

# Common Sense Says...

that a state lottery will negatively impact poor communities and place the government in the role of a huckster who promotes gambling as a way out of poverty.

## T H E L O T T E R Y

The upcoming session of the General Assembly promises to include a heated debate over whether to have a lottery in North Carolina. There are numerous reasons to oppose a lottery: it is an unreliable, inefficient source of revenue, requires spending millions of dollars on advertising, and creates another state bureaucracy. But perhaps the most compelling reason to oppose the lottery is that it requires the state government to promote gambling as a way to get rich quick. Ultimately, the state's marketing of the lottery as a way out of poverty has negative consequences for poor people and communities.

### A Tax on Low-Income People

Over 34 cents of every dollar spent on the lottery goes back to the government as taxes.<sup>1</sup> Since people with low incomes pay a larger percentage of their income for a lottery ticket than people with higher incomes, the lottery represents a regressive tax. For example, if a lottery ticket costs \$10, a person earning \$200 a week would pay 5 percent of her or his weekly income for the ticket whereas a person earning \$1,000 a week pays 1 percent. In fact, a study of lottery spending among households in Atlanta revealed that low-income families spent five times as much of their income on the lottery than middle or upper income families.<sup>2</sup>

Studies illustrate that low-income people are more likely to play the lottery. In Lexington, Kentucky, 79 percent of the money spent on lottery tickets in 1997 was spent in zip codes where the residents' per capita income was below the \$20,274 county average.<sup>3</sup> Similarly, 47 percent of Maryland's most frequent lottery players come from households earning less than \$20,000 a year.<sup>4</sup> Per capita sales in Georgia are twice as high in majority African-American neighborhoods compared to neighborhoods that are at least 90 percent white.<sup>5</sup>

The lottery's success depends on a core group of regular players who account for the majority of lottery sales.<sup>6</sup> A Duke University study found that 5 percent of lottery players

account for 50 percent of ticket sales.

Unfortunately, these players tend to be those who can least afford to play.

### The State's Role as a Promoter of Gambling

Low-income people play the lottery because they believe that it could be their ticket out of poverty. State governments spend millions of dollars promoting this point of view by targeting low-income people with advertisements and easily available lottery machines.<sup>7</sup> A study by the Delaware Council on Gambling Problems determined that the State Lottery Commission deliberately targeted poor neighborhoods for the location of lottery machines.<sup>8</sup> Examples of advertising campaigns illustrate how the lottery is marketed to the poor as a way out of poverty. For example, a billboard near Washington Boulevard, a street in one of Chicago's poorest neighborhoods, pitched the lottery as "How to go from Washington Boulevard to Easy Street—Play the Illinois State Lottery."<sup>9</sup> The billboard fails to mention that a person has a better chance of getting struck by lightning than winning the lottery jackpot.

### Few Benefits for the Poor

The lottery simply does not pay off for low-income communities. Neighborhoods with high lottery spending suffer economically when their residents spend extra money on lottery tickets instead of purchasing goods. The South Carolina Board of Economic Advisors estimates that the lottery could take an annual average of \$400 million dollars in revenues out of local economies in South Carolina. If North Carolina sponsors a lottery, poor communities will be the sure losers in that gamble. These communities will lose local sales tax revenue, and they will gain little through programs funded with lottery proceeds.

Lottery supporters avoid the policy problems inherent in a lottery by shifting the focus to the programs that could benefit from lottery funding. But a closer look at these programs illustrates that their benefits are unevenly distributed and their funding is unreliable. Poor

people spend a greater percentage of their income on the lottery, but they often do not share in the programs funded by lottery proceeds.

For example, Georgia's HOPE Scholarship program, provides lottery-funded financial aid for college students based on academic merit. But an analysis illustrates that the primary beneficiaries of the HOPE Scholarship program are students from middle and upper income families.<sup>10</sup> If a student receives a federal Pell Grant as many low-income students do, then the amount of the HOPE award is minus the amount of the Pell Grant. Thus, in many cases, low-income students with Pell Grants receive little HOPE scholarship money—usually only \$100 a quarter for books.

