

THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S
GRASSROOTS LEADERS



WILL SOUTH CAROLINIANS SUPPORT RAISING REVENUES WITH A LOTTERY?

The first U.S. lottery originated in New Hampshire, the only state with no income tax and no sales tax, in 1964 as a creative way to finance the state's modest budget with a lottery based on horse races. Thirty-seven states and the District of Columbia now have lotteries. Their 1990 gross revenue (before expenses and prizes) came to \$18.7 billion.

In furtherance of Clemson University's land-grant mission, the Community & Economic Development Program at Clemson provides access for community leaders in South Carolina to expertise in all branches of knowledge on the University campus.

With a new Georgia lottery and the recent fuss over video poker in the General Assembly, gambling is a hot topic in South Carolina. While video poker will continue to be in the news, the next gambling question will probably center on whether South Carolinians would support a lottery.

Lotteries have become popular revenue raisers because states retain an average of 54 percent of ticket revenues. The "house" keeps an average of 4.3 percent for casino gaming and 19.4 percent for pari-mutuel bets. A lottery extracts large amounts of revenue in relatively small increments from people choosing to play.

A state lottery is often regarded as a desirable alternative to illegal numbers games because the state controls gambling, widely considered to be sinful or potentially addictive. Others see the lottery as a form of recreational gambling that is less likely to be addictive or result in heavy individual losses common to vid-

eo poker, slot machines, or pari-mutuel betting. Unlike taxes, playing the lottery is voluntary.

Why, then, the opposition? First, critics say revenue doesn't live up to expectations and declines after the initial thrill wears off as was true of the original New Hampshire and New York lotteries. But by experimenting with pricing and varying games, most states see steady or increasing revenues, although some experience a revenue fall when a neighboring state joins the lottery club.

In 1985, the country's 18 state lotteries took in \$8.1 billion in gross revenues. These same 18 saw their gross revenues increase to \$12.3 billion by 1990 and net revenues increase from \$3.5 billion to \$5 billion, an increase of 43 percent.

Second, lotteries are criticized for encouraging habitual gambling or even gambling addiction, partly by making it easier to gamble, partly by an implied social approval of gambling when it is not only authorized but also operated by the state.

The issue of state approval is difficult to address because it involves values on both sides, a perceived moral question versus a perceived question of individual liberties.

It is clear that people gamble more and more people gamble, when lotteries are readily available. But it is less clear that a lottery player loses large sums of money, becomes addicted to gambling, or becomes involved in other types of gambling.

Lotteries by themselves lack the appeal of video poker, casino games, or betting on sports or horse racing, because they lack excitement, quick feedback, and repetitive play. Some players even appear to substitute the lottery for other forms of gambling. At least one economic study has found that every \$1 increase in lottery spending results in an 18 cent reduction in pari-mutuel betting.

Third, lotteries are perceived as inequitable because play-

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ECONOMIC BRIEF NO. 12

The Costs of Political Participation

This series of economic briefs explores fundamental concepts in economics and community and economic development.

Economists have an explanation for why so many people do not bother to vote and why politics seems to be dominated by special interests. At the root of that explanation is the observation that political participation is not costless.

Consider the simple act of voting. Going to the polls entails costs. Sometimes the costs are quite significant, as when a physician takes time away from her practice and forgoes the fees that otherwise would have been earned. For many others, the

satisfaction in knowing one has done her civic duty.

But if the benefits are reckoned in terms of discernible improvements in one's personal or family well-being, it may not be unreasonable to expect that well-being will not be much affected by the outcome of an election. This is particularly true for the average person in a country where the differences between political parties and candidates are perceived to be relatively small.

For a physician, and other highly paid professionals, it may actually be less costly and more effective to contribute to the American Medical Association's lobbying fund (or that of a similar organization) than to go vote.

Lobbying is an example of intense political participation. Generally, the greater the intensity, the greater the costs. It follows, therefore, that one would expect that those who engage in intense political participation are those who can foresee significant benefits from achieving certain desired policy outcomes.

Most political lobbies represent relatively narrow interests because it is less costly to organize a small group with narrow

interests than a large group with broad interests. Moreover, the benefits to each member of the interest group are likely to be much greater if the group is seeking some exclusive privilege. Consumers, for example, who might together realize billions of dollars in benefits from certain political reforms, are unlikely to organize and lobby for those reforms because the benefits to each individual consumer would be too small to justify becoming politically active.

The economic perspective on political participation suggests that if one wishes to increase participation, it is necessary to lower participation costs or to increase perceived individual benefits, or both.

There is no clear, straightforward approach to increased perceptions about benefits of participation. Hence, most policy effort is directed at lowering costs. The so-called Motor-Voter Act passed by Congress and signed into law by President Clinton earlier this year is an example of an attempt to lower participation costs. It seems probable that additional efforts to lower the costs of political participation are the only viable way to reduce the influence of special interests on political decision making.

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costs are much less, but they are still greater than zero. Opportunities must be forgone, even if it is only the opportunity to lie on the couch and snooze. If we stipulate that the potential voter must also invest some time in becoming informed about the choices, the opportunities that must be forgone increase.

It is a basic postulate of economics that a rational person does not voluntarily incur costs unless she believes benefits to be gained are at least equal to the costs. The benefits from political participation simply may be self-

Rural Communities Can Benefit Economically By Promoting Nature-Based Tourism Activity

People have always found pleasure in vacationing in locales with unique natural features, but now some travellers are planning their trips around nature-based activities.

