general public of Montana will support a lottery and see it as a viable source of revenue for state funds.

CHAPTER 1

INTRODUCTION

During the late 1970s and the early 1980s, many states experienced an unprecedented decline in their fiscal health, and shortages of revenues led to a crisis. There are four reasons for this:

1) Significant efforts by the states during the period from 1977 to 1980 to reduce property tax burdens, such as Proposition 13 in California and Proposition 2.5 in Massachusetts;

2) Changes in the federal individual and corporate income tax structure;

3) A severe recession in 1981-1982; and

4) Major reductions in federal aid to states and localities, as part of the "New Federalism" proposed by the Reagan administration.[1]

Propositions 13 and 2.5 suggest that citizens are not willing to endorse rising or new taxes indiscriminately. Statutes in response to these propositions required tax reductions and even eliminated some future taxation authority for localities, making it impossible to obtain revenue through new taxation. In fact, some believed that because of the increasing stress on available revenues, states such as Massachusetts, for example, could be on the brink of financial collapse.[2]

Changes in the federal individual and corporate income tax structure have directly reduced state revenues. Reductions in tax

liability on individual and corporate incomes have affected state revenues because many state tax structures are linked to the federal tax structure. Most states lost revenues from corporate income because of new depreciation allowances contained in the Economic Recovery Tax Act of 1981.[3]

The recession also checked the growth of state and local tax revenues. A revision by the U.S. Department of Commerce in its GNP accounts shows 1981 revenues to have been about $500 million less and expenditures about $4.5 billion more, changing surpluses to deficits.[4] State and local governments came up with a deficit of nearly $2 billion.[5] In addition, federal grants to state and local governments declined from $55 billion in fiscal year 1981 to almost $45 billion in fiscal year 1982. Reductions will continue, and by 1985, they were estimated to be as low as $41 million.[6]

The problems of state government finance will be further exacerbated by the implementation of "New Federalism." As proposed by the Reagan administration, the states were relieved of Medicaid, with an estimated cost of $19.1 billion in 1984. However, programs turned back to the states were estimated to cost $30 to $44 billion by 1984 (depending on whose figures are used).[7] In effect, the states could be assuming up to $25 billion in welfare programs.

In response to austere budgets imposed by tax revolts in the 1970s and early 1980s, state legislatures in 1983 voted for tax increases totaling more than $12 billion and followup measures in 1984 are scheduled to generate about $3 billion, according to the Tax Foundation.[8]

Policy makers will have more pleasant choices in 1984 due to improved financial conditions. The reasons for improvements are successful 1983 tax increases, continued expenditure restraint and a slow but continuous economic recovery. The improvement does not include some energy producing states, while previously financially troubled states such as California, Minnesota and Wisconsin anticipate budget surpluses of several hundred million dollars.[9]

States including Michigan, Illinois, Minnesota, Wisconsin, Pennsylvania, Vermont, West Virginia, North Dakota and Oregon introduced increases as temporary taxes that automatically expire over the next two years, and state sales taxes are set to drop in four more states, according to the State Budget & Tax news.[10]

In the state of Montana, according to Governor Ted Schwinden, the public, legislature, Governor, and local officials in Montana are feeling the severe repercussions of curtailed spending at federal, state, and local levels, and the state will face some difficult fiscal times in the near future. While the state is not bleeding "red ink," state income is dropping in the wake of recession, forcing the Governor to present to the legislature in 1982 what he termed a "hard times" budget that contained no general tax increase.[11] To underscore the predicted austerity, legislative fiscal analyst Judy Rippengale painted an even bleaker picture: "In our view the executive budget is unbalanced; proposed spending exceeds revenues by $35 million." To help close the gap, she favored an $18 million per biennium cut in social and rehabilitative services.[12] "A large reduction in basic welfare benefits, suspending group homes serving the developmentally disabled or

retarded, and a reduction of programs to help neglected and abused children would be a direct result of those funding cuts," said John LaFaver, then Director of Social and Rehabilitation Services.[13]

Nonetheless, fiscal health of state governments is an important consideration given the uncertainties of the federal budget. Thus, several states have been looking for new ways and means to raise resources without much pain.

It appears that more and more assistance that in the past was undertaken by the federal government will have to be taken over by the state governments without a concommitant transfer of resources.

One often suggested method is the institution of state lotteries. This paper, while looking at the experience with state lotteries and problems therein, perceived or factual, will assess the feasibility of a state lottery in Montana.

In response to similar problems, seventeen states have enacted lotteries in an effort to generate increased revenues without having to rely on a general tax increase. Lottery legislation, unsuccessful in the 1983 Montana legislative session, was again introduced in the 1985 session for just such a purpose and was passed for referendum in the 1986 elections.

Lotteries are a form of gambling that require the pure chance distribution of prizes by drawing a lot. The state application, of course, attaches a fee to participate in the lottery. The cost of the ticket is split so that a certain percentage goes to the lottery sponsor (the state in this case) as net revenues and the remaining percentage

goes as prizes to the winners. Thus, this application of lotteries creates a source of revenue.[14]

As of 1985, twenty-one states had received revenue from lotteries operated by their respective governments. These lotteries generated a gross profit of $2.107 billion. The net profit of $912.46 million, constituted between one percent and four percent of the total budgets of the participating states.[15] There is a real possibility, then, that a lottery in Montana could generate as much as $40 million per year, depending on the type of lottery instituted.[16] The question of feasibility of such a lottery in the state of Montana will be studied by conducting an attitudinal survey of a select sample. Three counties were sampled, representing different socioeconomic groups. The paper is organized in the following manner.

Chapter two will trace the history of lotteries in the United States with particular reference to such states as Louisiana and New Hampshire to obtain the proper perspective. Chapter three will discuss the socioeconomic nature of lottery players. Chapter four will deal with the moral and ethical considerations of lotteries. Chapter five will examine the integrity of lotteries vis-a-vis organized crime. The final chapter, after presenting the survey results, will project the feasibility of a state lottery in Montana.

[1]E. Kathleen Adams, "The Fiscal Condition of the States," Phi Beta Kappa Vol. 63 (May, 1982), p. 598.

[2]Ben Weberman, "First the Revolution," Forbes, Vol. 128, No. 1 (July 6, 1981), p. 169.

[3]Adams, op. cit., p. 598.

[4]_____, "The Wolf Comes to Call on Local Governments," Fortune, Vol. 106, No. 5 (September 6, 1982), p. 30.

[5]_____, "For Local Government the Recession is Here," Business Week, Vol. 2632 (April 7, 1980), p. 30.

[6]Marshall Kaplan, "New Federalism, Taxes and Cities," USA Today (November, 1982), pp. 48, 49.

[7]Felix Royhatyn, "A Raw Deal," New York Review of Books, 29:23, Vol. 24, No. 7 (April 29, 1982), pp. 23, 26.

[8]_____, "States Roll Back Taxes as Economy Improves," Public Administration Times (May 15, 1984), p. 2.

[9]Steven D. Gold, "State Tax Increases of 1983: Prelude to Another Tax Revolt?," National Tax Journal, Vol. 37, No. 1, pp. 9-22.

[10]_____, "States Roll Back Taxes as Economy Improves," op. cit., p. 2.

[11]Gary J. Moes, "12% Budget Hike Asked," Great Falls Tribune (December 8, 1982), p. 1.

[12]Gary J. Moes, "Budget Called Imbalanced," Great Falls Tribune (January 6, 1983), p. 1.

[13]Charles Johnson, "Analyst Budget a 'Disaster'," Great Falls Tribune (January 6, 1983), p. 9A.

[14]_____, "Gambling in America," Commission of the Review of the National Policy Toward Gambling, Appendix IV, Washington, DC (1976), p. 143.

[15]Earnest T. Bird, "State Lotteries, a Good Bet?," State Government, Vol. 45, No. 1 (Winter, 1972), p. 20.

[16]James Brooks, "State Lotteries - Profits and Problems," State Government, Vol. 48, No. 1 (Winter, 1975), pp. 23-31.

CHAPTER 2

HISTORICAL REVIEW OF LOTTERIES

State operated lotteries are conducted in twenty-one states in the United States, covering approximately 75 percent of the nation's population. A comparatively recent development in legalized gambling, state operated lotteries are the third most widely available form of gambling, after bingo and parimutuel wagering. Approximately 100,000 sales outlets make state conducted lotteries the most accessible form of gambling in those states. This chapter outlines the rise to popularity of the modern lottery.

