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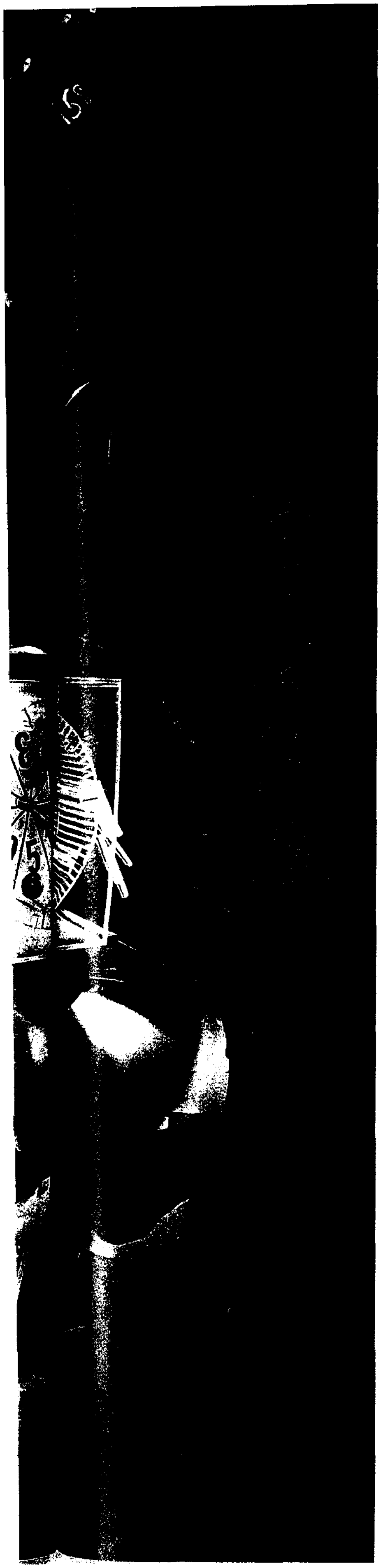
The Lottery

A NEW ENGLAND HORROR STORY

BY TAYLOR BRANCH

SORRY, EVERYBODY LOSES

WHAT'S ROTTEN IN THE MOST SUCCESSFUL CON GAME IN AMERICA



WHAT'S WRONG WITH THE LOTTERY?

Let us count the ways

BY TAYLOR BRANCH

SINCE LONG BEFORE Prohibition and Miller Time, the American character has wrestled nakedly with assorted vices, and among these lottery gambling has produced the most abrupt and revealing reversals of public standards. Nowhere has the erratic trend been more pronounced than in New England. As early as 1699, Boston ministers banded together to denounce lottery agents as "pillagers of the people," but New England lotteries flourished throughout the Puritan era. Shortly after Mother England finally outlawed the British lottery in 1826 — with a declaration by Parliament that such practice "corrupted the morals, and encouraged a spirit of speculation and gambling among the lower classes of the people" — Yankee Anglophiles started a rectitude movement that banned all private and public lotteries in the United States by the end of the nineteenth century. About four generations later, however, New England pioneered another reversal that has grown into the current nationwide lottery rush. The twenty-nine state lotteries grossed about $16 billion last year — an aggregate enterprise that

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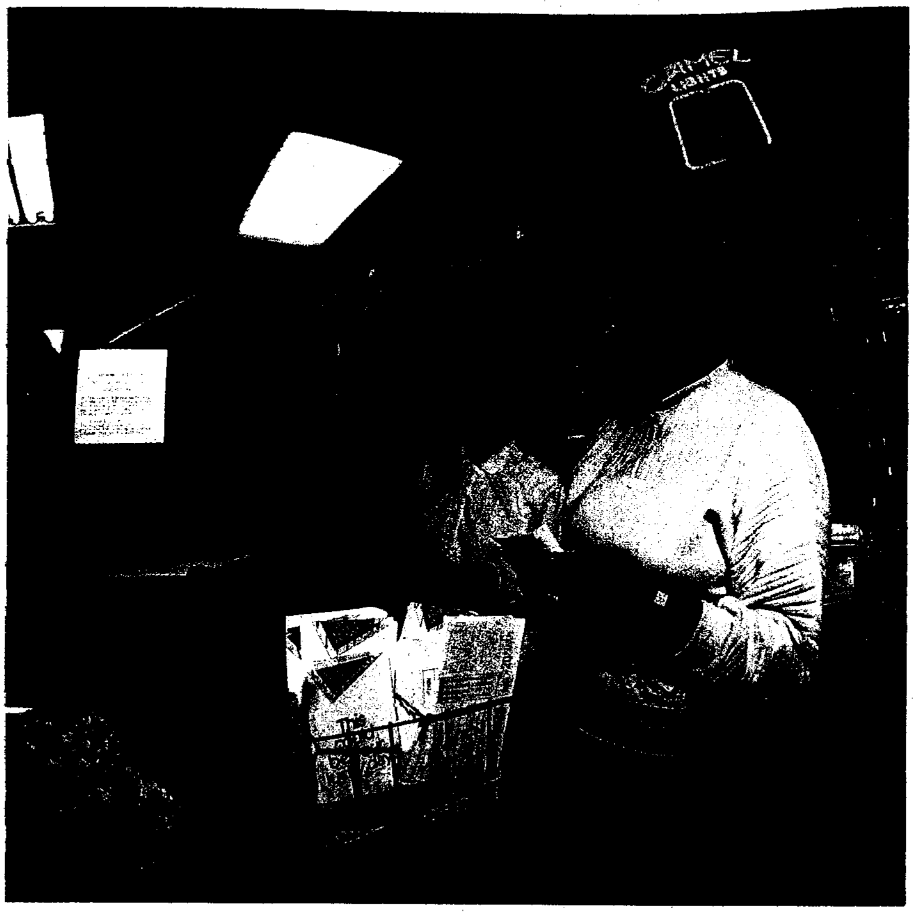
In one study, a third of the members of poor families who gambled spent more than twenty percent of their incomes on lottery tickets



Forbes compared in size to the primary aluminum industry and in growth rate to the computer business.

