

Lotteries: Socioeconomic Effects

Background

With the Alabama's General Fund facing a shortfall of more than \$200 million, some state legislators are looking at a state-sponsored lottery as means to boost government revenues. While the details of exactly how the revenues of such a lottery would be disbursed have yet to be made public, the negative social and economic consequences other states have experienced after they legalized their own lotteries suggest the same bad outcomes could happen in Alabama.

Policy Consideration

In the words of the Tom Grey, executive director of the National Coalition against Legalized Gambling, when large-scale gambling like a lottery is introduced in any state, it brings the "ABCs": addiction, bankruptcy and debt, and crime.

Addiction. Playing the lottery and other forms of gambling can be just as addictive as substance abuse¹, making gambling addiction one of the leading health issues in the United States, according to a 2014 report issued by the Columbia University School of Public Health.² Around two million Americans are addicted to gambling, and as many as 20 million let gambling interfere with their work and social lives.³

In states with multiple forms of gambling, the lottery is one of the main sources of addiction:

In New York, 40% of the gambling hotline calls to the state's Council on Problem Gambling in 2005 were related to lottery addiction. Casino gambling was in second place with 27%; no other category of gambling was responsible for more than 10% of calls.⁴

ISSUE SNAPSHOT

Around two million Americans are addicted to gambling, and another 20 million let it interfere with their work and social lives.

On average, gambling addicts have more than double the debt of non-gambling households and are much more likely to have filed for bankruptcy than non-gamblers.

When large-scale gambling such as a lottery is introduced in a state, it increases the number of problem gamblers, some of whom will commit crimes to finance their addiction.

Between 2007 and 2014, betting on the lottery was the second most common reason individuals with gambling problems called California's gambling helpline.⁵

Individuals with gambling disorders fall into two categories: problem gamblers and gambling addicts. Problem gamblers show symptoms of up to four of nine criteria established by the American Psychiatric Association in their Diagnostic and Statistical Manual of Mental Disorders (DSM-V), including gambling to escape problems, lying to conceal gambling involvement, and "chasing" losses (i.e., returning to gamble another day to try and recover losses). Gambling addicts, on the other hand, manifest five or more of these symptoms.⁶

If a lottery is legalized in Alabama, research from other states suggests it will draw people into gambling who have not gambled previously. A study of Texas residents found that the number of adults who have gambled on any game increased by about 40% when their state's lottery was introduced.⁷

Any growth in the number of gambling addicts in Alabama would be costly. According to Earl Grinols, an economics professor at Baylor University, the social costs

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associated with gambling addiction—crime, lost wages and productivity, bankruptcy, unemployment, treatment, and so forth—average about \$9,400 per gambling addict per year.⁸ If legalizing large-scale gambling in Alabama increased the number of gambling addicts by just two-tenths of one percent of the state’s adult population (about 10,000 residents), the cost to them and society would be approximately \$94 million per year. Research indicates that each of these would have, on average, a seven- to ten-year battle with their addiction before getting help.⁹ Thus, even if legalizing widespread gambling in Alabama produced only one generation of gambling addicts, the total cost to the state and its residents would be between \$650 million and \$950 million.

Bankruptcy and debt. One of the most common signs of gambling addiction is the gambler spending well beyond their means. Gambling addicts often follow a predictable path of spending their existing personal resources, selling insurance policies and possessions, and “borrowing” from friends and relatives. They may acquire multiple credit cards and max them out with the expectation that everything will be paid back once the next “big win” comes along.¹⁰ On average, gambling addicts have more than double the debt of non-gambling households.¹¹ Consider the following:

In California, problem gamblers and gambling addicts account for less than 5% of all gamblers, yet account for a third (32%) of all money bet on the lottery, according to a 2006 prevalence survey by the National Opinion Research Center.¹²

Similar effects have been found in other countries: in Australia and New Zealand, problem gamblers and gambling addicts represent between 1% and 3% of the adult population, yet are responsible for 19% and 33%, respectively, of all of the money gambled in those countries.¹³

Nearly one in five gambling addicts (19.2%) who participated in the 1999 National Opinion Research Center survey reported having filed for bankruptcy, compared to 4.2% of non-gamblers.¹⁴ More recent research (2002) found a similar percentage of gambling addicts had declared bankruptcy (18.2%), with an average

debt of \$42,750¹⁵; a replication of the same study two years later found an even higher rate of bankruptcy (22.5%) and debt (\$53,100).¹⁶

Crime. While the legalization of gambling may lower crime rates by simply reducing the rate of illegal gambling, it increases the number of problem gamblers, some of whom will commit crimes to finance their addiction. Crime rates may also rise because some types of gambling offer increased opportunities for illegal activities such as passing counterfeit money, theft, and fraud.¹⁷

As a whole, research suggests that crime rates increase as gambling availability increases. This is particularly true for studies that have examined the link between individual gambling habits and gambling-related crime such as fraud, embezzlement, theft, and larceny.¹⁸

Much of the research on the link between gambling and crime has come from studies conducted in other countries. For example:

Forty-four percent of the fraud committed in Australia and New Zealand has been attributed to gambling, according to a 2009 KPMG study. More than \$301 million in fraud was linked to gambling, with an average value of \$1.1 million per incident.¹⁹

Recommendation

There is no truth to the idea that lotteries are a “victimless vice” that only exists to entertain its players while benefiting noble causes such as education. The experiences of other states show that lotteries attract and entrap disproportionate numbers of the poor, minorities, underage gamblers, and the elderly. Because Alabama is a poorer state with an above-average percentage of minorities, legalizing a lottery would jeopardize large subpopulations of the state with the possibility of devastating economic and social consequences. It makes no economic sense for Alabama or any other state to legalize and promote a product that can do so much harm to the most vulnerable of its citizens.