Lottery Development

A lottery is a form of gambling in which chances to share in a distribution of prizes are sold.[1] The three essential elements of a lottery or a raffle are an investment by the player, chance, and a prize. Raffles tend to differ from lotteries only in the manner in which prizes are awarded. Raffles generally offer goods rather than cash awards, are smaller in scope, and are more often conducted by churches and other charitable organizations. On the other hand, lotteries give cash awards on a large scale and are empowered by the legislatures of various states.

Evidence of the application of lotteries and raffles for the purpose of raising needed capital can be found as early as the financing of the original English settlement at Jamestown by the Virginia Company

in London.[2] During the colonial period, groups of citizens petitioned their legislatures for permission to engage in a lottery to finance local needs. Unwilling to levy new taxes, state legislatures granted licenses and established rules for the lottery.[3]

Lotteries were most active during the period following the adoption of the Constitution in 1789 and prior to the establishment of effective means of local taxation and the wave of lottery reform in the 1830s. The nation's expanding size and population required large amounts of development capital to finance public works, schools, and universities.[4] Local operations were replaced by statewide and national schemes, creating new conditions and greater problems.[5]

As more and more lotteries were authorized by state legislatures to raise larger and larger sums of money, two significant problems developed that were to effectively cause the demise of the lottery as an instrument of public fiscal policy: (1) increased competition in each of the states due to the number of local and out of state lotteries, resulting in capital shortfalls and defaults by lottery managers; and (2) the development of a group of commercial middlemen, the ticket broker and the lottery contractor, who expanded the scope of market areas to national proportions. Brokers purchased tickets at a discount from the operating entrepreneur and resold them to the public at inflated prices. Sponsors hired lottery contractors to operate the lotteries, and the contractors hired ticket brokers to sell tickets.[6] Eventually, five or six national lottery companies dominated the industry, which had become not so much a means of raising public revenue as a multimillion dollar business enterprise. The establishment of a

number of the nation's most prestigious banks and brokerage houses were a result of the organizational structure and function of the lottery contractors in the early 19th century.[7] The First National City Bank of New York and Chase Manhattan Bank were founded by former lottery managers.[8] Between 1790 and 1860, twenty-four of the thirty-three states had financed internal improvements through lotteries, and an estimated $32 million had been raised.[9]

In spite of the merits of the system, the discovery of corruption and fraud among public officials and lottery contractors aroused a wave of public indignation against lotteries during the 1830s. Before the advent of the three number combination system of lottery drawings, drawings could drag on for months, as each ticket and its corresponding prize slip or blank were drawn individually or in small groups. On each day, a certain number of tickets were drawn, which encouraged the practice of "insuring" particular numbers. That is, a person could bet that a certain number would be drawn on a particular day or that a particular number would win a prize or draw a blank according to a ratio of increasing odds as the drawing progressed. Measures enacted by the states to prohibit the practice of "insurance" or to otherwise guarantee the honesty of lottery operations proved to be ineffective.[10]

Organized opposition to the lotteries during the early 1800s was confined to the Society of Friends and a small number of newspapers. Most organized religions took no stand regarding the morality of lotteries; many, in fact, used lotteries and raffles to finance the construction of churches. Initially, the great majority of newspapers

either endorsed or ignored the use of lotteries but were benefited from the advertising revenue supplied by the games.[12]

With the passage of time, as more and more newspapers published accounts of corrupt lotteries and their deleterious effect on segments of the population least able to afford the tickets, however, lottery authorizations decreased or were abolished in most northern states by 1840. The increasing incidence of profiteering by middlemen also eventually incited public indignation in the South and the West. By 1860, every state except Delaware, Kentucky, and Missouri had enacted constitutional or statutory prohibitions against lotteries.

The financial needs brought about by the Civil War and Reconstruction caused a revival of authorized lotteries in the South and the West.[12] The national scope of these lotteries, their continued corruption, and the ineffectiveness of nonuniform state prohibitions demonstrated the need for corrective federal legislation.

The legislative history of federal lottery statutes begins in the 1860s. Before that time, lotteries were identified as a state matter, regulated and enforced at the state or the local level. For example, the corrupt Louisiana Lottery Company was chartered in 1868 and continued to operate for a period of 25 years.[13] At about the same time, Congress passed a number of bills to preclude the use of the mails for lotteries when it became apparent that state laws proved ineffective in dealing with out of state lotteries. In spite of federal lottery laws enacted in 1864, 1868, 1872, and 1876, however, the Louisiana lottery continued to expand, partly because of the failure of enforcement

officials to prosecute the lottery managers for flagrant violations of state and federal laws.

From the time of its inception, the Louisiana lottery controlled legislatures, newspapers, banks, and Governors and other state officials. It successfully suppressed opposition through bribery, received nationwide support amounting to $30,000 a day, and made profits as high as $13 million a year.[14]

The Louisiana lottery conducted several types of monthly drawings, with tickets ranging in price from $2 to $40, and a special top prize offered $600,000 to the winner. Total prize pools amounted to $2 million per drawing and $28 million per year. The company's daily lottery offered a $5,000 grand prize on tickets selling from 20¢ to $1. The "policy" games associated with the daily lottery attracted the the most criticism due to aggressive promotion and their affordability to the local poor.[15]

National criticism grew as the Louisiana lottery penetrated every state in the country, with ninety-three percent of the lottery's gross revenue coming from outside Louisiana. As a result, reformers, labor and farm organizations, newspapers, and churches all pressed for remedial federal action.[16]

A new lottery statute was subsequently enacted in 1890, which banned all lottery materials from the mails; prohibited the sending of checks, drafts, or money orders for the purchase of tickets; and outlawed the mailing of lottery advertisements. For the first time, violations of law were made punishable by imprisonment. The law also prohibited the lottery from channeling its operations through an agent

or representative, as the lottery had done with the New Orleans National Bank. Use of the mails was closed to newspapers that contained lottery advertisements and lists of prizes, and the penalty for mailing lottery materials or money by the public to the lottery company was extended to include the mailing of such materials by the company to the public.[17]

In 1895, Congress authorized the Postmaster General to instruct postmasters to withhold delivery of lottery related mail and to deny any person acting as an agent of a lottery company the use of the mails.[18] Interstate transportation of lottery materials and the use of express mailing were also made illegal in 1895. These lottery laws deprived the Louisiana operation of the methods it had used to evade state and federal statutes. With its demise, state authorized lotteries vanished from the American scene for the next 70 years.

During the 1930s -- and continuing to some extent to the present -- the United States was flooded with lottery materials and tickets from the Irish Sweepstakes as well as from lotteries based in Latin America and the Caribbean. Enforcement activity by the Post Office Department was not uniform, and many abuses of the lottery statutes were overlooked. Many newspapers continued to freely publish lists of American prize winners in the Irish Sweepstakes without penalty. However, Irish Sweepstakes sales drastically decreased in states where it competed with legal lotteries.

Following the nation's first Congressional hearings concerning the activities of organized crime, Congress approved the Revenue Act of 1951. This act provided for an annual $50 Occupational Tax Stamp to be purchased by all persons engaged in a gambling enterprise and a

10 percent excise tax on the gross receipts accepted by an individual engaged in the wagering business. These provisions were incorporated into the Internal Revenue Code of 1954.[19] Enactment of the wagering tax statutes was not effected with lotteries in mind, but the applicability of the wagering excise tax against lotteries became an issue in 1964 when New Hampshire became the first state to authorize a lottery in the 20th century.

New Hampshire has an atypical tax structure: The state has no income tax or sales taxes, but relies instead on property taxes and on the imposition of excise taxes on alcohol, cigarettes, gasoline, and so on. In April 1963, the Governor signed legislation authorizing the New Hampshire Sweepstakes Commission to conduct a lottery based on the results of an annual Sweepstakes Race. Most of the arguments presented in favor of the proposal stressed the necessity to provide additional revenue for the municipalities, specifically for educational purposes.[20] The U.S. Department of Justice had assured the state that no violation of federal law would be caused by the sale of sweepstakes tickets to residents or nonresidents so long as interstate traffic was not involved.[21]

National attention was focused on the New Hampshire experiment, but its lower than anticipated revenue figures -- perhaps caused by the expensive $3 tickets and the not too frequent draws (annual, later semiannual sweepstakes races) -- and strong federal laws against interstate lottery traffic discouraged other states from joining New Hampshire in the state conducted lottery industry for another three years. Moreover, in 1964, the Internal Revenue Service ruled that New

Hampshire had to pay the 10 percent wagering excise and that each vendor of sweepstakes tickets must have an Occupational Tax Stamp in order to legally sell tickets from the state lottery. The New Hampshire Sweepstakes Commission paid out over half a million dollars in 1964 to comply with that ruling and purchased approximately 300 Occupational Tax Stamps for its state employees who sold the tickets at state operated liquor stores.

