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THE ECONOMICS OF ETHICS: LOTTERIES AND STATE FUNDING

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Introduction

At the beginning of the 21st century, lotteries are entrenched in the economic and political infrastructures of western societies, running as multi-billion dollar enterprises that make vast profits for private enterprise as well as providing vital funds for state budgets. This is a relatively recent phenomenon however, and only the most current phase in a history that has been characterised by ongoing and profound ambivalence towards this most innocuous form of gambling. To better understand the present position of the lottery in modern life, it is instructive to review its emergence as an economic institution in historical context.

The Origins of Lotteries

The term ‘lottery’ derives from the word ‘lot’, which comes from the Teutonic, *hleut*, designating a token used to settle disputes. The term has similar meanings in other languages - in Anglo-Saxon, ‘to cast lots’ is *Hleut-au*, in Dutch it is *Lotten* and in Swedish *Lotta* (Sullivan 1972, 4; Ashton 1898, 222). Lotteries (and indeed, all games of chance where winning depends on possession of the correct ticket or number) are rooted in ancient practices of lot casting, whereby randomised outcomes were designed to uncover the will of the gods, especially with regard to the appropriation of material goods.

It is this latter function that was utilised by Roman emperors and civic leaders in an embryonic form of lottery whereby gifts were randomly distributed to guests at banquets. Augustus Caesar was the first to sell lots for prizes of unequal value to his guests, while Caligula gave them away freely to revellers (Suetonius 1958, 158-222). After the fall of Rome, the tradition was continued by feudal princes who found the democratic appropriation of tickets an ideal way of distributing gifts without exciting jealousy.

However, it was the development of a system of mercantile capitalism that really encouraged the establishment of large scale lotteries. Sixteenth century Venetian and Genoese merchants used 'lotto' as a means of disposing of their wares, selling tickets to their customers and holding drawings to determine the winners in a practice which they soon realised could return profits at least as large as from conventional methods of enterprise (Ashton 1898, 222). Lotteries were also used when an individual wanted to dispose of items which might

1 This article draws on arguments made in *The Age of Chance: Gambling in Western Culture* (1999 & 2002). London: Routledge
be too expensive to find a single buyer, such as household goods or land. The first recorded European lottery was held in Burgundy in 1420, with proceeds used for the fortification of the town, with another held in Bruges in 1446 to raise funds for the poor (Sifakis 1990, 187; Ashton 1898, 222). The principality of Germany established a national lottery in 1521; Francis I began the French loterie in 1539, while Florence's government-run lottery, La Lotto de Firenze, held in 1528, was the first to distribute cash prizes. Other city states followed their example, running schemes to raise vital funds for public projects: in fact French fiscal policy depended almost entirely on its loterie during the period when its citizens refused to pay their taxes (Sullivan 1972, p4).

The financial utility of these small scale lotteries was obvious, and is perhaps best summed up by Balzac’s description of them (and indeed, all forms of gambling) as ‘an essentially taxable passion’ (1977, 21). Their potential was soon grasped by the politicians and monarchs of the emergent European nation states, and from then on, lotteries developed in uneasy symbiotic relation with a capitalist system of production. On the one hand, the financial potential of lotteries offered obvious attractions to states whose economic infrastructures were insufficiently developed to raise other forms of revenue through systems such as taxation - especially at a time when such funds were sorely needed to finance public works and war efforts. On the other hand however, their ‘pagan’ ancestry in lot casting appeared sacrilegious to the defenders of the new religious order established by the Reformation, while defenders of the secular political order worried that their appeal to chance over the virtues of work was a disruptive (if not incendiary) force encouraging idleness and violence in the population (Kavanagh 1993). The operation of chance in lotteries divorced the creation of wealth from the efforts of labour, undermining the protestant work ethic and the ideology of meritocracy that formed the basis of capitalist societies. The sudden fluctuations in prosperity inherent in such institutions threatened to undermine the social hierarchy, by transforming poor individuals into wealthy ones, or vice versa, reversing social distinctions and undermining economic productivity in a way that tended to worry those with most to lose, although proving extremely appealing to those with everything to gain (Dixon 1991; Munting 1996). As such, the values embodied in forms of gambling such as lotteries were anathema to the protestant bourgeoisie, who consistently opposed them as immoral and pernicious sources of unearned – and therefore illegitimate - wealth.