Such a bonanza lay beyond imagining in 1963, when an overwrought John W. King, New Hampshire's first Democratic governor in forty years, reluctantly approved the bill establishing the New Hampshire Sweepstakes. The bill was both praised and attacked as a pickpocket measure designed to import sucker money from gamblers in the surrounding states. Observers could not decide whether it was a liberal (pro-education) initiative, supported by educators and scattered New Hampshire fun-lovers, or a conservative (antitax) stratagem championed by the flinthearted William Loeb of the *Manchester Union Leader.* This reaction was a harbinger of confusion to come, but at the time the New Hampshire breakthrough was but a spinster's dalliance that excited minimal curiosity.

Today's lottery enthusiasts would scarcely recognize the original New Hampshire Sweepstakes, which was swaddled tightly by inhibition. There were only two drawings a year. Customers had to pay three dollars for a ticket and fill out identification forms in triplicate, all to gain entry into a two-tiered contest that assigned first-round winners numbers on horses running at Rockingham Race Track. Federal law prohibited the slightest mention of the sweepstakes on any licensed broadcast outlet or in any newspaper sent through the mail.

Not surprisingly, this first legal lottery scheme of the twentieth century flopped for two decades. Then, with a marketing miracle, the state cashed in. In 1985, after a highly successful promotion featuring a car giveaway in an instant scratch game — "The De Ville Made Me Do It" — New Hampshire's lottery reached a $15 million gross, which more than doubled in 1986 and more than doubled again to $77 million in 1988. The campaign won a prize from *Gaming & Wagering Business,* a sleek trade magazine, and New Hampshire carried off a record six Batchy awards, the industry's equivalent of an Emmy.

"New Hampshire was the first state to implement a lottery in modern times," says Ralph Batch, the lottery patriarch for whom the Batchy is named. "Their motto is 'Live Free or Die,' as I recall, and when they told them they couldn't live free, they had to have a lottery." Blaine Lewis, who until recently was director of the Connecticut lottery and president of a national lottery association, sees New Hampshire as an emblem of the entire New England region. "Lotteries are as American as taking a chance," says Lewis. "They started in the Northeast and grew, just like the country itself."

AFTER NEW HAMPSHIRE'S initially unpromising leap in 1963, New England waited prudently until other northeastern states marked a lucrative path with blunders and reforms. When New York became the second lottery state, in 1967, the need for new public funds was so strong that even the *Times,* which had castigated New Hampshire early on, reversed itself. The editors were mollified by a respectability device built into the law which decreed that lottery tickets could be sold only in banks, hotels, and other white-collar settings.

Sales were weak even before the federal government moved to protect the integrity of the banking system by banning lottery sales at federally insured financial institutions. In 1968, a new law abruptly eliminated the lottery windows at some 2,500 New York bank outlets. Ironically, this punishment from the starchy feds turned out to be a blessing in disguise, as desperate New York legislators voted to allow practically any lowbrow retailer to sell tickets. Lottery officials also discarded the ineffective, support-your-schools promotional theme on billboards. "Lottery Ads to Push Get-Rich-Quick Idea," announced a headline, and the state's advertising contractor explained: "The way to sell lottery tickets is by appealing to people's greed."

Despite the changes, sales dragged until New Jersey revolutionized lottery practice in 1971. On the blunt recommendation of a Princeton consulting firm called Mathematica, the state threw pretense aside and adopted the time-tested numbers racket as a model. Since no one had ever seen a numbers runner ask a buyer to fill out an entry form, New Jersey scrapped the forms in favor of computer-printed numbers. It also adopted weekly instead of monthly drawings, vastly cheaper tickets, and a something-for-everyone prize structure, including "fantasy prizes" of $100,000 and up.

New Jersey reaped first-year sales of some $200 million, giddy results that brought the New England states aboard in a hurry. Massachusetts created a lottery over the veto of Governor Francis Sargent. In 1972, Connecticut established the nation's most extensive panoply of gaming attractions, including jai alai, dog tracks, and a lottery. Maine and Rhode Island followed in 1973, leaving Vermont the lone holdout.

By 1974, officials of the early lottery states forced themselves to speak the dreaded word "numbers" as they improved their imitation of bootleg capitalism. Experts in Massachusetts went all the way, interviewing bookies and collecting 10,000 numbers slips to study the techniques of the underworld. One result was the scratch-off "instant game," which soon became known in the industry as the paper slot-machine. Then, for public relations purposes, Massachusetts hired the prestigious Arthur D. Little company to put these lessons into the dignified vagueness of consulting language.

The only obstacle to lottery development seemed to be a natural ceiling on revenues, which chafing promoters traced to the strict federal laws banning newspaper and broadcast advertising. Broadcasters, fearful for their FCC licenses, were afraid to even mention winning numbers on the air. When a few newspapers crept gingerly over the line, U.S. Attorney General William Saxbe threatened to shut down all lotteries unless Congress amended the plainspoken antigambling laws.

