Halos, Alibis and Community Development: A Cross National Comparison of How Governments Spend Revenue from Gambling

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ABSTRACT: This paper provides a cross-national comparison of how governments around the world distribute revenues from state-directed gambling and how these choices have been justified by proponents and vilified by critics. Case studies where governments have popularized gambling expansion by “earmarking” revenues for particular good causes and where the state has collaborated with the voluntary sector to deliver programs from this revenue stream are examined. Lessons learned from challenges of various approaches are considered.

Keywords: lotteries, gambling, granting programs, comparative public policy

Gambling Revenue as an Instrument of Public Finance: A Long History

Gambling has been used by governments as a method to raise money for public causes for hundreds of years and all over the world. During the Han Dynasty, China used keno to finance projects like the Great Wall of China (Yule Chang 2012). Elizabeth the 1st of England organized the first state authorized lottery in 1566 to renovate ports and other public works. Gambling proceeds helped finance a bridge over the river Seine in the sixteenth century and the Continental Army of the American Revolution in the eighteenth.

Many famous institutions in the United States such as Harvard, Yale and Columbia universities also owe their beginnings to funds raised through lotteries (Osborne 1989, 18-23; Clotfelter 2005, 85; Thompson 2010, xxiii-xxxvii).

Worldwide, lotteries account for the highest share of gambling revenues—about 28.4 percent in 2011—but thanks to the growth of casinos in places like Macau and Singapore, casino gaming is closing ranks at 27.7%. Excluding US tribal gaming, global gambling activities generated US $419 billion in 2011 (Global Betting and Gaming...
Consultants 2012). Every Canadian province has a government-directed lottery, as do 43 US states, the District of Columbia, Mexico, Puerto Rico, and the U.S. Virgin Islands. Publicly-operated lotteries exist in at least 100 countries on every inhabited continent (National Association of State and Provincial Lotteries 2012). One online source lists over 5,447 casinos, horse tracks, dog tracks, racinos and cruise ships with electronic gaming. A large number of these gambling establishments are also government-owned (www.casinocity.com 2012).

Forms of Revenue from Gambling to Government

Rules, operation and institutional structures vary widely across different forms of gambling and between countries. However, there are basically three main ways that governments collect revenue from gambling. First are excise taxes, which are similar to those imposed on alcohol, tobacco, and fuel. This includes taxes on admissions into gambling establishments or on gross revenue received by casinos. License fees are also sometimes levied on establishments or individual gaming machines, although these may have the form of a property tax. Excises also cover other negotiated payments from operators of commercial gaming to governments, such as payments of Indian tribes to US state governments. A second category of revenue that some countries institute is an income tax on winnings (Clotfelter 2005, 95).

The third category, and the one which is the focus of this paper, is the profit from government-run or government-directed gambling enterprises. In many jurisdictions around the world governments derive revenue by using a monopoly position to sell gambling products at a profit. After paying the costs of running the gambling enterprise (prizes, commissions to retailers, etc.), the government keeps the rest. Though this is not considered a tax by the usual definition, as one tax expert suggests: “this sort of revenue looks and acts in every other way just like a tax” (Clotfelter 2005, 95). Also counted here is money collected from gambling that is devoted to good causes and is distributed through non-governmental entities on governments’ behalf.

Main Methods for Distributing Gambling Revenues

General Revenue Fund

The most straightforward method for distributing revenue earned from gambling, and in many respects, the manner which is the easiest for governments to administer, is through the normal budgetary process. Gaming revenue simply flows into the government’s general revenue fund and is used to fund priorities as determined by the majority party and debated in the legislature or parliament. This is the approach that most provinces in Canada take with gambling revenues (Cosgrave and Klassen 2009, 10).

Earmarking Revenue to Special Causes

Given the controversial nature of gambling, however, many jurisdictions around the world have felt pressured to have “alibis” to sell to their electorate on why the state should initiate or support gambling ventures. Two main arguments are typically made to counter the objectives of critics who believe government should not be promoting an activity they consider has the potential to harm its citizenry. The first is that people are going to gamble anyways so it is better to regulate it than leave it underground and in the realm of gangsters. The second argument that is made is that gambling revenue will be used for a “good cause” (Heberling 2002, 597).

