

## **Still AMa\$\$ing Funds?**

*A look at the impact of the ban on advertising on the  
Massachusetts State Lottery*

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*The Lottery, with its weekly pay-out of enormous prizes, was the one public event to which the proles paid serious attention...It was their delight, their folly, their anodyne, their intellectual stimulant.* – George Orwell, 1984 (qtd. in Karcher, 1989)

## **Introduction**

The importance of the lottery, as depicted in Orwell's world, is slightly exaggerated compared to the status of lotteries in the United States. Still, recent trends do show that the lottery is a perpetually growing phenomenon. From 1894 to 1964, lotteries were prohibited in the United States. However, when New Hampshire began operation of its lottery in 1964, and New York did the same in 1967, a new era dawned. By 1999, 37 states were operating lotteries in one form or another. This rapid expansion, combined with increasing amounts of per capita sales, has transformed the lottery into a multibillion dollar industry (Clotfelter et. al, 1999, 1-2).

But what is it that makes the lottery so popular? A player of any type of lottery game generally does not have the odds working in his or her favor. Most importantly, there is no way to practice or develop skills to make you a better lottery player; an experienced player is no better off than a first time gambler. Despite the actual statistical randomness of lottery games, people still feel there is a way to gain an edge. Regular players often believe that they have the ideal system for picking the right numbers; in their minds, their numbers always have the best odds of wining (Clotfelter and Cook, 1989, 71).

One would think that there is something that can be done to help these lottery consumers have a better understanding of their chances of winning. It seems reasonable to expect a government controlled operation, as lotteries are, to work in the best interest of its citizens and inform them of the true possibility of getting a return on this expenditure. Yet, as the case happens to be, state governments appear to openly be encouraging the wishful thinking of their citizens (1989, 71).

One of the main purposes of lotteries is to provide a relatively cheap form of entertainment. So, if it is accepted that people want lotteries and that the states are going to give them what they want, then, as Iowa Governor Terry Brastad once put it, “If you’re going to have a lottery, you might as well have one that is successful” (1989, 160). Lotteries are structured to help states make money (1989, 167). Lottery agencies are completely separate from general state bureaucracies and, for the most part, have the freedom to implement policies regarding types of games and price levels as they see fit. In addition, lotteries are monopolistic. Though they were purposely structured this way to reduce corruption, lotteries are free from competition and have government support to act in a manner that maximizes state revenue (1989, 161-2). Basically, the state governments want the lottery agencies to sell as many tickets as possible.

It is no secret that one way to improve the sale of any product is through advertising, and lottery tickets are no different. Lottery agencies try to market their product in a way that stimulates demand (Clotfelter and Cook, 1990, 99). They set out plans aimed at recruiting new players and turning existing players into habitual ones. To do this, lotteries hire marketers and advertising agencies that purposely generate misleading advertisements. This essentially puts governments in the awkward position of pushing a product on its citizens that may not be in their best interest (1990, 101). This aspect of lottery management has begun to make people skeptical of the lotteries’ true benefits; in this case, the role of revenue generator seems to contradict government’s purpose of working for the improved welfare of its citizens.

To combat this criticism, several state governments, including ones with extremely successful lottery agencies, have been placing restrictions on advertising that the lottery can do, and cut lottery advertising budgets. Specifically, Massachusetts, one of the annual leaders in lottery sales, slashed its advertising budget over the last few years (CSG, 1999, 7-10). Several

people thought that reducing advertising would reduce the amount of misleading information that people were receiving about their chances of winning, which would subsequently reduce sales; in Massachusetts, this was absolutely not the case. Just as they had in the past in Massachusetts, overall lottery sales continue to rise (McQueen, 10/2002). If advertising is supposed to be so important to successful lottery sales, what has been able to keep the Massachusetts lottery growing with its trimmed advertising budget?

The purpose of this paper is to answer that question. By looking at sales data from different types of games and overall sales, I have been able to support the claim that it is the sale of instant games that keeps the Massachusetts lottery going. However, the lack of advertising has had a major impact on the sales of lotto and other games. In addition, despite the lack of advertising, government revenue from lottery sales continues to grow. Though presently offset by the instant game sales, a continued and long term decline of lotto sales may eventually impact the Massachusetts State Lottery's impressive growth numbers (McQueen, 10/2002).

