An Experiment in Civic Engagement: The Free State Project

Joseph Spear

The Free State Project (FSP), a not-for-profit group, is organizing 20,000 activists in the Libertarian Party to relocate their families and livelihoods to New Hampshire in an effort to rekindle the spirit of "liberty." One of FSP's primary goals is building a local culture of community and civic engagement. Using the concepts of the Canadian political party Parti Quebecois, FSP hopes to move a third-party campaign into higher gear.

FSP has partnered with the Libertarian Party in order to establish a strong presence in one single U.S. state and gain influence over that state's electoral and political processes. The group has yet to clearly define its exact political vehicle, but it is expected to be a combination of libertarians, classic liberals, constitutionalists and others supportive of the organization's basic goals. Currently, the Libertarian Party has 40,000 paid memberships in the U.S. and has determined that at least another 20,000 activists can be recruited to sway public policy and voting behavior.

Founded in 2001, the FSP remains in its infancy but has promised to fold if it does not recruit 20,000 participants by 2006. If the goal is met and the project proceeds as planned, participants will have five years to relocate to a city or county of their choice in New Hampshire. Each of the 20,000 participants will be encouraged to play a role in the upcoming elections.

FSP members are expected to assist with at least three of the following: financially support pro-freedom think tanks, financially support pro-freedom candidates, write letters to appropriate newsletters and legislators, participate in demonstrations, and volunteer their time and efforts to political or ideological agendas. Organizers also anticipate that about 25% of the participants will serve in local governments across the state. In addition, they estimate that each participant will influence three additional people to support the FSP political agenda.

Some of the political goals FSP hopes to accomplish include**:**

- repealing state income taxes,
- curtailing "wasteful" state government programs,
- ending state and federal collaboration in enforcement of unconstitutional laws,
- repealing legislation for gun control and illegal drugs,
- limiting the practices of asset forfeiture and eminent domain, privatizing public utilities, and
- diminishing the impact of inefficient government regulations and monopolistic powers.

The selection of New Hampshire, as well as the overall strategy for the U.S. project, is derived from the Parti Quebecois's success in winning the majority of seats in the Canadian Parliament in 1973. The Parti was a collection of dissidents from the Liberal Party of Quebec and smaller pro-independence groups, with approximately 100,000 members in 1973 — representing 1 in 62 residents in Quebec. Based on those results,the FSP determined that it would need a comparable ratio in a U.S. state to make a significant impact, and so selected a state with less than a population of 1.5 million.

Organizers also note that they should be able to outspend both the Republican and Democratic parties in a smaller state, which increases their potential of victory. In 2000, the Libertarian Party spent $5.2 million on campaigns, and FSP leaders determined they could raise an equivalent amount in every two year election cycle. Using that amount as an indicator, they found that Republican and Democratic Parties combined spent less than $5.2 million in only four states.

A total of 12 U.S. states met those two criteria. Hawaii and Rhode Island, however, were eliminated because of their propensity for centralized government**.** Ten states remained: Wyoming, Alaska, North Dakota, South Dakota, Vermont, Delaware, Montana, Idaho, Maine and New Hampshire.

Once organizers gained support from 5,000 dedicated activists, they asked them to vote on one of the ten states in regards to a wide variety of topics ranging from quality of life to the potential civic impact. New Hampshire, with its "Live Free or Die" motto, was the state of choice. The anticipated migration of 20,000 participants into the population of 1,250,000 will provide the FSP with the needed 1 in 62 activist to current resident ratio.

According to the FSP website, New Hampshire--named the "most livable state" in 2004 by Morgan Quitno Press--was chosen "because it has the lowest state and local tax burden in the continental U.S., the second-lowest level of dependence on federal spending in the U.S., a citizen legislature where state house representatives have not raised their $100 per year salary since 1889, the lowest crime levels in the U.S., a dynamic economy with plenty of jobs and investment, and a culture of individual responsibility indicated by, for example, a lack of seatbelt and helmet requirements for adults".

Oklahoma would have required considerably more participants to meet the prerequisite criteria. Having a population of approximately 3.4 million, FSP would have needed to recruit 55,000 participants. In addition, FSP organizers would need to raise $16.2 million in any given election cycle to outspend the combined Republican and Democratic expenditures.

While FSP is not a political party per se, it is a movement designed to influence political outcomes by instilling their views of liberty in the voting public in New Hampshire. FSP has set the standards and strategies to follow. Once the 20,000 participants are recruited, it will be their role to implement the plan. If successful, it will send a message to the U.S. and other democratic societies about the power of Libertarian philosophy and the power of grassroots campaigns.

The Free State Project website can be found at www.freestateproject.org. Joseph Spear is an MBA student at the University of Central Oklahoma and Research Assistant at the Oklahoma Policy Research Center.

The Myths and Realities of Welfare and Welfare Reform in Oklahoma

Matthew Nowlin

Welfare is a misunderstood and commonly maligned aspect of American life. This paper first outlines the trajectory of welfare reform in the United States, up to the creation of Temporary Aid to Needy Families (TANF) in 1996. Then, it examines the four purposes of TANF in light of welfare reform's experience in Oklahoma. It concludes that, in light of those purposes, reform has not been a success in the Sooner State.

Welfare: A Brief History

What is commonly understood as welfare is a rather large patchwork of federal and state grants, programs, and tax credits. Among these are TANF (Temporary Aid to Needy Families), food stamps, child care, Medicaid (health insurance for the poor, elderly, and disabled), and the EITC (Earned Income Tax Credit). Welfare began in the states as mothers' pensions. These allowed mothers, usually widows, some economic security while they raised their children. The idea of mothers' pensions became federalized as part of Roosevelt's New Deal legislation. The Aid to Dependent Children (ADC) was passed as part of the Social Security Act of 1935. ADC later became known as Aid to Families with Dependent Children (AFDC). ADC and later AFDC provided federal and state funded assistance as long as states followed certain federal guidelines. These guidelines stated that need was the only criterion for eligibility. The majority of those receiving assistance were widows. In 1939, 61% of ADC recipients were widows but by 1961 that number shrank to only 7.7%. As a result, welfare use became more stigmatized, and those that received it were seen as less "deserving" (Mink 1998).

These shifting attitudes culminated in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This act, signed by President Bill Clinton who had campaigned in 1992 to "end welfare as we know it," replaced AFDC with TANF. TANF differed from AFDC in several major ways. First, it redefined welfare as temporary assistance, rather than as a permanent entitlement. Second, it imposed time limits and work requirements on its recipients, to a maximum of five years. In addition to these changes from AFDC, TANF also targeted four major purposes: 1) to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; 2) to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; 3) to prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and 4) to encourage the formation and maintenance of two-parent families (Oklahoma Senate 2002).

The reforms of 1996 remain in effect today essentially unchanged. The Bush administration has proposed raising the current work requirement for TANF recipients from 30 hours to 40 hours and allocating $300 million to encourage marriage (Ehrenreich, 2002). Welfare reform has come up for reauthorization and has passed the House of Representatives but at this point has failed to pass the Senate.

Welfare and Welfare Reform in Oklahoma

In Oklahoma, the percent of those below the poverty level was 14.7 for adults in 2000 and grew slightly to 15 percent in 2002 (Census Bureau, *American Community Survey Profile* & *2000 Census*). For children in Oklahoma the percent was 19.7 in 2000 and 21.1 in 2002 (Census). Those most likely to live in poverty are single women and their children. In 2002, 34% of families headed by females in Oklahoma lived below the poverty level (Census, ACSP). The 2000 Census reported that the percentage of children in families headed by females that live below the poverty level was 39.8 for children under eighteen and 54 for children under five years old. The poverty threshold in 2003 for a single adult and two children is $15,260 (U.S. Department of Health and Human Services).