However, late in 1964, over the strong objections of the Secretary of the Treasury, Congress exempted state conducted sweepstakes from the imposition of the wagering excise tax and the need to purchase the $50 Occupational Tax Stamps,[22] as Congress exempted the New Hampshire Sweepstakes from the imposition of those taxing measures when it recognized that such imposition was an undue interference with a sovereign state's right to raise revenue. The IRS returned $728,000 to the New Hampshire Sweepstakes Commission in 1965, but it did not reimburse the Commission for the approximately $30,000 it had paid for the purchase of the tax stamps in 1964 and 1965.[23] New York followed with a state lottery in 1967, but once again revenues fell far short of the expectations of legislative proponents.

The revitalization of the modern state lottery came about in 1971 with the introduction of New Jersey's computer based 50¢ weekly game. New Jersey also increased the size of the prize pool to 45 percent of the gross handle. (New York and New Hampshire had allocated only 30 percent and 35 percent respectively, to be returned to the public in the form of prizes.) Frequent drawings, less expensive tickets, convenience of sale, and a weekly prize of $50,000 all served to make

New Jersey's innovative lottery more successful than its predecessors had been; it grossed $142.5 million in its first year. Eventually, the New Jersey model was adopted by New York and New Hampshire and by each of the other ten states that conducted lotteries at that time.

Despite the relative success of the state lotteries after the introduction of the 50¢ weekly game, their directors unanimously opposed the restrictions placed on their operations by the 19th century lottery statutes. They maintained, in hearings conducted by the National Gambling Commission, that the lottery statutes did not recognize the right of the states to conduct their lawful businesses and to raise revenue as they saw fit without undue federal regulation or interference. They also contended that it was the intent of the lottery statutes to prohibit privately owned and operated lotteries authorized by the states, not those lotteries operated by the states themselves. It was important that each state has the right to develop its own policy toward gambling and to employ its own methods to raise revenue without interference from the federal government.[24]

In September 1974, alleging that several states had rejected lotteries and that it was the responsibility of the U.S. Department of Justice to enforce the policies enacted by Congress,[25] the Attorney General warned that unless remedial legislation was enacted by Congress within ninety days it would be necessary to proceed against the offending states under 18 U.S.C. 1964.[26] This civil remedy provides for a method of permanently enjoining a "pattern of racketeering" involving violations of certain criminal statutes. (In May 1976, the Department of Justice moved under the same statute to enjoin the New Hampshire

Sweepstakes Commission from engaging in alleged interstate mailings of lottery tickets. That was the first time this statute has been used against a legal gambling entity.) On the last day of the 93d Congress, legislation was passed permitting the transportation, mailing, and broadcasting of advertising, information, and materials concerning a lottery conducted by a state on an intrastate basis. In addition, 18 U.S.C. 1307 permits the announcement of lottery information by broadcasting stations licensed to a location in an adjacent lottery state and exempts equipment and tickets used within a state in a state conducted lottery from the ban on the interstate transportation of wagering paraphernalia.[27]

With such an easing of restrictions, state lotteries gained their momentum, and suggestions are being made to the effect that even the federal government might start its own lottery. Given this, it is of interest to see who actually participates in lotteries.

[1]See Hoerner v. United States, 147 U.S. 449 (1892) at 458.

[2]Thomas Farrell, The Politics of Prohibition: Numbers Gambling and Crime in America, Princeton, New Jersey (1970).

[3]John Samuel Ezell, Fortune's Merry Wheel: The Lottery in America, Cambridge, Massachusetts, Harvard University Press (1960), p. 30.

[4]David Weinstein and Lillian Deitch, The Impact of Legalized Gambling, New York, Praeger Publishers (1974), pp. 8-9.

[5]Ezell, op. cit., pp. 981-982.

[6]Ibid., p. 82.

[7]Weinstein and Deitch, op. cit., p. 9.

[8]"Gambling in Perspective" survey prepared for the Commission of the Review of the National Policy Toward Gambling (1974).

[9]Ibid.

[10]Ezell, op. cit., p. 95.

[11]Ibid., pp. 181-182.

[12]Weinstein and Deitch, op. cit., p. 10.

[13]Ibid., p. 10.

[14]Ibid., p. 11, and op. cit., "Gambling in Perspective." See also Ezell, op. cit.

[15]Weinstein and Deitch, op. cit., p. 11.

[16]Ezell, op. cit., pp. 250-251.

[17]September 2, 1890 (H.R. 11569), "An Act to amend sections 3894, 3929, and 4041 of the Revised Statutes relating to lotteries." (c. 908 1, 26 Stat. 465)

[18]March 2, 1895 (S. 1620), "An Act for the suppression of lottery traffic through national and international commerce and the postal service subject to the jurisdiction and laws of the U.S." (c. 191, 1, 2, 28 Stat. 9631)

[19]See Internal Revenue Code 1954, Section 4401 (Wagering Excise Tax) and Section 4411 (Occupational Tax Stamp).

[20]Commission hearings, statement of Robert E. Whalen, Executive Counselor, State of New Hampshire (December 4, 1974).

[21]Ibid.

[22]See Internal Revenue Code 1954, Section 4402(3).

[23]Commission meeting, statement of Edward J. Powers, Executive Director, New Hampshire Sweepstakes Commission (June 7, 1976).

[24]Commission hearings, statements of Chairman Robert Q. Crane and Dr. William E. Perrault, Massachusetts Lottery Commission; former New Jersey Executive Director and presently Superintendent of the Lottery in Illinois Ralph Batch; former Executive Director of the Maryland State Lottery Agency James Slicher; and New Hampshire Sweepstakes Executive Director Edward J. Powers all favored the revision of the United States Code, Title 18, Sections 1301, 1302, 1303, and 1304 to permit the use of the mails and broadcasting facilities by state authorized and conducted lotteries (April 3, 1974).

[25]18 U.S.C. 1301, 1302, and 1303. 39 U.S.C. 3005.

[26]Memo from James E. Ritchie, Commission Executive Director, to members of the Commission on the Review of the National Policy Toward Gambling, September 10, 1974. The Attorney General reaffirmed his position when he testified before the Senate Judiciary Subcommittee on Criminal Laws and Procedures on November 20, 1974.

[27]P.L. 93-583 signed by President Ford on January 2, 1975.

CHAPTER 3

WHO ARE THE PLAYERS?

A popular misconception is that the poor and uneducated play lotteries more than any other segment of the population. This chapter will delve into available empirical data to determine who buys lottery tickets.

Income Levels of Lottery Players

While it is true that in some states lower income participants play some games in numbers exceeding their proportion in the population at large, several studies have demonstrated that lottery play is generally the heaviest among middle to upper middle income levels. A report by John Koza, for example, entitled "The Myth of the Poor Buying Lottery Tickets," presented a series of sales demographics conducted by Scientific Games, Inc. of Atlanta, Georgia.[1] The data base for the analysis was 6.5 million lottery winners (an extraordinarily high number for such a survey) representing 140 different lottery games in 24 basic game categories in five states: New Jersey, Pennsylvania, Michigan, Illinois, and New York. (See Appendix I, Table 2.)

The results (Appendix I, Table 3), indicate that for all 24 games individuals with household incomes of $10,999 or less were under-represented in lottery play in comparison to their percentage of the overall population. The $18,000-$22,999 income group was under-represented in all but five categories. The $23,000-$33,999 income

grouping, however, played all of the games in numbers greater than its representation by percentage in the overall population. When the data on income level and lottery play were broken down further and indexed to income distribution in each state separately, the same conclusion was reached.

According to Koza's analysis, "There is none of the 140 lottery games in the five states (and none of the 24 groupings of games) over the five to ten year period, for which the lower income categories participate at a rate even equal to their percentage in the population. In all cases, their participation is lower."[2]

A more recent study, published by Scientific Games in July 1983, analyzed sociodemographic data on instant, weekly, and daily game lottery players in eight states serviced by Scientific Games as a ticket vendor. The states were Arizona, Colorado, New Jersey, Maine, Michigan, Pennsylvania, New York, and Washington.[3]

In a report analyzing the study's results, Glenn Shippee, Donna Schwartzman, and Kim Reynolds of the Arizona State Lottery Marketing Research Unit wrote: "In some cases, spanning five years, this study conclusively demonstrates that it is a middle income segment of the population that is the primary market for lotteries. The Scientific Games research has indicated that 70-75 percent of the lottery players have household incomes of $15,000 or more. Further, their research indicates that the poor (under $5,000 in income) are extremely underrepresented among lottery players."