The first part of the paper will explore the controversy surrounding the government's dual role of welfare promoter and sales promoter. The second section will look at some general advertising trends and techniques, and the motives behind them. That will be followed by a specific look at the recent sequence of events in Massachusetts that led to the introduction of certain new games, as well the cut in advertising budget. The final section will analyze the data for instant games, lotto games, numbers games, and overall sales.

### **The Government's Role**

Several state legislators are well aware of the position that lotteries put them in. Massachusetts Representative Daniel Bosley seems to have a firm grasp of the situation. The

way Bosley describes it, law makers know that by endorsing the lottery they are encouraging unnecessary gambling; still, lotteries have been such a productive source of revenue, that to condemn them would be take away from the states and their programs. Bosley's sentiments are best summarized by this statement:

“We deny that there are social ills involved in gambling and we give the excuse that people should be able to do as they please, yet we place millions of dollars each year into compulsive gambling programs that acknowledge some kind of duality in our actions. We deny more advertising funds for our lottery so as not to encourage gaming, yet we demand more and more money for our cities and towns...If we don't continue the pattern of expansion, we will lose revenues. If however, we do expand to the next step being advocated by gaming interests, we will experience declining revenues for our cities and town” (CSG, 1999, 11-2).

This is the debate. Those in favor of the lottery see it as an easy means of generating state revenue. The states' profit comes from what remains after prizes are awarded and operating expenses are paid. Essentially, this profit is equivalent to levying a tax on some other product. The revenues from lotteries are often intended to go to specific uses. Of the 28 eight states that do earmark their lottery revenues, 16 of them set the money aside for education. By earmarking funds, or by simply creating the expectation that there will be extra money in the general fund, lottery proponents hope to generate and maintain political support for lotteries (Clotfelter et al., 1999, 6). Others acknowledge that lotteries can have additional types of external benefits. A successful state lottery has a positive impact on retail establishments, general lottery service providers, computer companies and advertising agencies. This is all in addition to the “inexpensive” amusement that playing provides (CSG, 1999, 5).

Lottery opponents, on the other hand, tell a different story. They, too, claim that the lottery does act similarly to a tax. But unlike the proponents who advocate the programs that lotteries support, critics describe the tax being imposed as a regressive one; that is, people with

low incomes who regularly play end up spending a greater percentage of their income on the lottery than more affluent players (1999, 5). In addition, in the case of most states, the revenues generated by lotteries make up a fairly small percentage of the total revenue generated by the states. It also should be noted that the revenues generated from the “lottery tax” come in at a relatively high tax rate. In 1985, beer and wine were calculated to have an excise of less than twenty percent each, while liquor and tobacco products each had a tax of less than less than fifty percent. As high as all four of those are, they pale in comparison to the implied lottery tax, which was at almost 85 percent. Though in 1997 the implied tax for lotteries was reexamined and found to have gone down to about 61 percent, that number still seems to be remarkably high rate of taxation for an activity that the government is encouraging (Clotfelter et. al, 1999, 7).

Representative Bosley’s statement can now be better understood. There is obviously something to be gained by using lottery revenues; at the same time, these revenues seem to be coming at the expense of the citizens. But, unlike income, sales and excises taxes, which people know they are going to have to pay, this tax is often imposed on unsuspecting customers. This double standard is further proliferated by the structure and independence with which lotteries operate. Most lotteries are run as independent agencies that are often free of government scrutiny (1999, 8-9). For some reason, lotteries are held to a different standard than most other government supervised operations. The freedom provided lotteries would not be tolerated in other industries. For example, while the New Jersey Casino Control Commission was setup to scrutinize every aspect of casino gaming, the New Jersey Lottery Commission does not even have one person on its *part-time* staff solely responsible for enforcing regulations (Karcher, 1989, 49-50).