In Oklahoma the majority of the welfare programs are administered by the Department of Human Services within the Family Support Division. Medicaid is administered by the Oklahoma Health Care Authority. Services administered by the Family Support Division include; TANF, Aid to the Aged, Blind, and Disabled, Food Stamps, and Payment for Child Care. It is interesting to note that in 1995 Oklahoma passed its own welfare reform, the Oklahoma Welfare Reform Act (HB 1673), that anticipated, in many ways, the eventual federal reform. Another major reform was to provide federal funds in the form of block grants. To receive these federal funds states must reach a certain "maintenance of effort" (MOE) amount. In Oklahoma the amount the state must expend is $61.8 million to qualify for federal funds that total $148 million (Oklahoma Senate 2002, 131).

Under federal law, Oklahoma sets eligibility criteria for TANF. An eligible person must meet the following standards:

1) have at least one dependent child living at home with them;
2) own a car worth less than $5,000;
3) have less than $1,000 in other assests available;
4) cooperate with child support enforcement efforts to establish the paternity of offspring and increase parental support; and
5) be willing to comply with all the work requirements mandated by state and federal law.

In addition, Oklahoma sets the level of benefits a TANF family may receive. The average TANF family in Oklahoma consists of a poor single mother and two children. In 2002, the maximum monthly benefit for a family of three in Oklahoma was $292.00, which is equal to 25% of the federal poverty level.

Measuring the Success of Welfare Reform in Oklahoma

Welfare reform has largely been seen as a success because of the large decline in caseloads. The number of TANF caseloads in Oklahoma fell by over half between 1996 and 2002.

Oklahoma Families Receiving TANF						
FY 1996	1997	1998	1999	2000	2001	2002
40,169	32,751	25,456	20,075	15,063	14,051	14,648
Source: Oklahoma Senate *Overview of State Issues*, 2002						

It is interesting to note, however, that caseloads had begun to fall even before 1996. The number of AFDC cases in Oklahoma reached a peak in 1993 of 47,712 and by 1996 had already decreased 12% to 40,169 (Oklahoma Legislature). It seems that the "success" of welfare reform had more to do with the positive economic factors of the nineties. Douglas J. Besharov (2002) suggests that the economy accounted for as much as 35 to 45 percent of the decline of caseloads. In addition, the number of families on TANF has increased since the recent recession. When the recession began in March 2001 the number of TANF cases in Oklahoma was 13,919 but by October 2003 that number increased by almost 1,000 to 14,887. The lifetime limit for families on TANF becomes problematic when seen how closely correlated caseloads are to the behavior of the economy.

Has welfare reform in Oklahoma contributed to the four goals of providing children better care, ending welfare dependency, reducing out-of-wedlock pregnancies, and otherwise encouraging two-parent households? As for the first goal, the number of Oklahoma children living in foster care has nearly tripled from 1991 to 2002. As Mink (2002, 105) notes, "TANF mothers who lose their benefits, like employed single mothers whose wages are too low to cover housing, food, or medical costs, may surrender their children to foster care." Moreover, in Oklahoma the number of foster care homes has not kept pace with the increased demand, leaving more children to spend more time in temporary or other group arrangements. One consequence of the increase in foster care has been rising numbers of child abuse investigations and of confirmed cases of abuse. About one third of investigations result in confirmed cases and the number of confirmed cases of child abuse has increased by 96% since FY 91. The number of confirmed cases of abuse "has been directly linked to the increase of children in foster care" (Oklahoma Senate 2002).

The second major goal of TANF was to break the syndrome of welfare dependency and shift recipients into the workforce. At first glance, declines in the welfare roles do suggest that this policy has increased employment. Yet, in 2000 only 20.8% of TANF cases were closed for that reason. The highest percentage of TANF closings (32.8) was due to reasons listed as "other." The second highest percentage (30.9) was due to sanctions for non-compliance with state policy.

Percent Reason for TANF Case Closing	
Employment	20.8
Marriage	0.3
Sanction	30.9
Tribal Program	6.8
State Policy	8.4
Other	32.8
Source: The Administration for Children and Families	

In 2001 the percentage of cases closed due to non-compliance jumped to 40.4 (Kids Count, 2002). Reasons for non-compliance included: TANF was no longer wanted or needed, not understanding or taking seriously the requirements, poor physical or mental health made work difficult, and a child with a substantial disability requiring special child care needs (Kids Count, 2002). Moreover, even when employment is obtained it is not clear that the situation of poor families is improved. Kickham et al. (2000, 38-39) found that "total household income is lower for leavers than for stayers." In addition, 40.8% of those families that left welfare had no health insurance. Almost half of leavers (47.8%) were not able to pay rent. Over 25% of families spent some time in a homeless shelter, while nearly 70% were behind on utility bills and 48% went without a phone.

Thirdly, TANF aims to reduce out-of-wedlock pregnancies. Yet, in Oklahoma, both the number of and the rate at which married couples raised children decreased over the past decade. Indeed, the percentage of births to unmarried mothers increased slightly from 31% in 1993 to 33.1% in 2000. Once again it seems clear that this goal of TANF is not being met.

Finally, TANF seeks to encourage two-parent families. Oklahoma was the first state to use federal funds to promote marriage. These funds, about $10 million, were used to establish the Oklahoma Marriage Initiative. The goals of the initiative are to reduce the divorce rate, since Oklahoma has the second highest divorce rate in the nation. Both the number of marriage licenses issued and the number of divorce petitions granted have remained relatively constant between 1997 and 2000 (Kids Count 2002).

The general understanding was that welfare alone was going to be enough to end poverty. Since the late 1960's however, prevailing wisdom became that it was the responsibility of those in poverty to become self-sufficient. The reigning view is that it is not the responsibility of the government to provide these individuals with "handouts." If any help is to be offered at all it must be in the form of incentives to work. This thinking formed the foundation of welfare reform. The welfare reforms that were enacted in 1996 have only made the situation more difficult for those in poverty in Oklahoma. Some of the more severe problems of welfare reform may have not surfaced yet. These problems have been masked by strong economic growth, the record low unemployment of the late 1990's, and the fact that the five year time limits have not yet been reached by all the families served by TANF. It may be true that welfare needed reform; it is also true that the reforms enacted in 1996 have been a step in the wrong direction for Oklahoma families struggling with poverty.

Matthew Nowlin is a graduate student in Political Science at the University of Central Oklahoma.

References

Administration for Children & Families. www.acf.dhhs.gov Census Bureau. American Community Survey Profile (2003). Available at www.census.gov/acs/www/Products/index.htm

2000 Census. Available at www.census.gov

Ehrenreich, Barbara 2002. Preface. In R. Albedlda, & A. Withorn (Eds.), *Lost Ground: Welfare Reform, Poverty and Beyond* Cambridge, MA: South End Press.

Kickham, Kenneth et al 2000 *Leaving Welfare Behind: the Oklahoma TANF Leavers Report.*

Kids Count 2002. *Oklahoma Kids Count Factbook.* A State Profile: the Welfare of Oklahoma's Children after Welfare Reform.

Mink, Gwendolyn 1998. *Welfare's End*. Ithaca, NY: Cornell University Press.

Oklahoma Legislature 1996. *Welfare Reform in Oklahoma*. Available at www.lsb.state.ok.us/senate/Issuepapers.dir/WelfareReformInOK.html.

Oklahoma Senate 2002. *Oklahoma Senate Overview of State Issues.* Senate Staff Report.

Lotteries and Public Policy

Robert Booth

A lottery is a salutary instrument and a tax…laid on the willing only, that is to say, on those who can risk the price of a ticket without sensible injury, for the possibility of a higher prize.

— *Thomas Jefferson*

States often seek new revenue sources in order to fund the programs increasingly expected by their citizens. The problems that many elected officials and policymakers face are the somewhat irrational expectations of their constituents. Though U.S. citizens have been demanding more and more in the way of services from their government, the amount that they are willing to pay for the new level of services does not keep pace, or even declines.

One way in which legislators in the past were able to fairly easily increase revenue was through what are commonly called "sin taxes." These taxes were usually popular with voters because anyone who objected to the taxes could be framed as one that condoned "sinful behavior," thereby minimizing the opposition.