A study independently conducted by the Arizona State Lottery produced similar results. According to the research program, carried

out by Shippee et al, "the poor are dramatically underrepresented among lottery players. This study also revealed that the median income of players in Arizona ($21,000-$22,000) corresponds closely to the median household income of state residents."[4]

The Washington State Lottery, the first state operated lottery to develop a system for obtaining week by week demographic profiles of its players, started up sales in November 1982. A demographic profile released in February 1983 showed that for the first nine weeks of its operation the lottery attracted the heaviest play from players in the $25,000 to $35,000 income bracket. Those players participated at a rate 20 percent higher than their proportion of the state's population. Residents in the under $10,000 income range participated in numbers that were less than proportional to their representation in the state for all but one of the games.[5]

In its 1983 Annual Report, the Washington Lottery indexed lottery play by income categories. The group with the highest index rating (117) was that in the $25,000-$34,999 category. Second highest was $35,000-$49,000, with 115 rating. The most underrepresented category was the under $10,000 income range, with an index rating of only 88.[6] (An index number of 135 for a category means that players in that group played the lottery in numbers 35 percent more than their representation in the population. A rating of 100 means that a group played in exactly the same proportion as its representation in the state.)

A 1983 Scientific Games study of demographic profiles of lottery players in Colorado concluded that participation was below average among residents with annual household incomes below $9,999 and above $50,000.

The $10,000-$14,999 and the $25,000-$34,999 groups played in above average numbers.[7]

John Quinn, director of the New York State Lottery, stated that research carried out in the industrialized lottery states in the Northeast corroborate the western states' findings.

Using a base of 97,000 records, a study conducted in New York by Scientific Games found that residents in income levels below $18,000 and above $56,000 participated at lower rates than they were represented in the population. Those residents in the $18,000-$56,000 range played in numbers exceeding their representation in the state.

In neighboring New Jersey, a telephone survey conducted during a one week period in August 1983, consisting of 1,206 interviews conducted by Bruskin Market Research, divided the respondents into four income categories. The survey then determined how many people in each category played each of the five games offered by the state. For each game, the group with the highest percentage of play fell into either the $15,000-$25,000 range (the leader in four of the five games) or $25,000-$40,000 (tops for the Pick 6 game).[8]

In 1981, Opinion Research Corporation of Princeton, New Jersey, conducted a study for the Pennsylvania State Lottery, in which residents were divided into six categories. In one of the categories, a greater percentage within the group played the lottery than in any other group (6.17 percent of the group were players, approximately ten percentage points more than in the next most involved group). Within this "heavy play" group, the percentage of individuals falling into each of five income groups was determined. The results were then compared to the

percentage of Pennsylvanians falling into each category for the state overall. The only three income categories within this "heavy play" group that exceeded their proportion in the state at large fell into the $15,000-$30,000 range. The under $10,000 category was underrepresented in this "lottery favoring" group.[9]

Players in Vermont, representative of the New England lottery states, showed a similar pattern of player income level versus population at large. A January 1982 report by Market Opinion Research of Detroit, Michigan, based its findings on telephone interviews of 700 families. The survey showed that lottery players participated according to the following percentage breakdown (representation of each income level in the population at large is shown in parentheses):

Less than $10,000	15 percent	(17 percent)
$10,000-$20,000	38 percent	(32 percent)
Over $20,000	34 percent	(33 percent)

This pattern of middle income groups buying the larger share of lottery tickets extends to Canada. Ten percent of the players of the Ontario Lottery Corporation have household incomes of under $10,000. The highest participation group, representing 32 percent, have household incomes between $20,000 and $29,999 per year.[10]

Marketing Research of the Arizona Lottery went to the public in July 1983 to determine how prevalent this perception was among the state's residents. Two hundred seven Arizonans were asked to respond to the statement: "The majority of lottery players are low income people who cannot afford to play." Seventeen percent agreed or strongly agreed; 63 percent disagreed or strongly disagreed; and 20 percent had no opinion.[11]

An earlier series of surveys, conducted by Public Response Associates of San Francisco in Arizona, Colorado, and the District of Columbia, showed that 81 percent of the public believed that buying a lottery ticket would appeal to the average person and not the poor. Interestingly, in the District of Columbia and Arizona, only 23 percent and 30 percent respectively, of those opposing the lottery believed the myth about the poor. In Colorado, 29 percent of those saying they would not purchase a lottery ticket believed the myth.[12]

Education

An issue similar in thrust to that of the poor buying lottery tickets is the allegation that lotteries appeal to individuals with less than average education. The implication is that the less educated are also less aware of the rather forbidding odds of winning certain games. But, as already shown, it is the middle class that participates most in the lottery. Intuitively, the middle class is also better educated than the poor, thus leading to the argument that it is not the illiterate or less educated that play the lottery. Empirical studies sustain this argument.

In a study of player demographics during its initial nine weeks of operations, the Washington State Lottery found that residents with one to three years of college were overrepresented in lottery play to a degree significantly exceeding that of any other educational group. Based on an index of 100, those in this category reached index levels as high as 141. Conversely, those with eight years or less of education were severely underrepresented, with indices during the nine week period ranging from 68 down to 43. Final figures for fiscal year 1983 in the

state showed residents with thirteen to fifteen years of education totaling out at an index of 120, with those with eight years of education or less playing at an index rate of 56, the lowest of any category.[13]

Thus, the wealth of available information refutes the claims or myths that only the low income and poorly educated participate or contribute a larger portion of income to lotteries than do the other socioeconomic groups.

It is time now to turn to the "stigma" of gambling and state involvement from an administrative and advocate position, and discuss the moral and ethical questions.

[1]John Koza, "The Myth of the Poor Buying Lottery Tickets," Public Gaming Magazine, Vol. 10, No. 1, (January, 1982), pp. 14-17.

[2]Koza, op. cit., pp. 14-17.

[3]Analysis of Sales Data of Lotteries, Atlanta, Georgia, Scientific Games, Inc. (July, 1983).

[4]G.E. Shippee, D.J. Schwartzman, and K. Reynolds, "Using Demographics to Increase Lottery Sales," Public Gaming Magazine, Vol. 11, No. 8 (August, 1983), pp. 13-19.

[5]"Washington State Lottery Keeps Demographic Tabs on Instant Lottery Players," Public Gaming Magazine, Vol. 11, No. 2 (February, 1983), pp. 15-17.

[6]Washington State Lottery 1983 Annual Report.

[7]"Colorado and Washington State Lotteries: Analysis of Lottery Players Using Claim Forms," August 5, 1983, Version III. Conducted by Scientific Games.

[8]Preliminary Report for the New Jersey State Lottery by Bruskin Market Research.

[9]Pennsylvania Lottery Study for the Bureau of State Lotteries, Princeton, New Jersey, Opinion Research Corporation (1981).

[10]"Fact and Fiction in the Lottery Industry." A speech delivered by Ontario Lottery Corporation President D. Norman Morris to the Agincourt Rotary Club (July 7, 1983).

[11]Shippee, Schwartzman, Reynolds, "Taking the 'Greek' Out of Some of the Myths that Surround the Lottery Industry: A Commentary."

[12]Koza, op. cit., pp. 14-17.

[13]John Koza, "Lotteries Popular with Middle America," The Lottery Journal, Vol. 1, No. 1 (October, 1984), pp. 33-34.

CHAPTER 4

MORAL AND ETHICAL CONSIDERATIONS SURROUNDING LOTTERIES

Religious institutions, in particular, have been highly critical of state lotteries, and their objections are perceived to be mainly on moral and ethical grounds. However, this study is constrained by the absence of recent studies on gambling by a number of religious bodies whose ethical concerns have been directed elsewhere in recent years.

Most religious bodies hold the Bible to be the central, if not the ultimate, literary source of authority for ethical principles. However, there is no specific Biblical commandment: "Thou shalt not gamble."

The absence of any clear prohibition or extensive discussion of gambling in the Old Testament, the teachings of Jesus, or the writings of Paul would seem to indicate that in those Biblical periods that were most fruitful for ethical determinations, gambling was not considered a serious threat to religious faith or social order. Turning to sources other than the Bible for discussions on the morality of gambling, one finds post-Biblical pronouncements of church councils and the reasoned arguments of influential ethicists speaking in the context of gambling as a considered threat to the social and economic order and to individual character.

