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**HB 1317**

# **Tuition Relief Act**

## **Improving on the Goals**

**Testimony of**

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**for the**

**Gaming Oversight Committee  
House of Representatives  
Commonwealth of Pennsylvania**

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1 This document addresses the Tuition Relief Act (HB 1317) for the House Gaming  
2 Oversight Committee, Pennsylvania House of Representatives. The issues  
3 discussed are

- 4 1. considerations regarding government-provided tuition relief
- 5 2. a better role for government, and
- 6 3. observations on gambling revenues as a funding source.

7 **I. Government-provided tuition relief**

8 Wanting to provide means for private individuals to be able to pay college  
9 tuition is an admirable goal, but there is a better, more economically sound way  
10 to accomplish that goal than HB 1317, the Tuition Relief Act. This statement  
11 requires explanation.

12 An *investment good* is a good whose purchase provides the buyer an  
13 enhanced stream of future income. A *private good*, such as a sunny-side-up  
14 fried egg, is a good whose consumption benefits only the one consuming it.  
15 *Public goods*, such as national defense, provide benefits to many people (the  
16 purchase of safety from foreign invasion for your home also makes my house  
17 next door safe) and often have the characteristic that individuals cannot be  
18 excluded from benefiting from the good, even when they do not pay for it.

19 A college education is a private investment good with consumption  
20 aspects. Private markets are the appropriate way to provide private goods.  
21 Private market provision is also equitable and fair: those who benefit from a  
22 good pay for it in proportion to the benefits they receive. If I eat two eggs, I pay  
23 for two eggs. If you eat no eggs, you do not have to pay for my eggs.

1           Public goods are different. Government promotes the general welfare  
2 when it provides the right amount of public goods, because everyone benefits. In  
3 an ideal world, all government would be paid by user fees that reflected the  
4 degree of benefits received by the recipient.<sup>1</sup> People would pay different prices,  
5 but ones that reflected their benefits received. American government does this  
6 imperfectly today. Harrisburg residents generally do not pay for city services in  
7 Pittsburgh because Harrisburg residents do not benefit from Pittsburgh services.

8           Public provision of college education/subsidies to tuition, on the other  
9 hand, does not promote general welfare. It promotes the special welfare of the  
10 recipient. As an investment good that benefits the recipient, and as a  
11 consumption good that benefits the recipient, a college education is a private  
12 good that should be paid for by the consumer of it. President Grover Cleveland  
13 understood well the relevant principle. In his second inaugural address he said:

14                   **while the people should patriotically and cheerfully**  
15                   **support their Government, its functions do not**  
16                   **include the support of the people.**

17           However, the private nature of college education does not mean that  
18 government has no role. It means that government does not have the role  
19 envisioned by HB 1317.

## 20   **II. A Better Role for Government**

21           In an investment market, the borrower pays for his or her purchase of the  
22 investment good out of the increased future stream of income that it makes  
23 available. In the past, functioning markets for college investments were

1 prevented by technical considerations. However, technical considerations have  
2 changed and there is a role for state government to aid establishment of the  
3 needed markets. This is where the efforts related to the goals of HB 1317 should  
4 be directed.

5         The threat to the lender is that he will not be repaid when the college  
6 student borrower skips town after graduation. The threat to the college student  
7 borrower is that he or she will be unable to pay back a large sum if his or her  
8 income is not sufficiently high as originally expected. In the past, there were  
9 legal and technical impediments to overcoming both concerns. However,  
10 conditions are different today.

11         The college student wants a combination loan and insurance policy  
12 against future low income. The lender is able today to provide both in a bundled  
13 form if the lender is able to track the borrower, a feasibility today if the legal  
14 environment is also in place. For example, a program whereby college students  
15 could borrow for tuition, agreeing to allow themselves to be tracked in the future,  
16 and paying back a fraction of their future compensation until the loan was paid off  
17 or a specified number of years had passed is feasible. The risks to the borrower  
18 are dealt with: the borrower knows the loan can be repaid or terminated by a  
19 specified time, knows that no more than a given percentage of future income will  
20 be devoted to the loan, and agrees in return to allow themselves to be tracked.  
21 The lender knows he will be repaid, either by the recipient, or by the effective  
22 insurance policy that was bundled with the loan, and has the technical and legal  
23 capacities to enforce the needed terms. This is a sketch, of course, and careful

1 consideration of details need to be worked. For example, how does future  
2 marriage enter into the legal obligation and how are different forms of  
3 compensation treated? It is an appropriate government function to provide the  
4 environment in which a tuition loan market can flourish and to help establish it.