History

In the 1970s, some states began a new revenue-generating program, one that many objectors consider a new kind of "sin tax" or even a "stupid tax." This "new" revenue stream is state lotteries, which have proven to be highly profitable in most instances with an average return of 43% to the state coffers (Evans and Zhang 2002).

Lotteries have a long history in the U.S. that even predates the 1970s. The first was held in New York City in 1746 to finance the fortification of the city. In early American history, lotteries were used for everything from funding firearms for those that could not afford to purchase them to the financing of Harvard, Princeton and Yale.

Objections

The resurgence in lotteries has occurred for much the same reason that earlier "sin taxes" were so easily implemented: they are presented to voters as a voluntary tax. If you don't like the "tax," then you are under no obligation to participate. Currently, 31 of 38 states with a lottery have earmarked those proceeds for education (Novorro 2002). Coupling that incentive with the voluntary nature of the lottery has been sufficient to overcome voter objections and ensure the proliferation of state lotteries. Some still oppose lotteries for several reasons. They reject the comparison of state lotteries to older "sin taxes" whose consumption did have an associated social cost. Because some individuals would always consume these items, it was reasonable for the state to profit from their use especially if it reduced consumption or if the tax revenue would be used to cover their social costs. However, in the case of lotteries, not only does the state profit when citizens engage in the behavior, it also spends huge sums of money in marketing to lure individuals into participating. One economist writes:

> States are led into misleading advertising in order to bolster their revenues and pander to the unrealistic expectations of winning of those who buy lottery tickets… the state actively encourages individuals to participate with advertising that often is misleading at best and false at worst. Of course, misleading or false statements from governments and politicians are not exactly new. (Hibdon 2003)

Like anything else, there are winners and losers. According to Timothy Terrell (2003), "one possible winner is the advertising industry. Advertising for the lottery would be a substantial amount into the tens of millions of dollars." Not only do lottery opponents object to states' promotion of gambling to their citizens, they also object to it being a regressive form of taxation. According to a study at Texas A&M, the lowest income group of Texans earns only 2% of the state's income but contributes 10% of the state's lottery revenue (Humphress 1994). Table 1 shows similar relationships between income and lottery spending based on studies done in Virginia.

Regressivity of State Lotteries: Lottery Plays, by Income Level, Virginia 1997

Income Levels (1,000's)	<$15	$15 to $25	$25 to $50	>$50
Average Income (1,000's) (a)	$7	$19	$36	$104
% all Adults (b)	15	16	40	30
% all scratch expenditures (b)	18	18	45	19
% all Pick 3, 4 expenditures (b)	23	21	36	20
% all Lotto Cash expenditures (b)	16	15	39	30

Source: http://www.pubpol.duck.edu/people/faculty/clofelter/lottsum.pdf

Another objection of lottery opponents is that it is a "stupid tax" because if citizens truly knew and understood the odds, they would probably not play. One famous phrase that has been used was that the odds of winning the lottery are smaller than the odds of being struck by lightening. This particular statement is actually incorrect, according to the Public Gaming Research Institute (Burke 1999). The problem is that it assumes individuals receive no enjoyment from the act of playing even when they do not win. "Most people who play lottery games do not win, but that does not make the activity of playing any more 'wasteful' or irrational than, say, playing video games, eating candy bars or attending a hockey game" (Clotfelter 2000).

Purely religious and moral grounds are also a source of opposition to lotteries. This perspective is best summarized by Oklahoma Rep. Forrest Claunch who said, "for many, myself included, there is a clear moral issue; we cannot serve good or honor God by desiring that people lose money, trust in luck and become entrapped by addictive behavior" (Claunch 2002).

Evaluation

Despite the objections, the number of states with lotteries continues to climb. The primary reason is that the potential negatives are deemed acceptable in order to achieve a boost in spending on education. Yet, recently, some have questioned whether there would truly be a net benefit for education. That is, would any increased revenues from a lottery eventually be offset by a decline in state and local appropriations?

Two recent studies examined this issue (Evans and Zhang 2002; Novorro 2002). While they differ in the methodologies used, the two papers reach similar conclusions. According to Evans and Zhang, with every dollar of lottery revenue deposited into a state's general fund, spending on education increased between 30-50 cents. Novorro calculated the amount of the increase to be 43 cents. So even when lottery revenue is co-mingled with general funds, there is a boost in the overall education spending levels. The net increase may fall anywhere from 50-70% short of what was envisioned when the lottery was created, but it does not sink to a complete offset.

When lottery profits are earmarked for education, Evans and Zhang found that for each dollar in lottery revenue generated, there was an increase in spending on education of between 60-80 cents; Novorro arrived at the figure of 79 cents. Again the desired dollar-for-dollar increase did not occur, but there was still a net benefit for education.

These empirical results still do not satisfy all parties involved in the debate over instituting a lottery. Some point to the results as proof that a lottery is the wrong course of action to take, because there is no way in which it can deliver on its funding promises. Those in favor of state lotteries will concede the outflow of funds, but point to the fact that overall the educational spending levels do in fact increase somewhat after a lottery is implemented in a state. Both of the studies would be worth repeating to see how education funding has fared over the past few years during the economic downturns that states have faced. It would be interesting to see if spending on education fell as quickly in states with lotteries as it did in states that do not have lotteries.

The data from both studies indicate that of the two systems currently employed by the states which currently have lotteries for education, the earmarking model provides the largest increase in revenue for education. The most successful method of implementing a state lottery would then be one which earmarks the profits for education, while also requiring the legislature to continue to fund education out of the general fund. The required funding level should be tied in some way to per pupil spending adjusted for inflation. This is similar to Governor Brad Henry's plan which would "require the legislature to fund existing education obligations at the same percentage of the general fund budget" (Henry 2002). While this option might ensure that there is truly an overall increase in revenues for education, states would probably need to amend their constitution, or at least tie the hands of legislators in some other way. Ultimately, the earmarking of lottery revenues is a matter of political will (Garret and Lawson 1998). Without taking such a measure, the same debacle that occurred on the federal level with the Graham-Rudman-Hollings act would be repeated on the local level. Essentially legislators would pledge to do one thing but then lack the fortitude to follow through.

Another major concern that states may face over time is the potential failure of lotteries to be a stable, reliable growing source of revenue. The growth of lottery revenue is usually flatter than that of sales and income taxes and may even decrease (Borkowski 2001). There could be at least two explanations for this drop: first, the novelty of a lottery may wear off; and second, as more states adopt lotteries, there are fewer purchases made by residents of neighboring states.

Robert Booth is an Economics major at the University of Central Oklahoma.

References

Borkowski, Francis. 2001. "The Lottery's Impact on Education" *North Carolina Political Review* (November) www.ncpoliticalreview.com/1101/lottery/borkowski.htm.

Burke, Duane. 1999. "Top Ten Myths About Lottery" Testimony to Gaming Study Commission (August 20). www.publicgaming.org/toptenmyths.html.

Claunch, Forrest. 2002. "Is the Lottery a Good Gamble for Oklahoma? Con: Not by Any Good Measure" *Oklahoma Policy Studies Review* 3 (1).

Clotfelter, Charles. 2000. "Do Lotteries Hurt the Poor? Well Yes and No". A Summary of Testimony Given to the House Select Committe on a State Lottery (April 19) www.pubpol.duke.edu/people/faculty/clotfelter/lottsum.pdf.

Evans, William and Zhang, Ping. 2002. "The Impact of Earmarked Lottery Revenue on State Educational Expenditures". National Science Foundation (November).

Garrett, Thomas and Lawson, Robert. 1998. "Earmarking Tax Revenues for Education: Now You See Them, Now You Don't" *Buckeye Institute Perspectives* www.buckeyeinstitute.org/perspect/1998 4-2. htm.

Henry, Brad. 2002. "Is the Lottery a Good Gamble for Oklahoma? Pro: The Right Lottery for Oklahoma's Future" *Oklahoma Policy Studies Review* 3 (1).

