



*State-Run Lotteries:
Seeking Solutions,
Creating Disaster*

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For additional copies, please contact:

Alabama Policy Institute
2213 Morris Avenue
Birmingham, Alabama 35203
P: 205-870-9900
info@alabamapolicy.org

www.alabamapolicy.org



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I. Introduction

The Alabama Policy Institute's position on the lottery has been well-known and well-publicized¹ throughout the organization's nearly thirty year history: a state-run lottery is bad public policy, both fiscally and socially, and it is the wrong solution to address the state's unsustainable fiscal trajectory. This is not merely a right-versus-left issue, as there are many outspoken opponents and supporters of the lottery on both ends of the political spectrum. Ultimately, this is a right-versus-wrong issue.

Lotteries are often marketed as merely a form of entertainment, one that can be converted into a public good by investing the proceeds into education or other government programs. While this view is appealing on the surface, it is more accurate to think of the lottery as a tax. Ultimately, a lottery takes money from individuals and uses it to fund the government, just like other taxes. Lottery players lose an average of 47 cents on the dollar for each ticket,² and with such low payouts, tickets act as an implicit tax of 38 percent.³ Thus, the revenue derived from a lottery can be thought of as an excise tax on playing the lottery, especially considering the extremely low odds of winning.

Regardless of who plays the lottery (and regardless of the outcome), the government receives a cut of every dollar spent on lottery tickets. This creates a perverse incentive for the state, especially when conventional revenue streams are volatile. The state can become addicted to these funding streams, with politicians actually desiring for more and more individuals and families to recklessly spend their money gambling. If a lottery is instituted, calls to further increase gambling will become incessant and government expansion will likely follow in its wake.

Any source of revenue that preys on the poor and vulnerable to be successful is wrong. A lottery is more than just a personal vice that affects the individual who chooses to do it; it is an economic injustice that Alabamians of all political leanings should oppose. Furthermore, an examination of other states show that lotteries have failed to produce the funding and education benefits that they promise. According to Dr. Lucy Dadayan of the Rockefeller Institute of Government, "History shows that in the long-run the growth in state revenues from gambling activities slows or even reverses and declines."⁴ Lotteries are therefore not simply immoral, but futile.

II. Lotteries Receive Criticism Regardless of Ideology

As more states have adopted (or sought to adopt) lottery programs, they have increasingly come under criticism from both sides of the political spectrum.

On the right, Ben Shapiro, editor-in-chief of *The Daily Wire*, has called the lottery “an evil scam,”⁵ while Focus on the Family’s James Dobson argued that the lottery is a “shameless” exploitation of the poor.⁶ Likewise, the Southern Baptist Convention, Alabama’s largest Christian denomination, denounced lotteries as “state-sponsored plundering of the poor.”⁷

From the left, *Last Week Tonight’s* John Oliver recorded a scathing rebuke of lotteries that has, since its release in 2014, been viewed over 10 million times.⁸ *Vox* called lotteries a tax on vulnerable people who “are already unable to afford the most basic needs.”⁹ Similarly, *ThinkProgress* referred to lotteries as “Mega Failure[s]” and “foolhardy.”¹⁰

Despite the diverse criticism of lotteries, they remain a popular pursuit of lawmakers and candidates. This is likely because the temporary increased revenue “has significant political returns.”¹¹ While politicians may seek their own gain by supporting the lottery, it is essential to take a deeper look at the actual impact that adopting a lottery is likely to have.

III. Low-income Residents Disproportionately Impacted by Lottery’s Negative Effects

While it is true that the lottery is voluntary and there are no negative repercussions from failing to take part, this apparent simplicity masks a much more pernicious logic that drives lottery sales.

Ultimately, a lottery is predicated on the idea of hope: hope that a small investment will result in a life-changing windfall. While for the average player this may remain a fantasy or diversion, for those with lesser means it takes a more concrete form as lack of stable employment and low prospects of fulfilling work lead many to view the lottery as their only means of improving their economic situation. With a lottery, the state feeds off this desperation, turning the most vulnerable members of society into a source of revenue, commodifying the very people it claims to serve.

The *Atlantic* has called lotteries “America’s \$70 Billion Shame,” and argued that “[S]tates rely on monetizing the desperate hope of its poorest residents. State lotteries take from the poor to spare the rich, all while marching under the banner of voluntary entertainment.”¹² In 2016, the *New York Times* examined the effect that a lottery has on individuals who regularly buy tickets, estimating that 50 million adults in America lose roughly \$1,000 per year on lottery tickets—not counting the poor who cannot afford to spend that much. The author concluded that “the government ought to be doing no harm to its citizens, yet it appears to be promoting and benefiting from activities that are surely harming the life prospects of many people.”¹³

According to Salil Mehta, a professor of applied analytics at Columbia University, probability calculations indicate that an estimated 350,000 Alabamians would lose \$200,000 of their lifetime savings as a result of a state lottery. In a state with the 47th lowest median household income in the country – a state in which 18% of the people live in poverty – the adoption of such a policy would be profoundly cruel.¹⁴ No additional spending could possibly justify that level of malevolence.