The conflict between the ideological opposition to lotteries, and the pragmatic need for the revenue they provided resulted in a profound legislative ambivalence, which can be seen in a range of statutes that vacillate between outright condemnation and tacit encouragement of lottery schemes.

In Britain, the first public lottery was drawn in 1569. Participation was presented as a patriotic undertaking which would boost the interests of the Empire abroad and build up its strength at home. The statute declared that: ‘the Lotterie is erected by her majestie's order ... towards the reparation of the havens and strength of the Realme, and towards such other publique good workes’ (in Ashton 1898, 223). Revenue from this lottery and the ones following it did indeed benefit the realm, paying for such projects as the building of hospitals, bridges, roads, water supplies and libraries. It also greatly assisted the colonial venture: as British colonists struggled to create the New World, British subjects in the Old helped to ameliorate economic hardship through participation in lotteries specifically designed to support foreign investment. Indeed, colonial expansion became the public work of the lottery par excellence: so much so that it can be said that the first American settlement
of Jamestown was almost entirely funded by British gamblers playing the lottery. Buying a lot served to further the glory of the British Kingdom abroad and the appeal was taken up mostly by the gentry. Having already invested in the Virginia Company, they played the lottery; not to increase their fortunes, ‘but to enhance their status by following the example of great noblemen and government leaders already committed to financing overseas colonies’ (Findlay 1986, 13). As such, they played to establish rank and status, less concerned with the possibility of profit than with the honour and dignity of the British Empire. Meanwhile, American settlers adapted the formula to their own ends, using lotteries as sources of public and private finance to build schools, churches, hospitals and universities, and, later, to finance the Civil War effort (Munting 1996).

In 1694 one million pounds was raised by lotteries, three years later, it was one and a half million, and then, in 1699, at the height of their popularity, a political volte face ended the game, with an Act outlawing all forms of lottery. The cessation was short lived however, and the lottery was reintroduced ten years later. The new game was very different from its predecessor however, and in its changes clues to the seventeenth century outlawing can be found. In the new state lottery, tickets were sold at £10 each, with prizes paid in annuities (Ashton 1898, 228). Such ticket prices would have put the Lottery out of the reach of all but the wealthiest sections of society and so effectively outlawed it for the poor. Private lotteries, with their unregulated minimum stakes were next to go; proscribed by an Act of 1721 which imposed a penalty of £500 for running them. These small scale games continued to run illegally despite the prohibition, and were patronised mainly by the poor who found them attractive for a variety of reasons. Most obviously, they were easily accessible, simple to play and cheap, with the size of a possible prize far outweighing the cost of a ticket. Furthermore, in a rigid socio-economic system in which, despite its ideology of meritocracy, little genuine opportunity for advancement through effort or talent existed, sudden wealth through a lottery win appeared to the poor as a viable means - perhaps their only means - of material advancement (Kavanagh 1993). Into the gap between aspirations and the means of achieving them, the lottery sustained the dream - crushed in more conventional economic arenas - of social mobility. So, while the wealthy played ostensibly to demonstrate their support of a ‘good cause’, the poor played in the hope of relieving their living conditions by a spectacular win, spurning the bourgeois equation of hard work and modest wealth in favour of the possibility of instant riches.

The legislation against lotteries at this time can be seen as an attempt by the bourgeoisie to impose the ideology of the dignity of labour, in order to maintain a social order whose stability was symbolically threatened by the lottery’s promise of overnight wealth. It was also an attempt to counter the material threat of lotteries, particularly for poor families who, reduced to destitution by the reckless betting of their breadwinners, would be unable to support themselves, and so become a burden on the state (Dunkley 1985).

Although they had provided a vital source of revenue for developing economies in the early years of state formation, by the nineteenth century, lotteries were no longer crucial to state funding. In fact, in this period, they came to be seen as antithetical to the values of industrial societies and were gradually phased out throughout the U.S, and in many European states, including Britain. In the period of the Industrial Revolution, a resurgence of the evangelical movement and increased demands for industrial productivity saw a renewed emphasis on the rational management of time and the virtues of diligent labour – qualities that were clearly opposed by lotteries’ sudden creation of unearned wealth. Now, the institution was divorced from associations with the honour of the nation and Christian charity, and criticism turned to
its disruptive and undesirable qualities. At the same time, various scandals drew attention to the political corruption, dishonesty and crime that often accompanied drawings, and the perception of gambling as a vice that undermined the fabric of a moral society began to take hold in the public mind (Clapson 1992; McKibbon 1979). Fortuitously, by this time lotteries no longer provided crucial revenue: the colonies were established, and state bureaucratic and financial systems had developed sophisticated ways of raising reliable funds from their populations through taxation. So, in a pattern that had been, and would continue to be, repeated throughout history, when lotteries became superfluous to requirement, they were simply outlawed by the very governments who had once profited from them.