Hibdon, James. 2003. "Is Operating a Lottery a Proper Role of State Government?" www.ocpathink.org/economics/isoperatingalottery.htm.

Humphress, Crystal 1994. "Survey Shows Poor Lose More to Lottery," *Dallas Morning News*, March 10, p. 16A.

Novorro, Neva. 2002. "Does Earmarking Matter? The Case of State Lottery Profits and Educational Spending" Stanford Institute for Economic Policy Research (December).

Terrell, Timothy. 2003. "Is an Education Lottery Right for Oklahoma?" www.ocpathink.org/economics/IsLotteryRight.html.

An Oklahoma State Lottery: Consumer Value or Inefficient Tax?

Joshua Hollman

Education is no longer an issue just for teachers, parents and their children. Average citizens, businesses, and municipal planners increasingly recognize the contribution education makes to the quality of life and economic development in this state. However, this desire for investment in education collides with the fiscal realities of slower economic growth coupled with the fiscal limitations of SQ 640. To meet this challenge, our legislators have proposed to raise revenues through a state-run "education lottery."

Despite Oklahoma's historical aversion to gaming, the lottery has gained surprising support. Traditional qualms seem to be overcome when lottery revenues are earmarked for popular programs such as education. That said, a state lottery still remains a hotly contested issue. Currently, 38 states have some form of lottery (NASPL 2003); their experiences may foretell what an Oklahoma lottery might face. This paper attempts to estimate an Oklahoma lottery's potential sales, operational costs, and actual net profits, as well as consider potential downsides to the lottery. Finally, it considers the significance of the lottery for Oklahoma education from a larger cost/benefit perspective.

Potential Revenue

States' experiences show that lotteries' success depends on population size and density, as well as the rural-urban mix. According to *Lottery World* data, seven of the ten states with the highest marginal profits in 1998 had populations larger than six million, while only one of the ten states with the lowest profits had over six million residents. The less urban states do make money, but a lot less and a lot less efficiently. Most of the northeastern states make from \$250-\$800 in sales per capita while most southern and western states make \$50-\$150 (NASPL 2003).

Other variables that could affect lottery revenues include:

religious/cultural differences, average per capita incomes, and lottery structure—whether authorizing legislation allows advertising, various types of games, etc. Georgia's lottery (among others) has been cited as the model for Oklahoma's proposed education lottery. Still, as it has double the population of Oklahoma and an unusually high revenue seen nowhere outside of urban New England and South Dakota (which uses addictive video lottery), its relevance for comparison is questionable. Using Oregon as a model, Gary Richardson estimates that an Oklahoma lottery would make over $350 million yearly (Richardson, 2001). Yet while Oregon has a similar population size, it otherwise differs from Oklahoma in terms of its urban/rural split, its more liberal political environment, and location outside the "Bible Belt." Governor Brad Henry uses Kentucky as an example for Oklahoma's lottery potential because of population similarities and its similarity to the Georgia model (2002).

Comparing Oklahoma to its neighboring states may make sense since some of their income is coming from Oklahoma citizens crossing state lines to play their lotteries. Colorado and Kansas use their lottery funds for economic development. New Mexico has an education lottery. Missouri uses a third of lottery revenues for general funds and two-thirds for education. Nebraska's lottery is earmarked for education and the environment while Iowa uses its funds for economic development.

Some indicators suggest that Oklahoma will be a below average revenue producer. Reasons for this include population density, rural/urban ratio, traditional moral dislike for gambling ("Bible Belt"), the self-reliant nature of the agricultural community, and below-average incomes in the state. Although our state's numbers definitely do not look promising for having an above-average lottery revenue, Oklahoma clearly stands to make some money and probably will not be extremely low. The lottery certainly should outdo Nebraska's modest revenues. The questions are then: How sustainable are the revenues? What are the operating costs? What are the less tangible costs? What is the cost-benefit bottom line?

Lloyd Cohen (2002) has found that the big prizes are the number one reason people play the lottery, despite it having the worst odds of any gambling game. Indeed, the very lack of winners and the publicity over increasing jackpots stimulate participation (NGISC, 1999, 2-3). Thus, it is no wonder that states are now joining the "Powerball" (the nation's largest multi-state lottery). According to Terri LaFleur, co-editor of *LaFleur's Lottery World* magazine, "if online sales minus Powerball are analyzed for calendar 1998, only one-fourth of all U.S. lotteries [would] show any increase. Powerball's success must continue with the run up of $300 million jackpots or the lotteries could show marked declines" (1999). By implication, Oklahoma must create large jackpots on its own or in conjunction with other states in order to meet revenue predictions.

State lotteries include many other games that qualify more as gambling, making comparisons difficult. Video lottery terminals and especially video poker seem to steadily follow lotteries. This is where the second most growth in income for lotteries has come. In its best year, 1996, video lottery revenue grew 41.8%. The next year, while video lottery was only in 5 and keno in 12 of 38 states, they brought in 6% and 5% of "lottery" revenues (NGISC, 1999). "Eventually, you reach a point where you diversify as much as you can and you have to seek alternatives. Or you can stay put and lose sales and profits," said David Gale, executive director of the National Association of State and Provincial Lotteries (Hill and Palmer, 2000). This growing variety of games makes it difficult to discern what a traditional Oklahoma lottery would look like or what kind of revenues it would produce. Clearly, what is accepted in one state spreads to its neighbors. Thus, we can expect the lottery to evolve in order to sustain steady revenues over time.

Lottery proponents dispute the charge that lottery income goes down over time. At first look, the numbers seem to be on their side. The numbers do not reflect, however, what states have done to keep the income levels up. Oregon's lottery revenues dropped in the early 1990s until it started "video poker." In the next five years sales more than tripled. Today, video lottery produces nearly four times the proceeds of all other games combined (Richardson 2001). Nevertheless, some claim that including video poker in a "lottery" really is a disingenuous approach—that it really belongs to the more addictive Class 3 category of gaming. Since the predicted success of an Oklahoma lottery is largely being based on a comparison to Oregon, these are important facts to remember.

Texas's revenues have also been growing. However, the latest survey from that state reveals that while players' annual spending on the lottery went up 25% over two years, the percentage of the population participating in the lottery fell by 9%. This suggests that aggressive promotion targeting people inclined to gamble compensates for lagging interest over time (Texas, 2001). When ticket sales dropped by 17% from 1997-1998, Executive Director Linda Cloud noted that the state stood to lose more than $5 billion in sales if the prize pay-outs were not increased. The state also responded by introducing new games and prizes such as pickup trucks (Hill and Palmer, 2000).

Currently, Oklahoma is surrounded by states with lotteries. A plausible claim is that an Oklahoma lottery would prevent betting dollars from leaving the state. However, we really do not know how much money Oklahoma is losing to neighboring states.

Potential Costs

H.B. 1278 authorizes the lottery corporation it creates to go into debt specifically to cover initial start-up costs, as well as into general debt at other times. The general debt, however, can only be entered into with approval by the attorney general and the state treasurer. Interestingly, despite the fact that Oklahoma citizens would technically be the owners of the corporation, the people of the state cannot be held liable for that debt. No general fund appropriations can be used to repay a lottery corporation debt. Additionally, the lottery is supposed to be "self-sustaining and self-funded" and "monies in the General Revenue Fund shall not be used in operating the lottery" (HB1278 33-B). While, the legislation authorizes an initial start-up appropriation from the General Revenue Fund to be repaid in the form of a "loan," it only has to be paid back from a possible "excess" in the "Lottery for Education Revolving Fund" within the first twelve months. Furthermore, during the first two years of operation the lottery is authorized to use 5% of the earmarked profits to cover start-up costs.

Thus, while legislative wording gives the appearance that start-up costs will be negligible for the state, there are loopholes. The costs will likely come in the form of a forgiven initial loan from the General Revenue Fund and in lost revenues from lottery funds to be set aside for education. While most states brag about their lottery revenues, no identifiable state initial start-up costs are openly available for comparison. Nevertheless, these are one-time expenses not unlike infrastructure investments. Start-up costs therefore have little to do with a cost/benefit analysis of an Oklahoma lottery outside of concerns whether H.B. 1278 is the right piece of authorizing legislation.

