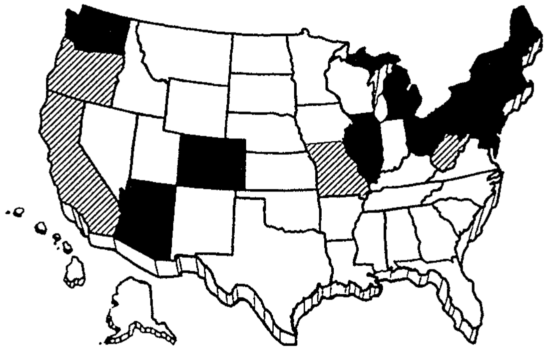
A Lottery for North Carolina?

The Numbers Game



How have 17 states fared in marketing and administering their lotteries? And now four more states have authorized a lottery. Is a lottery a regressive tax? In the 1985 tax and spending debates, will North Carolina lawmakers again look to a new, easy source of funds—a lottery?

by Steve Adams

Former state Sen. Al Adams of Wake County likens a lottery to "a wild card." If the North Carolina General Assembly adopts part or all of Gov. James G. Martin's proposed tax cuts, some state spending programs will be cut—and the pressure will be on to find revenues to fund them. "When you have the combined forces of several groups looking for a bunch of money in a hurry, the lottery proposal might just pop up," Adams said in a March 13 interview with *North Carolina Insight.*

No one's gambling that a lottery will be passed this session. That includes Adams, whose law firm represents Scientific Games, the major supplier of expertise and equipment for state-run lotteries. But those familiar with how close the lottery bill came to passing in 1983 aren't betting the ranch against it either.

On May 12, 1983, the state Senate voted 26-21 in favor of a bill establishing a state lottery, if approved in a statewide referendum. Final approval was expected, and proponents were optimistic about prospects for the legislation in the House of Representatives. The General Assembly was on the verge of giving voters a chance to put the state back into the lottery business for the first time in 150 years.

Then-Sen. Richard W. Barnes Jr. (D-Forsyth), the sponsor of the bill, argued that a lottery could raise $100 million a year without the pain of raising taxes. That argument had great appeal in 1983, when the state faced a General Fund shortfall of some $90 million and projections for another year of austerity. Barnes had the support of the Senate leadership, including Majority Leader Kenneth C. Royall (D-Durham), then-President Pro Tempore A. Craig Lawing (D-Mecklenburg), and Appropriations Committee Chairman Harold W. Hardison (D-Lenoir).

There was plenty of precedent for a state lottery. Money from a North Carolina lottery had gone for building churches, construction at the University of North Carolina at Chapel Hill (including the venerable South Building) and other public works and civic purposes. But the legislature abandoned lotteries in 1834, after they had come under attack on religious and moral grounds.[1]

In 1983, objections to a new lottery again came on moral grounds. "A lottery makes the state a pusher of gambling," said the Rev. Coy Privette, then the executive director of the N.C. Christian Action league and now also a state representative (R-Cabarrus). U.S. District Attorney Samuel T. Currin said a lottery would "create a betting mentality."

Other opposition also surfaced. Some newspapers, including *The News and Observer* of Raleigh and *The Charlotte Observer*, argued that a

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Courtesy Area Public Relations Services

The Illinois State Lottery awards "Fantasy" winner Pat Washington $1 million in April 1984.

lottery would place a disproportionate burden on the poor and called for an increase in the income tax or other taxes instead. The *Winston-Salem Journal* also argued against a lottery, saying the drawbacks of gambling and potential scandals weren't worth the revenues. Among the state's largest newspapers, only the *Greensboro Daily News* gave the lottery editorial support.

These objections appeared to have failed until the evening of May 12, when telephone calls from then-Gov. James B. Hunt Jr. and his lobbyist, Zebulon Alley, persuaded several senators to withdraw their support for the bill. The Governor, Alley said, felt a lottery was "not the course this state should be on. He just thinks it's a bad bill."

The next day, the bill's sponsors pulled the bill from the floor. A week later, the Senate killed it, 25-22. Because of a parliamentary maneuver known as the "the clincher," a two-thirds majority would be required to resurrect the bill in 1984. The "clincher" effectively killed the bill for the 1984 short session.

