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Editorial: Bad state budget bet

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Faced with a seemingly intractable budget problem, Gov. Arnold Schwarzenegger has rolled the dice one more time, betting again on the state's already dangerous addiction to gambling.

Last year, his partial solution to the budget crisis was a massive expansion of slot machines at Indian casinos. This year Schwarzenegger proposes to lure more hapless suckers into the state-owned casino – the aging and tattered California Lottery.

Schwarzenegger proposes to modernize and expand the lottery. He wants it to offer more exciting and glitzier games and to increase payouts. He's betting that those changes will increase lottery revenues to the state, currently about \$3.3 billion annually, by 200 percent.

Under the proposed plan, those future increased earnings would be "securitized." In plain English, that means that the state would borrow the money – selling \$15 billion worth of bonds and paying back bond investors with lottery profits generated over the next 30 years. The governor's office says it's not borrowing, but the point isn't worth arguing over. Either way, the state would use the proceeds to close its \$17.3 billion budget gap. The governor's advisers assume there would be enough extra lottery revenues to still pay the schools the flat \$1.2 billion in annual lottery proceeds they receive now.

Here's the problem with the plan. Even though the lottery officials claim that the lottery players mirror the population in ethnicity and income, the lottery is really a regressive tax. The \$10 someone of wealth spends on lottery tickets is a much smaller percentage of his income than the same \$10 a poor person spends to gamble at the state's casino.

There is a societal cost when someone who can't afford it throws money away on a lottery ticket with the chances of a return close to zero. Encouraging the poor to waste money gambling increases poverty, homelessness, crime and suffering.

Also, the governor assumes that the changes he's proposing will double the per-capita spending on the lottery from \$94 in sales on average now to the national average of \$184 per capita. But that national average includes Northeastern states where playing the lottery is ingrained into the culture much more than it is in the West. If only Western states are included in the calculation, the average per capita spending on lottery is just \$107. So the more realistic potential for increased lottery sales may be a lot lower than the governor assumes. If the state fails to generate

the revenues promised, education would lose the \$1.2 billion annually it receives from the lottery now.

Balancing the budget on the backs of gamblers is a sign of desperation. It's bad economics and bad public policy. Surely California can do better than this.