Most state lottery legislation mandates specific percentages of sales for administration, advertising, prizes, and profits. H.B 1278 is no exception. Thus, we should be able to reasonably figure the costs of operation based on our revenue estimates. Most states earmark around half, or a little less, of gross sales to be returned to the public as prizes and at least a third of proceeds for profits to be given to the state. Some states earmark administrative costs such as advertising and some earmark funds for compulsive gambling treatment programs. The retailers typically get 5-8% of gross sales as well as special commissions for high sales. Some states even give retailers 1% of the prize winning tickets purchased at their location (NASPL 2003). H.B. 1278 states that:

> All lottery proceeds shall be the property of the corporation. From its lottery proceeds, the corporation shall pay the operating expenses of the corporation.
> As nearly as practical, at least forty-five percent (45%) of the amount of money from the actual sale of lottery tickets or shares shall be made available as prize money.
> ...as nearly as practical, for each fiscal year, net proceeds [for the education fund] shall equal at least thirty-five percent (35%)....the corporation shall provide for compensation to lottery retailers in the form of commissions in an amount of not less than five percent (5%) of gross sales and may provide for other forms of compensation for services rendered in the sale or cashing of lottery tickets or shares. (HB 1278 14-A, C).

Readjusting the estimate for 35% profits from the average $321 million in gross sales in comparable states, Oklahoma education would stand to profit $112 million. Were Oklahoma to perform like Nebraska, profits would be around $37 million. Meanwhile, we could expect to see about $144 million dollars in prizes given out every year. Basic retail sales compensation of 5% not counting commissions would amount to a minimum of $16 million. Figuring advertising at the conservative amount of 1% would come to $3 million. Remaining administrative costs would amount to 14% or $45 million. Ideally, personnel, capital, marketing, and other business costs would not eat up the entirety of this $45 million and be usable for education profits. Unfortunately, what is made “available” will tend to be used—whether it is needed or not. Therein lies the danger of “earmarking” government revenues (NASPL, 2003).

Advertising can boost revenues and is an important aspect of any well administered lottery. However, its overuse may be counter-productive or even detrimental to quality of life and businesses in this state. A further concern is that, since advertising increases revenues, the lottery corporation has an incentive to spend all excess administrative funds on advertising rather than transferring them to the Lottery for Education Revolving Fund. Thus, the National Gambling Impact Study Commission specifically recommended the creation of a private oversight board to ensure balance in a state’s lottery marketing (NGISC, 1999, 3-20). H.B. 1278 does provide for a “Lottery Retailer’s Advisory Board.” Unfortunately, this board potentially appears to be biased by conflicting interests (HB 1278, 7). While the NASPL claims that states spend less than 2% of their lottery sales income on advertising compared to 3-12% by many businesses (NASPL), it remains the case that lottery states spend more on encouraging citizens to play the lottery than for any other single state message—often more than all other state messages combined (NGISC, 1999, 4-1; Willimon, 1990).

Other Concerns

The lottery cannot be discussed without mentioning the myriad concerns of citizens about possible negative political, social, and economic externalities. Most studies estimate that only about 1% of gamblers become “pathological,” with 2-3% classified as “problem gamblers.” Meanwhile, estimated costs to the state for a pathological gambler range from $6,000-11,000 and, for a problem gambler, from about $3,000-5,000 (NGISC, 1999; Hill and Palmer, 2000).

If gambling addiction and crime can be linked to lotteries, concerns over impact on families and businesses are clearly not unfounded. The costs to families can extend beyond economics and are immeasurable. Due to this fear alone we can see why many would give up on the idea of a lottery entirely without needing empirical evidence of inefficiencies. Also, both businesses and the state economy as a whole could suffer due to lost productivity, absenteeism, debt, bankruptcy, and theft.

Some are concerned that lotteries have a negative impact on the poor, minorities, and under-educated. The evidence is contradictory and inconclusive. When viewed as a tax, a lottery would still come out somewhat regressive—if only because we all know that goods purchased take a larger share of a poorer person’s income. When viewed as a consumer good, concerns in this area would more realistically be a matter of morality rather than equity. An argument can be made for the lottery as a consumer good which provides intangibles such as entertainment and hope. But, the moral argument again arises with claims that a lottery takes advantage of the poor and uneducated who are more predisposed to desire a ‘false hope,’ enjoy ‘inferior’ entertainment, and to see their money as ‘going to a good cause’ without weighing the efficiency of the lottery.

There may be some foundation for believing that lotteries have an effect on disposable income. In a survey of 1,200 stores in the California Grocer’s Association, two-thirds reported an average decline of food sales by 7% after the implementation of a California Lottery (Los Angeles Times, 1986). At least one business in California and one in Louisiana got out of selling lottery tickets after they saw a direct correlation between drops in sales and increases in lottery ticket sales, which give a lower profit margin (Hill and Palmer, 2000).

Targeting lottery revenues to support education creates significant political impact. A poll in Georgia showed that support dropped by over 30% if proceeds were not tied to education (McCrary & Pavlak, 2002, 9). Interestingly, Georgia, while gaining the highest percent of their state budget from a lottery and being an "example" for other states, has had some slightly disturbing numbers. From 1990 to 1996 Georgia's high school graduation rates fell from 58% to 64% (Hill and Palmer, 2000). College students in Georgia are reported to be taking longer to graduate due to perverse incentives. Those on HOPE Scholarships are limited to 127 credit hours and must maintain a B average. As a result, they are taking low course loads and dropping a great deal of courses mid-semester to maintain grades (Salzer, 2001).

Another question about using education funding as justification for a lottery involves its real impact on a state's education spending. Miller and Pierce (1997) of the Center of Academic Innovation at Saint Mary's College have statistically shown that states that approve a lottery for education typically increase funds for a couple of years, but subsequently suffer a 50 percent cut from their pre-lottery rate-of-growth in school funding. Thus, despite Oklahoma's stated intention to not redirect education funds to the general budget, the lottery may in reality serve to reduce both public and political support for future school funding increases.

Conclusion

Some see lotteries as an inferior consumer good, others view them as simply a voluntary tax. Lotteries probably are neither the social tragedy nor the economic boon dramatized by political rhetoric. In the end, the lottery seems to behave as both a tax and a consumer good (or a heavily taxed and government monopolized consumer good). As such, lotteries may well have more social and economic impact than we realize. In light of the moral questions and potential costs, Oklahomans should consider carefully whether the potential for amount and use of lottery revenues can pass a cost/benefit analysis.

The lottery does have potential to produce profits, but most public estimates have been exaggerated and often list gross sales as if they are the same as actual profits. More reasonable state comparisons yield an estimate between $37 and $110 million in profits. Meanwhile, lottery revenues can be counted on only as long as the state manages its lottery well and increases over time the advertising, prizes, or expansions into quasi-gambling games. When confronted with this fact and the information that even the state office of finance will not commit to any predictions, Governor Brad Henry said, "The bottom line is this education lottery is going to raise tens of millions of dollars for education, and for me that makes it worth it."

Nevertheless, implying "worth it" means that even he recognizes costs. Thus, with the historical precedents of other states' experiments into the lottery business in mind, before Oklahomans vote on State Questions 705 and 706 they must consider the following questions. Will the lottery produce more profits to education than indirect costs (externalities)? What degree of aggressiveness in a lottery culture will be acceptable, and can it be held there once started? With questions about the lasting benefits for education and the state budget, Oklahomans can allow neither that purpose nor optimism alone to influence their decision. In addition to the obvious moral concerns, they must make an informed decision based upon both the total economic picture and predictable social impacts.

Joshua Hollman is a BBA Public Administration Student at the University of Central Oklahoma.

References

Cohen, Lloyd R. 2002. "The Lure of the Lottery." *Wake Forest Law Review* 36:705-745.