In Britain, by 1819, the role of the lottery in raising state revenue had come to be seen as not only redundant but positively harmful, with parliamentarians declaring that lotteries: 'manifestly weaken[ed] the habits of industry, [and] diminish[ed] the permanent sources of the public revenue' (Ashton 1898, 238). Inevitably, a final Act of 1823 made provision for its discontinuance, and the last British lottery was held in 1826. A satirical epitaph was inscribed on the hall of its last drawing:

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In Memory of
THE STATE OF LOTTERY,
the last of a long line
whose origin in England commenced
in the year 1569
which, after a serious of tedious complaints,
Expired
on the
18th day of October 1826
During a period of 257 years, the family
flourished under the powerful protection
of the
British Parliament;
the Minister of the day continuing to
give them his support for the improvement
of the revenue
As they increased it was found that their
continuance corrupted the morals
and encouraged a spirit
of Speculation and Gambling among the lower
classes of the people;
thousands of whom fell victims to their
insinuating and tempting allurements...' (in Ashton 1898, 238).
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The Twentieth Century Revival

Throughout the twentieth century, a combination of factors reversed this situation, and saw the shift of lotteries from the morally dubious margins to centre stage in the economies of western societies. In the first half of the century, economic recession and fiscal deficits, together with the political unpopularity of taxation, encouraged states to consider alternative means of raising revenue. In the second half, increasing affluence and the declining
influence of arguments concerning the ‘immorality’ of gambling and the work ethic created a more libertarian, consumerist ethos throughout post-industrial societies. In such a climate of relative prosperity arguments about the immoral, disruptive effects of gambling lost much of their force. Indeed, gambling came to be seen in an entirely new light: not as a source of potential disruption, but as a source of potential profit. Now, the needs of the state and the desires of the consumer were seen to come together in a more pragmatic approach which involved giving up on efforts to prohibit gambling altogether, and adopting a regulatory approach instead. If it was all but impossible to prevent it, so the argument went, better for the state to get involved – ensure it was run fairly and legally and, as an added bonus, share in its profits from taxable revenue (Dixon 1991).

These arguments were most obvious in the case of lotteries, whose revenue-generating potential was once again grasped by states that wanted to increase funds without having to resort to the politically unpopular move of raising taxation. Such an approach can be situated within the wider context of neo-liberal political and fiscal policies, characterized by a general reduction of state involvement in public affairs, and an increasing unwillingness to levy unpopular taxation on voting populations (Reith 2003). In the revenue vacuum created by such policies, the economic utility of commercial gambling – and particularly lotteries – to state governments became clear. Lotteries and their related products – namely, instant scratchcards - were thus recast as a convenient solution to the problems of taxation and revenue. Through involvement in these institutions, whether through direct ownership and organisation, or franchising to private corporations, states found a bountiful source of vital revenue with which to fund public services (Goodman 1995).

It is this symbiotic relation between commercial profit and state revenue that has provided much of the impetus for the liberalization and promotion of all forms of gambling towards the end of the twentieth century and into the twenty-first. Since the 1970s in particular, the gambling industry has undergone a period of dramatic liberalization and deregulation. A reduction in legal restrictions on promotion and expansion has encouraged the proliferation of commercial gambling on a global scale, with the governments of Europe, the Americas, Australasia, South Africa, South East Asia and the countries of the former east European bloc developing lotteries (Eadington 2003). The embrace of lotteries by the state is now entrenched in fiscal policy, with the former running worldwide as mainstream capitalist ventures, generating private profits and raising substantial revenues for public works. At the same time, new technologies such as the Internet have launched lotteries into cyberspace, breaking down national boundaries and posing complex regulatory challenges.

In the U.S, New Hampshire was the first to re-introduce its lottery in 1963, with other states and the European nations who had banned theirs reintroducing state lotteries one by one throughout the 1970s. Britain lagged behind somewhat, waiting until 1994 to reinstate its national game, which quickly resumed its old function of state fund-raising and the creation of private profit.

