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## What Odds for the Sale of the Illinois State Lottery?

As of winter 2007, Illinois and Indiana have in common more than just a border and fresh memories of having sent a team to Super Bowl XLI. Both states very recently took the first steps to privatize their state lotteries, something no American state has ever done. In Indiana, Republican Gov. Mitch Daniels is pushing for a plan to lease or sell the lottery in order to boost funding for higher education, despite resistance from the state House, which the Democrats control. Across the state line, Democratic Gov. Rod Blagojevich announced last year that, if re-elected, he would pursue selling the lottery, with most of the revenue from the sale to be earmarked for schools.

At the time, this plan was widely dismissed as a mere ploy to dissuade Independent State Sen. James Meeks from entering the gubernatorial campaign. Even most of Blagojevich's fellow Democrats, notably House Speaker Mike Madigan, reacted skeptically. In any event, Meeks did not run, Blagojevich easily won re-election, and the campaign featured little discussion of privatizing the state lottery. Nevertheless, Blagojevich promptly announced after his new term began that the state is seeking bidders.<sup>1</sup>

The prospects of a sale will depend in no small part on elite-level negotiations. Despite the rush to activity by each governor, neither can unilaterally sell the lottery without a supportive state legislature. In Illinois, if Governor Blagojevich hopes to muscle the plan through the General Assembly over the

objections of Madigan, or perhaps over those of both Madigan and Senate President Emil Jones, his chance of success would seem slim.

However, the fate of the lottery will not be solely an inside-Springfield story. The governor has said he will make his case directly to Illinois citizens. Their opinions on the sale of the state lottery, especially if overwhelmingly for or against, could carry the day. But Illinois residents may not find it easy to reach a judgment: the issue can stump casual observers. Conservatives, as a rule, regard privatization as desirable, since they are suspicious of large government. They believe

that governments do a worse job than private enterprise of providing many services and that government intervention reduces market efficiencies. On the other hand, liberals are far more inclined to see government provision of key services as necessary. A lottery, however, is not an *obviously necessary*

service in the same sense as utilities, highways, or education.

Then there is the moral dilemma that lotteries create. Some regard all gambling as a vice to be discouraged, and would prefer a world with no lotteries — state-run, state-regulated, or otherwise. Others worry that lotteries function as a tax on the innumerate or desperate, people who typically fail to perceive just how close to zero is the probability of ever winning a big prize. Lottery critics often charge that ticket buyers are disproportionately low-income, making the lottery a regressive tax

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By Brian J. Gaines and  
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masquerading as a game or even a fulfiller of dreams. So opinion about state lotteries could be bound up in both attitudes towards gambling and beliefs about the advisability of state involvement in it.

When judging policy alternatives, citizens (and their elected officials) must always predict an uncertain future. With the lottery, the overriding question is this: Which option — sell or not sell — will generate more money, and thus presumably better government services, for the state? Does the answer depend on whether the focus is long- or short-term?

For individuals and government alike, the wisdom of selling any asset depends on the sale price and expected revenues of the asset. Presently the lottery generates about \$600 million a year for Illinois. The present-day equivalent of a stream of income stretching into the future depends on a number of unknowns, including inflation, future interest rates, and future behavior. If public interest in buying lottery tickets is likely to fall or to be displaced by alternative forms of gambling (e.g., in casinos, in online sports-betting or poker operations, etc.), then sale of this diminishing asset arguably would be wise, at least if the state could negotiate a price not reflecting such future downturns. Conversely, if ticket buying is likely to remain unchanged or increase, then the sale price and the interest it would generate would need to be considerable. Accurately predicting these trends is both exceedingly difficult and absolutely essential.

Illinois citizens and their elected officials may also fret about the ethical behavior of a prospective private owner of the lottery. Would such an owner push, for example, to sell lottery tickets in bars? Would this owner create new schemes and advertisements that lead the downtrodden to buy even more tickets than they do now? Could private ownership encourage organized crime to become a player in the lottery system?

If Governor Blagojevich pursues the sale of the state lottery and seeks support from

“ So, as the debate is about to begin, what do Illinois residents think about the merits of a lottery sale? ”

Illinois residents, then the state’s citizens could have considerable say in the final outcome. But choosing could be difficult. Moreover, because Illinois and Indiana are the first states even to consider selling their lotteries, people cannot look to the experiences of other states. At best, they will be exposed to arguments for and against the sale, and

will be able to connect the sale to their feelings about its main advocate, the governor. So, as the debate is about to begin, what do Illinois residents think about the merits of a lottery sale? Do Democrats and Republicans differ in their opinions? How are citizens likely to react to the key arguments and key advocates on each side?