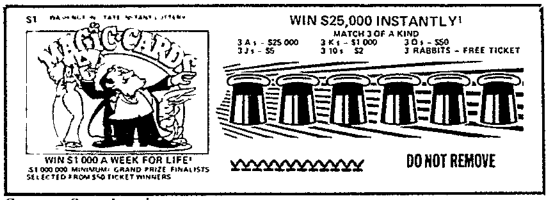
But the issue has risen again in the 1985 legislature. Rep. Frank W. Rhodes (R-Forsyth) has introduced a bill vastly different from the 1983 version. The bill, said Rhodes, could mean $175 million in new net revenues for the state, beginning as early as 1987.

Rhodes, a self-described "Old Right" conservative, hoped to gain credibility for his version of a lottery bill by including a number of strict safeguards on the lottery operation. "I realize we're in the Bible Belt, and the fundamentalists oppose it. That's their privilege. But my bill is squeaky clean," he said.

But Privette hasn't warmed up to it a bit. "It makes for bad law, bad morals, and bad politics," he declared.

Governor Martin has left no doubt where he stands. Lotteries, he said in an appearance in Winston-Salem on January 23, 1985, are "a tax on the weak" and shouldn't be considered for replacing state revenues lost through tax cuts. A state lottery, he said, "bleeds money from a lot of people who need it."

In the Bible Belt states, laws involving gambling carry a heavy burden of proof as a means of raising money for the state. Indeed, none of the 21 states that have a lottery—17 have operating experience, 4 have authorized but not implemented lotteries—was part of the Confederacy (see map on page 24



Courtesy State Legislatures

and Table 1). But moral doubts about a state lottery seem to be waning. In the spring of 1983, a poll by the University of North Carolina School of Journalism indicated that 59 percent of North Carolina's citizens favored a lottery and another 13 percent had no opinion. Only 28 percent said they were opposed.[2]

Nationally, the shifts in public opinion are even more pronounced. "Public acceptance of gaming has increased across the board, particularly for casinos, lotteries, and sports betting," reports *State Legislatures* magazine.[3] The magazine cites a Gallup Poll conducted in August 1982 where 82 percent of the persons polled approved of legalizing at least one form of gaming in their home state to help raise revenue, and 62 percent said they "preferred gaming to higher taxes."

In addition to increased public acceptance, the often expressed fear that a lottery might attract organized crime also appeared to be unsubstantiated.[4] Lotteries have encountered some difficulties, but none has involved organized crime. The New York lottery was suspended in 1975 after a computer error generated erroneous numbers on lottery tickets. In 1976, Maine's "Incredible Instant Game" had problems with players breaking its numbering sequence, and this game was ended. Three executive directors of the Ohio lottery have resigned under fire, two in 1975 amid charges of political patronage and one in 1978 after the state auditor alleged he had accepted favors from a vending machine company seeking a lottery contract. A scandal developed in Pennsylvania in 1980 over a rigged drawing. The security system was used to prove that the drawing equipment had been tampered with.

Table 1. State Lotteries, 1984[1]

State	Year Begun	How Authorized	Gross Sales (in millions)		Net Proceeds (in millions)		Net as % of General Fund	
			FY83	FY84	FY83	FY84	FY83	FY82[2]
Arizona	1981	I	$75.0	$59.0	$31.8	$23.0	1.90%	2.4%
Colorado	1983	R	138.3 (1/83-6/83)	118.3	41.7	41.0	2.80%	N.A.
Connecticut	1972	L	188.0	254.0	80.5	105.0	2.50%	2.4%
Delaware	1975	L	30.1	33.1	11.0	14.0	1.50%	1.4%
District of Columbia	1982	I	50.5	85.6	13.2	28.0	.74%	N.A.
Illinois	1974	L	495.4	902.0	214.1	379.0	3.00%	2%
Maine	1974	R	13.1	15.9	3.7	4.5	.55%	.4%
Maryland	1973	I,L,R	462.8	536.8	198.2	217.0	6.40%	6.8%
Massachusetts	1972	L	312.1	512.0	104.6	179.0	2.25%	2.1%
Michigan	1972	L	548.9	585.6	221.2	NA	2.50%	2.7%
New Hampshire	1964	L	13.8	18.7	3.7	5.4	1.20%	1.2%
New Jersey	1970	R	693.1	848.0	294.9	360.0	6.30%	5.3%
New York	1967	R	645.0	890.3	275.2	391.0	1.70%	1.1%
Ohio	1974	L	397.8	603.0	145.0	250.0	2.00%	2.4%
Pennsylvania	1972	L	885.4	1,236.0	355.4	516.0	4.80%	3.19%
Rhode Island	1974	R	43.0	52.9	14.7	18.0	1.30%	1.2%
Vermont	1978	R	4.4	5.1	1.1	1.3	.37%	.33%
Washington	1982	R	200.1 (11/82-6/83)	164.6	66.7	71.0	1.80%	N.A.
		Totals	$5,196.8	$6,920.9	$2,076.7	$2,603.2[3]		