5 **III. Observations on gambling revenues as a funding source.**

6 Gambling research, much of it summarized in my book, *Gambling In*  
7 *America: Costs and Benefits* (Cambridge University Press, 2004), documents  
8 that Class III gambling, which includes slot machines, produces significant social  
9 costs. Social costs associated with gambling as a recreation prompted the  
10 *National Gambling Impact Study Commission* to recommend a moratorium on  
11 gambling expansion in its final report.<sup>2</sup> With respect to slot machines, I have  
12 testified elsewhere<sup>3</sup> that

13 greater ease of access, length of play, rate of play, and  
14 arousal of play are associated with increased development  
15 of pathological gambling and creation of social harm.<sup>4</sup>  
16 Breen and Zimmerman (2002) document that machine  
17 gambling leads more quickly to pathology than other forms  
18 of gambling (1.1 years versus 3.6).<sup>5</sup> Williams and Wood  
19 (2004) employ prospective diaries,<sup>6</sup> the best methodology  
20 yet employed, to document that 60 percent of machine  
21 gambling revenues derive from problem gamblers.<sup>7</sup>

22 Considering the social costs, a mid-range estimate for conventional tax  
23 deadweight loss reveals that taxation by gambling imposes two to three times

1 more costs on the community than conventional taxes. These costs take the  
2 form of conventional tax deadweight loss and the direct social costs of crime,  
3 business and employment costs, bankruptcy, suicide, illness, social service  
4 costs, government direct regulatory costs, family costs, and abused dollars  
5 associated with gambling. It is therefore inappropriate and cynical for  
6 government to expand slot machine use to fund its activities when better tools  
7 are available.

#### 8 **IV. Summary**

9 The Tuition Relief Act (HB 1317) has laudable goals, but tasks  
10 government inappropriately. Its objectives can be better met by helping to  
11 establish markets in college loans using modern technical and financial  
12 innovations. More efficient and less harmful tax methods exist than tax by slot  
13 machine.

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<sup>1</sup> See Duncan Foley, "Lindahl's Solution and the Core of an Economy with Public Goods," *Econometrica*, 38, 1, (Jan., 1970), p. 70. He writes, "in the language of the 'benefit theory,' the value of public goods received by each individual is equal to the total tax he pays" in an ideally set up economy where public goods are present.

<sup>2</sup> National Gambling Impact Study Commission: Final Report, June 1999, p. 1-7

<sup>3</sup> "Declaration of Dr. Earl L. Grinols," Superior Court of the State of California, County of San Francisco, Mario Cisneros, et al. v. Yahoo, Inc. et al. Case No. CGC 04433518, filed 3 August 2004.

<sup>4</sup> Frank L. Quinn (2001). "First Do No Harm: What Could be Done by Casinos to Limit Pathological Gambling," *Managerial and Decision Economics*, 22, 1-3, 133-142.

<sup>5</sup> Robert B. Breen and Mark Zimmerman (2002). "Rapid Onset of Pathological Gambling in Machine Gamblers," *Journal of Gambling Studies*, 18, 1, 31-43. Robert B. Breen, (2004) "Rapid Onset of Pathological Gambling in Machine Gamblers: A Replication," *International Journal of Mental Health & Addiction*, 2, 1, 44-49.

<sup>6</sup> "Prospective diaries involve participants recording relevant behaviors or expenditures in a logbook or diary, on a daily basis, for a certain period of time." Robert Williams and Robert Wood (2004). "The Demographic Sources of Ontario Gaming Revenue: Prepared for the Ontario Problem Gambling Research Centre," June, 1-65. (p. 14).

<sup>7</sup> See Williams and Wood (2004), Table 17, p. 42.