Lottery directors operate under the idea that the only goal of their organization is to generate increase sales and tax revenues. This explains why so many lottery director and observers feel like the most successful lotteries are run like businesses. Instead of being put in a position to accommodate demand, several lotteries are structured in a way that stimulates and profits from demand. For the directors, their job is to run an efficient lottery, and that means making as much money as possible. This idea is best exemplified by these quotes from past lottery directors (1989, 50-1):

- “Running a lottery is ‘a competitive, specialized entertainment business...It is not a regulatory agency. We were promoting the game, not trying to control it.’” -Robert Smith, first director of the Oregon State Lottery
- “You have to approach it as a business. If expectations are to have a lottery as a viable source of revenue, you must give it the tools...to advertise and market a product.” – Steven Caputo, deputy director of Oregon State Lottery, March 1988.
- “Who are we to say to that person that they can’t have leisure in their life, that every penny should go to food, clothing and shelter? I’m not saying people who receive public assistance should play the lottery, but I can’t encourage them not to.” Barbara Marrow, directory of the New Jersey State Lottery, November 1987.

As evidenced by these quotes, state lotteries are operating under the presence of some type of conflict of interest. What’s more, Barbara Morrow’s quote all but acknowledges the regressive nature of lotteries. Still, the government keeps on promoting lotteries, and the people keep on playing.

**Advertising: Who are lotteries marketing to and what are they marketing to them?**

There is one particularly famous advertisement for the Michigan State Lottery that exemplifies the inherent problem with lottery advertising. A man is standing at the counter in a store, contemplating whether or not to buy a lottery ticket. The man begins to complain that he has a better chance of getting struck by lightning than he does of actually winning the lottery. Immediately after he says that, the man gets struck by a lightning bolt. The final scene shows the man, charred and smoking, saying, "One ticket please" (Clotfelter and Cook, 1991, 230).

Many lottery advertisements, like the "Zap!" ad described above, are intended to mislead and deceive the consumer. As of 1999, there was no federal requirement for lottery advertisers to announce the odds of winning. It is not uncommon for the odds of winning to be purposely distorted or misrepresented. What's more, ads regularly play off citizens' assumptions that the government is always working in their best interest (NGISC, 1999, 3:15-7). The bottom line is that lottery advertisements have been conveying whatever message lottery directors or advertising agencies feel is necessary to get people to buy tickets.

Lottery advertisements are definitely targeted for a specific kind of player profile that is often based on a certain socioeconomic profile (govinfo.library.unt.edu 8). This profile is of a player who belongs to a minority group with little to no formal education. This player is more often than not a married, middle-age male from an urban area. In addition, though there is not a strong connection between lottery play and income, it does seem fairly evident that lottery expenditures tend to be regressive; that is, poorer people end up spending a greater percentage of their income on playing the lottery (Garret and Sobel, 2002, 1-2; Clotfelter et. al, 1999, 12-3).

Because advertisements are designed to entice a specific kind of person to play, the messages are designed to convey certain positive messages about lotteries. Much lottery

advertising is fantasy based. In addition to providing a momentary escape from the toil of everyday life, the ads are designed to present players with the ideas that their odds of winning are not as bad as they would seem to be (Karcher, 1989, 79). Another technique is to discourage work ethic. Many lottery players work hard for a better portion of their lives and have few financial gains to show for it. Certain ads are designed to imply that work is for the unlucky. The message conveyed is that if you start playing the lottery, you will get lucky and win, and then never have to work again (1989, 76-7). In addition, lottery advertisements are planned to air at strategic times, most notably the beginning or end of the month and the middle of the month; right around the time that social security and pay checks come in the mail. The goal is to get people with new found money to play before they spend it on something else (1989, 79). Of course, one of the goals is to build loyalty to a particular game or product through repetition (1989, 77).

As described by Clotfelter and Cook (1991, 230-1), lottery agencies use careful tactics get people to believe they have a good chance of winning, and subsequently buy tickets.

- One tactic regularly used is to show pictures of or tell stories about recent or past winners. Doing this lets consumers associate the lottery with winning.
- Another trick used is to, as best as possible, hide the true odds of winning. Often times, this involves something as simple as not mentioning the true odds. This is also done by rigging tickets to look like “almost” winners; the tickets are purposely printed so players feel like they just missed an opportunity to win. This increases the level of excitement for the player and helps to get them to play again.
- A third practice is to try and make a believer out of doubters; an example of this is the “Zap!” ad described above.