Most countries earmark portions of the revenue they receive from state-led gambling to particular causes. The manner in which the funds are distributed ranges from being completely driven by the state – either through line items in its annual budgetary process or granting programs administered by government bureaucrats that civil society organizations can apply to or various arrangements with the voluntary sector to administer grants on the state’s behalf.
The “alibi” chosen by most US states for why they should have a lottery is education. Of the 42 states that have lotteries, 23 earmark all or some of the money for education. In 2006, for instance, when North Carolina was making the case for why their state should have a lottery Governor Mike Easley’s argument was simple. North Carolina’s students were missing out on as much as $500 million in aid annually as residents crossed the border to buy lottery tickets elsewhere. “Our people are playing the lottery, he said. “We just need to decide which schools we should fund, other states or ours” (Stodghill and Nixon 2007).

**One-time Special Purpose Lotteries**

Governments sometimes choose to hold special one-time lotteries to respond to the need for quick infusions of cash that they don’t want to take out of their general revenue funds or increase taxes to fund. For instance, after the devastating earthquake that rocked their country in March 2011, the New Zealand government directed their lottery commission to hold a special purpose lottery to raise money to support the earthquake relief effort in Canterbury. This one-time lottery raised $8.248 million (New Zealand Lottery Commission 2011, 3).

Another cause that has prompted governments to initiate lotteries or to redirect funds from existing lotteries is to fund national sporting events like the Olympic Games. Following London’s successful bid for the 2012 games, the decision was made to target £2.17 billion from the National Lottery to fund the games. This decision meant that money would be siphoned away from other “good causes”, something which did not sit well with everyone in the UK public (Kenyon and Palmer 2012, 35).

**Challenges that arise in Distributing Gambling Revenues**

In general, governments that choose to dedicate gambling revenues to specific “good causes” do so in two main manners. The first method is to direct the funds to broadly policy areas—in the US this has typically meant education. Most people have a difficult time arguing against directing money to a cause like education. Theoretically money put into public education benefits all citizens because the whole community improves from a more highly educated public. A second approach that many jurisdictions choose is to specifically target areas that in the past have not been funded by the state treasury. Quite often this has been in areas like sports, recreation and culture (Thompson 2010).

**Violating the “Additionality” Principle**

Many governments make the decision to use their gambling profits to support projects that would not otherwise be funded out of general taxation. This principle of “additionality” often becomes entangled with another issue – referred to in some circles as the “substitution effect”. The evidence from the US in many states that promised that lottery funds would provide new funds for education is that these funds eventually begin to support projects that in the past were funded out of general taxation. There is then a subsequent reduction in central funding (Miers 2006, 545).

The British Labour Party has come under heated attack by critics for violating the “additionality” principle. When John Major launched the national lottery in 1993 he pledged that money raised would only go to activities considered “additional” to normal taxpayer spending. Money would be used for the expansion of sports, arts and culture. Lottery funding would not be allowed to displace conventional departmental spending (Roman 2006). Fast forward a few years and the Labour government introduced a sixth good cause “innovative projects in health, education and the environment”. Major and the Conservatives were outraged. In the preface of a highly critical report published by the Centre for Policy Studies, Major is quoted as saying: “The Labour government’s deliberate muddying of the waters between Exchequer and Lottery Revenues is an unwelcome development and one which, as
its creator, dismays me greatly” (Lea 2006, ii-iii).

Changes made meant the original designated sector – sports, arts, and heritage—saw a decrease in their percentage of lottery funds from 20 percent each to 16.6 percent. Critics also panned the Labour government for changes made to the Lottery Act in 1998 that took away independence from the distributing bodies. Henceforth, all grants that would be awarded had to meet highly prescriptive policy directions developed by Westminster (Lea 2006, 2).

