Mr. Goodman?

MR. GOODMAN: Thank you for the opportunity to speak here this afternoon. I think the work of your committee is probably the most important effort by the federal government to examine this issue. I want to talk a little bit about my own interests in gambling. I have gambled myself, I've done it for a long time,
people used to bet on my pool games when I was younger. I've gambled in casinos, I've gambled privately. I think there is a moral issue in gambling, it doesn't happen to be my issue, but I think it's a serious one for a lot of people and I think it ought to be taken seriously.

My concern, and the reason I got involved in this, is I was thinking about the role of government in gambling, the role of government in establishing gambling policy, some of the things that Dan Bosley has been talking about.

My research before I looked at this was how cities and states do economic development policy. When I looked at gambling, originally with a grant from the Ford Foundation and the Aspen Institute, I wanted to see what it did in terms of economic policy, did it actually increase revenues, did it create jobs? And I was also interested in how it effected the political process.

And in addressing the issue I won't go into that broad overview, I'd like to stick to the issue of lotteries today, although most of what you'll hear about lotteries have to be discussed in a more broad view of government gambling policy.
You've heard a lot I'm sure in the past two
days, I certainly heard it in the last panel, about the
upside of lotteries. And I won't spend much time
talking about that, clearly they can bring in lots of
revenues, you can use it for education, you can use it
for budgets, you can use it for scholarships, a whole
host of things, prescriptions for the elderly, et
cetera.

But there is a downside and I think that
needs to be addressed and I will talk about those
issues this afternoon, basically, in terms of gambling
as public policy. I'd like to make three points and
normally I don't like to just read from a script, but
given that I have very limited time I'll try to stick
to it as best I can. I probably won't do as well as
Dan did.

There are three points I'd like to make
this afternoon. First, over the past thirty odd years,
many state governments have shifted from being
regulators of gambling to being promoters of gambling.
This shift has created a vacuum in which important
public policy is being made by state lottery agencies
without informed input from elected representatives or
the public.
The second, there need to be major changes in the oversight and regulation of state lotteries and other state sponsored gambling ventures in order to protect the public. And I'll make some recommendations for that briefly.

And third, I'd like to suggest at least one approach as an example of how government operated lotteries can build on the more positive aspects of this experience. Not long ago, a lawyer who was defending the tobacco companies in their case with the states asked me to be an expert witness. When I asked him why, he explained that his firm would like to counter the state's claim that tobacco companies promote a product they know can lead to harmful, addictive and dangerous behavior, with the argument that the tobacco companies are being unjustly singled out for prosecution while the states do the very same thing when it comes to lotteries.

Now, realizing, as my parents once explained to me, that two wrongs don't necessarily make a right, even if someone is willing to pay you a lot of money to say so, I turned the lawyer down. But the reality is that state governments have indeed aggressively moved in the direction of shifting from
being the regulator of a potentially harmful activity
to promoting that activity. And when government does
this, we must ask ourselves, who will regulate and
protect the government?

Unfortunately, and I think this is one of
the main parts of the problem, politicians and state
lottery directors have tended to treat their lotteries
as private businesses rather than as a unique form of
tax policy, which indeed is what they are. When you
are running a gambling business this means getting
people who don't usually gamble to do it and getting
those who do do it to gamble more often. I wrote about
how lotteries do this in my book, The Luck Business,
but let me just cite a few examples here.

States now spend close to $400 million a
year advertising their lotteries. In contrast to the
ventures of organized crime, government sponsored
gambling is also given free publicity through newspaper
and TV stories about incredible jackpots, happy
winners, transformed lives. Politicians have usually
argued that by legalizing gambling governments would
capture money that was already being bet illegally and
eliminate the role of organized crime. Yet criminals
never promoted their gambling operations with million
In trying to stimulate more demand for their products, lotteries have become adept at manipulating player behavior through sophisticated market research and advertising. Explaining its promotional campaign, the New York State Lottery said its player's fantasies were given the hope of fulfillment and that the lottery offered people a chance to dream about paying off their debts or paying for their children's educations. This was the rationale that that lottery had given, other lotteries have offered similar explanations.

Now, I'm very sympathetic to the schizophrenic position of lottery directors and I think it is a schizophrenic position. I've interviewed a number of directors and in my interviews with them one director told me about the mixed message he'd received in public criticism of his work, legislators complained about the advertisements and promotions, but the bottom line of keeping his job he said, ultimately depended on politicians judging him by the revenues he generated. My success or failure, he said, was how sales were. Were my sales better than last year or were they worse?
Lotteries have come to depend on a relatively small number of people spending large amounts of money. Nationally, by 1992, only 15 to 20 percent of lottery players accounted for about 70 to 80 percent of all lottery sales. But enticing less frequent players can only be maintained by aggressive advertising, continued infusion of higher jackpots, more frequent drawings and new games. You heard about some of the problems of the Massachusetts Lottery just now.

As one former lottery director said, the lotteries have to be massaged to retain the excitement of the public. Another said his tickets had to be aggressively marketed, just like any other consumer product. You've got to come up with the improved Ivory Snow and the new and improved Ivory Snow.

Since government exempts state lotteries from most federal regulations that apply to private marketing practices, lottery agencies have a wider latitude to promote their products. While the federal government once prohibited lotteries from advertising on radio and television, today such advertising is legal in every state.
Lottery directors -- and this is one of the most serious problems, I think. Lottery directors often set targets to increase gambling revenues. The late Connecticut Lottery director, who was tragically murdered just a short while ago, had set a target of increasing lottery revenues by 15 percent each year. A yearly increase of 15 percent translates into doubling lottery per capita every five years.