It was an anxious time in the lottery world until, on the last day of the 1974 session, Congress quietly amended the ban on advertising. The action went all but unnoticed, and the perfunctory congressional debate bore the signs of a done deal. The victory in Congress gave the state lotteries — thirteen of them at the time — a newborn confidence that they held leverage in national politics far beyond their numbers. Now they could advertise legally, touting the mission of the lottery in the authoritative names and voices of the state governments themselves. This was an immense power, which at first the lotteries were too timid and too inexperienced to use effectively. As a result, sales soon stagnated again.

Then the New York lottery, which had been closed for more than a year under a cloud of tampering scandals, reopened in 1976 with a breakthrough innovation. Its new director was John Quinn, a career Army colonel of considerable reputation as an old China hand. Working with the Mathematica whiz kids in Princeton and a prominent London gaming enterprise called Vernons, Quinn developed a computerized version of the old Italian game of lotto. In the 6/36 variation, bettors picked six digits from the field of 1 to 36, and the long odds of matching the state's random selection — 1.9 million to 1 — produced huge jackpots. Lotto's frenzied success overwhelmed Vermont's residual objections to lotteries in 1978. No governor has thought of closing the lottery doors since.

NOT UNTIL THE REAGAN YEARS did the early lessons take hold with cumulative force, and then the lottery managers themselves experienced the dizzy thrill of a gambler's high — a hot streak, a roll beyond all expectations. Tossing aside their defensive attitudes about state gambling, they applied themselves aggressively to the science of sophisticated corporate marketing. "We began to run the games like a business," recalls New Hampshire lottery director James Wimsatt. "A big business."

Harry Murchin, marketing director of the Maine lottery, speaks of "market segmentation" and "pulse marketing." Officials in Massachusetts buy media time after matching detailed demographic studies of lottery bettors against time-of-day analyses of broadcast audiences. In all the lottery states, officials plumb the divided psyches of their customers. They seek to know exactly who plays what games when, and why (see "How We Play," page 51). For instance, surveys have convinced lottery marketers that the motivating impulses for players of the instant scratch-off games are the desire for diversion and a chance of winning *something*, no matter how small. Therefore, lotteries have achieved great success by weeding out the larger instant prizes — which can't compete with the huge lotto jackpots, anyway — to leave oodles of tiny prizes in the $2 to $20 range, plus free lottery tickets and kicker prizes like cars and vacations.

Lotto cultivates yearnings at the opposite extreme — pleasure-drenched Hollywood fantasies. It makes a virtue of the lottery's inherent weakness — its ridiculously poor gambling odds. Bettors don't care about the odds if they think they have a chance of gaining the riches of Donald Trump for a one-dollar ticket. This never-never land of suspended reality created the natural marriage between lotteries and frontier advertising. Months before her "Where's the Beef?" Wendy's ad entered the 1984 presidential debates, Clara Peller became a star in a Massachusetts Megabucks ad entitled "Working for Me." Banging her soap pail with her mop, the impish little old lady barged into a corporate board meeting and gleefully informed the horrified white-haired men that they were her employees now. This creation from Hill, Holliday, Connors, Cosmopulos — the largest advertising firm in New England — attached the lottery so fetchingly to the Cinderella theme that it helped establish lottery accounts as an imaginative center of the advertising industry.

More so than even life insurance pitchmen, lottery designers learned to combine melodramatic fantasies with the skills of a hard-nosed actuary. Lotto, explains Blaine Lewis, is a catch-22 game governed by population statistics. "In order to have a big prize, you've got to sell a lot of tickets," he says, "and in order to sell a lot of tickets, you've got to have a big prize." The population — the universe of potential bettors — governs the delicate relationship between hope and impossibility. If a state is too big, the prize will most likely be won before the jackpot grows to enticing proportions. If a state is too small, the jackpot will build so slowly that bettors will lose interest.

By practical observation, Lewis devised a formula to measure a lottery's chances of attaining the critical mass for "lotto fever." The numerator of the lotto game's mathematical odds, he reasoned, should be in rough parity with the state's population — the ratio between them should approach one. Accordingly, the 6/36 lotto game, with odds of 1.9 million to 1, turned out to be too easy for Connecticut's population of 3.2 million (1.9 million/3.2 million = 0.59375 Blaine Lewis ratio). So, in April 1985, Lewis changed the game to 6/40, which lengthened the odds to 3.8 million to 1. This adjusted the Lewis formula to a tidier 3.8 million/3.2 million, or 1.1875. Since then, Connecticut Lotto has produced five jackpots in excess of $8 million, including headline-busters of $17 million and $22 million. "I think we're the smallest state playing big-league lotto today," Lewis boasts.

These calculations might have daunted the four less populous New England states. Three of them — Maine, New Hampshire, and Vermont — lacked not only the population for lotto but also Rhode Island's urban base, the environment in which numbers games traditionally succeed. But those three simply plowed their allotted ground with extra ingenuity. They concentrated on the lottery's easiest games — the instant scratch tickets. They scrapped the lazy system of running one game at a time, along with the lengthy switch-over periods between games. New Hampshire ordered "Covered Bridges," an instant game created especially for its citizens. Vermont did the same with "Search For Champ," a play on Vermont's equivalent of the Loch Ness monster.

In time, the new science of lotto population statistics forged a historic — some say unprecedented — governmental cooperation between reputedly habit-bound, loner states. Tri-State Megabucks, which Maine, Vermont, and New Hampshire launched jointly in September 1985 with the slogan "We Make Millionaires," reaped first-year sales greater than all their existing games combined. To compound the abundant joy in lottery headquarters, Megabucks produced a synergistic boost in the other games as well. Lotto provides the jolt of excitement, the lure for new players which then spills over. Sales doubled and tripled everywhere.