- A fourth approach involves getting players to believe that there is some sort of skill associated with a particular game, and that they are capable of developing that skill. Accompanying this is the message that whatever processes you use to choose to your numbers are the right ones.
- A fifth tactic encourages people to minimize their regret. This keeps people playing everyday by reminding them that the one day they do not play could be the one day that their numbers actually do come up.
- A final tactic is the one that is probably most commonly used: do not give accurate information about the potential odds of winning. When promising odds are given, they are usually the odds of winning smaller prizes; the odds of winning the big jackpot are either distorted or simply not given at all.

Other advertising themes include emphasizing the size of the prize and the general amount of fun and amusement that can be had by playing or by using potential winnings (Clotfelter et al., 1999, 16-7).

It should be noted that while lotteries agencies work free from the supervision of their state governments, there are guidelines and restrictions that can sometimes dictate what can and cannot be done in advertisements. In 1975, the National Association of State Lotteries (NASL) set up an advertising Code of Ethics, which claimed that membership in the NASL was contingent upon strict adherence to the Code. The major points in the Code called for 1) Truth in Advertising 2) Standards of Good Taste and Behavior 3) Avoidance of Greed and Avarice 4) Exhortations to Bet and 5) Full Disclosure. Clearly, these standards were not stringently adhered to. On March 19, 1999 the North American Association of State and Provincial Lotteries (NASPL) tried to improve the quality of advertisements by instituting an updated list of

advertising standards. Included in these standards were guidelines for content, tone, messages to minors, game information, and beneficiaries. These new guidelines were designed as way as to combat some of the tactics listed above; however, the 1999 standards do not seem to be very different, in principle, from those drawn up in the 1975 Code of Ethics (NGISC, 1999, 3:23-4).

Another, though less popular way to combat these advertising tactics, is to implement legislation that specifically restricts them. Minnesota, Virginia and Wisconsin, in some form or another have restrictions on advertising. In Minnesota, it is illegal to misrepresent the odds of winning, to praise players and mock non-players, and to target a specific group for the purpose of deceiving them. In Virginia it is illegal to spend money on “inducing persons to participate in the lottery. Wisconsin has banned promotional advertising. Other states, such as New York, Iowa and Louisiana have tried to adjust the style of their ads (CSG, 1999, 7-10).

There also exists a way to restrict advertising without actually putting in legal restrictions: cut the advertising budget. This is exactly what happened in the Commonwealth of Massachusetts (govinfo.library.unt.edu 8). As the next section will describe, the Massachusetts State Lottery has become significantly limited in what it can and cannot do as its budget has been drastically cut over the last ten years.

### **The Case of Massachusetts**

On September 27, 1971, legislation was enacted that created a state lottery in the Commonwealth of Massachusetts. By March of 1972 lottery tickets were selling, and by May of the same year the first \$1 million prize was awarded. In 1974, the most monumental event in the history of the Massachusetts Lottery occurred when the state introduced instant games (which would drive its total sales for the three decades). In 1976 the Daily Numbers Game was

introduced. Since then, a variety of instant games have been introduced, as well as different forms of lotto and numbers games. In the last ten years, the state has also added Keno. Driven by its instant game sales, the Massachusetts State Lottery continues to grow and is one of the most successful in the country (O'Brien and Mitchell, 2001, 3-6).

However, despite its success, Massachusetts was not free of the problems that were plaguing other states and lotteries. As the words of Representative Bosley show, law makers were fostering a dangerous, albeit profitable, situation. Some saw the lottery as “state-sponsored addiction.” There were fears about lottery promotion turning compulsive gambling into a serious problem among the state’s citizens (CSG, 1999, 12). In addition, the regressive nature of the unofficial “lottery tax” was becoming more evident; in 1996, per capita spending on the lottery in the poor Boston suburb of Chelsea was \$900, over \$350 more than the state-wide average (govinfo.library.unt.edu 10). Finally, there was a growing concern that the games were too appealing to minors and too easy for them to get (Golden and Halbfinger, 2/9/1997, a1).