FOOTNOTES

[1]In November 1984, voters in four more states authorized a lottery. Analysts expect two of the four, California and Oregon, to have a lottery functioning in 1985. In the other two, West Virginia and Missouri, the lottery probably will not be functioning until 1986.

[2]Note that this column is for FY 82. Data for FY 84 are not yet available.

[3]Note that this total does not include Michigan.

Source: State Legislatures (March 1984) and *Gaming & Wagering Business* (research department), with permission.

The cheaters were prosecuted and repaid most of the money.[5]

Thoughtful legislative action requires more than polls, however. Opinion about the social effects of state-sanctioned gambling need to be supplemented with facts and figures on the pragmatic aspects of a state-run lottery. Is a lottery fiscally sound? Is it, in effect, a regressive tax? Is it appropriate for the state to undertake the kind of aggressive marketing that typically accompanies state lotteries? Is it fair to players?

There are significant doubts on all counts. Yet in this session of the legislature, questions of facts and even of morality might well get pushed aside by current fiscal and political considerations. As Speaker of the House Liston Ramsey put it recently, "If the state's General Fund and Highway Fund are in good enough shape that we can cut taxes to the tune of $400 million or $500 million, we ought *not* to be trying to figure out how to raise more money for the budget by gambling. I just doubt the wisdom of that."

Lt. Gov. Robert B. Jordan III, who as state senator opposed the lottery bill in 1983, is equally skeptical about a lottery. "I wouldn't think, with the changes in the Senate since last session and with the election of a number of fundamentalist Christians who object to it, that the lottery would have even as much of a chance this time as last," Jordan said in an interview.

Still, one never knows about a bill's chances until all the questions are answered, especially fiscal questions. "The amount of money we're talking about [from a lottery] would have a lot to do with its chances." Ramsey observed.

Disposition of Net Proceeds
Yearly minimum set by legislature for local transportation assistance fund, balance to general fund
50% capital construction; 40% conservation trust fund; 10% parks and recreation
General fund
General fund
General fund
General fund
General fund
General fund. Effective 10/31/83 lotto profits to 24 political subdivisions. To expire 10/84, Legislation pending.
Distributed to 351 cities and towns for discretionary use; first $3 million of Megabucks Lotto to the arts
Primary and secondary education
Education
Education and state institutions; $75,000/year for studies on compulsive gambling
Elementary and secondary education
Effective 7/1/83 - primary and secondary education. Previously to general fund.
Senior citizens
General fund
General fund (for debt retirement and capital construction)
General fund

Generating Revenues—the Lucrative Pitfalls

Lotteries have been a cash cow for 17 states and the District of Columbia. "While the moral questions are never answered, questions on the number of dollars can be," says Steven Gold, director of the State-Local Finance Project of the National Conference of State Legislatures. "If you want to raise money from gambling, lotteries are the fastest way."[6]

At first blush, the statistics appear to support the view unequivocally. In fiscal 1983, gross sales from all operating lotteries totaled $5.2 billion. The net profit available to the states was $2.1 billion, 40 percent of the gross.[7] The other 60 percent of the lottery sales went to the winners of the various games and lotteries and to administer them.