The takeoff period of the 1980s produced cooperative boosterism among the various components of the lottery industry — the vendors, bureaucrats, advertisers, and store managers. At a national lottery conference, the chairman of a convenience store chain reminded the assorted specialists that the frontier of growth lay in getting more small families and more working women to make numerous trips to their friendly neighborhood store. Speaking for the advertisers, John Bergin of McCann-Erickson urged the lottery professionals to count their blessings. "What other business offers such fantastic dreams and such little hope?" he said. "Lift the image of those who played. Thank them from the bottom of the governor's heart. Love the losers, because never had so many owed so much to so many."

For most New England politicians, the sweetness of lottery success lay in the treasure of new revenues gained with neither rancor nor rebellion. Net lottery returns to New Hampshire jumped from $4.3 million in 1985 to $30 million in fiscal 1989. In Vermont, the state's share rose from a paltry $476,000 in 1981 to $11 million in 1988. Over the same span, Maine's cut skyrocketed from $1.1 million to $27.2 million. These three are pups compared with Massachusetts and Connecticut. The Massachusetts lottery leads the nation in per capita sales, extracting $250 per year from every man, woman, and child in the Bay State. Connecticut ranks fifth. Applied to their larger populations, this proficiency makes for revenues on a higher plane.

At the beginning of the 1980s, the Massachusetts lottery returned $70 million to the state government — more than the combined Tri-State revenues even now. Then the takeoff years sent Massachusetts past the $1 *billion* mark in gross sales, with profit margins that dwarfed the lottery grosses of many other states — $111 million, then $254 million, then $341 million. From 1984 through 1988, a green wave of lottery betting pumped $1.6 billion into the state's treasuries. If the resulting fiscal glow was not the decisive factor in making Michael Dukakis a presidential contender, it certainly did no harm.

Modern lotteries have matured into a major force. Polls indicate overwhelming popular support, upwards of seventy percent. The lotteries have caused a shift in long-term public attitudes toward gambling, where swings commonly last half a century. They have helped foster the Reagan Era notion that taxes are not really necessary — that the best government feels good, like no government at all. Even the games' harshest critics are obliged to acknowledge a startling fact: for more than a decade, lotteries have been the most innovative, productive, and sustained initiative by government at any level.

For centuries, it has been an accepted axiom that lotteries shine with a special appeal for the poor. Monarchs favored them for precisely that reason: selling dreams to peasants earned substantial revenue at minimal risk of servile regicide, with a bonus of grateful relief on the part of otherwise dangerous aristocrats. Given this history, it is a tribute to the public relations skills of the state lotteries that they have effectively neutralized any potential backlash on the exploitation issue. To be sure, there have been gaffes, as when lottery director James Hosker charged that black people in Massachusetts did not play Megabucks heavily because "they can't conceive of a million dollars." That required a public apology, but generally the lotteries succeed with a three-part strategy: control the terms of debate, cultivate support from the traditional leaders of the poor, and dare critics to propose an alternate source of revenue. In plain language, their answers to charges of exploitation boil down to "Ain't true," "They love it," and "So what?"

The first objective, as stated in a recent marketing plan for Tri-State Megabucks, is "to expose and discredit the myth that only the poor are playing." By focusing on surface involvement — dividing the world into players and nonplayers — lotteries promote the idea that the different income groups are almost equally likely to buy *at least one* ticket in a year. In Connecticut, an early study concluded that those making more than $25,000 were twice as likely to buy a lottery ticket in a year than those making less than $10,000. In New Jersey, a 1988 study showed that the richest and poorest were most likely to avoid the lottery altogether — sixty-six percent of those making less than $10,000, and sixty-two percent of those making more than $50,000.

Only readers who pushed deep into the supporting numbers of the New Jersey study could ferret out the startling differences in the extent of lottery gambling. The poorest citizens — those with household incomes less than $10,000 — were seven times more likely than middle-class people to spend a *significant fraction* (at least five percent) of their income on lottery tickets. Of those members of the poorest families who did gamble, a third spent more than twenty percent of their incomes on the lottery.

Those in the industry display unusual candor about the importance of seizing the initiative to define the terms of public discussion. Last year, *Gaming & Wagering Business* gave a Best Press Release award to the New Jersey lottery, which "shrewdly announced its plans to research the proportion of lottery ticket purchases by low-income and minority groups, rather than wait for some investigative reporter to break the story and possibly misinterpret the lottery's motives." In stark contrast to such Machiavellian advocacy, traditional spokesmen for the poor have maintained silence or complicit optimism about the effects of lotteries. Liberals have had their misgivings numbed by the standard bookkeeping ploys, such as earmarking lottery revenues for remedial schools or for chamber music concerts in small towns.

The lotteries need not fret about overly realistic press coverage of their clientele. Unpleasant stories are rare. *The Boston Globe* did report on Linda Heredia, who hired killers to murder her aunt and uncle in a quarrel over annuities worth $1,078,256 (the aunt survived). Generally, though, lottery stories are innocent celebrations of the winners: "Aunt Bea Strikes It Rich."

It's even worse in the black press, where readers are commonly fed brainless sucker mush. Of eleven general articles on lotteries in the 1987 periodical index, ten were rosy profiles of lottery winners in *Jet,* the largest black-owned national publication. Its effusions might be justified as a gracious toast to the good fortune of others, but *Jet*'s hype has ventured far beyond. In "Winning Secrets of Black Lottery Winners," the magazine recommended a jumble of hunches and superstitions based on the experience of previous beneficiaries. "Obviously, there is some method to the madness," gushed the story. From the case of one lotto winner, *Jet* identified "sticktuitiveness" as the key to wealth, observing that one winner "has learned when you are about to give up on the numbers game, playing one more time may be just what you need to put you over the edge." *Jet*'s perverse enthusiasm represents a failing of the black establishment which was further evidenced in an ad offered by the District of Columbia two years ago: accompanying a picture of Martin Luther King, the copy read, "His Vision Lives On/Honor The Dream — D.C. Lottery."