The average nature-based traveller in South Carolina, North Carolina, and Georgia likes to hike, beachcomb, fish, and swim and snorkel, according to studies by researchers in Clemson University's nature-based tourism enterprise project. Over half of nature-based travelers also tend to be male, middle to older aged, married and have at least some university education.

They appear to come primarily from white-collar occupations or are retired and tend to have incomes of \$50,000 or above. For at least five years, they have taken two or more trips a year, in most cases with their families.

Businesses and communities in the southeast have only recently thought of using nature-based recreational activities to build their local economies. So, the study focused on helping rural areas realize the possible benefits of nature-based tourism enterprises.

Surveys of the personal characteristics and travel preferences of individuals known to have an interest in travel and the environment and possibly pho-

tography have helped businesses and communities to develop marketing strategies.

If a community wants to capitalize on this segment of the tourism market, it needs to give special attention to packaging itself as a desirable destination and to its advertising strategies, note study authors Ken Backman and Tom Potts. And although such travellers wish to be immersed in a nature activity, at the end of the day they also want an enjoyable dining experience and a comfortable place to sleep.

The project—a cooperative venture of the National Coastal Resources Research and Development Institute, S.C. Sea Grant Consortium, and the Strom Thurmond Institute—is helping

- >existing nature-based tourism businesses to become more profitable by effectively targeting nature-based visitors
- >current businesses to expand to take advantage of new coastal tourism opportunities associated with the nature-based visitor
- >coastal communities in need of business expansion to attract new businesses, compatible with the nature-based visitor market.

Other phases of the research

are examining the preferences of African-American tourists and promoting a nature-based tourism network to bring together businesses which can provide support services for nature-based visitors such as rooms, food, equipment rental, and guide services.

Publications on nature-based tourism available from the Strom Thurmond Institute are *Profiling Nature-Based Travelers, 1993*, by Kenneth F. Backman and Thomas D. Potts, 9 pp., \$8.00; *Nature-Based Tourism: Interviews with Providers*, VHS video cassette, \$16.50; and *Nature-Based Tourism: An Annotated Bibliography*, \$30.00, also available on DD or HD 3 1/2 and 5 1/4 inch disks, \$10.00.

A workshop for managers of festivals and special events is planned, Nov. 3 to 5, at Clemson University's Outdoor Laboratory. Call Jean Martin, 803 656-4700, Strom Thurmond Institute, for registration information.

The Accounting Guide for South Carolina Water Systems and the teleconference proceedings, *Protection and Management Issues for South Carolina Wetlands*, can now be obtained from the Strom Thurmond Institute for the cost of mailing, \$2.50.

For an up-to-date look at issues facing South Carolina counties, the S.C. Association of Counties *County Focus* magazine and *Carolina Counties* newsletter are must reading. Airport development and federal regulations, local transportation systems, zero-based budgeting, programs encouraging citizen involvement in local government, and the state's C-Fund program were featured in the spring issue of *Focus*. Both publications are benefits of membership in the association. For membership fees, other benefits of membership in the association, and advertiser rates, contact Stuart Morgan, Public Information Director, at 803 252-7255. The association is the only organization representing all 46 S.C. counties.

Raising Revenues with a Lottery?

(From p 1)

The Community Leader's Letter is printed four times a year. It is the newsletter of the Community & Economic Development Program at Clemson University, a joint program of the Strom Thurmond Institute, the Cooperative Extension Service, the South Carolina Agricultural Experiment Station, the College of Commerce and Industry, and Office of Public Affairs. The program's offices are located in the Institute's facility on the Clemson University campus.

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ers are typically from low-income households. Studies from the early 1980s indicate that families with incomes under \$10,000 earned 11.5 percent of the income, incurred almost 25 percent of the losses, and claimed 18.3 percent of the prizes (the last figure is from the Washington state lottery). Thus, low-income families are disproportionately represented as both bettors, losers and winners. As lotteries have evolved, they have tried to appeal to a broader range of income groups and may have become less exploitive. However, the lottery as a tax on the poor is an issue.

Fourth, critics are unhappy about some experiences with earmarking revenues, as a strategy to overcome opposition to lotteries. Over half the states earmark lottery proceeds for worthy causes—education, capital improvements,

economic development, medical prescriptions for the elderly, or parks and recreation. States keep their word, but may (as in Florida) put lottery money into education and then allocate general fund revenues previously spent for education to another use. A recent S.C. Supreme Court decision letting the legislature spend gas taxes earmarked for highways for Hurricane Hugo costs may make citizens less willing to trust the state's promises to earmark lottery proceeds.

Finally, both sides admit that lotteries do not solve budgetary problems. Lottery revenues accounted for 1.9 percent of all state general revenues in 1990, ranging from one-tenth of 1 percent in Minnesota with a brand new lottery to 4.9 percent in Florida. But, an extra 1 to 2 percent of revenue (\$70 to 140 million) could be tempting in South Carolina, pro-

viding funds for such urgent needs as staff for new prisons and state employee pay raises.

So, will South Carolina be in the lottery business in the near future? Is the lottery a sure bet? If South Carolina is typical of other states, a lottery referendum would pass two to one, if designed to address objections of critics. New lotteries are also more likely to be approved if an adjacent state has recently adopted a lottery.

More revenue is always attractive (about \$60 million by Budget and Control Board estimates), and keeping the lottery dollars now crossing the Savannah River at home is appealing. On the other hand, there are serious questions about whether the state should encourage gambling and about how much of the financial burden falls on the poor.

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