Choosing a “cause” that is too broad

Problems can also arise when governments make the decision to earmark funds to broad causes like education. The problem with dedicating gambling revenue to a cause like education is that this money will only ever represent a small fraction of the overall budget. In the United States, for instance, among the states that earmark lottery money for education, lottery dollars account for 1 percent or less of the total K-12 education financing in at least five states. New York has the highest percentage at 5.3% (Stodghill and Nixon 2007).

In fact, many scholars and activists argue that instead of helping, lotteries in the United States have actually undermined the public education system. When a University of South Florida political scientist asked local voters why they had voted against a sales tax increase meant for schools more than 80 percent gave the same reason: the lottery. Voters were led to believe through the public relations efforts of the government and the state lottery corporations that additional money would not be needed because lottery profits would be directed to education (Heberling 2002, 603). A representative with the Association for California School Administrators was blunt in his assessment: “[The public] think the lottery is taking care of education. We have to tell them we’re only getting a few sprinkles; we’re not even getting the icing on the cake” (Stodghill and Nixon 2007).

Bad” Good Causes

A lesson coming from the United Kingdom is that governments should think twice before investing its gambling revenues in mega-projects like domed stadiums and initiatives that involve huge capital outlays. When John Major’s Conservative government introduced the National Lottery they set up the New Millenium Experience Company to help the country celebrate the new millennium. A big part of this celebration would be the “Millenium Dome” – a big tent, coated with Teflon, in south London. Tony Blair agreed to continue the Conservative’s Dome project, despite the misgivings of many senior Labour politicians, including his Minister of Culture, promising that it would be “the envy of the world”. In the end, more than £658 million of lottery money would be spent on the Millenium Experience, in addition to the nearly £200 million of taxpayers money spent on buying and reclaiming the site. Only one-third of the expected visitors went to the Dome in January 2000 and by the end of the first month, the company was virtually bankrupt. A series of failed attempts were made to sell off the place before and after its closure. Eventually, it was literally given away to the Meridian Delta consortium in the summer of 2002. Had the Dome been demolished, the land would have been worth more and the government would have seen the return of some of its original investment. However, to let this happen would have been an admission of failure (McGuigan 2010, 39-56).

The Distribution Process

The Government of South Africa, recently under fire for allegations of conflicts of interests and mishandling in the allocation of lottery funds describes the challenge faced with such programs:
Whenever organizations are tasked with the distribution of funds to the public, it is always a challenge to ensure that there aren’t any misperceptions and misinterpretation as to how decisions are arrived at. People have their own pet projects and believe that other projects are not worthy of funding (South Africa, National Lottery Board 2012).

Experiences around the world indicate that South Africa is not alone in the problems it has experienced with granting programs designed to distribute gambling revenue. A brief look at the experiences of the provinces of British Columbia and Ontario in Canada, Britain, and South Africa demonstrate the considerations governments should keep in mind if they decide to implement gambling granting programs.

As noted by Lafaille and Simonis (2005, 81), who both worked for many years in senior positions in the Canadian lottery industry, “Dedicating revenue to charitable causes often brings an equal weight of political gain and headaches. On the other hand, dedicating gaming profits to the state treasury has no great PR for either bad or good”. What these gaming executives mean is that granting programs administered by government or even by agencies seen to be at arms-length of government have the potential to be criticized by individuals or agencies that were unsuccessful in their applications. Furthermore, the potential for citizens to lobby their elected officials for certain projects may lead to interference or perceived interference in the application process.

The Canadian province of British Columbia had had a long history of political controversy with the way they administer gaming granting programs. Osborne (1991, 298) contends that much of the problems in BC arose because of the decision to create a separate Lottery Fund within the Provincial Treasury which allowed lottery proceeds to flow directly to the General Revenue Fund. As Osborne noted, BC’s system was “ripe for political abuse” because the minister in charge (not even with full consideration of cabinet), was granted the ability to disburse discretionary grants for any purpose considered to be in the public interest. Problems with the way lottery funds were administered drew the attention of the provincial Ombudsman in 1981. The Ombudsman reported that the criteria for the use of lottery funds were not clear or consistently applied and they were poorly publicized. Administrative procedures were found to be unacceptable and lacking in public accountability. Two high-level government ministers were forced to resign for breach of trust and misuse of authority. This led to improved guidelines and systems for lottery grant programs and a promise to issue annual reports listing all grant recipients (Osborne 1991, 300).