Nationally, gross sales have been on a sharp upward spiral—from $5.2 billion in FY 83 to $6.9 billion in FY 84, a 33 percent jump. To show how rapidly sales are increasing, *calendar year 1984* sales totaled $8.1 billion.[8] In FY 84, Pennsylvania alone had *$1.2 billion* in gross sales, netting the state $516 million in revenues (see Table 1). Colorado sold $30 million worth of tickets in the first 20 days of its lottery [9]

Illinois took seven years to sell the first $1 billion in tickets but only 23 months for the second. By 1984, the lottery had become the fourth largest source of revenues for Illinois. "In 1984-85, we anticipate $1.1 billion in total sales, 40-42 percent net for the state—that's $450 million," said Richard Bostic, former analyst in the Illinois Bureau of the Budget. "We're counting on that $450 million in the budget. If we don't make our sales, we'll have to retrench somewhere. It's just like losing your income tax or sales tax."[10]

On a closer look, however, the revenue data appear more muddled. Net proceeds vary significantly from state to state, ranging from $2 per capita in Vermont to $46 per capita in Maryland. The average is about $19 per person. Lottery revenues account for only 0.37 percent of the general fund in Vermont. But, in Maryland, the lottery ranks as the state's third largest source of funds (6.4 percent of its budget)—the equivalent of 1 to 2 cents added to the state's 5-cent sales tax.[11]

In addition, lottery revenues may not be reliable over time. Washington state is realizing three times the projected profits since it began a lottery in 1982, but Maine is garnering less than 40 percent of the income it expected when it got into the game in 1974.[12] In pushing his bill in 1983, Sen. Barnes projected $100 million annual revenues for North Carolina, but he based that figure on the state netting $19 per capita. Would sales lag after the novelty wore off, or would they increase dramatically for several years? Would the state find it desirable to do the aggressive marketing required to milk the cash cow?

In Maryland, on whose law the 1983 North Carolina bill was modeled, House Speaker Ben Cardin is opposed to the lottery. "We're hooked on it," he says. "We're dependent on it. If we wanted to halt it, we couldn't. I don't mind people gambling. It's just not a good way to raise money. If the needs are there, for the elderly or the handicapped or students, then we should provide the [tax] money for it. And over the long haul, it's not a reliable source of revenue."[13]

The most important reason for the revenue uncertainty is marketing. Maintaining growth in revenues requires aggressive advertising and

Arguments against a Lottery	Arguments for a Lottery
1. A lottery is not a reliable source of revenue and has to be marketed aggressively to generate revenues.	1. In 1985, 21 states and the District of Columbia have authorized lotteries, which can generate revenue without a tax increase.
2. A lottery weakens the legislature's sense of responsibility about developing public support for a tax increase and generating the revenue necessary to meet a perceived need.	2. It is a voluntary tax.
3. a. Poor people pay a disproportionate share of their income, making a lottery a regressive tax. b. Lotteries must be aggressively marketed to succeed, putting the state in the position of encouraging the poor to play (i.e., to spend their more limited income).	3. Poor people participate in a lottery in proportion to their representation in the population.
4. Morally, the state should not encourage gambling.	4. North Carolina had a lottery in the 1830s.
5. In 1983, no more than 6.4 percent of any state's total general fund comes from lottery revenues.	5. Some lotteries net over 6 percent of a state's general fund, a significant amount.
6. Earmarking revenues is a bad budgetary practice.	6. Lottery revenues can be earmarked for a socially acceptable purpose.
7. There have been scandals in the administration of lotteries in Ohio and Pennsylvania and administrative problems with games in New York and Maine.	7. There is no evidence of Mafia involvement in state lotteries, and lottery officials report few law enforcement problems.
8. The odds of winning are small compared with roulette at casinos, off-track betting, and other types of gambling legalized by states in order to earn revenues.	