Our purpose here is not to argue for or against lotteries or lottery privatization. Rather we are interested in Illinois public opinion on the merits of a lottery sale at what appears to be the outset of a policy debate. We wish, in particular, to investigate the governor’s prospects for winning over the public by putting his weight behind the idea. Accordingly, we conducted a simple experiment in the course of a random-sample survey of Illinois residents. Respondents were randomly asked one of the two following questions:

*Some* have proposed selling or leasing the Illinois state lottery to a private entity and using the proceeds to benefit education. Where do you stand on this plan?

*Governor Blagojevich* has proposed selling or leasing the Illinois state lottery to a private entity and using the proceeds to benefit education. Where do you stand on this plan?

Possible responses were:

I strongly support the plan.

Although I have some concerns about the plan, I support it.

I don’t know enough about the plan to know if I support it or oppose it.

Although I see some merits in the plan, I oppose it.

I strongly oppose the plan.

Thus, we can compare responses by those asked about a plan proposed by the governor to responses given when the plan was not attributed to any specific individual. Because of random assignment, the two sets of respondents should,

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on average, be identical, except for that difference of wording in the question.

The table below shows responses for Democrats, Republicans, and independents, presented with the two

Table 1. Support or opposition to lottery sale by respondent party identification and mention or non-mention of Governor Blagojevich			
	Some	Blagojevich	Difference
<b>Democrats</b>			
strongly support	4.9%	14.1%	+9.2%
support	21.5%	18.2%	-3.3%
don't know	51.5%	38.2%	-13.3%
oppose	7.9%	5.7%	-2.2%
strongly oppose	14.2%	23.7%	+9.5%
<b>Independents</b>			
strongly support	7.3%	4.7%	-2.6%
support	16.5%	12.4%	-4.1%
don't know	44.8%	31.4%	-13.4%
oppose	10.1%	15.3%	+5.2%
strongly oppose	21.3%	36.1%	+14.8%
<b>Republicans</b>			
strongly support	9.3%	8.1%	-1.2%
support	10.0%	8.1%	-1.9%
don't know	46.5%	36.6%	-9.9%
oppose	1.7%	13.2%	+11.5%
strongly oppose	32.4%	34.1%	+1.7%

source: Illinois Opinion Monitor / Polimetrix Cooperative Congressional Election Study

different wordings. Note that for all three partisan groups, the single most common response to the plan when it was proposed by “some” was uncertainty: about half of each group reported not knowing enough about the issue to take a stance. Arguably, this is good news for Governor Blagojevich if he is about to embark on a campaign to persuade the people of the state that his plan has merit. There would seem to be some scope for winning the argument, at least insofar as many have not yet formed any opinion. Of course, uncertainty can also be viewed as fertile ground for opponents, so if newspaper editors, legislators, or others expect to talk down the plan, they might equally be heartened to see that public opinion is only partially formed.

The column labeled “difference” subtracts the second column totals from the first, to show the effect of explicitly associating Governor Blagojevich with the plan. Predictably, Republicans react more skeptically to a plan said to be the brainchild of a Democratic governor. These numbers suggest that about 13 percent of Republicans can be talked into opposing the plan simply by learning that it originated with the current governor. Even more interesting is the same comparison for Democrats. On the evidence above,

Blagojevich induces polarization in his fellow partisans. When the plan is tied to him, far fewer Democrats react with uncertainty, while the proportions reporting strong opposition and strong support both rise.

This finding does not bode well for his chances at unifying Democrats behind the idea. Also ominous for the governor is the pattern for the independents, who look more like Republicans than Democrats on this score. They also are more likely to report opposition and less likely to report uncertainty if the plan is attributed to Blagojevich. Indeed, opposition to the sale greatly exceeded support, except for the Democrats.

On balance then, it would probably be fair to say that the public is thus far suspicious about the benefits of selling the lottery, and that Governor Blagojevich’s ability to push the plan appears limited. We grant that given the novelty of the issue, which differs in important ways from more familiar privatization schemes (for instance, of publicly owned toll highways), it is far from clear that opposition has already hardened. Still, it seems that swaying Illinois residents over to the idea will not be easy.

Why the skepticism? One obvious rationale for the sale is the front-loading of receipts. The benefits (revenues) accrue immediately, in this governor’s term, while the losses (foregone revenue) are experienced in the distant future, presumably in some future governor’s term. For those who have not parsed the issue in terms of morals or projections of uncertain future finances, what might stand

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out is this apparent short-term-gain versus long-term-pain tradeoff. We suspect that this source of opposition will be very difficult to overcome.

Some opponents might also regard earmarks with suspicion. Indeed, the very term “earmark” has lately fallen into disrepute, following frequent allegations of pork-barrel spending in the last Congress. It is not obvious that promising to devote one particular pot of revenue to a policy area represents a

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genuine constraint, if total spending on the area exceeds the earmark. Money is fungible, and so one can claim to be applying \$X in new revenue to education

without actually increasing total education spending by the full \$X (or even increasing it at all). Surprisingly, however, academic studies have found that lottery earmarks do have a positive effect. That is, spending does not generally rise by the full amount promised, but lottery revenues have been positively correlated with spending increases on the areas for which the lottery money was supposed to be spent.<sup>2</sup> Hence, doubts of this sort could perhaps prove easier to quell.