There were several concerns, and a growing sentiment that something needed to be done, but law makers were worried about the impact any kind of restriction would have on the popular and revenue-generating lottery industry (2/9/1997, a1). Still, a decision was made to go after this problem by reducing the lottery’s advertising budget. For Fiscal Year 1993, the state could spend \$11.6 million on “promotional activities.” That figure was cut to \$6 million in FY 1994, \$2.8 million in 1995, \$700,000 in FY 1996 and \$400,000 in FY 1997 (McQueen, 11/2002). By FY 2002 the advertising budget was down to \$340,000 and for FY 2003 the proposed budget allocates only \$132,000 for advertising (See Figure 1) ([www.state.ma.us](http://www.state.ma.us), 1998-2002; McQueen, 11/2002); that is a radical \$11.5 million dollar cut over ten years. It was also decided that this

money could only be spent on point-of-sale purchase sites, and could in no way be spent on television, radio, newspaper or billboard advertisements (govinfo.library.unt.edu 8).

The Lottery Commission at first found a way around these restrictions by giving out free coupons in the mail and at corporate promotional events. In some cases, these free coupons were traded with radio and television stations in exchange for “free” endorsements. Eventually, the attorney general caught on and that activity was halted (Golden and Halbfinger, 2/10/97, a1).

Regardless, of these restrictions, the Massachusetts State Lottery has still been able to flourish. In spite of the decreased advertising budget, the lottery has been able to continue to grow. Massachusetts appears to have continued its tradition of developing innovative strategies for introducing new games, which has helped it remain atop the lottery world (McGowan, 1994, 104).

### **What has been the impact in Massachusetts?**

It is difficult to measure the true impact of any ban on advertising. While it is certainly possible to project or estimate the impact advertising can have on sales of a new good, a product like the lottery is already engrained into society and might not be as dependent on advertising to boost sales. Still, the best way to evaluate the importance of advertising seems to be to track sales over the time period of the budget cuts; if advertising had any short-term effects, we would see sales decrease over that period. For something like instant games, point-of-sale displays might disrupt the ban’s true impact, since that is a form of advertising that still exists and is thought to be influential in determining sales of those types of games.

It is no secret that Massachusetts’ seemingly perpetual growth is driven by its instant game sales and, to a lesser extent, its relatively new Keno game. Yet, sales in other games,

especially lotto, have been sagging over the years (McQueen, 10/2002). The absence of a sufficient advertising budget seems to have impacted a few games, while instant sales still seem to be very strong. Overall, sales are still going up and the Massachusetts government has been able to generate increasingly more revenue despite the lack of advertising funds.

To perform this analysis, I accumulated sales data from 1991 through 2001 for the Massachusetts State Lottery. There are overall sales totals, as well as sales records for instant games, lotto, Daily Numbers games, and Keno. This data was recorded from the annual “North American Lottery Sales Report,” as it is found annually in *International Gaming and Wagering Business*. From this report, instant game sales were for all instant and pull-tab games; lotto sales came purely from sales distinctly identified as ‘lotto,’ and did not include other categories of lotto-type games; numbers games sales included figures on Daily Numbers, as well as pick-3, -4, and -5 games; Keno included all reported Keno sales. Figures on government revenue were compiled from *International Gaming and Wagering Business’s* annual “Efficiency Reports.”

Connecticut was selected as a control group. Though not nearly as successful as the lottery in Massachusetts (no state lottery really is), Connecticut’s advertising techniques are documented by *The Hartford Courant* and appear to be similar to the ones that Massachusetts and other states used to use (Green, 10/6/2002; Dolan and Green, 10/7/2002). In addition, Connecticut’s payout rate of about sixty percent is one of the higher ones in the country, and is comparable to that of Massachusetts, which is about seventy percent and is the highest of any state lottery in the country ([www.thewager.org](http://www.thewager.org)). The data also contains sales figures for the US, and is intended to help provide a frame of reference for analyzing the Massachusetts data (though, the overall US population data contains all states, not just ones with lotteries).