The lack of clear Biblical delineation of the right or wrong of gambling would seem to weaken the force of an ethic on this issue. It

may be, however, that the persuasiveness of a gambling ethic in this secular age lies not so much in abstract, dogmatic prohibitions, but in documented presentations of the psychological, social, and economic effects of those activities we call "gambling." It is on this basis, rather than a theological one, that influential religious bodies are speaking to the perennial problem of gambling in states throughout the nation.[1]

The Gambling Ethics of Protestant Bodies

The term "Protestant" is usually applied to denominational churches whose doctrines and institutional styles evolved from the thought and spirit of the Protestant Reformation in the 16th and 17th centuries when large numbers of people in Western Europe broke with many of the fundamental doctrinal and institutional traditions of the Roman Catholic Church. The term is also applied to denominations whose beginnings came after the Reformation but have some ties of kinship to the spirit and thought of that period.[2]

The Assemblies of God: The government of the Assemblies of God gives local churches a great deal of independence in the conduct of local affairs. Local churches are combined into districts, most of which coincide with state lines. The General Council, the national governing body that sets the doctrinal standards for the denomination, consists of all ordained ministers and one lay delegate from each local church.

The national office of the Assemblies of God stated that no official position on gambling had been taken by the General Council.[3]

The following resolution, however, implies that the church condemns gambling:

> In view of the alarming erosion of national moral standards, we reaffirm our intention of holding up Bible standards against all forms of worldliness. We urge all believers to "Love not the world, neither the things that are in the world . . . For all that is in the world, the lust of the flesh, and the lust of the eyes, and the pride of life, is not of the Father, but is of the world" (I John 2:15, 16).
>
> In its teaching regarding worldliness, the Scripture warns against: Participation in activity which defiles the body, or corrupts the mind and spirit; the inordinate love of, or preoccupation with, pleasures, position, or possessions, which lead to their misuse; manifestation of extreme behavior, unbecoming speech, or inappropriate appearance; any fascination or association which lessens one's affection for spiritual things.

While the General Council of the Assemblies of God has made no detailed statement about gambling, it seems obvious from statements and the resolution of the General Council on "worldliness" that the church condemns gambling as immoral because it is potentially obsessive behavior that "corrupts the mind and spirit" and evidences a preoccupation with money and pleasure characteristic of those devoted to "worldliness."[4]

The American Baptist Convention: While there is a reluctance on the part of the national office of the American Baptist Convention to take a defensible position on gambling without additional research, the tradition of the denomination is one of opposition to gambling. How that opposition is articulated varied at different periods and in changing contexts, but the fact of the opposition persists. With this persistent ethical climate of opposition to gambling, it can be supposed that the active constituency of the American Baptist Convention would be disposed to oppose gambling in its various forms.[5]

The most recent statement on gambling by the American Baptist Convention was at its national meeting in 1959, where the following resolution was passed:

> Gambling is essentially the redistribution of a people's wealth according to chance, rather than according to the receiver's contribution to society.
>
> The presence of widespread gambling is a symptom of economic decay and an indication that industrious, thrifty, and responsible living have failed, and people in their despair are throwing away what they have today on the chance that it might bring returns tomorrow.
>
> When a government "legalizes" gambling for the sake of adding to its revenue under the pretext of easing the tax burden, it participates in a mass swindle in that it sets up a system whereby its people are induced to part with a far larger total sum of money, from which only a fraction replaces taxes, and the government becomes a partner in deceit.[6]

The Lutheran Church

There are three major Lutheran bodies in America: The American Lutheran Church, the Lutheran Church in America, and the Lutheran Church-Missouri Synod. None of the three Lutheran bodies have made recent pronouncements or studies on gambling at the national level of denominational deliberation. The Office of Research and Analysis of the American Lutheran Church indicated that its denomination has no "official or corporate statement on gambling." The director of this office observed: "Many members speak their views, but there is no clear consensus except to try to protect persons against falling victim to gambling fever." He further indicated that the leadership of the American Lutheran Church would probably not be categorically against all gambling but would tend to be selective in evaluating the pros and cons of particular forms of gambling. According to the national office of the American Lutheran Church, there is no uniform attitude or position

on gambling advocated within that denomination. The national office of the Lutheran Church in America likewise indicated that its body has no official statement on gambling.

The national office of the Lutheran Church-Missouri Synod was not immediately aware of any official statement on gambling by its national deliberative body, although the executive secretary acknowledged that various theologians in the history of the denomination might have made statements about gambling, and two following references are made summarizing attitudes about gambling.

The Lutheran Cyclopedia (published in 1954) speaks specifically to lotteries:

> Lotteries, like every other species of gambling, have a pernicious influence on the character of those concerned in them. As this kind of gambling can be carried on secretly and the temptations are thrown in the way of both sexes, all ages, and all classes of persons, it spreads widely in a community, and thus silently infects the sober, economical, and industrious habits of a people. The lotteries of countries and states, formerly more prevalent than now, have had a pernicious influence on the people.

In The Encyclopedia of the Lutheran Church (published in 1965), the following is written about gambling:

> The Lutheran indictment of gambling is on three grounds: (1) It nourishes a desire for gain without a labor of production; (2) It nourishes a desire for excitement as an escape from the realities of life, a similar motive to that of the drug addict or alcoholic; (3) It nourishes an unwholesome competitive spirit.
>
> There are no defenders of gambling among Lutheran theologians. Gambling is attacked as anti-social and economically indefensible. It is pleasure obtained at the expense of another. It seeks to take for self that which belongs to another, without labor or compensation.[7]

The United Methodist Church

The United Methodist Church has taken a traditionally strong anti-gambling position. John Wesley, the founder of the Methodist Church, forbade his followers to gamble:

> We cannot, if we love every one as ourselves, hurt anyone in his substance. We cannot devour the increase of his lands and perhaps the lands and houses themselves, by gaming.

R. Wilberforce Allen, an influential American Methodist minister, said in his book Methodism and Modern World Problems, published in 1926:

> The policy of Methodism in regard to gambling may, therefore, be said to be that of stamping it as a thing unclean, to be eschewed by the individual, in whatever form it presents itself, under all circumstances and at all times.

Of the legalization of gambling, Allen said:

> If a thing is wrong, even though the State may not be able to stamp it out or even to punish it, the least we can ask is that it will not, directly or indirectly, encourage it, and, above all, that it will not seek to derive revenue from it.

Methodists were extremely active in the reform movements of the 19th and early 20th centuries that led to anti-gambling legislation in most states. This anti-gambling stance is still strong within the Methodist Church.

In the Discipline of the Methodist Church, published in 1964, the official position of the Methodist Church on gambling was:

> No lottery, raffle, or other game of chance shall be used in raising money for any purpose. . . .
>
> We stand for the achievement of community and personal standards which make unnecessary the resort to petty or commercial gambling as a recreation, escape, or producer of public or charitable revenue.
>
> Legalized parimutuel betting has greatly increased gambling and stimulated illegal bookmaking. Dependence on gambling revenue has led many states to exploit the weaknesses of their own citizens. . . . We support the strong enforcement of laws restricting gambling, the repeal of all

> laws legalizing gambling, and the rehabilitation of the compulsive gambler.
>
> Gambling as a means of seeking material gain only by chance is a menace to personal character and social morality. Gambling stimulates the desire to get something for nothing, to acquire wealth without honest labor. It encourages a primitive fatalistic faith in chance. Organized and commercial gambling is a menace to business, breeds crime and poverty, and is destructive of the interests of good government.[8]

The Roman Catholic Church

The National Catholic Office for Information of the United States Catholic Conference indicated that neither the Vatican nor the U.S. National Conference of Catholic Bishops has issued an official statement on gambling. This office reported that the most accurate Catholic consensus on gambling is expressed in an article on this subject in the New Catholic Encyclopedia:

> Because gambling can become a major social evil, most societies have laws restricting, controlling, or prohibiting certain forms of it. Generally speaking, these laws appear to be just, and defiance of them on a large or professional scale seems incompatible with Christian morality.

In the Catholic Church, gambling is viewed as an acceptable gaming contract that is not immoral in itself so long as the parties involved understand the nature of the contract and faithfully fulfill it.[9]

An examination of the statements made by these various religious organizations indicates that the most prominent religious institutions do not have a concrete organizational doctrine for or against gambling. The gambling issue is left to the local church organizations. These church authorities believe that gambling is most easily dealt with by local organizations who are more sensitive to local gambling issues. This is not to say that these bodies are in favor of gambling; indeed, quite the opposite can be discerned. These beliefs are the result of

gambling diseases and maladies, such as compulsive gambling, and those who cannot afford to gamble who use monetary resources best spent elsewhere for gambling, thereby creating a social or church burden.