Georgia is often cited as a beneficiary of a lottery due to its programs (such as the HOPE scholarship) designed

to help fund education. Lottery proponents often argue that these benefits will allow people of all incomes to have access to a good education. However, a 2002 study of the Georgia lottery suggests “that lower income and non-white households tend to have higher purchases of lottery products while receiving lower benefits, as compared to higher income and white households.” Additionally, it notes that, “benefits of HOPE Scholarships, in particular, accrue disproportionately to higher income and more educated households.”¹⁵ Thus, in an article in the Atlanta Black Star, Thomas Harnish of the American Association of State Colleges and Universities described the Georgia lottery as “‘Robin Hood’ in reverse.”¹⁶ With a lottery, the state preys on Georgia’s poorest citizens to fund merit-based scholarships that often go to the state’s richest and most affluent students.

Alabamians should not be fooled into thinking that the push for a state-run lottery is over an innocuous game of chance or their freedom to play it—it is about conning them into handing over more of their money without asking too many questions. Make no mistake, the lottery is a tax, one that is disguised as entertainment and supplied through a state-run monopoly, and one that is borne primarily by Alabama’s poorest citizens.

IV. Lotteries Fail to Resolve Budgetary Issues

Even so, lotteries can provide a major source of income for a state; and the adoption of a state-run lottery has become a popular political move for lawmakers across the nation. In 2014 alone, Americans spent over \$70 billion on lottery tickets - more than was spent on sporting event tickets, books, videogames, movie theater tickets, and music combined.¹⁷ While lotteries may provide a boost in short-term revenue, they ultimately cannot resolve the structural issues that result in budgeting problems.

This is because most lottery revenues do not result from new money coming into the state. Instead, these revenues result from “spending displacement,” or the “‘cannibalization’ of existing tax revenue as Alabama residents redirect spending from current uses to gambling—from grocery stores to gambling halls”, as was discovered in an API research study on gambling in Alabama.¹⁸ Revenue that could have been directed to the Education Trust Fund from sales taxes, for example, would now be directed to lottery-funded programs.

Furthermore, and perhaps even more revealing, comes from a study published in State and Local Government Review that found that the mean education spending of states that have not adopted education lotteries is 24% higher than those who have, suggesting that, in the long term, lotteries fail to increase education spending. In fact, the study found that states without lotteries actually maintain and increase their education spending more so than states with lotteries.¹⁹

North Carolina provides an example of this. In 2005, North Carolina’s adoption of a lottery was heralded and praised as lawmakers predicted adding \$500 million a year to education.²⁰ For the first two years, citizens saw consistent increases in education spending. However, by the 2015-2016 school year, North Carolina actually spent less on education (\$8,296 per pupil)²¹ than it did before the lottery (\$8,962 per pupil)²², when adjusted for inflation.

Additionally, a CBS News investigation examined state lotteries and their effect on education spending. When

asked about the lottery's impact on Illinois' education funding, Michael Johnson, executive director of the Illinois Association of School Boards, answered, "The general public - they were fooled by this. The belief that that's additional money, above and beyond what we would normally get, that's the part that's not true."²³

Throwing money at a broken system will only exacerbate the issues that lead to budget crises. While a lottery may provide a boost in revenue in the short-term; ultimately, only thorough, principled reform can serve as a foundation for long-term economic stability and growth in Alabama.

V. Alternative Reform Proposals

Instead of relying on a state lottery to boost education funding, there are many common sense, practical improvements that can help provide a better education for our state's children—increased school choice, new curriculum and achievement standards, alternative curriculum for vocational work, and individualized reading and STEM programs, to name a few.

Additionally, the Alabama Policy Institute has supported a number of other ideas that, if implemented, would help fill budget shortages without a state-run lottery: cost-saving reforms to our public pensions, Medicaid prescription reform, eliminating vacant positions within state government, privatizing ABC and bidding out various non-essential government services, exploring tax amnesty to generate revenue already owed to the state, consolidating the two state budgets, reducing the amount of earmarks in Alabama's budget, and bringing health insurance premiums of state employees more in balance with those of private sector workers.

VI. Conclusion

Proposing a state-run lottery is stale, ineffective, and harmful public policy. Having the state involved in large-scale gambling solely for short-term economic gain is contrary to the principle of limited government. Grasping for this revenue will do long-term damage and cannibalize local economies, making it an irresponsible approach to fill budgetary shortfalls and program funding gaps or to fund new state programs.

Rather than pass meaningful reform to improve the lives of poorer Alabamians, supporters of the lottery would instead use the lure of easy money—beyond the reach of even the hardest workers—to prey on the most vulnerable. Any conservative who supports the lottery gives credence to the claim that conservatives are apathetic to the struggles of the poor.

If implementing a lottery is the desire of our public officials, we cannot stop them. Should they be successful in that mission, however, it will be harmful for Alabama. The research is clear. The poor will be exploited and government will grow. Our fiscal condition will deteriorate. And we will have nobody to blame but ourselves for allowing it to happen.

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**ALABAMA POLICY
INSTITUTE**

2213 Morris Avenue
Birmingham, Alabama 35203
P: 205-870-9900
info@alabamapolicy.org

www.alabamapolicy.org