Henry, Brad. 2002. "Is the Lottery a Good Gamble for Oklahoma?—Pro: The Right Lottery for Oklahoma's Future." *Oklahoma Policy Studies Review* 3(1).

Hill, John R. and Palmer, Gary 2000 "Going for Broke: The Economic and Social Impact of a South Carolina Lottery" South Carolina Policy Council Education Foundation.

McCrary, Joseph and Thomas Pavlak. 2002. "Who Plays the Georgia Lottery?—Results of a State-Wide Survey." Carl Vinson Institute of Government, The University of Georgia

Miller, Donald E. and Patrick A. Pierce. 1997. "Lotteries for Education: Windfall or Hoax?" *State and Local Government Review.* 29:34-42.

NASPL. 2003. North American Association of State and Provincial Lotteries. <www.naspl.org> (10/18/03).

NGISC. 1999. "National Gambling Impact Study Commission Report: Gambling in America." National Gambling Impact Study Commission. www.govinfo.library.unt.edu/gisc/index.html> (10/18/03)

Richardson, Gary. 2001. "The Richardson Plan: Doing the Right Things for the Right Reasons." Campaign Materials.

Salzer, James. 2001 "Dropping Courses Counts Against Hope." *Atlantic Journal-Constitution*. 19 April, 2001. <www.accessatlanta.com/ajc>.

Texas Legislature. 2001. "Demographic Study of Texas Lottery Players."

Willimon, William H. 1990. "Lottery Losers." Christian Century. (Jan. 17, 1990. p. 49).

Is Gaming Beneficial for Tribal Oklahoma?

Joshua Koehn

The Gaming Rights of Tribes

Indian Nations have a special relationship with the federal government. This relationship is institutionalized by the US Constitution, which gives Congress the power to regulate commerce with the Indian tribes, and gives the President the power to make treaties with consent of the Senate (Art. I , Sec 8, Art. II Sec. 2). While subject to federal statute, Indian tribes do have sovereign powers separate and independent from the federal and state governments. These powers are based on each tribe's unique relationship with the government and any treaties or compacts entered into between the parties.

In the 1970s, legislation was enacted by the federal government that intended to promote tribal self-sufficiency and control. This has caused sustained economic development efforts on Indian lands. Indian self-determination, a policy pushed by the federal government, is the driving force behind the economic development taking place in Indian Nations.

In the late 1970's, Indian Nations began utilizing gaming operations to generate revenue for economic development. The Seminole Indian tribe of Florida opened a bingo hall on their reservation and in order to increase revenues and attract higher attendance, offered a jackpot in excess of the $100 maximum allowed by Florida law. In 1983, the State of Florida tried to impose regulation on the Seminoles, and the Seminoles in turn, sued the state of Florida. A federal appeals court held in the case *Seminole Tribe of Florida v. Butterworth* (658F. 2d 310) that the Seminole Indian tribe was not subject to the state's statute and could not be prosecuted for violating the limitations imposed by it. Through its ruling, the court affirmed the federal policy of tribal sovereignty.

In the early 1980's the Cabazon Band of Mission Indians began offering bingo and card games on their reservation in California. When the state tried to enforce state and local regulations against the tribe's enterprises, the case ended up in federal court. Ultimately, the Supreme Court held such games were properly subject to tribal regulation. The outcome of *California v. Cabazon Band of Mission Indians* (480 U.S. 202) demonstrated the federal interest in maintaining tribal self-determination. In the words of Justice White, "the inquiry into the competing interests of state and tribes is to proceed in light of traditional notions of Indian sovereignty and the congressional goal of Indian self-government, including its 'overriding goal' of encouraging tribal self sufficiency and economic development" (quoted in Spilde et al. 2002: 18). If the tribes have a vested interest in developing their own economic development programs, such programs will be more likely to succeed.

These court decisions concerned many states about their loss of jurisdiction regarding gaming within their borders. In 1988, Congress drafted and passed the Indian Gaming Regulatory Act (IGRA). The IGRA classified gaming into three types and determined who regulated each type. "Class I gaming was to be regulated exclusively by the tribes. Class II gaming was to be primarily regulated by the tribes with federal oversight from the government. Class III gaming was to be regulated through compact agreements between the tribes and state governments, allowing states to share regulatory duties with tribes over casino-style gaming within their borders" (Tribal Gaming in Oklahoma, 15).

Figure 1

The Classes of Tribal Gaming

CLASS I GAMING means social games or traditional form of Indian gaming.

CLASS II GAMING means (i) bingo (whether or not electronic, computer, or other technologic aids are used in connection therewith)…including (if played in the same location) pull-tabs, lotto, punch boards, tip jars, instant bingo, and other games similar to bingo, and (ii) card games that are explicitly authorized by the laws of the State, or are not explicitly prohibited by the laws of the State and are played at any location in the State…

CLASS III GAMING means all forms of gaming that are not class I gaming or class II gaming.

Source: Indian Gaming Regulatory Act, 25 USC § 2703

Tribal-State compacts attempt to define the allowable scope of gaming, and terms and conditions under which it takes place. In Oklahoma, the governor is authorized to negotiate with tribal nations on behalf of the state. The legislature's perspective is expressed by the Joint Committee on State and Tribal Relations.

Since enactment of the IGRA, fifteen tribal governments have reached agreements with the state concerning off-track betting. The state has also concluded numerous agreements concerning fuel and tobacco taxation, as well as jursidictional issues of law enforcement. Indian tribes, while performing all the functions that other sub-national governments do, must cope with social and cultural challenges that non-Indian governments do not face. There is much disagreement, however, about the merit of the IGRA. According to *Time Magazine* (2002), "Washington perceived gaming on reservations as a cheap way to wean tribes from government handouts, encourage economic development and promote tribal self-sufficiency. The IGRA was so riddled with loopholes, so poorly written, so discriminatory and subject to such conflicting interpretations that 14 years later, armies of high-priced lawyers are still debating the definition of a slot machine." They go on to explain that the organization that the system set up to be a watchdog over tribal gaming is one that is powerless and underfunded. The National Indian Gaming Commission is the agency charged with the task of oversight and enforcement of tribal gaming. "With a budget capped at $8 million, the agency has 63 employees to monitor the $12.7 billion all-cash business in more than 300 casinos nationwide. The New Jersey Casino Control Commission, by contrast, has a $59 million budget and a staff of 720 to monitor 12 casinos in Atlantic City that produce one-third the revenue (Donald et al., 2002).

The Impact of Tribal Gaming on the State of Oklahoma

Tribes have incorporated commercial gaming activities into their economic development strategies in order to address the problem of low socioeconomic status among their citizens. By providing work for these unemployed citizens, government spending on assistance declines and household spending increases, thus improving the economy. This benefits tribal and non-tribal citizens alike. Since tribal gaming operations are government owned, they are subject to 100% taxation. Gaming revenue tends to be re-spent locally by the tribes, and a large portion of goods and services are purchased outside of Indian economies from non-Indian vendors inside the state. This has positive impacts on the state's economy when those vendors buy products, pay employees, and remit taxes to support their operations.

According to the Harvard Project on American Indian Economic Development, tribal government gaming is a significant sector of the Oklahoma economy. In 2000, the tribal gaming operations:

- Turned over an estimated $208 million in revenue,
- Directly employed an estimated 3,857 people,
- Purchased a combined $73 million in supplies and services,
- Paid $43 million in wages and salaries,
- Transferred on the order of $83 million to their respective tribal governments, and
- Withheld an estimated $500,000 in state unemployment taxes.

Over 80% of the Absentee Shawnee's gaming supplies and other acquisitions are purchased from vendors within Oklahoma borders. Those suppliers then turn around and buy additional products to support their operations, pay workers and remit taxes. This kind of spending has a positive effect on the state's economy.

