

Why State Lotteries Aren't Good Public Policy

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Article:

Throughout the South in recent years, Democratic governors have consistently differentiated themselves from Republicans on one very public issue: whether their state should operate a lottery.

Georgia's lottery was championed by Democratic Gov. Zell Miller as a revenue source for public education. In both South Carolina and Alabama, Democratic challengers unseated incumbent Republican governors, largely because they strongly supported a state lottery.

In South Carolina, Gov. Jim Hodges managed to place a lottery referendum on the state's ballot later this year. But in Alabama, voters changed their minds only a year after electing lottery supporter Donald Siegelman to the governor's mansion. They defeated a lottery proposal in a statewide referendum last fall.

We're seeing the same partisan divide in North Carolina this year. Democratic gubernatorial nominee Mike Easley favors a lottery, while Republican candidate Richard Vinroot opposes one.

The usual argument in favor of a lottery is that it's a great way for the state to earn revenues without increasing taxes. Most states with lotteries earmark the revenues for specific programs, most commonly for public education. In South Carolina, Gov. Hodges successfully drove home this point during the election by coloring his campaign posters school-bus yellow.

Another pro-lottery argument, one to which North Carolina's Easley subscribes, holds that it's a shame that lottery spending flows out of state towards those states with lotteries. Hodges capitalized on this, calling his GOP opponent "Georgia's education governor," because of South Carolinians' purchases of Georgia lottery tickets. Easley must have had similar thoughts a few weeks ago, when North Carolinians streamed north to Virginia to buy tickets for the multi-state Big Game lottery.

Most opponents of lotteries argue that they encourage immorality, compulsive gambling, and the breakdown of families. A few claim that lotteries are essentially taxes that disproportionately hit poorer families.

At first blush, state lotteries seem like win-win propositions. They're basically voluntary, rather than compulsory like taxes. And they're quite popular, because for better or worse, gambling appears to be an ingrained human activity.

But are lotteries such a good idea?

One of the fundamental difficulties in answering this question is that lotteries play two distinct roles. On one hand, they're like a product which is sold by the state government and bought voluntarily by consumers. On the other hand, they're a revenue source for state government.

Lottery supporters tend to emphasize that lotteries are voluntary *and* revenue-generating. That's the apparent win-win. But the difference between a lottery's dual roles can matter.

If a lottery is more like a voluntarily purchased product, then we need to think about what it means for the state to grant itself a monopoly over it. If a lottery is primarily a source of state revenues, then we need to think about it as a kind of tax.

First let's think about lotteries as products. If the state sells lottery services, then on a fundamental level, lotteries are socially acceptable. Not only are they the result of legitimate democratic processes, but lottery advertising tries to emphasize how wholesome and mainstream they are.

Well, if a lottery is fundamentally okay, why is it reasonable for the state to maintain a lottery monopoly? Why should the state be the only organization that gets to earn profits from what the state itself deems to be a legitimate enterprise?

And there are profits for the state, because like all monopolies, lottery monopolies charge high prices to consumers. State lotteries pay out an average of 55 percent of their revenues to lottery players. In contrast, private casinos pay out much more on average, about 92 percent. And nobody has ever accused casino operators of having a deficient profit motive.

One might reply that the state should have a lottery monopoly because privatized gambling leads to crime. The only problem with this argument is that the evidence doesn't bear it out. Sure, cities like Atlantic City, N.J., have experienced an increase in crime since introducing casino gambling, but the increase is most likely the result of the massive influx of tourists, not the gambling *per se*. Where there are tourists, you'll always find criminals.

Moreover, the tourist/crime connection doesn't always hold up with gambling. Since Illinois introduced riverboat gambling a few years back, there's been no noticeable increase in crime in towns with riverboat casinos. One study of the effect of new casinos in rural Colorado actually found a decrease in crime.

Now let's look at state lotteries as government revenue sources. Much has been made of the regressive nature of lottery revenues. In dollar terms, lottery spending as a function of family income is fairly constant up to an income of about \$50,000 per year. It begins to fall off as income rises further. The implication is that as a proportion of income, low-income folks spend a higher share of their incomes on lottery tickets than richer people do.

If a lottery is sort of like a tax, this is a disturbing result. Many of us might disagree over whether taxes should be proportional ("flat") or progressive, but few of us would propose new taxes that hit most heavily on low-income folks. The sales tax already does that.

And if the lottery-as-regressive-tax bothers you, the advertising and marketing efforts by state lottery agencies make it worse. In 1997, states with lotteries spent roughly \$400 million on advertising. And that doesn't count the free advertising provided by the news media. In response, some states are considering a passive approach in which the state runs a lottery but doesn't promote it to the extent currently seen.

From a political standpoint, the most powerful argument in favor of state-run lotteries is earmarking their funds for public schools. Twenty-eight out of the 38 state lotteries in the U.S. (including the District of Columbia) earmark lottery revenues. Sixteen of these allocate all or most of their revenues to public education. For example, Georgia funds its HOPE scholarships for higher education from its lottery revenues.

But it's important to realize that state finances are fungible, which means that lottery revenues don't necessarily *add* to education's share of the state-revenue pie. It's possible that each lottery dollar for education just frees up a dollar from the general fund for something else. That's not necessarily bad, but it doesn't help education.

The evidence indicates that fungibility is a reality when it comes to lottery revenues and public education. A Duke University study noted that “there is no practical way of preventing a legislature from allocating general revenues away from the earmarked uses.”

An Auburn University study looked at state-finance data and found no net improvement in education funding, concluding that “education is not a big winner in state lotteries.” In fact, on average, non-lottery states spend more per student on education than states with lotteries.

So here are two arguments against the establishment of a state-run lottery. Neither argument relies on an appeal to morality or the fear of compulsive gambling. I don’t actually care if you go out and gamble. I may join you. What I care about is sensible public policy.

My first objection is that if lottery gambling is a legitimate enterprise, then why shouldn’t private businesses get in on the action? With appropriate regulation (which is necessary for all industries), lottery consumers would be better off.

My second objection says that if a lottery is primarily a revenue source for the public schools, then it’s not particularly effective. Because of budget fungibility, lottery proceeds essentially go into the general fund, whether or not that’s what the politicians tell us.

But I do believe the voters should be able to decide for themselves. In November, North Carolinians will elect a new governor. To some degree, the election will be a referendum on a state lottery. Mike Easley is currently ahead in the polls. If he wins, will North Carolina join the Big Game?