Accompanying the moral and ethical arguments opposing gambling, there are significant concerns expressed about the opportunity for casual and organized crime elements to infiltrate and corrupt the lottery or various state games at administrative levels and/or indulge in mechanical rigging at the grassroots level. The ensuing chapter addresses these issues.

[1]Commission on the Review of National Policy Toward Gambling, Appendix I, p. 165.

[2]Ibid., p. 165.

[3]Ibid., p. 166.

[4]Ibid., p. 168.

[5]Ibid., p. 170.

[6]Ibid., p. 169.

[7]Ibid., p. 177.

[8]Ibid., p. 180.

[9]Ibid., p. 203. Excessive and fraudulent gambling are cited as sinful, but these abuses are not considered inherent aspects of the act of gambling itself.

CHAPTER 5

INTEGRITY IN LOTTERIES

Rightfully, the public has to be concerned about crime and criminal activities surrounding the legalization of any type of gambling. Lotteries certainly need to be scrutinized and regulated if for no better reason than the sordid past abuses. Indeed, the record must speak for itself when scrutinizing modern lottery administration and performance. The record illustrates clearly that security and integrity have not been, and probably will not be, even a minor problem.

In its final report to the President of the United States and Congress, the Commission on the Review of the National Policy Toward Gambling concluded that gambling is inevitable.

> No matter what is said or done by advocates or opponents of gambling in all its various forms, it is an activity that is practiced, or tacitly endorsed, by a substantial majority of Americans. This does not mean that gambling is a simple problem which lends itself to simple solutions. Far from it. Gambling is an issue so fraught with ingrained moral and philosophical dichotomies and unresolved social questions that no disposition of the subject can ever come close to being universally accepted.[1]

This statement is of concern to many different organizations, and law enforcement officers are among those most concerned. Those concerns include fear that legislation permitting legalized wagering, particularly state operated lotteries, might trigger an increase in criminal activity.

This fear comes from the belief that organized crime might view a legalized lottery as an opportunity for immediate or future infiltration and that there will be a rapid increase in compulsive gambling with all of its attendant social, personal, and family problems. All of these are valid concerns and should be considered by any public administrator when wagering legislation is being discussed or proposed.

There is no indication that legalized lotteries lead to increased crime, so long as tight administrative control is maintained. Greed is the basis for most crime, along with conflict among criminals who are involved in a gambling activity. Experience shows that a legalized lottery does not provide this opportunity because the funds wagered are recorded immediately through the online data system. The bet is made and recorded, and a ticket is issued containing a validation number unique to that individual wager. The customer is protected by a valid ticket, the agent account is immediately charged with the amount of the ticket, and a permanent hard copy data record is created, guaranteeing the state the amount collected. All of this occurs within four seconds from the time a wager is placed. The potential for what is commonly referred to as "skimming" does not exist. The selling of instant tickets is also protected by similar guides, validation numbers, and audit trails.

Another concern is the potential for additional holdup exposure for businesses that sell lottery tickets. There is no question that some businesses selling tickets are held up, but there is no evidence that these businesses are held up to any greater degree than similar types of businesses that do not handle or sell lottery tickets. There is the

increased possibility of muggings after a winner collects in a high crime area, but this potential is no greater than for persons leaving a location that cashes checques or money orders.

Another concern is the possibility of infiltration by organized criminal elements. Organized crime thrives on circumstances where large sums of money are received, handled, and manipulated, and, later, where a portion of that money is recorded and accounted for, indicating a legal business transaction. The period of time that money is being recorded in the computer, four seconds on the average, produces a complete audit and the amount of the transaction is from only $.50 to $5.00. These two elements make the lottery a poor business venture for organized crime.

In addition, all lotteries check the criminal background of all agents, vendors, and suppliers, making every effort to screen out anyone who has a questionable background. There certainly is a possibility that some undesirables will become involved, but the lack of interest on the part of organized crime greatly reduces the potential for this problem. There has never been an incident, charge, or insinuation of a charge that organized crime had, or has attempted to obtain, a foothold in any legal lottery state.[2]

There have been numerous studies on the issue of whether a modern state lottery encourages organized criminal activity. One of the most comprehensive and earliest study was the "Task Force Report on Legalized Gambling," prepared by a blue ribbon task force for the attorney general of California, dated June 21, 1971. The task force defined its purpose as:

> The bulk of this study has been concerned with the relationship between legalizing certain types of gambling and the law enforcement problems incident thereto. Considerations pertaining to incidental crimes and organized crime activity in relation to legalized gambling have received a major part of the attention given to the treatment of this subject.[3]

The task force examined the three lotteries then in existence: New Hampshire, New York and New Jersey. Among the conclusions reached in the study are the following:

New Hampshire Lottery

"Fears that organized criminal elements would attempt to take over the lottery did not appear ... because of the extraordinarily tight security system used in the ticket purchases, there has simply been no possibility that organized crime or racketeers could infiltrate the lottery system so as to effect a takeover."[4]

New York Lottery

New York officials emphasized the fact that the lottery had created virtually no law enforcement problems. The lottery has been absolutely trustworthy. "There is no apparent increase in street crime, robberies, theft, etc., as a result of the lottery ticket sales, and there was a noticeable absence of efforts by the organized criminal elements to become involved in the operation of the state lottery."[5]

New Jersey Lottery

"As far as New Jersey officials know, there was absolutely no indication that organized crime would or could take an interest in the operation of the lottery. The lottery would probably not present a

fertile area for profit for organized criminals inasmuch as the state was sole operator of the lottery."[6]

Conclusion

"The task force feels that the law enforcement problems attending state operated lotteries on the East Coast are minimal to nonexistent."[7]

The above statements pertaining to the testimony of lottery security and integrity reflect the opinions of the remainder of the participating states. This conclusion is buttressed by comments from former lottery directors and commissioners of the following states: Ohio, Massachusetts, New Hampshire, Delaware, Pennsylvania, and Michigan. (See Appendix II.)

Compulsive Gambling

It has been charged that legalized lotteries increase the number of compulsive gamblers in those states that have instituted a legal game. This allegation is constantly made, but let us consider the type of individual who is a compulsive gambler.

Webster's Ninth New Collegiate Dictionary defines "compulsive" as an irresistible impulse or tendency to perform an act. A compulsive gambler must have a just or immediate result from his act with little regard for the result of winning or losing.

A lottery is too passive a game. Dr. Robert Custer, medical adviser to the National Council on Compulsive Gambling, and one of the nation's foremost experts on the subject, stated that no reliable studies have been conducted that link lotteries to compulsive gambling. More definitive research can be done as the lotteries become more

ingrained in the American culture. Custer believes that a number of variables must come together for compulsive gambling to manifest itself. To become a compulsive gambler, a person must be psychologically so disposed and have the opportunity to wager, and win, large amounts with some frequency.[8]

Further, the action provided by a lottery is not fast enough for the compulsive gambler. A daily ticket is purchased during the day, but a bettor must wait until evening before the number is drawn to know the result. In a weekly game, or in the case of a lotto game, the drawing is done once or, in some states, twice a week. The compulsive gambler does not have that kind of patience to wait.

Administrative Precautions

Any state considering the legalization of a lottery, of course, should take a precautionary and sensible approach to lottery security, drawing procedures, and record keeping, as well as to the quality of vendors, particularly those offering data processing services and instant tickets. Should these precautions be in place, there is little reason for law enforcement administrators to be concerned about an increase in criminal activities.

For a lottery to become successful and grow, the operation must be highly visible and must at all times maintain a sensitivity to its integrity and security. Should the public at any time have any cause to question a lottery's integrity, then sales would plummet and the lack of public confidence would ultimately cause the lottery to go out of business.

To address the major topics in the preceding text as they relate to Montana and the feasibility of a lottery, the following chapter summarizes the attitudes and opinions of Montana residents obtained by a sample survey conducted in late November, 1984.

[1]Martin M. Puncke, President, North American Association of State Lotteries, "How Secure are State Run Lotteries?," Public Gaming Magazine, Vol. 12, No. 10, (October, 1984), p. 46.

[2]Puncke, op. cit., p. 46.

[3]Task Force Report on Legalized Gambling, State of California (June 21, 1971), p. 2.

[4]Ibid., p. 5.

[5]Ibid., pp. 12, 14, 17.

[6]Ibid., pp. 20, 24.

[7]Ibid., p. 57.