Like drug pushers, promoters of the lottery seek to reverse the work ethic — and to entice experimenters into habitual consumption

DURING THEIR FIRST GENERATION, the modern lotteries sold themselves to older people against a lifetime of contrary experience. Now the game has shifted to the future as managers realize that lotteries — like cigarettes, newspapers, and other lifetime consumer markets — depend heavily upon habits shaped in the formative years. With no controversy and scant public notice, Connecticut recently passed a state law allowing high schools to conduct "Las Vegas nights" on school premises, provided that only prizes and fake money change hands. Legislators justified the casino games as a way to cut down on the alcohol and drug consumption, not to mention sexual promiscuity, associated with proms. Also, they saw Las Vegas nights as a sensible way for young citizens to learn the games with which the state raises money.

The impact of this change in attitude toward the young is a critical indicator of the lottery's future. An independent study conducted last year by Dr. Marvin Steinberg, of Hamden, Connecticut, relied on questionnaires distributed at two large high schools — a predominantly black and Hispanic inner-city school, and a predominantly white suburban one. Steinberg's study revealed two surprising results. First, the two groups barely differed in their gambling patterns. Second, the rate of participation was very high. Seventeen percent of students said they had wagered more than $50 in a day; twenty percent said they had cut school to gamble. About six percent qualified as compulsive gamblers before reaching the legal age to bet.

In 1988, sociologist Rachel Volberg found that 4.2 percent of a statistically chosen sample of adults qualified as problem gamblers. Publication of her results in the *American Journal of Psychiatry* caused instant rumbles in the supersensitive world of legalized gambling. Several states moved to protect the only form of gambling they sponsor and promote. Maryland funded an exhaustive study of its problem gamblers. Massachusetts went further: from unclaimed lottery prizes, the state set aside $500,000 per year to be divided among such institutions as the Harvard Center for Addiction Studies and the Massachusetts Council on Compulsive Gambling.

The Massachusetts program produced instant controversy. In Connecticut, Blaine Lewis scorned what he saw as a supine surrender to "the compulsive gambling bureaucracy in its quest for a share of lottery profits." On the other side, the recipients of the money expressed a careful gratitude toward the Massachusetts lottery. Tom Cummings, executive director of the Massachusetts Council on Compulsive Gambling, has infuriated some of his colleagues by adopting an officially neutral stance on gambling itself. "We take no position on gambling," he says. Lisa Pertzoff, his counterpart in Delaware, openly charges that the grant has softened Cummings. "Where the hell would *he* be without the lottery?" she asks.

LOTTERIES HAVE WON the arguments, but anyone can perceive the practical flaw that lurks inside them without caring a fig about bet-aholics or the poor. Every dollar spent on a lottery ticket is a bastard mix of wager and tax, a kind of "wajax." Viewed as a wager, the lottery ticket makes for a losing, noncompetitive proposition because the states skim off forty to fifty percent in taxes and expenses before returning prize money to winners. (By contrast, the house take at Atlantic City casinos is no more than ten percent.) Viewed as a tax, a wajax contains even more of a loser's tilt. Its gross inefficiency mocks any public purpose to which the net revenue might be applied. Of every dollar sent in with the purchase of a lottery ticket, forty to fifty cents is left after the redistribution of prize money, and another dime is siphoned off to advertising gurus, computer companies, television stations, and convenience store sales agents. To collect a dollar of revenue through this sieve, a state spends twenty-five times what it would by general taxation.

Charles Clotfelter, an economist, was among the first to explore the contradictions at the heart of lottery design. "What's hard to reconcile is the coexistence of unusually high rates of tax and heavy marketing," he told a congressional subcommittee, pointing out that the state's cut of the lottery betting pool typically amounts to a giant excise tax of thirty to seventy percent, higher than for alcohol or tobacco. "If social disapproval of betting is the reason for high tax rates, it is quite difficult to justify the amount of advertising we observe. In fact, neither high tax rates nor advertising are necessary parts of a state lottery. . . . After all, we operate liquor stores without billboards and TV spots."

Together with his Duke University colleague Philip Cook, Clotfelter has written a book that traces the development of lottery advertising. "For better or worse," write Clotfelter and Cook, "most state citizens see lottery ads far more than they see virtually any other message put out by the state." Not counting free publicity — the televised drawings, winner profiles, and lotto fever news stories — lottery ads comprise an aggregate three fourths of all public messages paid for by the states, according to a sample gathered by the two economists. During their survey month, January 1987, the lottery used *one hundred percent* of state-purchased advertising time in Massachusetts, becoming not just the dominant but the *only* packaged message of the commonwealth.

Lotteries are becoming the voice of state government, the incubator of civics. And what this voice is saying is premised upon an atomized society of trapped people bent upon avenging themselves through fantasy pleasures. The role models conjure up limousines, servants, diamonds, and getaways to Paris and Spain. They never speak of self-improvement, families, or neighborhoods, much less of contributions to the common good. Next to them, the robber barons were models of public spirit.

Lottery ads cultivate the impulse to escape — "This could be your ticket out," said a billboard in Chicago's inner city. This raises an uncomfortable parallel between the pushers of drugs and of lottery tickets. Both seek to reverse the work ethic to put payoffs before sweat. Both encourage a willful disregard of odds, obligations, and consequences. They hope to entice people from experimentation to habitual consumption. "We're taking an infrequent user and trying to convert him into a more frequent user," said the director of the New Jersey lottery.