Table 2. Legalized Gaming in the States, August 1984

State or other jurisdiction	Lotteries	Sports betting	Off-track betting	Horse racing	Dog racing	Jai alai	Casinos	Bingo
Alabama	...	...	...	...	*	...	...	*
Alaska	...	...	...	...	...	...	...	*
Arizona	*	...	*	*	*	...	...	*
Arkansas	...	...	...	*	*	...	...	...
California	...	...	...	*	...	...	...	*
Colorado	*	...	*(a)	*	*	...	...	*
Connecticut	*	...	*	†	*	*	...	*
Delaware	*	†	...	*	...	...	...	*
Florida	...	...	*	*	*	*	...	*
Georgia	...	...	...	...	...	...	...	*
Hawaii	...	...	...	...	...	...	...	...
Idaho	...	...	...	*	...	...	...	*
Illinois	*	...	*	*	...	...	...	*
Indiana	...	...	...	...	...	...	...	...
Iowa	...	...	...	†	†	...	...	*
Kansas	...	...	...	...	...	...	...	*
Kentucky	...	...	*	*	...	...	...	*
Louisiana	...	...	†	*	...	...	...	*
Maine	*	...	...	*	...	...	...	*
Maryland	*	...	...	*	...	...	...	*
Massachusetts	*	...	*	*	*	...	...	*
Michigan	*	...	...	*	...	...	...	*
Minnesota	...	...	†	†	...	...	...	*
Mississippi	...	...	...	...	...	...	...	...
Missouri	...	...	...	...	...	...	...	*
Montana	...	*(a)	...	*	...	...	...	*
Nebraska	...	...	...	*	...	...	...	*
Nevada	...	*(c)	*(c)	*	*	†	*	*(b)
New Hampshire	*	...	...	*	*	...	...	*
New Jersey	*	...	*	*	...	...	*	*
New Mexico	...	...	...	*	...	...	...	*
New York	*	...	*	*	...	...	...	*
North Carolina	...	...	...	...	...	...	...	*(d)
North Dakota	...	...	...	...	...	...	...	*
Ohio	*	...	...	*	...	...	...	*
Oklahoma	...	...	†	†	...	...	...	*
Oregon	...	...	...	*	*	...	...	*
Pennsylvania	*	...	*	*	...	...	...	*
Rhode Island	*	...	...	*	*	*	...	*
South Carolina	...	...	...	...	...	...	...	*
South Dakota	...	...	...	*	*	...	...	*
Tennessee	...	...	...	...	...	...	...	*
Texas	...	...	...	...	...	...	...	*
Utah	...	...	...	...	...	...	...	...
Vermont	*	...	...	*	*	...	...	*
Virginia	...	...	...	...	...	...	...	*
Washington	*	*(a)	*	*	...	...	...	*
West Virginia	...	...	*	*	*	...	...	*
Wisconsin	...	...	...	...	...	...	...	*
Wyoming	...	...	...	*	...	...	...	*
Dist. of Col.	*	...	...	...	...	...	...	*

Source: Public Gaming Research Institute, Rockville, Md., as printed in *Book of the States, 1984-85,* The Council of State Governments, 1984, p. 172; and *Gaming Business Magazine,* August 1984, p. 53.

Key

* — Legalized and operative.
† — Legalized but not now operative.
... — Not legalized.

FOOTNOTES

(a) Includes betting at a track on races at other tracks in the same state (cross-track wagering), on races at tracks in other states (interstate wagering), telephone betting, branch office betting, or satellite wagering and bookmaking on racing.

(b) Keno.

(c) Operated by bookmakers licensed by the state.

(d) Limited to certain non-profit organizations.

frequent introduction of new games to keep players' interest. "[L]otteries are now promoted with huckster cunning and advertising practices that would be plainly illegal under federal law if attempted by private concerns . . . , " writes Curt Suplee in *Harper's.*

Suplee points out that the Federal Trade Commission requires the private sector to disclose in every advertisement the odds of winning and the prize structure. State lotteries have no such restrictions in their advertising. Exaggerated or misleading claims are often made. For example, the "instant millionaires" slogan of some state lotteries really refers to winners who receive $50,000 a year for 20 years. The prize costs a state $400,000 for an annuity.

Similarly, state lotteries do not publish their odds of winning. According to Suplee, a player is seven times as likely to be killed by lightning as he or she is to win. Typical lotteries pay 40 to 50 cents in prizes for every dollar of ticket purchases—or bets. By comparison roulette pays out 94.7 percent of bets, slot machines 75 to 90 percent, on-track horse race betting 82 percent, and off-track betting 77 percent.[14]

The technical problems of controlling advertising claims and publishing odds could easily be solved in a North Carolina lottery, if the General Assembly wished. The aggressive advertising, however, is an essential part of the proposition. Most states hire private firms for this task. By far the largest of these is Scientific Games of Atlanta, a subsidiary of Bally Manufacturing Corp, the pinball people and holders of the license to PacMan. Through 1984, Scientific Games had designed and produced games for all but one of the lotteries.