After the data for overall sales and sales by game was compiled, two steps were taken to improve the efficiency of the analysis. First, the overall sales and sales by game figures were converted into sales per capita. This was intended to make it easier to compare the data from different states and from the country as a whole. The second step was to create an index for sales figures. The purpose of this was to better evaluate how growth rates between the states and the country as a whole changed. Since 1994 was when the first major advertising cut was implemented in Massachusetts, it is taken to be the base year. In 1994, the index value for all games and all states is 1.00.

#### *Data Analysis*

Careful analysis of the sales data for instant, lotto, numbers and keno games, as well as overall sales, shows that the ban on advertising has impacted a few types of games, but has not greatly affected the sale of instant games. The strength in instant sales has helped continue the growth in overall sales and increased government revenue in Massachusetts.

*Instant Games-* Instant games still seem to be the strong suit of the Massachusetts lottery. Per capita spending on instant games in Massachusetts was much greater than that of Connecticut and the US as a whole (see Figure 2). Though the rate of sales seems to have slightly tapered off shortly after the first major advertising cut, there appears to have been an increase in the rate over the last few years. However, the interesting observation of instant games sales comes from the instant games index (Figure 3). While Massachusetts does have extremely high sales figures, its sales have been growing at about the same rate as instant game sales for the whole country. Though Connecticut is growing at a very high rate (it has a relatively high payout rate, but it also has the advertising that Massachusetts lacks), there seems

to be an overall trend in the country throughout this period for instant game sales to increase. In that respect, Massachusetts' success does not seem so abnormal.

It should be reiterated that advertising in Massachusetts is restricted to point-of-sale displays. This kind of advertising directly impacts instant games sales. In a sense, Massachusetts has spent all of its advertising money promoting instant games. In addition, Massachusetts has proven very adept at utilizing proven techniques and methods for increasing sales; those being successfully introducing higher-priced tickets and keeping up with new technology (LaFleur, 5/15/92, 34). As recently as 2001, the state introduced twenty-one new instant games (O'Brien and Mitchell, 2001, 6). All of these factors help to explain some of the reasons for Massachusetts' instant game success.

*Lotto-* While the lotto figures do not contain all of the data (due to the fact that it is sometimes hard to classify a particular game as a 'lotto game'), there is still something to be gained from analyzing them. Per capita, in Massachusetts, Connecticut and the US, there was a decrease in lotto sales (see Figure 4). Looking at the lotto index (Figure 5) shows that these declines were greater in Massachusetts and Connecticut than they were for the country overall. One reason for this could be that in the cases of Massachusetts and Connecticut, such strong sales in instant games took away some of the business from lotto sales. However, the executive director of the Massachusetts lottery, Jay Mitchell, firmly believes that the inability to advertise is hurting lottery sales. As he describes it, lotto was already struggling in the 90s, and lacking the ability to better advertise prevents the lottery agency from spreading the word about new games and big jackpots, which further deters sales (McQueen, 10/2002, Lottery Beat). Mitchell's comments, combined with the steeper declines in sales and in the index right after the

advertising budget cuts seem to imply that, for lotto games, the ban on advertising has had at least some impact on sales.

*Numbers games-* As McGowan describes it, the daily numbers game is a fairly consistent, and safe play (1994, 65). The data seem to support this. Though the sale of numbers games was much higher in Massachusetts and Connecticut than it was in the US, all three groups had fairly constant sales (see Figure 6). The most interesting observation about numbers games is that, when there was growth, Massachusetts generally grew less than the other three (see Figure 7). While numbers is not a game with very high rates of growth, Massachusetts had a noticeably smaller amount of growth, particularly after the advertising ban was imposed. It is probably not fair to expect much more out of numbers games, but Connecticut and the US did see some increases in growth. Given the timing of the decrease and the moderate success in other states, it looks as though the absence of advertising for numbers games somewhat affected growth in Massachusetts.

*Keno-* Massachusetts was the only state studied that had Keno. After first being introduced to Massachusetts in 1993, right around the time of the first advertising budget cut, Keno sales have increased every year. Though, after the initial jump in sales, both per capita Keno sales (Figure 8) and the Keno sales index (Figure 9) show that the growth rate of Keno has slowed down. Because of when it was introduced, Keno never had the chance to benefit from any kind of significant advertising. One has to wonder if Keno could have done better than it did, or maintained that initial growth rate for a long period of time, had there been more of an opportunity to advertise. For now, it looks like Keno will continue to grow, but at a potentially decreasing rate.