Ontario’s foray into the world of gambling granting programs has also brought its share of controversy in the past. Ontario currently has only one granting agency, the Trillium Foundation, which funds programs in four broad sectors: arts and culture, environment, human and social services and sports and recreation. The Trillium Foundation is an arms-length agency of the Government of Ontario. Funding decisions, including reviewing grant applications and recommending projects for funding, are made by more than 300 volunteers in communities throughout the province (The Trillium Foundation 2012).

The Trillium Foundation was established in large part to address widespread public criticisms of the way the province had previously distributed proceeds from gambling revenues. The discretionary nature of the way lottery grants were distributed during this period was described by one academic as “a political pork barrel”. In the period preceding the 1981 Ontario election lottery grants were handed out by the Premier and his ministers in numerous ridings which were seen as close races for the governing Conservative party. The Ottawa Citizen reported numerous stops on the Premier’s campaign where substantial lottery
grants were given (As reported by Vance 1986, 207 and 228). The Trillium Foundation addressed many of the concerns of the previous granting programs however it has also not been immune to criticisms of political interference. A study of non-profit agencies that received gaming grants between 1995 and 1998 revealed that many organizations in Ontario believed that political agendas and partisanship played a significant role in which groups received funding. Newspaper accounts quoted critics arguing that most of the 22 member Board of Directors were well-known, card-carrying Conservatives (Berdahl 1999, 53). One Executive Director that she interviewed described the awkward position her non-profit social service organization faced:

We are playing by the rules in this community, in that we've found someone who is a card carrying Tory who knows the people who sit on the committee. So we are using that partisan politics to our advantage, we hope (As reported by Berdahl 1999, 54).

Britain has also faced a firestorm of controversy in recent years over the way lottery grants have been administered. The Sunday Times Magazine undertook an investigative report into National Lottery funded projects in 2006. Key funding decision-makers and their critics were interviewed and financial accounts and government documents were scrutinized. “A constant theme,” they noted was “the high level of controversy attached to the distribution process at every level, from concern about politicians’ involvement in directing spending, to accusations of mismanagement and financial incompetence on the ground” (Rowan 2006).

Promising Alternatives

Focused, targeted projects

A number of scholars contend that more targeted approaches in the use of gambling revenue produces more tangible benefits. Five states, Georgia, Kentucky, New Mexico, South Carolina and Tennessee, direct lottery dollars primarily to college scholarships. North Carolina and Florida also give some money to scholarships (Stodghill and Nixon 2007). It was Georgia that started this policy trend when they passed the Lottery for Education Act, in 1992, as they set up the Georgia Lottery Corporation. Some of the lottery proceeds go to support pre-Kindergarten programs as well as computers in public schools, but the unique project of the lottery is the HOPE scholarship. As a result of lottery profits, every high school graduate in the state with a “B” average or above is given free tuition and other support to attend a public college in the state (Thompson 2010, 530-531). This scholarship fund has improved the standards within the Georgia university system since fewer students now go out of state to college, and as a result, Georgia Tech’s SAT average score has become one of the highest in the nation among public universities (Moon et al. 2005, 10; Stanley 2002, 10).