It doesn't matter which game you switch to," says John R. Koza, president of the company. "What is important is that it has a new face." One of the critical challenges, he says, is inducing occasional ticket buyers to play every week.[15]

Scientific Games described its marketing approach in a 1-and-1/2-inch thick book submitted to the legislature in 1983: "So far we have examined the demographics of over 6,500,000 adult winners of past lottery games. From this study, Scientific Games has developed specific, result-producing changes in advertising strategy and specific, measurable, and successful sales promotion programs."[16]

Aggressive marketing has aroused serious objections to lotteries even where moral opposition to gambling does not appear to be the primary issue. At least four states with lotteries—Colorado, New Mexico, Missouri, and Minnesota—are considering legislation banning advertising intended to induce people to participate in the lottery. Such a law might well cripple the goose that lays the golden egg.

Concern over this marketing issue also surfaced during the 1983 lottery debate in North Carolina. On April 21, 1983, *The News and Observer* summed up these worries in an editorial: "Once the state assumes the identity of Big Casino or master croupier, revenue increases from the progressive income tax on individuals and corporations and other taxes tend to go by the board. Pressures then mount on government for more and different kinds of games, weekly and daily. More seductive advertising must be geared to hyping ticket sales. ... To this point fiscal expediency has been the overriding argument for putting this state in the gambling business. North Carolina shouldn't conduct its affairs with that kind of roll of the dice."

In a number of states, lottery revenues are earmarked for particular purposes. In Arizona, for example, the first $20 million goes to cities and towns for transportation and the rest to the general fund. Other areas of need specified to receive lottery revenues include: Colorado, for capital construction, conservation, and parks; Massachusetts, for local aid; Pennsylvania, for the elderly; and Vermont, for debt retirement and construction.[17]

In North Carolina, several specific projects have emerged as possible targets for lottery revenues, including children's programs, health care, and education. In 1982, Child Watch Inc., a private advocacy group for children, proposed earmarking lottery revenues for children's programs. Then, in 1984, a Salisbury doctor told a legislative study commission on health-care cost containment that lottery revenues could be used to provide health care for the poor and help people suffering from catastrophic illness or injury. The latest lottery proposal, pending before the legislature, would earmark all net revenues to education, specifically to improve teachers' salaries.

Targeting lottery revenues has the advantage of keeping the public informed on exactly how lottery funds are spent. It also can gain political support for a lottery. Earmarking revenues for specific programs, however, is a bad budget practice. Such a targeting requirement for revenues in effect locks in the targeted program as a budgetary priority for years to come. Normally, legislative deliberations change budget priorities from biennium to biennium.

Is a Lottery a Regressive Tax?

Is a lottery more regressive than other forms of taxation? Is a lottery a tax at all? If you don't want to play, you don't have to pay, which is what makes it so politically appealing. In essence,

Findings of the Commission on the Review of National Policy Toward Gambling

The Commission on the Review of National Policy Toward Gambling was commissioned by Congress to conduct a three-year study of all aspects of gambling in the United States. It issued its report in 1976. Its principal findings concerning state lotteries included the following:*

1. The basic weekly [lottery], as presently operated by all 13 [at the time] lottery states, does not have a harmful impact on society. Almost half the residents of those states play the game at least occasionally, and the average amount wagered is less than $25 a year. A negligible percentage [of people] wager more than $100 a year. All segments of society participate in lotteries and very little time and emotional involvement are expended by the players.

2. Where the Commission does find a serious potential for abuse in the present practices of the state lotteries is in their increasing reliance on the instant game as both a promotional and a revenue source. Since lotteries are more regressive (people in low income categories spend proportionately more on it than those in higher income brackets), and the odds against the player's winning a prize are greater than in most other forms of gambling, any lottery which in fact encouraged frequent participation might prove to be inimical to the general welfare.

3. As a source of revenue for the states, lotteries are relatively inefficient compared to broad-based forms of taxation. They are also more regressive. ... No state now [1976] derives more than 3 percent of its total revenues from lotteries, and it would be futile for state policymakers to look to lotteries as a substitute for traditional forms of taxation.

4. The Commission recommends that... the earmarking of lottery revenues for specific state programs be avoided because this practice tends to warp the budgetary process and to deprive state officials of the flexibility required to meet changing needs.

5. The lottery agency should be headed by one individual who is directly responsible to the governor. ... The daily administration of state lotteries must be taken out of the political arena.

*Gambling in America: Final Report of the Commission on the Review of the National Policy toward gambling, *Charles H. Morin, Commission Chairman, Washington, 1976. The complete report is available from the U.S. Government Printing Office.*

a lottery is a voluntary tax.