Now, imagine what would happen if a politician suggested increasing taxes by 15 percent every year. He or she would have to answer to his or her constituents, the media, as well as have to debate the proposal before an elected legislative body. When this is done by lotteries, however, the assumption seems to be, the more revenues the better. And I think you've heard that here, I certainly did, in the last panel.

If you play, you figure you might strike it rich and if you don't play I guess you figure you let someone else pay for your government expenses, the services. This doesn't exactly fit the model of cultivating a more civil society. In the absence of an effective regulatory environment there is no one to
examine if lottery agencies are acting appropriately, in the best interests of the public.

We currently depend on newspaper stories, occasional legislative oversight and just plain public outrage to bring about changes in questionable practices. Let me just give you three examples, and you heard some this morning I guess. The Illinois Lottery, once placed billboard ads in poor black neighborhoods to encourage lottery play with the message: "This could be your ticket out." After public pressure, the lottery removed the ad.

Last year, again, you heard this, Commissioner Lanni mentioned, last year the Colorado State Lottery was embarrassed into admitting that it hired behavioral research firm called Mind Sort, which analyzed which parts of the brain people used to gamble. The public and legislators only learned of this after there were a number of television and newspaper stories about the practice.

And here in Massachusetts, you probably heard, the State Lottery, in its zeal to increase revenues has shown an unusual disregard for the mandate of the state legislature. Last year, according to a series of investigative reports in The Boston Globe,
followed by a legislative committee report, the Lottery was said to have circumvented a legislative cap on advertising by distributing $8 million worth of free play coupons to businesses as a substitute currency in exchange for advertising and promotions.

I'd like to make some recommendations, they're brief recommendations and certainly they ought to be thought through. But it seems to me that in looking at this issue the Commission might want to consider some of these and certainly others, as a possible way of considering more effective ways of regulating the lotteries.

I believe the states with legalized gambling should create an independent agency, not left up to the lottery itself, not left up to an occasional legislative committee, an agency that would continuously monitor and regulate all forms of gambling, including lotteries. Members of these agencies should be free of any agendas to promote gambling and be free of ties to politicians with such agendas.

The intention here is not to prohibit gambling but to prohibit the promotion of gambling. Included in this agency's function would be to
carefully look at any form of promotional materials intended to increase gambling, any form of behavioral and other research intended to increase gambling, any increase in revenues targeted by lottery. Such increases should be subject to open political debate with pros and cons set before the public and the media.

Lotteries should not be allowed to set their own growth targets. Any proposals for increased gambling in the state, these proposals should require a comprehensive and objective analysis of the social and economic and political impacts.

And lastly, the establishment of an independent formal program to counter the positive image too often associated with gambling on lotteries, especially for young people. I believe the California program which uses taxes on cigarettes to pay for a program to discourage smoking is one model that should be considered.

The last thing I'd like to talk about is something that we've been working on at the U.S. Gambling Research Institute, it's an alternative form of a lottery, something we call an investment lottery. This is just one alternative to the current direction of government gambling policy. It's a modest idea
which I believe could have a major impact on the way we operate government lotteries.

It's based on a fundamentally different kind of gambling, one in which prizes are awarded to some winners but where all the money spent for lottery tickets is eventually returned to the bettors. A version of this idea now exists in New Zealand and it's being considered by the State of Idaho.

Actually, this lottery is something that was invented at the beginning of when lotteries were considered over 300 years ago, in England. The King and Queen would periodically run out of money for public works projects and whenever they needed extra money they would have a lottery. They never thought of people just gambling and giving the money to government so they said they would pay it back after ten years with interest.

In my update of this idea, the state would sell one dollar investment lottery tickets, similar to the way they sell lottery tickets now, offering a way to earn jackpot prizes. My suggestion would be capped in the range of $10 to $30 thousand dollars, not the megajackpots. Actually, as you've heard, it's actually the small jackpot, the small instant ticket prizes that
attract most of the players. And I would suggest that
most of the prizes be small ones, similar to the ones
offered in instant tickets.

In the investment lottery, the state would
also repay all non-prize winning ticket holders who
would accumulate at least $100 worth of tickets in a
one year period. They'd receive their original ticket
price plus interest after five years, with the interest
calculated on an annual basis of two percent less than
the going rate of a five year bank certificate of
deposit at the time the ticket was purchased.

This low interest borrowing would in turn
make it possible for the government to lend money to
local businesses and community development corporations
at low interest rates.

Today, one third of Americans have no
savings at all, another third have savings of less than
$1,000. We also know that low income people are a
major sector of lottery players, an investment lottery
would not only provide money for expanding jobs, it
would also encourage those people who save the least to
save more. A national shift of only five percent in
lottery play would result in almost a billion dollar
increase in personal savings.
These recommendations here today are obviously only a small part of what needs to be a much broader effort to reexamine government gambling policy. The overriding goal I believe, should be to shift from government policies which simply promote more opportunities for people to lose more money and towards ones which protect people from deceptive promotions, encourage savings and lead to the creation of productive jobs and real hope for economic security. I thank you for the opportunity.

CHAIRPERSON JAMES: Thank you, Mr. Goodman.