*Overall sales-* Generally, the trend seems to be that Massachusetts' lottery is still growing. Not surprisingly, the graph of overall sales per capita (Figure 10) is very similar to the graph of instant sales per capita. As stated before, instant sales play such a large role in sales figures that lotteries, in particular the Massachusetts State Lottery, are heavily dependent on instant sales to carry their overall sales. In addition, the introduction and continued increase in Keno sales has helped boost overall sales. Specifically in Massachusetts, the absence of advertising for lotto and numbers games, and the lack of success surrounding those games, makes instant games, and to a lesser extent Keno, that much more important to the state.

The one potential sign of a lack of advertising having had an impact on overall sales is seen in the overall sales index (Figure 11). For the first two years after the advertising budget cuts, sales rates for Massachusetts, Connecticut and the US were almost identical. In addition, despite having per capita sales significantly greater than the other groups, Massachusetts' overall growth rates were not that much higher than those of the other groups. In fact, it was only recently that Massachusetts' rate became higher than Connecticut's. Keno's growth has slowed, numbers growth has been negligible, and lotto sales have been declining. From all this, it is perhaps possible to infer that during times when its instant game sales were slower than normal, the ban on advertising impacted other games enough to slow down the overall growth rate.

*Government Revenue-* The bottom line is that sales are still up from year to year, and that has meant more money for the government. For the time being, the lottery still seems capable of generating funds for the Massachusetts government, as revenue has increased every year at a fairly steady rate (see Figure 12). While there are signs that the reduced advertising budget has hurt the sale of some games, and that the growth rate may ultimately slow down, the government still has been able to profit. There do not appear any signs that government revenue will

decrease any time soon. In this respect, it looks as though the ban on advertising has had little to no impact on government revenue.

## **Conclusions**

*“I think in the long run, it’s going to be detrimental for Massachusetts to continue to rely every year on improved instant ticket products, because I’m not sure how much better we can get at that.”* -- Jay Mitchell, Executive Director, Massachusetts State Lottery (McQueen, 10/2002, Lottery Beat)

Mitchell’s quote seems to concisely summarize the condition of the Massachusetts Lottery. Like the data showed, instant sales and Keno have continued to drive the Massachusetts lottery, and prolonged its success. However, these games are the ones that are most easily advertised under the current regulations and financial restrictions. Other games, like lotto and numbers, seem to have been affected by the advertising budget cuts. Mitchell is skeptical as to how long the Massachusetts Lottery can continue to prosper under these circumstances. While the data does show strong instant game sales, which have been able to maintain point-of-sale displays, there are some signs that if instant sales were to falter, overall sales and growth rates could end up suffering. Still, for the time being, the Massachusetts Lottery has managed to remain one of the most successful in the country despite its inability to advertise its other games, and has continuously generated increasing amounts of revenue for the state.

Massachusetts has laid out a successful model for starting a new lottery, provided that some advertising is permitted. By building on instant games and point-of-sale displays to establish credibility and popularity, lotteries can be put in a position to grow and prosper. However, unless instant games can be as successful as they have been in Massachusetts, other kinds of profitable games will need to be put in place in order to ensure long term growth. In the

face of increased advertising restrictions throughout the country, including Massachusetts, this will probably end up being more and more difficult.

The role of the state in the promotion of any potential successful state lottery is a delicate one. As we have seen, it is important to strike the right balance between accommodating demand and stimulating demand. It seems that for the general welfare of any state right now, demand should be accommodated. Though this may deny some states revenue, it handles the messy issue of advertising problems and ends up promoting better values for the state and its citizens. Massachusetts' unprecedented success and ability to generate revenue appear to make it the exception. While there are signs that the reduced advertising budget and increased advertising restrictions may one day catch up with the state, its instant game success presently continues to allow it to set the standard. Only time will tell if these factors will significantly slow down the Massachusetts State Lottery.

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