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Schwarzenegger's budget gamble

The governor's plan to borrow against future lottery earnings relies on Californians acting recklessly with their money.

By Michelle Steel
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Gov. Arnold Schwarzenegger's plan to balance the budget by borrowing against future lottery earnings has the potential to stave off the state's budget crisis -- but at what cost?

In 1984, California voters approved the creation of the lottery based on the promise that it would help fund schools. The governor's new proposal, which requires legislative and voter approval, would issue bonds backed by future lotto revenue -- in other words, sell off future lotto revenue for a one-time payment. A portion of the money would cover the budget shortfall, with the rest put in a rainy-day fund. If the lottery sale fails to raise enough cash, however, the governor proposes automatically raising the state sales tax from 6.25% to 7.25%.

Financial analysts debate the lottery's fair market value, but everyone agrees that the success of Schwarzenegger's plan hinges on how many people play the lottery. Simply put, more people gambling equals more money.

But the lotto picture isn't pretty. This week, the California Lottery lowered its revenue expectations by 8% for the fiscal year ending June 30. Private equity will not be interested in a depreciating asset, so the second part of the governor's plan is to modernize lottery games to pique players' -- and Wall Street's -- interest. Proposals include bigger payouts, new blackjack and poker-style games, online games and higher-dollar Scratchers.

So, the governor's plan to pay for the state's irresponsible spending rests, ironically, on getting Californians to spend more irresponsibly.

Lawmakers should immediately reject this ill-conceived gamble-or-tax scheme. The lottery's regressive nature, long-term societal costs and perpetuation of financial myths make it a guaranteed loser.

We've known for a long time that state lotteries expand at the expense of those who can least afford it. According to a national study by Duke University in 1999, households making less than $25,000 a year spent roughly $1,080 a year on lottery tickets, by far the most amount for any socioeconomic demographic. In comparison, households making between $50,000 and $100,000 spent $495. The numbers are even more staggering viewed this way: Low-income households spend up to 10% of their income on lottery tickets, compared with less than 1% for wealthy households.

Further research, such as a 2005 study published in the Journal of Public Economics, confirms that low-income lottery players sometimes use money earmarked for food, rent or other housing to fund this gambling habit. In many cases, taxpayers ultimately foot the bill in the form of increased use of food stamps, healthcare, welfare and housing subsidies. These problems are already evident; imagine the exponential increase if lottery tickets are sold online or in the form of $10 and $20 Scratchers.

Increasing "responsible" gambling by middle-class and wealthy Californians produces no better results. These consumers will have less money for other forms of entertainment, such as dining out, movies or a round of golf -- all of which do more to stimulate the state's economy than buying a lotto ticket.

Worst of all, lottery expansion means more ads that promote irresponsible personal financial habits. In the last three years, the California Lottery spent about $93 million to encourage people to relinquish control of their finances. "Imagine what a buck can do" and "Big Upside" are two recent slogans that belittle the value of a dollar while exploiting the financial myth that you can get rich quick.

The best way to build wealth is not luck but a disciplined investment strategy that allows time and money to work in your favor. If a low-income family, instead of playing the lottery, invested $1,080 a year in a Roth individual retirement account (which grows tax free and can be used for the down payment on a home), in 30 years at a conservative 8% they would have $143,000. Imagine what a buck can do, indeed -- if it's invested.

It is in the state's best interest to encourage families to build wealth and avoid irresponsible financial habits. That's why leading financial officers have made it a point to improve Californians' financial literacy. Last year, Betty T. Yee, chairwoman of the Board of Equalization, along with the California Department of Education and Visa Inc., rolled out a program to teach high school students proper financial habits. Yet how can they compete with TV ads and billboards hyping multimillion-dollar payouts?

Californians have the right to spend their money as they see fit, and that includes gambling on a Fantasy Five ticket or supermarket Scratcher. At the same time, it's bad public policy to gamble the state budget on the hope that more Californians will act recklessly with their money.

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