Victor Markowicz, a lottery advertising veteran now with the Providence-based GTECH Corporation, has described the successful lottery environment as an evolutionary decline of natural hopes and expectations. "We are seeing more and more people working for others in America, as opposed to being self-employed," he said. ". . . So disposable income has been going up, just as the big dream opportunities have been narrowing down. Everybody needs a dream. . . . there [is] less and

— HOW WE PLAY —

No, the difference between a New Hampshirite and a Mainer has nothing to do with ocean frontage

MAINE: THE SCRATCHERS

Mainers, says state lottery director Harry Murchin, "want to do as much scratching as possible." When this penchant was discovered, the state built an entire advertising campaign around it — "Scratch Around the Clock." (Historically, scratching is less popular in New Hampshire, where the most popular instant games have a single box and a quick scrape tells the player either "You Win" or "Sorry." "In New Hampshire," says Murchin, "interesting is simple. In Maine, interesting is complex.")

RHODE ISLAND: SAFETY IN NUMBERS

With the daily numbers games, history and demographics prevail over marketing gimmicks. Numbers do well only in states with big cities and long histories of illegal operations. In Rhode Island, the state numbers games — pick three and pick four — ran up nearly $30 million in sales last year, more than lotto and instant games combined.

MASSACHUSETTS: POLYMORPHOUS PERVERSITY

Instants are the biggest draw, ringing up sales of more than $611 million in 1989; one of the main strategies for keeping players hooked is a broad selection — as many as eight scratch-off games out at a time. The other games hold their own, though. Weekly per capita spending on Mass Millions averages forty cents, but when there's a big jackpot it soars to two dollars, the normal level for instant games.

NEW HAMPSHIRE: INSTANT GRATIFICATION

Numbers games account for less than one percent of tickets sold, instant games a whopping 61 percent — nearly $2 million a week. The state trots out a new instant game every three or four weeks.

VERMONT: YANKEE FRUGALITY

Each week the average Vermont bettor spends less than a third of the Massachusetts average. Things are earnest here, too: last year an instant game called "Applebucks" emerged from an unlikely alliance with the state Department of Agriculture to promote Vermont McIntoshes.

CONNECTICUT: THE BIG HIT

Unlike the rest of New England, this is lotto land. The game pulls three times as many bettors as the instant games. But there may be still greener pastures ahead: since Connecticut is demographically close to Massachusetts, it seeks to tap into instant games in similar fashion — tripling the number of them in 1990, with smaller but more frequent payoffs.

— Greg Lauzon

less competition with the lottery to be the potential provider of the dream."

This diagnosis provides a gloomily accurate conception of the lottery as a predator upon greed in a time of contracting satisfactions. At first the wajax feels good to bettors and politicians alike. As its narcotic powers wear off, however, both sides demand better performance — a fairer bet, more revenues. These goals conflict along the fault line of lottery design.

LIKE ANY OVERSTRETCHED FABRIC, the lottery has begun to tear. In Massachusetts, the miraculous growth of Megabucks peaked in 1985 at $464 million, prompting the *Globe* to enshrine the lottery as a "big winner" and to feature the assessment of a deliriously happy liquor store sales agent: "It's gone beyond a cycle. It's gone beyond a habit. It's become a mania. These people are obsessed." The obsessed people turned grumpy when the jackpots leveled off, however, causing Megabucks sales to decline in each year since. Even while milking this plateau by selling other games to the new Megabucks customers, lottery managers have fretted over the threatening implications. Megabucks is the stem of new growth. Without success in lotto, customer letdown is inevitable. Even with lotto success, letdown is inevitable unless the jackpots escalate. Under pressure created by this dilemma, lottery managers have tried to go in both directions by promising a bigger cut to both the bettors and the state.

Massachusetts introduced the Mass Millions lotto game in 1987, with a new 6/46 structure. Trying to keep customers happy, lottery managers raised the prize pool to fifty-nine percent of gross, highest in the nation. They acted on the theory of the Laffer curve in supply-side economics — that a lower tax rate would paradoxically increase government revenues through stimulated growth. Not enough growth ensued, however, and the cruel result was decreased lottery revenues just as the Massachusetts Miracle began to run aground. Governor Dukakis and the legislature, having grown accustomed to free lottery largess during the boom years, faced a major budget deficit instead. To help revive ticket sales, Lottery Director Hosker introduced joint marketing ventures ("Val-Pak Coupons") and subscription sale plans, such as twenty-six-week "Season Tickets." Of course, this last ploy only boosted current sales by borrowing against the future.

When desperate managers changed Tri-State Megabucks from 6/36 to 6/40 in 1988, hoping for bigger jackpots with the larger odds, Vermont governor Madeleine Kunin criticized the move as unfair to bettors (surely a never-before-cited interest group). Sales promptly dropped because, as the ad agency put it, "negative publicity invaded the buying climate."

In Connecticut, the squeeze tightened around the head of Blaine Lewis. A year ago, when growth rates slowed from fantastic (fifty percent plus) to troubling (ten percent minus), impatient politicians sought to revive the bonanza by switching to a new computer vendor and a new ad agency, against the lottery director's recommendation. They had not taken the measure of Lewis, who essentially accused the pols of being in the pockets of the new vendors. ("I've described it as an uncomfortable closeness," Lewis says coyly.) His boss, Gaming Division director Orlando Ragazzi, retorted that his men were "no more protective" of the new contractors than Lewis had been of the old ones.