Another example of targeted use of lottery dollars which deserves further study and consideration is the approach Oregon has taken to fund college athletics. When Oregon initiated sports betting they decided to target a portion of the profits from this new form of gaming to university athletic programs. Seventy percent of the funds were directed to non-revenue sports like women’s basketball, soccer and track. The remaining money goes to higher profile sports like men’s basketball and football. Because of the anti-gambling rules that the NCAA passed, the state legislature was forced to eliminate their Sports Action Lottery Fund in 2005. It was either that or let Portland lose out hosting the NCAA men’s basketball tournaments. Because the benefits of dedicating this money in this fashion proved both popular and effective and the universities didn’t want to lose the extra support, the Oregon legislature replaced the Sports Action Lottery Fund, passing a statute to allocate 1 percent of the proceeds of the State Lottery fun to these initiatives (Lottery Post 2009).
The success of the University of Oregon and Oregon State University varsity teams in recent years attests to the success of the operations (Thompson 2010, 583).

**Investing in Community and Empowering Volunteers**

The potential of volunteerism to strengthen communities by promoting citizenship and civic engagement and benefiting individuals through the development of confidence, contacts, skills and enhanced life chances has been long recognized. These ideas were articulated theoretically by Robert Putnam in his world famous work on voluntary organizations and social capital. Putnam was an early advisor to the Tony Blair government in Britain. Many of his ideas on social capital and civic engagement made their way into some of the lottery granting program criteria and how the Labour government chose to engage with the non-profit sector (Garrett 2004, 14 and Alcock 2010, 13). While critics strongly opposed Labour’s changes to the National Lottery – arguing that they violated the principle of “additionality” and were being used to help implement government policies and fund projects that should be taken out of general revenues (Lea 2006; Rowan 2006), others applauded Labour for their attempts to use some of this money to invest in voluntary and community action and help build the capacity of the voluntary sector (Alcock 2010).

Britain is not the only jurisdiction that has attempted to use at least some of the proceeds from gambling (especially lotteries) to promote volunteerism and community development. The New Zealand Lottery Commission says that its “vision is to build stronger, sustainable communities”. To accomplish this, they stress, community needs must be identified by the communities themselves who must demonstrate that there is grassroots support for the initiatives that they are hoping to fund through lottery dollars. Organizations must show that the projects they are hoping to receive lottery dollars for are valued by communities enough for its members to contribute their own labour, money or materials voluntarily and be for activities and services that neither the government nor the private sector will provide (New Zealand Lottery Grant Board 2011, 6).

Croatia has also taken a community development approach in the distribution of proceeds from their national lottery. In 2003 when the state-owned lottery was created, the Croatian parliament passed legislation obliging the government to distribute 50% of the proceeds from the lottery to organizations supporting a broad category of programs including humanitarian aid, sport and recreation, cultural enrichment, support for people with disabilities, and combating drug use. However, it is their efforts to create and subsequently support through the use of lottery funds the National Foundation for Civil Society Development, which has drawn accolades from all over the world. The International Centre for Not-for-Profit Law hails this initiative as a “critical step forward for the development of civil society and the financial sustainability of non-governmental not-for-profit organizations in Croatia” (ICNL 2003). As a public funding entity the foundation is unique in its ability to act relatively independently from the state government, owing to the inclusion of a majority of civil society representatives on its governing body. Its focus on institutional support allows community service organizations to concentrate on the development of longer-term programs and to build their capacity. It also provides support in the areas of human rights, the development of democratic institutions, sustainable development and the rule of law, which are typically overlooked by government and private donors not just in Croatia, but around the world (Dodd 2002, 9).

The Canadian province of Saskatchewan also chose to develop an interesting relationship with the non-profit sector when it came to the running of their provincial lottery. In Saskatchewan, the provincial lottery is run by the amateur sport federation
which raises funds on behalf of sport, culture and recreation. Volunteers from the umbrella organizations that oversee sport, culture and recreation make the decisions on which organizations receive funding and the nature of the funding (Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation 2012). Saskatchewan has been praised for the high level of non-profit sector involvement in its provincial lottery grant systems (Azmier, Kelley and Todosichuk 2001). These sectors were in effect given their "own" fundraiser. Volunteers from these communities theoretically know the needs of their sectors well and have been able to control the direction and type of funding available to non-profit organizations that fall under their umbrella. One Executive Director of an Arts organization in Saskatchewan who was interviewed for Berdahl's survey of gaming grant recipients (1999) described the benefit of the lottery system in Saskatchewan as follows:

... it is all run by volunteers in terms of adjudication. And it’s people who know the system from within and have a real sense of when organizations have a tendency to veer off...So they can monitor and challenge them to accountability. (59)

Addressing the Challenges

Providing for Transparency

As Smith and Rubenstein suggest, because of its morally contested nature, there is a greater need for transparency in gambling public policy than with some other government programs. Some measures these authors advocate for advancing transparency include integrating all gambling-related information into an accessible sectoral report (2009, 86). The Canadian province of Alberta, for instance, is very transparent on the amount of money they take in from gambling each year. Every single dollar – from all forms of state-directed gaming flows into a separate account called the Alberta Lottery Fund. Each year lottery fund estimates are voted on during the budgetary process in the provincial legislature ensuring transparency and full accountability. They also have a searchable database that allows the public to see the groups and communities that benefited (Alberta Lottery Fund 2012).

Clear Criteria

In addition, for governments that choose to implement granting programs clear criteria should be published in advance. Where possible, independent experts, or community representatives should be involved in the funding decisions. Decisions should also be reported and published in a timely manner to demonstrate to the public that funding was used in the manner it was intended and allows for public scrutiny (Evans 2010, 79).

Addressing Potentials for Conflict of Interest and Politically Motivated Decisions

Attempts should also be made to address any potential conflicts of interests that may occur through the granting process. Financial contributions made by gambling interests should be made public (Smith and Rubenstein 2009, 86). Croatia addressed this concern by passing a “Code of Good Practice, Standards and Criteria for Providing Financial Assistance to Programs and Projects of Associations” in their parliament. This code was developed jointly with the voluntary sector representatives from the areas lottery funding would be directed towards (Hadzi-Miceva 2007, 5-6). As a result of this legislated mandate, evaluation grids were developed to guide groups applying for funds and to assist the evaluators in making impartial decisions. To further remedy the problem of conflict of interest, the Foundation introduced a register of the potential conflict of interest situation which is not a public document but is available upon request (Hadzi-Miceva 2008, 57).

New Zealand Lotteries has lottery distribution committees comprised of five members appointed by government and five drawn from the community with expertise to the particular sector that funds are being directed to. To further address the any potential for the perception that the committees are following partisan paths in
their granting, the overall Lottery Grants Board, which is responsible for approving the recommendations of the distribution committees, is comprised of the Prime Minister (or representative) as well as the Opposition Leader (or representative) and three community board members appointed by the Governor General for a three-year term (New Zealand Lotteries 2011).

**Giving the People a Choice**

Given the unfavourable publicity that the National Lottery faced from earlier decisions on how lottery funds were spent changes were made in 2006 to allow members of the public to vote which good cause projects would be funded (Walker et. al. 2008, 293). Through a new program called the *Big Decision*, the public was asked to tell the *Big Lottery Fund* where they felt £10 million of lottery funding should go. Lottery officials took this feedback and combined it with a poll conducted with 2,000 people from across the country, to help decide the five distinct project areas that would be funded. Charitable organizations were then invited to apply to be one of the groups that would receive the money and become a part of a television program that will be aired in late 2012 to show how lottery money is making a difference in the lives of ordinary British people (Big Lottery Fund 2012). The actual public input is still relatively limited, but they are attempting to allow some public input into the process (Walker et. al. 2008, 293).

**A Plethora of Policy Options**

Because of its contested nature, governments that take in revenue from commercial gambling are likely to always be in the position of having to justify what they are spending this money on and why the choices they have made are in the best interests of their electorate. Numerous choices are available for how to spend this revenue stream but policy makers must be clear on what their goals are in operating gambling ventures. Is the goal to increase income for existing government programs or decrease public debt? Or is the goal to maximize funds for specific good causes or to help create social capital and build healthier communities (Evans 2010, 79)? Or, is the goal just to bask in the light of the right “halo” or hide behind a convenient “alibi”?

**About the Author**

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