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NORTHWEST TERRITORIES

SESSIONAL PAPER NO. 14
(First Session, 1967)

GOVERNMENT-SPONSORED LOTTERIES

DISPOSITION

Tabled	To Committee	Accepted as Read	Accepted as Amended	Deferred (to Session)	Rejected	Noted not Considered

GOVERNMENT-SPONSORED LOTTERIES

Re: Item For Action No. 85

At the 33rd Session of the Northwest Territories Council, a Motion was passed asking for the compilation of information on the subject of Government-Sponsored Lotteries.

A study of the fullest interpretation of the terms of the Motion would require a considerable amount of research and time which is beyond the capacity of the Branch to carry out, and before Members of Council decide to do it by other means they should be aware that the question of introducing government-sponsored lotteries in Canada has been the subject of representations to the Government of Canada on frequent occasions in the past. They should also be aware of the general information which it has been possible to obtain from various sources in Ottawa.

Among the more recent approaches to the Federal Government was a request, about two years ago, from the Yukon Territorial Council that Dawson City be exempted from the relevant provisions of the Criminal Code which prohibit lotteries. The representation from the Yukon was brought to the attention of the Minister of Justice who indicated that he recognized the potential merits of the proposal. On the other hand, after fully considering the intricacies that would be involved in our constitutional and national life by the adoption of legalized gambling, the Minister of Justice was of the view that it would not be practicable or appropriate to recommend an amendment to the Code exempting one area in Canada, nor to undertake the supervision that would ensue.

It should be noted that when the Yukon Council passed its Motion on the subject, the clergy in the Territory filed with the Commissioner of the Yukon objections to any consideration being given to proposals for the introduction of legalized lotteries or gambling. It is also relevant that when similar proposals have been placed before the Parliament of Canada, strong objections were voiced by various organizations throughout the country.

Before discussing the history of government-sponsored lotteries generally, some comments can be made on the legislative and operational aspects, as they relate to the Northwest Territories and as requested by the Motion. Section 179 of the Criminal Code of Canada prohibits the holding of lotteries. As indicated earlier in relation to the Yukon Territory, the Criminal Code would have to be amended by the Government of Canada to permit the holding of lotteries before any territorial or provincial government could conduct a lottery. In addition, some territorial legislation would appear advisable for the conduct of a government-sponsored lottery. There may be other legal and legislative implications which have not been investigated but the foregoing are the main considerations except that it is probable that special authority for a nationwide lottery would be required in addition to the above.

If sales were to be confined to the Northwest Territories only, it is difficult to envisage a volume of sales sufficient to warrant a government sponsored project of this nature. As a Government-run project, the Department would not be in favour of allowing the services of federal staff to be diverted to this end and expenditures related to any lottery probably could not be a consideration in Federal-Territorial financial arrangements. Problems of propriety and impartiality before the public, should be given serious consideration if it is planned to use the services of public employees in the operation of legalized gambling.

In the context of nation-wide sales, it is considered that the only practical approach to the operation of a lottery sponsored by the Government of the Northwest Territories, would be to engage the services of a suitable public relations company or group of companies to organize and supervise publicity, sales, collections and prize distribution, etc. The cost of a service such as this has not been investigated but it can be assumed that the overall relationships between the volume of sales, operating costs and residual profits described later for lotteries in other countries, are probably more favourable than could be achieved in Canada where the population is widely dispersed and the cost of reaching a meaningful proportion of the buying public would be greater. Also, if the conduct of lotteries should be legalized in Canada, any plans for nation-wide lotteries must recognize that probably there would be very substantial competition from other jurisdictions which could also sponsor and operate lotteries.

It is difficult to obtain reliable information on the operation of lotteries in other countries. The following information has been compiled as the result of research on various reports by the sponsoring government authorities and by boards of inquiry which have dealt with the subject of lotteries.

In Canada, an official inquiry into the policy of lotteries was made by a joint Committee of the Senate and House of Commons. Its report is dated the 31st of July 1956. During the course of its inquiry the Committee obtained particulars of the lottery laws of several countries. It noted that those opposed to lotteries raised both moral and practical arguments against them. The Committee said it had received only one representation favouring State lotteries and considered that there was no widespread support or demand for State operated lotteries in Canada. It noted that State lotteries are operated in many countries of radically different racial origins and traditions; that where State lotteries occur they are usually acknowledged to be a facility for directing the gambling instincts of the public into a controlled channel; that the evidence received by the Committee did not support the common impression that State lotteries provide substantial revenues; and that only a few nations attempt to justify State lotteries on the grounds of their relatively insignificant contribution to total national revenue or to specific purposes such as health, education or charity.