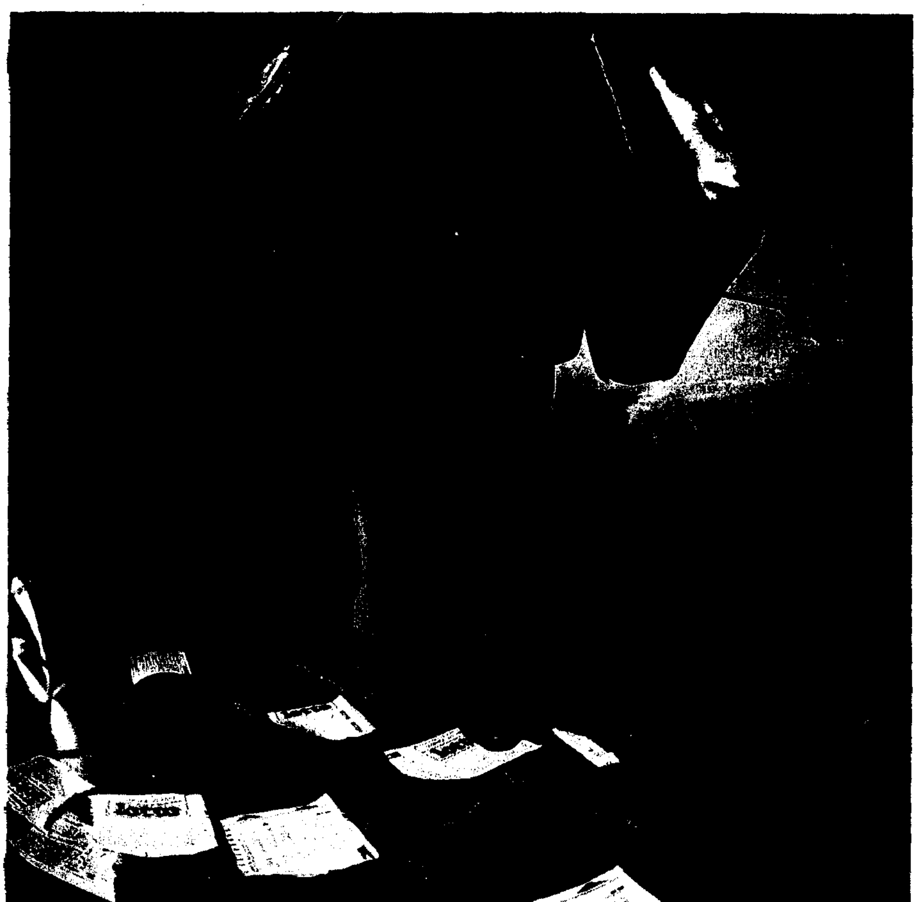
Meanwhile, with sales dropping and the state's budget deficit rising, the Connecticut lottery aired its famous "man in the boat" ad, featuring a droll Yankee fisherman alone on a pond, telling viewers rather sadly that he could have saved for his retirement and the kids' education, but he hadn't. He had played the lottery instead. After a tense beat, the fisherman's face lit up with exultation as he shouted to the camera and all the great outdoors that now he was filthy rich! This spot went too far. The Connecticut House of Representatives ordered it yanked from the air and privately chastised Lewis, according to *The Hartford Courant,* for "promoting sloth in the Land of Steady Habits." Nevertheless, those same representatives were upset with the lottery for failing to produce *enough* sloth. Connecticut politicians had allowed their taxing and budget-cutting muscles to atrophy. Having become gradually more dependent upon lottery revenue, they were determined to be saved by another windfall. They suggested Lewis juice up Connecticut Lotto by switching from 6/40 to 6/44. Lewis refused, citing his ratio. Connecticut wasn't big enough, he said. When superiors made the recommendation an order, he resigned last April in a huff.

Lewis was probably right that Connecticut is too small for 6/44 lotto. And he is certainly correct that the state's hopes for budget relief were grossly out of proportion to the size of the lottery. Even after the heady profits of the takeoff period, lotteries still bring in no more than five percent of New England state revenues — roughly $215 million of $4 billion in Connecticut, $440 million of $8 billion in Massachusetts. The figure runs less in smaller states such as Vermont, where the lottery produces about two percent of the budget ($11 million of $485 million). For all the energy required to build them, and the hoopla to hail them as fiscal saviors, the lotteries remain marginal fund-raisers. In Connecticut, lottery income could be matched by a half-percent increase in the sales tax.

Lottery insiders know that addiction only postpones the inevitable conflict between politicians and bettors. "Most mature U.S. lotteries are rapidly reaching a crisis mode in dealing with regressing three-digit and lotto game sales and lackluster instant games," declared *Gaming & Wagering Business.* "One thing is clear: mature lotteries need something new on the table to deliver sales increases." For years, the trade press has touted the idea of a national lottery to reduce the federal deficit. The states have resisted the idea as a threat. Representative Mario Biaggi, before going off to prison on a bribery conviction, proposed a characteristic alternative: in essence, that Washington shake down the states for a cut of their lottery revenue as protection for *not* having a national lottery.

Nearly all lottery managers favor bolder, proaddictive reforms: $20 to $100 ticket values, to make it more convenient for bettors to plunge, and lottery-run sports betting, to capitalize on the excitement of the huge bookie markets for major-league events. Lottery officials publicly endorse sports

The lottery is becoming the voice of state government: one month, every message from the state of Massachusetts was a lottery ad



betting already, and the trade press speculates breathlessly about which state will follow Oregon's leap into that arena.

