CHAIRPERSON JAMES: Thank you, I'm going to call us back to order at this particular point in time. And there's Ms. Paul, we can't start without you. Welcome back. And I'll open the floor up to Commissioners for questions and dialogue. And also to panelists if you'd like to engage each other.

COMMISSIONER WILHELM: I have a brief comment, and two questions, just primarily though not necessarily exclusively to Dr. Clotfelter. The comment is this, you make this observation about the regressivity of the implicit taxation that the lottery
represents, I take your point, although I'm sure I
don't grasp it in all it's fulsomeness, because I have
no economics training. But it's also fair to say, is
it not, that both governmentally and non-governmentally
we have all sorts of explicit and implicit taxation
that is regressive. As an example, the Social Security
tax because it's only applied on the first $60 some odd
thousand of income, is surely regressive.

And so, the statement that you make about
the implicit, about the regressiveness of the implicit
taxation of the lottery is also a statement that could
be made about lots of other things in terms of what the
government has done. Wouldn't that be true? The sales
tax is certainly a highly regressive tax, for example
in most jurisdictions in this country.

DR. CLOTFELTER: Yeah, excise tax on
tobacco, alcohol, gasoline, are all regressive. The
payroll tax is still regressive even though it is
getting more proportional because of the limit going
up. So yes, you could say a number of things are
regressive. If you compared one against the other though, it turns out that lottery implicit tax is kind of the winner, head to head, against almost anything else using more or less conventional measures of regressivity. It's more regressive.

Maybe another way to say why is this important, I think the policy question would be something like this. Suppose you're a state that wants to look at how it's taxing all of its citizens across the board and you're interested in a distributional equity. And you have a choice between raising the rate of implicit tax on the lottery or doing any one of a list of other things. If you chose the lottery as the way to do it, it would hurt poor people compared to the other things. That's really the only way to think about it. Or the other way, and maybe if things are flush, if we wanted to give a tax cut that we wanted to benefit people at the lowest income, it would be hard to find a tax cut that would help poor people more then
cutting the implicit tax on lotteries. That's the sense in which it is useful.

COMMISSIONER WILHELM: That's interesting.

You're an economist and I'm not, I would have thought for example that in states and or localities which apply the sales tax to food and prescription medicines and things like that, that that statement would be more true of that.

DR. CLOTFELTER: You might be right about food. In fact, I come from a state that is still backward to have a little tax on food. And that's one of the most regressive taxes. So if you put a food tax up against the lottery that might be. And I don't know what the answer on that would be.

COMMISSIONER WILHELM: And then, I wanted to ask you whether or not there is in existence any significant or any credible research on three aspects of lotteries. One, whether or not beyond convenience store jobs which are typically low wage and no benefit, and perhaps a handful of administrative jobs, whether
or not the lottery, lotteries generally create any significant number of quality jobs, whether there has been research on that?

Secondly, whether there's been research on whether lottery advertising over time produces significant increases in lottery sales or not? I was looking at some figures from the California Lottery which would seem to an uneducated eye to suggest that lottery advertising doesn't increase, or at least in the California experience in recent years, hasn't increased lottery revenue.

And thirdly, whether there's been any research done on the impact of both, from a revenue point of view and from a play point of view, and from the kinds of people who do play of these new products and online stuff and video lottery terminals and stuff like that? The stuff that you said was oranges as compared to apples.

DR. CLOTFELTER: The first question on, does the lottery create quality jobs. I don't know any
particular evidence of it. If you don't have a job and
you get a lottery job, it's probably a quality job.
So, but I don't know of any evidence about the kind of
employment. If you're thinking about would it be good
to have jobs that create human capital or have spin
offs in other ways, it's a service industry and Rebecca
Paul would be, I mean she knows this industry in and
out. But my guess is I just don't know of any research
on it.

Does lottery advertising increase sales
over time, I would love to have her opinion of this. I
went in, very naively in, there was a lot about
marketing I had never heard of before I did this book,
and I learned about psychometric studies and focus
groups and target marketing, lots of things that are
used every day all over the country in private
industry, but now is applied to the state. And one
thing I discovered, and had I thought about it much, I
would have known, is that it's pretty hard to determine
whether any advertising affects the sales of any product.