The Committee, therefore, concluded that no useful purpose could be achieved by the institution of a State lottery in Canada (Federal, Provincial or Municipal); that the proper role of the State is to control and regulate such gambling activity as is permitted to private citizens by the general law; and that it is not appropriate for the State to provide facilities for gambling to the public.

Over the past two or three years, reports about the financial success of lotteries in such places as New Hampshire in the United States, New Zealand, and New South Wales in Australia have stimulated fresh interest in the lotteries question. The New Hampshire Sweepstakes, introduced with much publicity in 1964, was the first legal American lottery since 1893, when scandal brought to an end the lottery in Louisiana after some 25 years of operation. Subsequently, Congress banned lottery tickets from the United States mails and from any form of interstate commerce. In consequence of this legislation, New Hampshire was forced to restrict sales of lottery tickets to persons purchasing them within the State (although tickets could

be bought within the State on behalf of persons outside the State), to limit carefully its method of advertising and to require persons winning prizes to come to New Hampshire to collect, The object of the New Hampshire lottery was to provide funds for the school system without the necessity of imposing either a sales tax or an income tax. Tickets sold for \$3 each and it was predicted that the lottery would yield approximately \$4,000,000 in the first year, with this amount increasing thereafter. The first Sweepstakes yielded only \$2,768,088 (48.2%) on a gross take of \$5,730,093, after payment of \$1.7 million (31.4%) in prizes, \$583,415.63 (10.2%) in expenses, and another half million dollars (10.2%) in federal taxes. According to an article in the New York Times for July 18, 1965, after ten months of selling, sales for the 1965 Sweepstakes, instead of increasing as predicted by the New Hampshire authorities, were running slightly behind the sales figures for 1964. One major criticism of the New Hampshire plan was that it would - and was, in fact, intended to - attract funds into New Hampshire from residents of other jurisdictions. That this outcome did result is borne out by the fact that of the winners of the 18 largest prizes in the first Sweepstakes, only one actually lived in New Hampshire. There is, therefore, evidence to support the contention that to allow a state lottery in one jurisdiction tends to exert pressure upon other jurisdictions to establish lotteries of their own as a means of self-protection against loss of revenue.

New Zealand established its first state lottery, the Golden Kiwi, in 1961. The principal reason for doing so was to discourage the flow of funds out of New Zealand, estimated at one-half million pounds annually, into the lotteries operated in the various States of Australia, notably Tasmania and Victoria. The New Zealand pound is valued at approximately \$3 in Canadian currency. The system employed was to arrange for organizers to conduct the lotteries under the strict control and supervision of the Minister of Internal Affairs. The Government undertook to pay the organizing expenses and commissions to sellers. The price of tickets was set at 5 shillings (\$0.75). Under the plan as first introduced, 250,000 tickets were sold on each lottery. The population of New Zealand is approximately 2.5 million. Fifty per cent of the proceeds would go to prizes and the balance, after deduction of commissions and necessary expenses, to "charitable, philanthropic or cultural purposes or for other purposes beneficial to the community...". There were to be two drawings each week. The initial response was most enthusiastic, but purchases gradually dropped off until there was only one lottery a week. This trend is evident in the 1964-65 Annual Report for the Department of Internal Affairs, which records:

"Fifty-two Golden Kiwi lotteries were conducted, two fewer than in 1963-64 and 22 fewer than in 1962-63, the first complete year during which these lotteries were held. This trend lends support to the view of the Department when the Golden Kiwi lotteries were instituted that, as their novelty decreased, so would the demand for them fall and become stabilised at a level substantially below the original demand."

New Zealand continued to experience competition from mammoth lotteries operated in Australia. These were lotteries, held somewhat less frequently, in which the ticket price and the principal prizes were greater. Consequently, a mammoth lottery was introduced in New Zealand late in 1963. It was intended that there would be four of these per year. The first "Mammoth" lottery sold out in one day. The second was sold out in two hours, the third in one hour and the fourth on advance sale. Considerable public pressure arose, therefore, for more frequent "Mammoth" lotteries and these are now held every two months. Tickets, to a total number of 250,000, are sold for £1 each, with prizes ranging (in 1964) from £60,000 for first prize to 2,650 prizes of £10, to a total prize money of £135,000. One result was a somewhat diminished interest in the Golden Kiwi lotteries. The proceeds

from these two lotteries in New Zealand, while somewhat less than anticipated, are apparently still substantial. The results of the national lotteries conducted in 1963-64, as recorded in the Annual Report for the Department of Internal Affairs, were as follows:

	<u>Mammoth</u>	<u>Golden Kiwi</u>
	Pounds	Pounds
Gross sales	750,000	3,250,000
Commission	46,875	325,000
Expenses	8,791	127,860
Prizes	405,000	1,716,000
Lottery duty	75,000	325,000
Net profit	214,334	756,140

One of the most serious problems that arose in connection with the New Zealand lottery scheme concerned the distribution of profits. Initially the decision was left to the Minister himself. However, the Minister soon found himself under constant attack from the members of various agencies. Accordingly, the Government set up an elaborate system under the Gaming Amendment Act 1962, whereby distribution is the responsibility of a Board of Control, consisting of the Minister as chairman, the Prime Minister, the Leader of the Opposition and three other persons appointed by the Governor General in Council. In addition, there are "distribution committees" for each of the several purposes contemplated by the Act, namely:- the welfare of aged persons; the promotion of social welfare; the provision of recreational and other facilities for young people; the encouragement of cultural activities; and the promotion of medical and scientific research. Applications for assistance are submitted to the Board and referred to the appropriate Distribution Committee. Any organization must earn two-thirds of the requested amount itself before earning a one-third contribution from the lottery funds. Presumably one object of this requirement is to meet the objection that, where lotteries exist, sources of private funds dry up. Our information is that, despite this scheme, a number of problems still remain.

Information on lotteries conducted in other countries is less complete. A Canadian Press article dated July 6, 1964, contains some very general data, which may or may not be accurate, on the lotteries operated in Ireland, Great Britain, France and Australia:

"The Irish Hospitals Trust runs three annual sweepstakes - the Grand National Steeplechase, the Cambridgeshire and the Irish Sweepstakes Derby.

Prize money on the 1964 Irish Sweepstakes Derby totalled \$9,021,000 with the amount being made up from the sale of \$3 tickets.

The money spent on tickets goes into a pool. Twenty-five per cent of the amount goes into the hospitals trust, which must pay a 25 per cent stamp tax to the government out of this amount.. About 16 per cent covers operating expenses and the remaining 59 per cent is distributed in prize money.

Britain instituted a savings-type lottery in 1957 - its sole national lottery - whereby money deposited for savings draws no interest but serves as a ticket for non-taxable cash winnings.

Prizes range from \$75 to \$3,000 for a uniform initial investment of \$3 provided the number of the bond is selected by a robot computer. Bond buyers must wait six months before their numbers are eligible for the draw, made every month.

The proceeds of the premium bond draw, run by the National Savings Committee, are used for national expenditures.

The French government runs a weekly national lottery with a top prize of \$200,000. Sixty per cent of the income from the sale of tickets goes toward prize money, seven per cent covers operating expenses and the remainder winds up in the treasury.

Revenue derived from lotteries in Australia generally is used directly or indirectly to provide funds for hospitals and charitable institutions.

Latest available figures for Australia show that of the \$97,000,000 worth of lottery tickets sold throughout that country in 1962, nearly 60 per cent was paid out in prize money, about 30 per cent went as taxes and other net contributions to state government revenues and the remainder was spent on operating expenses."

While lottery schemes do operate in a number of countries, their effectiveness as a means of collecting revenue remains controversial. The Royal Commission on Health Services, reporting in 1964, suggested that "where a province desires to operate a lottery solely to assist in the financing of health services, the Federal Government, when requested by a province to do so, might submit to Parliament appropriate amendments to the Criminal Code" (Vol. I, p. 87). The Commission went on to say, however, that they did not advocate the use of lotteries, and appear to have made no study of the revenue aspect of lotteries. Such a study was undertaken by the Belanger Commission (Commission royale d'enquete sur la fiscalite), which reported in December, 1965. The Belanger Commission examined the revenue from state lotteries in 18 countries. The Commission observed that it is difficult to form an exact opinion as to what a state lottery might hope to realize in Quebec, since the proceeds vary considerably from country to country, and even as between neighbouring countries. To obtain a very general estimate, they hypothesized an expenditure of \$5 per person, based on experience elsewhere, and concluded that gross revenue would be approximately 30 million dollars, with a net profit to the state of some 10 million dollars. A supplementary revenue of 10 million dollars would, in the Commission's opinion, be a negligible contribution to the pressing revenue needs of the Province. They concluded (pp.243-245):

"The Belanger Commission concluded that, contrary to popular conception this is a very small amount as compared to the expenditures which the Government of Quebec must appropriate particularly as regards education, health and social welfare. A contribution of ten million dollars is hardly sufficient to defray the expenses of a hospital of a thousand beds.

The Belanger Commission recommended that in the event of the Criminal Code being amended to permit the establishment of state lotteries, the Government of Quebec should bear in mind that a Quebec lottery could only expect a very small revenue therefrom as compared to the magnitude of its financial needs."