Even if it is voluntary, is a lottery a regressive voluntary tax? That is, does it place a disproportionate burden on the poor? If it does, the necessity for the high-pressure hype to market a lottery becomes a particularly sensitive issue.

Unfortunately, a large proportion of the information before the General Assembly in the 1983 session came from companies that make their living in the lottery business. Most of the rest came from other state lotteries, which likewise get much of their information from the same companies. The understated presence of Scientific Games was everywhere.

Asked whether lotteries are regressive, the marketing companies choose to answer another question instead. Included in the legislative staff's report to the legislators on lotteries was a 10-page study entitled "The Myth of the Poor Buying Lottery Tickets" by John Koza of Scientific Games. Marshaling demographic data on more than 6 million lottery winners, Koza concludes: "[T]he poor participate in the state lottery games at levels disproportionately less than their percentage of the *population*. The assertion that the poor disproportionately buy lottery tickets is only a myth" (emphasis added).[18]

Other studies confirm that participation by the poor is at least no higher than their proportion of the population.[19] State lotteries themselves report that the *average* income of lottery players is relatively high.

These findings, however, miss the point about regressive taxes entirely. Most tax analysts agree that the sales tax is regressive, for example. But poor people do not pay sales taxes out of proportion to their representation in the *population*. Since virtually everyone pays sales tax, every demographic group presumably "participates" in the tax exactly in proportion to its share of the population. The point sounds confusing at first, but it is a critical one: The degree of participation in a lottery—or in a sales tax—has little, if any, relationship to how regressive it is.

Why is a sales tax regressive then? Because the poor must spend a higher *percentage of their income* in sales taxes than do middle or upper income persons. The same is true of lotteries, for those who voluntarily participate.

The marketers' ploy worked, emphasizing the percentage *of the population* using lotteries rather than the percentage *of a person's income* going towards lotteries. The legislative staff reported to the General Assembly that the poor do not play lotteries in greater number than their portion of the population as a whole. The staff never addressed the question of *whether the lottery is indeed a regressive (voluntary) tax.*

Several surveys conclude that lotteries are even more regressive than the sales tax. A Pennsylvania study found that families with incomes under $5,000 represented 3.2 percent of the state's personal income but bought 5.7 percent of the lottery tickets. In Connecticut, those making under $5,000 represented 1.3 percent of the state's personal income and purchased 5.3 percent. A 1974 study concluded that the poor bought tickets at 2.8 times their income share. In Michigan, families with incomes above $30,000 spend 0.02 percent of their income on betting, while those with incomes below $5,000 spent as much as 0.3 percent.[20]

"In terms of dollars spent, the biggest bettors on state lotteries are middle-income individuals," says Charles T. Clotfelter of Duke University. "Relative to their incomes, however, the poor buy a disproportionate number of tickets, according to studies of several states. In Maryland, for example, households accounting for the bottom third of all income made 60 percent of all expenditures on the popular daily lottery and 49 percent on the weekly lottery. As a percent of income, lottery expenditures fall from over half a percent of income at the lowest income level to less than a tenth of a percent at upper incomes."[21]

Daniel Suits of Michigan State University, who has analyzed lotteries for the U.S. Commission for Review of the National Policy Toward Gambling, also believes lotteries are regressive. "Lower income people play the lottery much in disproportion to their income. ... That is the classic definition of a regressive income source. It's 2.5 to 3 times as regressive as the sales tax. That's a fact and it hasn't been disputed."[22]

Nevertheless, voluntariness is an important difference between the lottery and the sales tax. It might be argued that the government should not regard discretionary expenditures by poor families differently from those financially better off. That argument is offset, on the other hand, by the fact that lotteries must be aggressively promoted to succeed, putting the state in the position of encouraging the poor to play.

Conclusion

Lotteries are profitable. "There's no question it's a money maker," Levenbook says. "No lottery has ever failed. ... Every director of a state lottery thinks it's the greatest thing since sliced bread." They spare legislators the political pain and citizens the financial distress of raising taxes. Yet, lotteries may not be as fiscally expedient as they first appear.

Lotteries are potentially unappealing in at least four ways: 1) Revenues may not be reliable. 2) They require the state to become an aggressive marketer. 3) The odds are terrible for the players. 4) The poor may be burdened disproportionately.