My impression is that most advertising that we see is an attempt to garner a bigger share of an existing market. So I want you to buy my soap not your soap. If there were states that said we're not going to do any advertising and then we compared those states to the ones that do advertise, then we might be able to make a determination. But pretty much all the states are doing similar things, so it is pretty hard to find the counterfactual, what would you compare it to. Maybe you could look at advertising campaigns and see what has happened to sales and so I'm sure Ms. Paul has, knows about that, if I were running a lottery I would darn well want to know the answer to that, if my dollars are paying off.

And then as far as the impact of new products, that's really a big, big issue. This is a very dynamic industry. It's unlike most of the products that we see. The products are developing
because of technology, because of changing legal situation. So the line up of products is so different than it was when I started looking at lotteries in Massachusetts in 1972. Back at that point there were only two games, I could go and buy a raffle ticket, with a preprinted number, I didn't have any control over what the number was, I just bought it and then hoped that at the weekly drawing I won. And the other one was this new scratch off ticket that was really revolutionized, even though it as a Georgia company that developed it, it was Massawchusetts that really put the gilt on this particular, that's G-I-L-T, on this product. But now, we have lotto, we have Keno, numbers that are developed in computer systems and now with video terminals and Keno, the products are changing so much. So that's where I would attribute much of the growth to. And again, that's been a deliberate policy by the lottery agencies in order to get more revenue, you develop
products that will appeal to people. Which makes sense if that's what you're doing.

CHAIRPERSON JAMES: Before we move on to a new line of questioning, I wanted to ask Ms. Paul if she'd like to answer those same three questions. It would be interesting to have your perspective.

MS. PAUL: I don't believe there are any jobs, Commissioner Wilhelm, studies in terms of what jobs have been created. When you talk about low level convenience store clerks, what comes to my mind immediately are certainly the 6,000 owners of retailer locations in Georgia who have certainly benefitted. I'll talk to convenience store owners who will say, you know, my place of business would have gone out of business had it not been for the lottery coming to Georgia. So therefore, the lottery in Georgia has made enough revenues for their individual stores to keep them open. So in addition to providing jobs for people actually working in the convenient stores,
certainly the owners and the managers have benefitted as well.

I would guess an average lottery has maybe 300 employees. You know, multiply that by 37, 38 lotteries. Certainly in Georgia, the expansion of the pre kindergarten program has provided for increased spending in education across the board. So certainly education dollars have benefitted. All of the universities in Georgia have had expanded growth and therefore, expanded opportunities for people in higher learning to go to work.

So I am not aware of any studies, but those are the things that came to my mind when you asked those questions. And I don't remember the other two.

COMMISSIONER WILHELM: The second question had to do with whether anybody had studied the relationship between lottery advertising expenditures and lottery revenues.

And the third was whether anybody had studied the impact in a variety of ways of some of
these new technologies such as video lottery terminals, et cetera.

MS. PAUL: Well, in terms of studying advertising and its impact, there are some jurisdictions, one in particular that comes to my mind is one in Canada as well as a couple in the United States that when legislative bodies cut advertising budgets to save money, they then went back after a year or two and put those dollars back in the budget. Because the amount of dollars that they saved reduced by tens of times those dollars, the amount of dollars raised. So there was the belief certainly that it had impact.

However, as I said earlier in terms of its impact on play, I think it goes back to that choice, what do you do in that convenience store with your dollar, with your change. And again, in Georgia 75 percent of our tickets are sold in convenience stores, so it's really the change that comes back from your gas, and do you want to buy a Coke, a Slim Jim, or Mars
candy. So I mean, that's the choices that at least I feel we compete against for your change in that convenience store environment. But I'm not aware of any studies that show that.

I do think you, at least it's my understanding, may look at lottery advertising at a later date. And certainly advertising experts could tell you that, maybe.

CHAIRPERSON JAMES: Thank you.