[8]"Dispelling the Myths in the Gaming Industry - Lotteries," Public Gaming Magazine, Vol. 11, No. 12 (December, 1983), pp. 26-41.

CHAPTER 6

SURVEY FINDINGS AND CONCLUSIONS

To assess attitudes of Montana residents toward a state run lottery, a questionnaire was developed (see Appendix III) to sample four different socioeconomic groups as distinguished by income level and occupation. The occupational categories solicited were:

a) rural farming: to sample rural farming attitudes;

b) urban industrial white collar: to sample professional attitudes;

c) urban industrial blue collar: to sample labor attitudes; and

d) rural ranching: to sample rural ranching attitudes.

To assure that the desired population was sampled, three different but representative counties were chosen:

Richland County: Rural farming and ranching;

Flathead County: Urban industrial blue collar; and

Lewis and Clark County: Urban industrial white collar.

Sample counties selected for representation of a particular socio-economic group were screened to ensure that that group was indeed the predominant socioeconomic factor. Richland County, for example, has 74 percent rural farming and ranching population.[1] See Table 1, which represents an overview of the survey results. Questions 1, 2, 4, 5, and 6 are represented because of their compatible format. Questions 3 and 7 are summarized in the content of this section.

TABLE 1

SURVEY RESULTS

	SA	A	NO	D	SD	Total N & %
Question 1	44.7% N = 20	35.5% N = 16	2.2% N = 1	6.5% N = 3	13.0% N = 6	99.7% N = 46
Question 2	42.2% N = 19	33.3% N = 15	4.4% N = 2	8.8% N = 4	11.1% N = 5	99.8% N = 45
Question 4	2.2% N = 1	6.8% N = 3	11.3% N = 5	36.3% N = 16	43.1% N = 19	99.7% N = 44
Question 5	9.0% N = 4	6.8% N = 3	9.0% N = 4	38.6% N = 17	36.6% N = 16	100.0% N = 44
Question 6	25.0% N = 11	43.1% N = 19	13.6% N = 6	9.0% N = 4	9.0% N = 4	99.7% N = 44

Note: The rounding effect of the mathematical processing accounts for the minor discrepancy in total percentage figures.

For question content, please refer to the following page.

SA = strongly agree, A = agree, NO = no opinion, D = disagree, and SD = strongly disagree.

Survey Method

Although four socioeconomic groups were selected, rural farm and ranch populations belong within the same county, Richland. Thus, a survey of only three counties was conducted. A sample of fifty was picked from each county, with N = 150.

A selection of fifty from each county was made in the following manner. First, each county's population as appearing in the telephone book was counted and the total was divided by fifty, thus obtaining the number of county residents to be skipped at regular intervals to obtain the necessary sample. For example, a county with residents numbering

3000 divided by 50 will give a quotient of 60, which means every 60th member is a participant in the sample.

Survey Results

The survey consisted of fifty questionnaires sent to the above sample, and the response rate was 33%.[2] The responses by socioeconomic group are as follows:

a) Rural farm population was evenly divided in that 50% favored a lottery and the other 50% (N = +3, -3) did not.

b) Urban industrial white collar workers were 83% in favor of a lottery and 17% (N = +15, -3) against a lottery.

c) There was a predominantly favorable response among urban industrial blue collar workers: 80% in favor of a lottery, with 20% N = +20, -5) opposed to a lottery.

d) Rural ranch: No responses were received from this socioeconomic group.

Note: + denotes in favor of, - denotes not in favor of.

Responses to the various questions were as follows, expressed as percentages of the total responses to each question.

1) In response to question 1 -- Do you believe a lottery is a good source of revenue? -- 78.1% of respondents agreed, while 2.1% had no opinion and 19.5% disagreed.

2) In response to question 2 -- If a lottery is instituted, would you be a participant (buy tickets)? -- 75.5% of the respondents agreed, while 19.9% disagreed or would not buy tickets. 4.4% had no opinion.

3) In response to question 3 -- How often would you participate? -- 74.3% agreed they would participate to some degree once a month,

10.2% once every six months, and once a year 5.1%, while 10.2% would not participate.[3]

4) In response to question 4 -- Do you think your religious belief prevents you from participating in a lottery? -- 79.4% agreed that their religious beliefs would not prevent them from participating in a lottery, while 11.3% had no opinion and 9% agreed religious beliefs would prevent them from participating.

5) In response to question 5 -- Do you feel morally repugnant toward a lottery, which is a chance game? -- 74.9% agreed that a lottery would not be morally repugnant, while 9% had no opinion and 15.8% agreed it would be morally repugnant.

6) In response to question 6 -- Do you believe the state government ought to be in the lottery business? -- 68.1% agreed the state should be in the lottery business, while 13.6% had no opinion and 18% disagreed.

7) In response to question 7 -- Should the lottery be instituted, where do you think the tickets should be purchased from? -- 65.2% favored licensed retail outlets, while state liquor stores and no distribution outlets[4] represented 13% respectively and 8.7% favored the motor vehicle license bureau.

8) In response to question 8 -- If you have alternatives to a state lottery to raise revenue, what would they be? -- 46.3% had no opinion, 20.4% supported a sales tax, 11.1% preferred revenue conservation, 5.6% suggested legalized gambling, while 3.7% suggested a uniform income tax, increased general tax and increased employment respectively.

After evaluating survey responses for participatory levels, attitudes toward the lottery and perceptions about gambling, an interested observer can deduce that a lottery in Montana has strong general support and would generate revenue from an acceptable source. The major participants would be urban blue collar workers, while other socioeconomic groups would be participating to a lesser degree. Most respondents felt the lottery is not morally repugnant or undesirable from a religious standpoint. Most believed that they would participate often (once a month).[5]

The results of this survey are in congruence with a different poll conducted by the University of Montana (UM) in December 1984.[6] Agreement is seen in the attitude of the participants toward a state run lottery to raise revenue. The subject survey generated 78.1% in favor of a state run lottery, and the UM study produced a 77% favorable response. According to the UM poll, those who said they favored a lottery did so because it would raise revenue, it is voluntary, and someone always wins. Reasons given for opposing a lottery often equated such a program with legalized gambling or suggested that a lottery exploits the poor. The latter statement has in recent research been found to be largely untrue as pointed out in another section of this paper.

Conclusion

An overview of this study reveals that there is largely no basis for several popular myths associated with lotteries, namely:

a) Middle and upper income socioeconomic groups are the major participants, not the poor and uneducated;

b) There is a lack of nationwide religious statements by the major religious institutions to condemn lotteries or gambling per se; and

c) There is no connection whatsoever between crime or criminal elements in any state lottery venture at any level.

The study also reveals that there is popular support in Montana for a state run lottery as a revenue source and all indications are such that Montana will support a lottery.

Public policy makers may find this encouraging enough to initiate a state lottery as a less painful revenue source to offset some of the current loss of revenue due to, for example, falling energy prices and dwindling federal support.

[1]1980 Census of Population, Vol. 1, Characteristics of the Population, Chapter C, General Social & Economic Characteristics, Part 28, pp. 184-189.

[2]There were 49 completed participant samples returned, 17 samples returned due to address problems and 84 no responses.

[3]There was not a "no participation" option in the original questionnaire; these responses were volunteered by the participants.

[4]There was no "no distribution outlets" option in the original questionnaire; these responses were volunteered by the participants.

[5]Once a month was the most frequent option or choice on the questionnaire.

[6]The sample was taken on 432 adult Montanans.

APPENDICES

APPENDIX I

TABLES OF DEMOGRAPHIC STATISTICS

TABLE 2

Player Participation Rate by Income Level
When Compared To Income Group's Proportion of Total State Population.
*Household Incomes In Thousands Of Dollars

Weekly Values In Percentages Above Or Below Player Group's
Proportion Of The State's Population

Week	$0-$5	$5-$10	$10-$15	$15-$25	$25-$35	$35-$50	$50-Up*
1	- 3	-21	+16	+ 2	+18	0	-54
2	- 1	-13	+ 7	- 5	+23	0	-38
3	- 6	-15	+ 7	- 2	+21	- 4	-20
4	- 3	-10	+ 2	- 2	+ 9	+ 7	- 6
5	+11	- 7	+ 9	-12	+12	- 2	- 6
6	0	-15	+14	- 7	+23	- 2	-36
7	-13	-13	+ 2	- 6	+25	- 4	+18
8	- 6	-20	+ 3	- 3	+19	+ 6	0
9	- 9	-17	+13	-11	+23	+ 5	- 1
Average	-3.3	-14.5	+8.1	-5.1	+19.2	+0.6	-15.9

Explanatory note: Minus means players from that income group bought less tickets than that income group's proportion of the population would warrant; plus means more.