To encourage participation, lottery promoters emphasise the game’s contribution towards popular social programmes – what one executive called ‘the three big Es’: education, the environment and economic development (Wentworth, in Goodman 1995) – the same projects that lotteries were historically used for. So, for example, lotteries in America fund health and welfare programs, schools, hospitals, roads and public health, and support programs for senior citizens, heritage and recreation. Most shore up education budgets: since it began in 1967, the New York lottery has provided $21 billion for education, California
$14 billion since 1985, and Florida $12 billion since 1987. Altogether, since 1964, lotteries have contributed $200 billion for state programs in North America (NASPL 2002).

The increasing involvement of states in commercial gambling has resulted in a degree of interdependence between the two, and the creation of a situation in which the maximization of profit becomes the aim of both government and business. As the funding of projects is often dependent on revenue, in many states the success of lotteries becomes a policy objective. In a market in which sales of tickets quickly reach saturation point, leading to stagnant or declining revenue, many states are involved in the aggressive promotion of their lotteries: advertising to target groups, introducing new games, and developing increasingly sophisticated technologies to promote their product (Goodman 1995).

**Consumerism and normalisation**

The incorporation of lotteries into the infrastructures of state finance taps into a wider ethic of consumerism, which sociologists have described as a shift from a ‘production’ to a ‘consumption ethic’ (Bauman 1988) that celebrates the values of leisure, hedonism and spending over work, self denial and saving. In this climate, the capricious forces of chance have been commodified and lotteries promoted as mass entertainment; a harmless ‘flutter’. Now, those who play the lottery are portrayed as consumers or hedonists, certainly not reckless degenerates, capable of undermining the moral fabric of productive society. Indeed, the state sponsored fantasy of the big win actually reverses the protestant ethic, and celebrates the values that were once responsible for the very outlawing of lotteries in the first place.

State and commercial promotion, the association with ‘good causes’ and the easy integration into everyday life has normalised lotteries to a degree that can only be dreamed of by other, ‘harder’ forms of gambling. Alongside the unabashed promotion of consumerism and individual profit, lottery advertisements also attempt – successfully - to appeal to the spirit of philanthropy and charity of their players. Promoters are keen to point out the public works that are undertaken with proceeds, with advertisements that reflect and reinforce the association. Phrases such as ‘you play, the nation wins’ (UK); ‘playing for the common wealth’ (Virginia Lottery), and ‘we all win a little’ (Norway) remind players of their relationship with their wider communities, and, in reinforcing lotteries’ connection with good causes, suggest that there are no losers in this national public venture. The link is made so effectively that playing the lottery becomes more like donating to a charity than gambling proper, assuaging uneasy consciences with constant reminders of the good causes that benefit from participation.

These features have provided lotteries with a broad consumer base: males and females, young and old, wealthy and poor all play. Significantly, participation has also widened to include, for the first time, the middle class – the group traditionally most hostile to all forms of gambling – whose opposition has been eroded by the state sanction of the institution, as well as the emphasis on the ‘good causes’ to which it contributes. The normalisation of lotteries is so extreme that players are generally not regarded as gamblers at all, even by themselves. In Spain, where the state-run *El Gordo* is a national institution, most people deny they gamble but when asked if they take part in the lottery reply ‘of course’ (*The Guardian* 31 October 1994, 3). This perception is expressed in euphemistic language where, unlike gamblers in other games of chance, lottery gamblers never ‘gamble’; they merely ‘participate’ or enjoy an innocuous ‘flutter’. This redefinition means that, as Walter
Benjamin puts it, ‘an incorrigible patron of a lottery will not be proscribed in the same way as the gambler in a stricter sense’ (Benjamin 1992, 137). Such a perception is descended from the lottery's sixteenth century forebears when gambling was encouraged by the state as a patriotic duty and so defined as a philanthropic gesture, never a gamble. With its emphasis on the lottery’s support of ‘good causes’ and ‘heritage’ the modern state once more sanctions betting and, thus legitimised, removes it from the arena of gambling proper.