Plans to privatize the lottery may soon fade, without any protracted public debate ever taking place. Even Senator Meeks is currently talking as though the plan might be more of a bargaining chip than an end in itself: “I’m excited about the position that puts me in. ... Those who would reject the lottery sale must look for another way - that’s the tax swap.”<sup>3</sup> If the Governor is true to his word, he will not give up so quickly. We suspect, however, that to persuade the public that selling or leasing the lottery is prudent, rather than opportunistic, will prove very difficult indeed.

## Political Pressure?

Gov. Rod Blagojevich never acknowledged that the plan for a lottery sale was a quid pro quo for Sen. James Meeks’ decision not to enter the campaign for governor in 2006, but that interpretation was widespread when the plan first emerged. Did the incumbent Democrat really need to fret about a three-way race? It is impossible to re-run history, but in October 2006 we asked our Illinois survey respondents how they would have voted in a hypothetical three-way gubernatorial election. Then, after the election, we asked them how they actually voted. Since interest in the Meeks candidacy stemmed partly from the claim that, as an African American, he might draw a great many black voters away from the Democratic ticket, we provided our respondents with photos of each candidate, to ensure that Meeks’ race was evident. (Meeks, like most state legislators, is not a household name for those with no more than average interest in politics.) Another aspect of Meeks’ aborted candidacy that intrigued insiders was the possibility that he might steal away the votes of social conservatives from the Republican candidate. Our nod in that direction was to identify him not only as a state senator, but also as “Reverend James Meeks,” thereby alerting respondents to his status as a clergyman. Because this cue is subtler and less intrusive than the photo, one might conjecture that we did less to activate his appeal on the right than on the left. Hence, we may have exaggerated the Democratic skew of his potential supporters. And, of course, the whole exercise is subject to the caveat that, in the absence of any Meeks campaign, we are likely to under-estimate his drawing power.

Meeks scored relatively weakly in our hypothetical election, with only 11 percent of respondents indicating that they would have voted for him (and only 30 percent of black respondents reporting that they would have backed him). These potential Meeks voters eventually split for the major candidates in rates not too dissimilar from those who said they didn’t know

which candidate they would back in the hypothetical contest. Our question facilitated black support for Meeks, but even so, the Democratic skew in his backers was not dramatic. In short, these numbers do not support the claim that a Meeks candidacy would have spelled disaster for Governor Blagojevich.

**Table 2. Counterfactual and actual gubernatorial votes**

Hypothetical Vote	Actual Gubernational Vote				
	Blagojevich (D)	Topinka (R)	Other	Abstain	
Blagojevich (D)	42%	77%	2%	5%	16%
Topinka (R)	28%	3%	84%	9%	4%
Meeks (I)	11%	35%	26%	14%	24%
Don’t Know	19%	25%	20%	23%	32%

source: Illinois Opinion Monitor / Polimetrix Cooperative Congressional Election Study

## Postscript

In early March, a few new details emerged from the governor's budget speech, a feature of which was a long-term lease of the lottery. In the immediate aftermath, Democrats in the House appear to remain wary.

One surprise was that Blagojevich revised the rationale for cashing in on the lottery, as he shifted from promising to spend the money on education to promising that lottery-lease receipts would replenish state pension funds.

At first glance, this move seems odd insofar as the general public's interest in education is surely much higher than in targeted pension funds. Schools are more salient and their quality more obvious than long-term imbalances in earmarked public funds. But this new rationale for cashing in on the lottery does have the potential to insulate the governor, somewhat, from charges of short-term opportunism and fiscal recklessness.

In any case, money is fungible, so it is not clear how seriously to take the precise matching between new revenue sources and new expenditures. We have no original polling on public reaction to the idea of linking a lottery lease and filling holes in the state's pension funds, but we are quite confident that the main findings of our earlier survey remain valid.

There is a great deal of uncertainty about the wisdom of any sale or lease of the lottery. There is as well substantial suspicion that handing over a major income source to a private actor could be folly.

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<sup>1</sup> Specifically, the governor's office put out a "Request for Concessionaire Qualifications," the first stage in having an open bidding process.

<sup>2</sup> See, e.g., William N. Evans and Ping Zhang, "The Impact of Earmarked Lottery Revenue on K-12 Educational Expenditures," *Education Finance and Policy* 2, 1 (Winter 2007): 40-73.

<sup>3</sup> Quoted in "Governor Begins to Privatize State Lottery" *Chicago Tribune*, Jan. 23, 2007.

## Institute of Government and Public Affairs

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