TABLE 3

Annual Household Income (1980 Dollars)**

	%* Over $56,000	% $34,000- $56,000	% $23,000- $33,999	% $18,000- $22,999	% $11,000- $17,999	% $6,700- $10,999	% Under $6,700
$1 INSTANT GAMES (76 Games)							
New Jersey - 9 Games	135*	143	120	96	80	74	67
New York - 17 Games	133	126	110	95	89	84	84
Michigan - 25 Games	113	145	123	97	72	71	74
Illinois - 13 Games	110	134	121	94	81	76	78
Pennsylvania - 12 Games	65	84	107	118	105	95	93
50¢ WEEKLY DRAW-TYPE (22 Games)							
New Jersey - 2 Games	140	145	120	96	79	73	66
New York - 4 Games	115	124	114	98	88	81	84
Michigan - 2 Games	120	152	124	94	69	69	71
Illinois - 11 Games	115	134	120	94	75	75	78
Pennsylvania - 3 Games	70	86	107	118	93	93	92
$1 WEEKLY DRAW-TYPE (24 Games)							
New York - 2 Games	133	126	107	94	90	84	86
Michigan - 4 Games	123	153	123	93	68	69	71
Illinois - 13 Games	110	132	120	95	82	77	80
Pennsylvania - 5 Games	68	85	107	118	104	94	92
$2 INSTANT 'HORSE RACE' GAMES (2 Games)							
New York - 1 Game	133	126	110	95	89	83	84
Pennsylvania - 1 Game	65	84	107	118	105	94	93
$5 DRAW-TYPE GAMES (6 Games)							
New Jersey - 1 Game	138	146	120	96	78	71	65
New York - 1 Game	130	126	110	95	88	83	84
Michigan - 1 Game	125	159	124	92	66	66	69
Pennsylvania - 3 Games	73	87	108	118	103	92	90
$10 DRAW-TYPE GAMES (7 Games)							
New York - 7 Games	148	132	111	93	86	78	80

Continued on page 55

TABLE 3--Continued

	%* Over $56,000	% $34,000- $56,000	% $23,000- $33,999	% $18,000- $22,999	% $11,000- $17,999	% $6,700- $10,999	% Under $6,700
WEEKLY LOTTO (1 Game)							
New York - 1 Game	108	106	101	98	98	97	96
WEEKLY KENO (1 Game)							
New York - 1 Game	140	128	107	93	90	84	86
PERCENT OF U.S. POPULATION WITH INCOME LEVEL SHOWN	4.0%	13.7%	23.0%	18.9%	12.0%	11.0%	17.3%

Note: This information is based on analysis of 6,504,237 recorded winners of large prizes in 140 different lottery games of 24 categories from five lottery states. The data represents all valid, in-state, centrally-recorded winners in all 140 games in all 5 states from the time of each lottery's inception (which ranged from 1971 to 1976) until spring 1981. The analysis was performed by Scientific Games Inc. of Atlanta, Georgia.

*These numbers are percentages. They represent the amount over or under 100% a certain income group played lottery games in relation to their representation in the overall population.

**John Koza, "Lotteries Popular with Middle America," The Lottery Journal, Vol. 1, No. 1 (October 1984), p. 33.

APPENDIX II

SUMMARY OF STATE TESTIMONY ON CRIME IN LOTTERIES

Ohio

"To date, we have had no known infiltration by organized crime, although there were many accusations and innuendoes at the beginning of the Ohio Lottery in 1974. The Ohio Lottery took aggressive action when these allegations were made...In summary, I feel that organized crime would not find the Ohio Lottery appealing for infiltration because of: (1) uncertain prospects and opportunities to penetrate; (2) no significant benefit or profit should they do so; and (3) being unable to avoid detection." (Edwin C. Taylor, former executive director, Ohio Lottery.)

Massachusetts

"The record of lotteries in the United States for the past 18 years has not had one incident of association with organized crime...The fact that 75 countries around the world have successfully being conducting lotteries for hundreds of years also speaks well for the nature, public acceptance and control of lotteries." (Dr. William E. Perrault, former executive director, Massachusetts Lottery.)

New Hampshire

"In 1963, New Hampshire passed legislation authorizing the first legal lottery in this country in the 20th Century...Opponents made dire predictions of criminal infiltration...Stringent security measures were

implemented from the beginning of the operation and there has never been any possibility of infiltration by the criminal elements." (James M. Kennedy, former director, New Hampshire Sweepstakes Commission.)

Delaware

"During my lottery experiences in New Jersey, Illinois and Delaware, I have neither directly or indirectly encountered any evidence whatsoever of any infiltration or resemblance thereof by organized crime into the affairs of lotteries. And furthermore, during these years of experience, my attention has not been attracted to the first bit of evidence that would substantiate that the same has occurred." (Ralph F. Batch, executive director, Delaware Lottery.)

Pennsylvania

"There has been no evidence nor even an allegation that organized crime has infiltrated any of the state operated lotteries in the United States. In fact, all of the state operated lotteries have gone to great lengths, through investigations and other security controls, to insure that organized crime is in no way having any input or any other connection with the lottery operations." (Lynn R. Nelson, executive director, Pennsylvania Lottery.)

Michigan

"Lottery opponents invariably argue that organized crime gleefully awaits the installation of the state lotteries. I can categorically and unequivocally deny this. Neither Michigan, nor any state, to my knowledge, has had any difficulty in this regard." (Gus Harrison, former commissioner, Michigan State Lottery.)

APPENDIX III

QUESTIONNAIRE AND RESULTS

At the present time, revenue and taxation problems are a major crisis in most state governments. The most imposing question before most state governments is related to alternative funding resources as tax issues are very unpopular. The tax limit is nearly saturated and in an effort to be informed, attitudes toward alternative revenue sources are being examined.

Please respond to the following questions by answering one of the five designated categories by circling the one that most nearly indicates the way you feel.

This information will be utilized to complete a professional paper and feasibility study to establish the success or failure of a lottery in Montana.

Responses would be appreciated by November 1, 1984.

The five categories are:

1) strongly agree
2) agree
3) no opinion
4) disagree
5) strongly disagree

1) Do you believe a lottery is a good source of revenue? (N = 46)

strongly agree	agree	no opinion	disagree	strongly disagree
43.4%	34.7%	2.1%	6.5%	13.0%
N = 20	N = 16	N = 1	N = 3	N = 6

2) If a lottery is instituted, would you be a participant (buy tickets)? (N = 45)

strongly agree	agree	no opinion	disagree	strongly disagree
42.2%	33.3%	4.4%	8.8%	11.1%
N = 19	N = 15	N = 2	N = 4	N = 5

3) How often would you participate? (check one) (N = 39)

A)	once a month	59.6%	N = 29
B)	once every six months	10.6%	N = 4
C)	once a year	6.4%	N = 2
D)	no participation	23.4%	N = 4

4) Do you think your religious belief prevents you from participating in a lottery? (N = 44)

strongly agree	agree	no opinion	disagree	strongly disagree
2.2%	6.8%	11.3%	36.3%	43.1%
N = 1	N = 3	N = 5	N = 16	N = 19

5) Do you feel morally repugnant toward a lottery, which is a chance game? (N = 44)

strongly agree	agree	no opinion	disagree	strongly disagree
9.0%	6.8%	9.0%	38.6%	36.3%
N = 4	N = 3	N = 4	N = 17	N = 16

6) Do you believe the state government ought to be in the lottery business? (N = 44)

strongly agree	agree	no opinion	disagree	strongly disagree
25.0%	43.1%	13.6%	9.0%	9.0%
N = 11	N = 19	N = 6	N = 4	N = 4

7) Should the lottery be instituted, where do you think the tickets should be purchased from? (check one) (N = 42)

A)	motor vehicle license bureau	8.7%	N = 2
B)	state liquor stores	13%	N = 5
C)	licensed retail outlets (gas stations, convenience stores, grocery stores, etc.)	65.2%	N = 26
D)	no distribution outlets	13%	N = 7

This questionnaire has been sent to the following population groups. Please check the group that you most closely identify with. Anonymous responses only.

A)	rural, farming	Total = 6 (3 against)
B)	urban industrial, white collar	Total = 18 (3 against)
C)	urban industrial, blue collar	Total = 25 (5 against)
D)	rural, ranching	Total = 0

Thank you for your time and cooperation.

*N = The number of responses to each possible multiple choice question.