A lottery must be weighed against the political feasibility of the alternatives and the needs of the state. During the 1983 debate, for instance, Sen. Marshall A. Rauch (D-Gaston), a lottery opponent, distributed a handout listing a number of possible alternatives to the lottery, including raising various taxes to produce as much as $300 million to meet spending shortfalls. Rauch wasn't really proposing tax increases, of course, but he was making the point that if the state needed more revenue, it ought to examine all the potential sources of revenue.

The financial crunch of 1983 has long since passed. Now, in 1985, the talk is of cutting certain taxes and of slowing the rate of growth in state spending. In retrospect, it may be fortunate that the 1983 and 1984 legislatures did not adopt a major change in the state's philosophy of taxation in a time of financial exigency.

Important questions remain about the expediency and desirability of a lottery. This legislative session, in a time of relative plenty, may be the best time to answer them dispassionately. ☐

"Now mister the day the lottery I win,
I ain't ever gonna ride in no used car again."
—"Used Cars"
by Bruce Springsteen

FOOTNOTES

[1]See Memorandum to Daniel Long, Legislative Services, General Assembly, from Division of Archives and History, Research Branch, July 15, 1982, on "The history of lotteries in North Carolina." The memo summarizes the early involvement of the state in lotteries and includes attachments from various histories (see for example, *The Beginnings of Public Education in North Carolina: A Documentary History, 1790-1840* edited by Charles L. Coon, 1908; and *Fortune's Merry Wheel: The Lottery in America* by John G. Ezell, 1960). The memo also lists some of the major projects completed with lottery funds, including the Craven County poorhouse (1786), a cotton mill in Halifax (1796), churches in Wilmington and Brunswick (1759), and completion of the main building of the University of North Carolina (1801).

[2]Carolina Poll, University of North Carolina at Chapel Hill, School of Journalism, conducted between February 25 and March 3, 1983.

[3]*State Legislatures,* April 1983, p.2.

[4]"The directors of the various lotteries I spoke with unanimously said there was no organized crime involvement in the lotteries," legislative attorney Kenneth T. Levenbook wrote in a report to the 1983 session of the General Assembly. "Reasonable security precautions on lottery tickets and supplies and on-line computer terminals make interference in games virtually impossible. Also, the public nature of all drawings and awarding of prizes makes the lotteries unappealing to the criminal element."

[5]"Lotteries Raise Cash for States" by Elaine S. Knapp, *State Government News*, June 1983, p.6; "Gambling," *State Government News*, September 1977, p.4.

[6]"State Lotteries: Roses and Thorns" by Bill Curry *State Legislatures*, March 1984, p. 10.

[7]*Ibid.*, see chart on pp. 12-13.

[8]"Lotteries in the News," by Terri LaFleur, *Gaming & Wagering Business*, February 1985.

[9]Interview with Kenneth T. Levenbook of the General Assembly's Legislative Bill Drafting office, April 26, 1984.

[10]Interview with Richard Bostic, Illinois Bureau of the Budget, June 19, 1984.

[11]Curry, pp. 9ff.; "Lotto Boloney" by Curt Suplee, *Harper's*, July 1983, pp.15ff.

[12]Curry, pp.12-13.

[13]Curry, p.10.

[14]"Mastermind of the Instant Lottery" by Tom Stevenson, *The New York Times*, Jan. 2, 1977, Section 3, p.1.

[15]*Ibid.*

[16]*Background and General Information on Instant Lottery Games and Other Lottery Products*, Scientific Games, July 1982, Section 15 (unnumbered pages).

[17]"States Win in Lotteries" by Troy R. Westmeyer and Wesley Westmeyer, *National Civic Review*, September 1983, p.447.

[18]"The Myth of the Poor Buying Lottery Tickets" by Dr. John R. Koza, *Public Gaming*, January 1982, pp. 31ff.

[19]Reports cited by state lotteries in files of Kenneth T. Levenbook of the General Assembly staff, Curry, and Suplee. There appears to be general agreement, even among those who argue that lotteries are regressive, that the poor do not participate in lotteries in disproportion to their population.

[20]Studies cited in Suplee and Curry.

[21]"Stakes are high in state lottery" by Charles T. Clotfelter, *The News and Observer*, Raleigh, April 17, 1983, p. 5D.

[22]Curry, p. 11.