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² Elaine Meyer, *Gambling with America's Health? The Public Health Costs of Legal Gambling*, THE2X2PROJECT (Sept. 9, 2014), available at <http://stoppredatorygambling.org/wp-content/uploads/2014/12/2014-Columbia-School-of-Health-Gambling-with-America%E2%80%99s-Health.pdf>.

³ *How the Brain Gets Addicted to Gambling*, SCIENTIFIC AMERICAN (Oct. 15, 2013), www.scientificamerican.com/article/how-the-brain-gets-addicted-to-gambling/.

⁴ Roger Neumann, *Lottery Brings Tide of Gambling Addicts*, LOHUD.COM (Jan. 8, 2007), <http://archive.lohud.com/article/20070128/NEWS05/701280397/Lottery-brings-tide-gambling-addicts>.

⁵ CALIFORNIA COUNCIL ON PROBLEM GAMBLING, PROBLEM GAMBLING HELPLINE REPORT 2014 10 (Feb. 23, 2015), available at www.calpg.org/wp-content/uploads/2015/02/2014-CA-Annual-Helpline-Report.pdf, and earlier reports.

⁶ AMERICAN PSYCHIATRIC ASSOCIATION, *Gambling Disorder*, in DIAGNOSTIC AND STATISTICAL MANUAL OF MENTAL DISORDERS, *Gambling Disorder*, Sec. 312.31 (5th ed. 2013).

⁷ LYNN S. WALLISCH, TEXAS COMMISSION ON ALCOHOL & DRUG ABUSE, GAMBLING IN TEXAS: 1995 SURVEYS OF ADULT AND ADOLESCENT GAMBLING BEHAVIOR: EXECUTIVE SUMMARY 164 (1996).

⁸ John W. Kindt, *The Hidden Social Costs of Gambling*, in THE GAMBLING CULTURE 19-28 (Robert B. Kruschwitz, ed., 2011), available at www.baylor.edu/content/services/document.php/144582.pdf.

⁹ Marc N. Potenza et al., *Gender-Related Differences in the Characteristics of Problem Gamblers Using a Gambling Helpline*, 158 AMERICAN JOURNAL OF PSYCHIATRY 1500, 1500-1505 (2001), available at <http://ajp.psychiatryonline.org/doi/10.1176/appi.ajp.158.9.1500>.

¹⁰ Earl L. Grinols & David B. Mustard, *Business Profitability versus Social Profitability: Evaluating Industries with Externalities, the Case of Casinos*, 22 MANAGERIAL AND DECISION ECONOMICS 143, 143-162 (2001).

¹¹ NATIONAL GAMBLING IMPACT STUDY COMMISSION, FINAL REPORT TO CONGRESS, 7-21 (1999).

¹² RACHEL A. VOLBERG, NATIONAL OPINION RESEARCH CENTER, 2006 CALIFORNIA PROBLEM GAMBLING PREVALENCE SURVEY: FINAL REPORT 81 (2006), available at http://134.186.34.197/OPG/pdf/CA_Problem_Gambling_Prevalence_Survey-Final_Report.pdf.

¹³ Robert J. Williams & Robert T. Wood, *The Proportion of Gaming Revenue Derived from Problem Gamblers: Examining the Issues in a Canadian Context*, 4 ANALYSES OF SOCIAL ISSUES AND PUBLIC POLICY 33, 35 (2004).

¹⁴ NATIONAL OPINION RESEARCH CENTER AT THE UNIVERSITY OF CHICAGO, GEMINI RESEARCH, & THE LEWIN GROUP, *Gambling Impact and Behavior Study*, in REPORT TO THE NATIONAL GAMBLING IMPACT STUDY COMMISSION 46 (Apr. 1, 1999).

¹⁵ R. B. Breen & M. Zimmerman, *Rapid Onset of Pathological Gambling in Machine Gamblers*, 18 JOURNAL OF GAMBLING STUDIES 31, 31-38 (2002).

¹⁶ R. B. Breen, *Rapid Onset of Pathological Gambling in Machine Gamblers: A Replication*, 2 INTERNATIONAL JOURNAL OF MENTAL HEALTH & ADDICTION 44, 44-49 (2004).

¹⁷ ROBERT J. WILLIAMS ET AL., THE SOCIAL AND ECONOMIC EFFECTS OF GAMBLING: FINAL REPORT PREPARED FOR THE CANADIAN CONSORTIUM FOR GAMBLING RESEARCH 45 (2011).

¹⁸ *Id.*

¹⁹ KPMG FORENSIC AUSTRALIA AND KPMG FORENSIC NEW ZEALAND, FRAUD SURVEY 4 (2009).