Many tribal gaming facilities are located relatively close to the state line. This gives the state an opportunity to attract many out-of-state customers, exporting a significant portion of tribal gaming services. This represents a net economic benefit to the State of Oklahoma. Because of the random dispersion of tribal lands held in trust by the Federal Government, and the fact that tribes are limited by federal law to build gaming facilities only on tribal land, most tribes do not have the option to build near large customer bases. This random dispersion has resulted in half of all gaming capacity within 50 miles of the state border and 75% of capacity within 100 miles.

There are roughly one million people within 50 miles, and five million people with 100 miles of Oklahoma tribal gaming centers. This is an opportunity to export services to other states and increase tax revenues. Customers traveling from out-of-state would also be more likely to spend longer periods of time at their destinations, than those traveling in state.

Some of the poorest areas of the state are on or near tribal lands and gaming facilities. "The positive economic benefits and jobs created by gaming flow out of the gaming centers and into the severely depressed surrounding areas. Thirty-six of the 55 tribal gaming facilities in Oklahoma, representing 50% of the capacity are in these distressed areas. Since about one-third of Oklahoma Indian nations' gaming employees are non-Indians, the effect on non-Indian household incomes is direct" (Tribal Government Gaming in Oklahoma, 32).

Figure 2

The Tribal Gaming Market within Driving Distance of Other States, 2001

	Gaming Machines	Bingo Seats
	9,104	17,930
Within 50 miles of the border	47%	50%
Within 100 miles of the border	79%	76%

Source: Survey of Oklahoma Indian Nations (www.casinocity.com)

The Impact of Tribal Gaming on Indian Nations in Oklahoma

Tribal governments must, by federal law, use the profits made from gaming in ways that benefit the tribes. These include:

1. fund tribal government operations or programs;
2. provide for the general welfare of the Indian tribe and its members;
3. promote tribal economic development;
4. donate to charitable organizations;
5. help fund operations of local government agencies.

Gaming revenues comprise an important element of tribal government budgets. Tribes are using gaming revenue to fund their programs. For example, the Muscogee (Creek) Nation funds education and employment training services with gaming revenues. Gaming revenues provide vital seed monies to tribes in order to start new health related projects and services.

Another important tribal government function funded by gaming revenues is law enforcement. Law enforcement is necessary for the provision of public safety, and essential for the creation of a well functioning society. Tribal law enforcement serves not just the tribal population, but surrounding areas as well.

The education of Indian children, due to federal laws and treaties, is the obligation of the federal government. Unfortunately, its appropriations have consistently under-funded Indian education (See Figure 3). Therefore, tribes are looking to gaming revenues to help fill that gap. The Muskogee (Creek) Nation administers education and employment training service programs for the tribe through its Human Development Division. This department receives significant funding from gaming revenues and is responsible for administering the Higher Education Fund, Culture and Language Preservation program, Vocational Education, and Head Start Program.

Figure 3
Disparities in Federal Education Aid

	Aid Received per Student
White, non-Hispanic	$3,436
Black, non-Hispanic	$3,166
American Indian / Alaskan Native	$2,459

Source: *Social and Economic Analysis of Tribal Government Gaming in Oklahoma*, chapter 3.

Tribal gaming revenues are also used as seed money for economic development programs. With this seed money, tribes have the opportunity to start and operate a number of businesses that generate monthly revenue streams to be added to their general funds. Existing tribal businesses in Oklahoma range from a t-shirt printing company to an electronic gaming machine manufacturing company.

Donald Barlett and James Steele, in an article written for Time magazine, see things a bit differently. They suggest that the real winners in Indian gaming are the wealthy backers of the gaming operations, not the individual tribal members. They give this example: "How is Hollow Horn (a member of the Oglala Sioux tribe in South Dakota) prospering from the $12.7 billion Indian gaming industry? Like most Native Americans, not at all. Last year the Oglala's Prairie Wind Casino, housed in temporary, white, circus-tent-like structure smaller than a basketball court, turned a profit of $2.4 million on total revenue of $9.5 million. Most of the money went to fund general programs, such as services for the elderly and young people, as well as education and economic development. But even if there had been profit sharing instead, the payout would have worked out to a daily stipend of just $0.16 for each of the 41,000 tribe members."

The wealthy backers of tribal gaming are more like strategists who design the plan for bringing a casino online and underwrite the cost. This involves everything from securing federal recognition through lobbying efforts to securing real estate for the casino. In return they often take a large percentage of the profits for a set number of years. These backers are not subject to federal oversight either. The National Indian Gaming Commission must approve management contracts with non-Indian entities, but not consultant contracts. Barlett and Steele quote the Office of the Inspector General as saying, "Almost all tribes are utilizing consulting agreements to circumvent the regulatory and enforcement authority vested in the NIGC" (2002).

Conclusion

There exist two schools of thought concerning the economic and social impacts of tribal gaming. Gaming advocates will suggest that tribal governments are turning gaming revenues and employment into real improvements in their economies and societies. Re-investing gaming profits in physical infrastructure and tribal government has allowed the tribes an opportunity to improve the economic and social well being of their citizens. The quality of life experienced by tribal members has been enhanced by the improvement of tribal services and programs, funded with gaming revenues. The NGISC reported, "There was no evidence presented to the commission suggesting any viable approach to economic development across the broad spectrum of Indian Country, in the absence of gaming." According to the John F. Kennedy School of Government, "Self-determination – and the way that Indian nations in Oklahoma have used it – constitutes a public policy success. Tribal gaming in Oklahoma represents a striking example of that success."

Opponents of tribal gaming argue that only a few tribal members and investors are the ones reaping the benefits of gaming. They point to other states where tribes, coupled with big business and self-serving politicians have made fortunes off tribal gaming, and members of the tribes themselves have seen no real improvements in their lives. As with any mix of bureaucracies, there exist loopholes that can be exploited for personal gain. When you mix the Federal government with a bunch of tribal governments, the loopholes and the likelihood for corruption are even larger.

Oklahomans will get to voice their opinion on the issue of tribal gaming in a statewide vote in November. State Question 712 asks voters to decide whether a specific number of electronic gaming machines should be placed in the facilities at three of the state's four pari-mutuel horse racing tracks and whether the state should agree to the same machines' use at tribal casinos.

Joshua Koehn is an Economics major at the University of Central Oklahoma.

References

Bartlett, Donald and Steel, James 2002 "Wheel of Misfortune", *Time Magazine* 160 (25) December 16.

Bartlett, Donald, et al. 2002 "Who Gets the Money?", *Time Magazine* 160 (25) December 16.

NGISC 1999. *Final Report of the National Gambling Impact Study Commission* (Washington, D.C.): Chapter 6.

Spilde, Katherine A., Taylor, Jonathan B., and Grant, Kenneth W. 2002 *Social and Economic Analysis of Tribal Government Gaming in Oklahoma* The Harvard Project on American Indian Economic Development.

Rural Oklahoma Economic Development Trends and Conditions

Casey Robinson

As with the majority of the United States, the economy in Oklahoma is slowly rebounding from a recession. And, fortunately, both urban and rural areas of Oklahoma are part of this recovery. However, that doesn't mean that everything looks positive for rural America. This paper will examine Oklahoma's rural economic trends with both non-rural and national changes and compare the conditions in different areas of the state.

State Statistics

Only 14 counties in Oklahoma are considered "metropolitan." Most of these counties are clustered around Tulsa and Oklahoma City. In 1990, Oklahoma's population was 3.14 million with about 59% living in these metro areas and 41% in rural counties. Ten years later, the difference is even more dramatic. While the state experienced a 9.7% increase, the percentage of people living in the metro counties increased by more than 12%. From 2000 to 2001, Oklahoma's population increased an additional .3% to 3.46 million. However, the growth rate for rural areas was -.30%.

Examining the age of Oklahomans in both urban and rural counties gives another perspective. Overall, the number of persons 65 and over increased by 7.43%, from 424,408 in 1990 to 455,950 in 2000. In rural Oklahoma, the number of those 65 and younger decreased by .66% while the number of those 65 and older increased by 15.62% during this ten-year period. For those 15 and under, the number increased from 706,685 to 732,907 – a 3.71% increase for the state. However, those age 15 and under in rural areas dropped by .63% while those in urban areas increased by 6.58%.