Since there is no income cap on the HOPE program, students from wealthy families are actually able to receive more aid from the scholarship program than low-income students.<sup>11</sup> In the ninth wealthiest county in Georgia, young adults receive 68 cents in educational aid for every dollar spent on lottery tickets.<sup>12</sup> In contrast, youth in the third poorest county receive only two cents in aid for every dollar spent on lottery tickets. With low-income people disproportionately playing the lottery and the payoffs going to the wealthy, the lottery funded scholarship program acts as Robin Hood in reverse transferring income from the poor to the wealthy.

Proposals for programs funded by a lottery in North Carolina pose similar problems. Politicians who favor the lottery have discussed options ranging from a scholarship program like the HOPE Scholarship program in Georgia to the reduction of class size in North Carolina schools. Governor Easley, who favors a public referendum on the lottery, proposes spending lottery proceeds to reduce class size in kindergarten through third grade and to establish a pre-kindergarten program for low-income families.<sup>13</sup> While the pre-kindergarten program would disproportionately benefit low-income children, the proposal to reduce class size should target low-wealth districts if low-income students are to receive the most benefit.<sup>14</sup>

The use of lottery proceeds for any educational program provides no guarantee of benefits for students in North Carolina because lottery sales fluctuate and provide an unreliable source of revenue. If our state relies on lottery proceeds to fund educational programs, many students, especially those in low-income districts, could suffer. Research illustrates that states that rely on lottery money for education actually end up spending less on

education than they did when they used money from the state general fund.<sup>15</sup>

Our state should reduce class size, provide pre-kindergarten programs, and keep tuition low at our public universities. Rather than relying on regressive lottery financing to fund these initiatives, our state should fund them through a progressive tax system in which everyone pays their fair share.

## Conclusion

State lawmakers should not play the role of hucksters who promote gambling at the expense of state taxpayers. It is ironic and hypocritical that a government that requires poor people to work for welfare benefits would, at the same time, promote the lottery as a way to profit without working. Rather than encouraging people to spend their money on a long-shot chance of winning millions, state officials should promote investing in job training and educational opportunities—investments that have a much greater likelihood of helping people get out of poverty and earning a living in the future.

<sup>1</sup> Gearey, Robyn. May 19, 1997. *The Numbers Game*. *The New Republic*.

<sup>2</sup> Gerlach, Dan. February, 1999. *The Lottery Tax: Still a Bad Idea for North Carolina*. *BTC Reports*, Vol. 5, No. 3. NC Budget and Tax Center.

<sup>3</sup> Estep, Bill and Chris Poore. March 29, 1998. "Lexington's Poor Areas Spend More on Lottery." *Lexington Herald-Leader*.

<sup>4</sup> Chimo, Ira and Charles Babington. May 3, 1998. "Low-Income Payers Feed Lottery Cash Cow." *Washington Post*.

<sup>5</sup> Walston, Charles. June 26, 1994. *Has the Gamble Paid Off?* *The Atlanta Journal and Constitution*.

<sup>6</sup> Clotfelter, Charles T. and Philip J. Cook. 1989. *Selling Hope: State Lotteries in America*. Cambridge: Harvard University Press.

<sup>7</sup> Clotfelter, Charles T. and Philip J. Cook. Redefining "Success" in the State Lottery Business. *Journal of Policy Analysis and Management*, 9, p. 101.

<sup>8</sup> Karcher, Alan J. 1989. *Lotteries*. New Brunswick, NJ: Transaction.

<sup>9</sup> National Gambling Impact Study Commission. June 18, 1999.

<sup>10</sup> "Georgia's HOPE Scholarship Program: Good Intentions, Strong Funding, Bad Design." *Postsecondary Education Opportunity*, February 27, 1997, pp. 12-14.

<sup>11</sup> *Ibid*.

<sup>12</sup> *The Georgia County Guide*. 1998. Athens: University of Georgia.

<sup>13</sup> Gardner, Amy. 11/12/00. E is for Effort and working with Everyone. *The News and Observer*.

<sup>14</sup> Cartron, Kim. Easley and Wicker Lottery Plans are Both Unsatisfactory. *BTC Reports*, Vol. 6, No. 6. NC Budget and Tax Center.

<sup>15</sup> Keating, Peter. May, 1996. Lotto Fever: We All Lose! *Money Magazine*.