But another alternative is even more exciting to industry professionals: independence. Behind their sales pitch — greater efficiency through private enterprise — lottery officials feel the lure of being paid more like executives than bureaucrats. Minnesota and Wisconsin have flirted with the idea of a contract lottery, and a vendor consortium reportedly offered Mississippi a $50 million annual guarantee for the right to run a private lottery there. The breakthrough came last year in Kentucky, which authorized the first quasi-private lottery of the modern era. Unnoticed by everyone else, the Kentucky start-up is the object of anxious, barely restrained hopes among lottery insiders. "Everybody is telling Frank Keener down there that he'd better succeed, or else," says Blaine Lewis.

An independent lottery holds attractions for the public, too. It would free government from the degradations of sponsorship and advertising. States could stand aside as taxing authorities, much as they do for alcohol and tobacco. They could pass on the best objective advice — that gambling is a mathematically losing proposition, a potentially dangerous habit, and that citizens who wish to gamble anyway ought to seek the fairest odds. In short, the states could act on their professed roles as compacts of citizens for their mutual benefit.

Independent lotteries would bring history back full circle to the end of the nineteenth century, when the corruption issue raged for nearly thirty years. The states have already grown sensitive about the odor and size of the vested interests around the lottery. Some, like Maine, have tried to minimize the expenses attendant to lottery revenues by concealing agents' commissions among "costs of goods sold," as though instant scratch tickets had an inherent wholesale value in the millions. Others, like Connecticut, have taken the opposite approach by heralding support costs as a return to the business community.

Whether concealed or not, the private interest in the lottery dollar has remained tame thus far compared with the great plunders of the past. The chief motive for the nineteenth-century abolition campaign against lotteries was not piety, but rather the consensus that middlemen had assumed control of private lotteries, beggaring the hopes of bettors and public sponsors both. Unfortunately for those early reformers, the last surviving lottery had a quasi-independent state contract similar to the one now being tested in Kentucky. The old Louisiana lottery was a racketeer's heaven — a state-sponsored monopoly with the legal sanctity of private enterprise. (Even today, is it a surprise that one firm that provides lottery services spent $2.1 million to support a lottery referendum in California? Or that The Southland Corporation, owner of the 7-Eleven convenience stores, expended $40,000 to lobby a single session of the Texas legislature?)

After the Civil War, freed blacks and carpetbagger Republicans created the Louisiana lottery under protection of Union troops. Vanquished white Confederates hated the game as a fiendish race-mixer's device, but the high-minded Southerners reversed themselves when they overthrew the Reconstruction government ten years later. Lottery managers helped their cause by contributing a reported $250,000 to the new white supremacist governor, and as a public relations move, hired General Beauregard and other Confederate heroes to preside over drawing ceremonies. Having blithely surmounted the passions of the Civil War, the managers faced no challenge that could resist the lure of gambling or the open lubrication of bribes. By 1890, the lottery was known as the Serpent. Against the laws of other states, it ran a huge out-of-state business that accounted for more than half the mail volume of the New Orleans post office. Only a prolonged national scandal, amid cries that the Serpent's brute power made a mockery of political sovereignty, finally produced the federal laws that made lotteries illegal, in the 1890s. Even then, enforcement proved impossible for another decade, until the Supreme Court's *Champion* v. *Ames* case of 1903 wiped out the Serpent with the "interstate commerce" clause, which gave the federal government more leverage to intervene at the state level. This forgotten struggle over lotteries laid the groundwork for more familiar progressive landmarks, from the Pure Food Act of 1906 to the Civil Rights Act of the 1960s.

NOW WE HAVE COME to the opposite end of the cycle. Lotteries are still settling into popularity, and the corrupt interiors of their design have only begun to wear through the gilded covers. States cannot bring themselves to call their gambling money "taxes," preferring the term "special revenue." The Pete Rose scandal coincides with the adoption of state-promoted sports betting in Oregon. Legal codes are a jumble. Lottery drawings preempt television coverage of the Olympics, but the Catholic Church cannot legally use the airwaves to cancel a bingo game on account of rain. In Massachusetts, which ballyhoos the Megabucks game as a new natural resource, state officials still periodically haul private lottery entrepreneurs off to jail as racketeers. "Most of the people who participate will ultimately lose every nickel they put into it," declared Attorney General James Shannon after a show-time bust not long ago. Resolutely oblivious to any comparison with the legal lottery, Shannon went on to denounce the parasitic wickedness of the gaming structure: "The whole thing is premised on there being lots of losers for every winner, and by definition those kinds of schemes have been illegal in this state for a long time."

No one knows whether the New England lotteries will take the last steps into sports betting and privatization. Faced with the ordeal of stamping them out, most citizens probably will prefer the easier course of adjusting to a troublesome, scaled-down model of the Puritan casino. Keen-eyed professionals have shifted their bets already. The American market is a maintenance area — conquered territory, with Texas one of the few big-contract states yet to be won over. For insiders, the action is overseas: the thirty new lotteries in Africa, the new on-line system in Venezuela, the instant games of Costa Rica. From Rhode Island, the GTECH Corporation has won contracts in Canada, Iceland, Mexico, Sweden, and elsewhere. After stationing lottery-hungry agents in Australia and Singapore, GTECH recently opened talks with Japan and Taiwan. And GTECH's John Quinn, former director of the New York lottery, took his old soldier's stories on a secret mission to Beijing not long ago. If the government there subdues its domestic troubles, Quinn may bring Rhode Island the fruits of the New England trader's ultimate dream — the China market.

Taylor Branch won the Pulitzer Prize last year for Parting the Waters, *the first volume of his biography of Martin Luther King, Jr.*