Table 1

Percent Population Growth 1990-2000

	Oklahoma	Urban	Rural
Population	9.7	12.22	6
> 65 yrs	7.43	15.62	-0.66
< 15 yrs	3.71	6.58	-0.63

During this same period of time, employment trends in Oklahoma also vary between the two areas. Employment in rural areas of the state grew 9.9%, compared to a 13.5% increase in metro areas. Unemployment in rural Oklahoma is consistently greater than the state's unemployment rate.

Total personal income in Oklahoma for 2000 was $81.7 billion, a 29% increase from 1995 when it was $63.33 billion. An amazing two-thirds is from persons residing in urban counties and only one-third from those living in non-urban areas of the state. Furthermore, income grew at a rate of 30.6% in metro areas, compared with a 25.5 increase in rural area.

Per capita income follows this same trend, increasing from $15,955 to $19,520 in rural counties and from $21,257 to $26,307 in urban areas between 1995 and 2000. This compares with the state's per capital increase from $19,144 in 1995 to $23,650 in 2000.

Economic Trends and Conditions Within Oklahoma

The Oklahoma Cooperative Extension Services (OCES) divides the state into four districts: Northeast, Southeast, Southwest and Northwest. These four areas will be used to examine the current economic trends and conditions within the state. Using their criteria, both Oklahoma City and Tulsa fall within the NE district.

Each of the four areas grew in population between 1990 and 2000; however, growth varies greatly. Growth in the NE district was almost 11%, while the growth in both the NW and SW was less than one percent.

Table 2

Percent Population Growth 1990-2000

	OK	NW	NE	SW	SE
Population	9.7	0.8	10.57	0.6	6.81
= 65 yrs	7.43	-10.05	4.48	-2.06	-0.99
< 15 yrs	3.71	-11.66	5.06	-5.52	10.46

The fastest growing counties in Oklahoma are those surrounding the Oklahoma City and Tulsa metropolitan areas. Counties in Oklahoma exceeding 20% growth rates between 1990 and 2000 include Texas, Marshall, McClain, Waggoner, Delaware, Cherokee and Rogers. These counties are in sharp contrast, however, to 20 counties in the state that lost population. All but one of those with declining population are located in the western half of the state.

Table 3

Employment Growth and Unemployment

	OK	NW	NE	SW	SE
% employment change 1990-2000	5.9	3.64	5.33	2.23	8
Unemployment rate 1996	4.07	3.95	4.95	4.24	6.63
Unemployment rate 2001	3.81	3.33	3.59	3.59	4.81

Examining employment trends presents some interesting comparisons. The SE part of Oklahoma has the greatest increase in employment between 1990 and 2000, yet still has the highest unemployment rate of the four areas. The difference between the SE District and the remainder of the state has closed somewhat since 1996; however, it was the only one of the four districts exceeding the state unemployment rate in 2000.Total and per capita personal income for the four districts somewhat mirrors the employment reports, with the SE District reporting the lowest per capita income in the state and the second to lowest increase in income between 1995 and 2000.

Table 4

Total and Per Capita Personal Income 1995-2000

	OK	NW	NE	SW	SE
% Change in total personal income 1995-2000	28.95	29.5	28.85	22.29	25.3
Per capital income 1995	19,144	17,488	16,163	15,724	15,024
Per capital income 2000	26,650	23,004	19,358	19,339	18,337

Conclusion

While Oklahoma's non-metropolitan population has increased in recent years, the rate of growth is slower than the growth rate for its urban areas and for the state in general. It also seems that the population of those persons 65 and older as well as those under 15 is shifting to the metropolitan counties. Each region in the state gained population; however, the number of counties losing population is greater than the number of those increasing in population. The trend of relocating to urban areas is perhaps driven by the greater growth of jobs in the metropolitan counties as compared to the rural areas of the state.

Casey Robinson is an MBA student at the University of Central Oklahoma.

Rational Justice Policy: Findings and Recommendations

Barry Kinsey, Kelly R. Damphousse, Alexander Holmes, Arthur G. LeFrancois, Kent Olson

Review by Haley Murphy

On February 24, 2003, the Oklahoma Alliance for Public Policy Research issued a report to the Oklahoma State Senate entitled *Rational Justice Policy: Findings and Recommendations.* The report included the findings of four studies of the Oklahoma Corrections System, recommendations from the researchers to reform the system, and an estimate of potential cost savings to the state. The four studies considered the role of private prisons in Oklahoma, state and local funding of the criminal justice system, legal and constitutional issues, and incarceration and crime rates, respectively. The data were compared to surrounding states, as well as with states the researchers considered "states of interest."

The report states that Oklahoma incarcerates 30% of its inmates in private prisons. Only three other states incarcerate more of their prisoners in this manner. While the argument for the use of private prisons is that they are more efficient, this study suggests that in Oklahoma it is not always less costly for private prisons to house inmates than it is for Department of Corrections prisons. Furthermore, the DOC frequently forgives liquidated damages assessed by a director against a private prison for non-compliance with contract agreements. This causes direct costs for the state, makes it less likely that contractors will comply with contract regulations in the future, and undermines the competitive bidding process.

The researchers recommend: a) Private prison performance measures should be outcome-based rather than income-based. b) Payment of liquidated damages should be fully enforced as a better means of quality control. c) "The permissive language allowing for negotiated rates with private prison contractors be repealed and all efforts to 'price' private prisons per diem rates at levels 'comparable' to state-run facility costs be resisted." (p. 7)

The studies also concluded that Oklahoma treats many crimes that other states define as misdemeanors, as felonies. The state has a disproportionate number of nonviolent offenders serving time at 60% of its population, and they are serving longer sentences than the national average. Probation is revoked for minor reasons, and the requirement that the governor approve all paroles causes the inmate population to remain high. The result is that Oklahoma consistently ranks within the top 3 or 4 states for incarceration, but the states' crime rate is only slightly above national averages.

The researchers' recommendations for the above problems are as follows:

An attachment to the report breaks down the Oklahoma average incarceration rate in comparison to the national average.

- Oklahoma should take a "zero-based budgeting" approach toward the issue of felonies. The Legislature needs to look at each crime individually and justify codifying it as a felony based on public safety concerns and comparison to surrounding and peer states. The researchers suggest that crimes without aggravating elements should be considered misdemeanors.

- Oklahoma needs to utilize community sentencing wherever possible in order to reduce the cost of imprisoning nonviolent criminals.
- Probation should be revoked only in the event that a new crime has been committed, and the governor should be removed from the parole process except to appoint members to the parole board.

The researchers suggest that the state of Oklahoma could potentially save nearly $140 million per year if the state incarceration average were reduced to the national average.

In conclusion, the researchers make a few good suggestions in regards to saving money in the prison system, and reforming the sentencing structure in Oklahoma.

However, a review of these suggestions needs to examine whether or not these findings accurate report the number of non-violent offenders serving terms under felony convictions due to multiple felony convictions, because first time non-violent offenders do not serve a prison sentence in Oklahoma. It should also be determined if the negative label given to the State for having incarceration rates higher than the national average is justified. Perhaps the decrease in the state's crime rate over the last several years may have resulted in part to the increased incarceration of repeat offenders.

Haley Murphy is a political science major at the University of Central Oklahoma.

Periodic Publications on Oklahoma Policymaking

CAPerspectives, Community Action Project of Tulsa (quarterly)
www.captc.org

Oklahoma Labor Market Information, Oklahoma Employment Security Commission (monthly)
www.oesc.state.ok.us

Perspective, Oklahoma Council on Public Affairs (monthly)
www.ocpathink.org

21st Century Annual Report, The State Chamber (annual)
www.okstatechamber.com

Oklahoma Policy Digest, Oklahoma Policy Research Center
www.busn.ucok.edu/oprc/publications