**Regressivity**

However, the apparent social inclusiveness of lotteries should be interpreted carefully. Although effective marketing and distribution campaigns by private and state run businesses have brought about the expansion of lotteries’ socio-economic bases, this tends to conceal another trend - the concentration of play amongst the poorest and most disadvantaged social groups. The unemployed, the low paid, the under-educated, the elderly and ethnic minorities, spend far more on lotteries proportional to their incomes than do other groups (Clotfelter and Cook 1989; Kaplan 1978). The historical trend towards the over-representation of the poor in lottery drawings is substantiated today: like the poor who played the lotteries of the sixteenth and seventeenth centuries, the economically marginalised of the twenty-first regard the distant possibility of winning as their best chance to escape poverty in what is essentially still an unmeritocratic social system. The very reasons that led to its outlawing in 1826 - its ‘encouragement of a spirit of Speculation and Gambling among the lower classes of the people’ - are the same reasons that assure its popularity today. Denied genuine opportunity, the poor are given a fantasy; a vision of immense riches only one in many million will ever attain. Balzac’s comment on the French lottery, that: ‘No-one has realised that it was the opium of poverty. The lottery was the most magical fairy in the world: did it not nurture magical hopes?’ (Balzac 1984, 88) is still as pertinent today as it was when he made it in 1841.

In real terms, this distribution of participation means that the various projects and services that lottery funds are used for are paid for primarily by the poorest members of their communities. As a revenue raising device then, the lottery is a particularly regressive form of taxation. It is not only the social injustice of this set up that is of concern: practical considerations also exist. Lotteries are an unstable source of revenue, dependent entirely on the behaviour of players with the result that, when ticket sales decline, funding of designated services is reduced and entire communities suffer. At the same time, some jurisdictions have reported a decrease in funding for services for which lottery revenues were earmarked, revealing the role of the latter as a substitute for the erosion of state budgets. Such tendencies mean that, ultimately, services are at risk of becoming dependent on the vicissitudes of lotteries for their continued operation.

This trend is most advanced in the U.S., where state lotteries have come to occupy a crucial position in the provision of key services. In many states, lotteries fund increasing proportions of expenditure on health and education, and although (as in Britain) most deny such funding is intended to take over the state's share, it inevitably does so. Time and time again, it has been found that this money ends up replacing rather than supplementing state funding, as in, for example Pennsylvania, where rent assistance and medical rebates for the elderly were initially financed by the state and gradually shifted to the lottery fund as lottery revenues increased (Abt and Smith 1986, 31). By 1991, thirteen states in the U.S received a high proportion of their education budgets from their lotteries, which made those programmes vulnerable to decreased ticket sales – a scenario which affected California, when sales fell
from $1 billion in 1988 to $500 million in 1991. Similarly, in the first three years of the Irish Lottery, government spending on areas that received lottery money fell by 56%, leading to criticisms that described it as a ‘slush fund for inadequate Treasury spending’ (Weyer, in Douglas 1995). In the UK, the establishment of the New Opportunities Fund (NOF), whose ‘good cause’ is the funding of community projects in health, education and the environment, has led to fears that the temptation to allow lottery players to ‘voluntarily’ pay for state-funded services will prove too much for the government to resist, and to fears that spending in those areas will subsequently be put at risk (Paterson, Ashworth and Webster 1999).

Concluding Comments

As the above discussion has demonstrated, when their ability to raise revenue is economically beneficial to state finance, lotteries tend to be not only tolerated but actively encouraged. When no longer serving the interests of capital, however, moral-religious criticisms focus on their supposed unproductive and disruptive characteristics, and they are outlawed in cycles of prohibition and promotion that have been repeated throughout history. Such trends demonstrate that arguments about the ‘immorality’ of state lotteries as well as being historically relative, are driven by political and economic expediency, and ultimately, rooted in material, rather than ethical, concerns.

State lotteries (and, to a lesser degree, all state sanctioned and therefore taxable gambling) of the twenty-first century are an indication of the degree to which governments are increasingly retreating from the funding of public life. In the era of nascent capitalism, lotteries provided revenue for states whose infrastructures were insufficiently developed to collect taxes from every citizen. Now, the lotteries widespread amongst the most highly bureaucratised nations in the world function to raise an indirect and regressive form of taxation their governments are politically unwilling to collect. As the presence of the state recedes in public life, that of the lottery grows, to the extent that services can become dependent on lottery revenue for their continued existence; a situation which raises wider concerns about the role of the state in the promotion of gambling in general.

References


*The Guardian* 31 October 1994


