Lootery!

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by Dr. Pervez Ahmed

What lies behind the beaming lottery winners and oversized checks is misery, says Ellen Goodstein (Bankrate.com).

Television commercials and media stories depict winning the lottery as an American dream. But having piles of cash does not necessarily bring happiness, as pointed out by Ellen Goodstein, who cites the following examples: Evelyn Adams, a two-time winner of the New Jersey lottery (1985 and 1986) to the tune of $5.4 million, was reduced to living in a trailer. William "Bud" Post, winner of the $16.2 million Pennsylvania lottery (1988) ended up living on Social Security and food stamps. Suzanne Mullins, who won $4.2 million in the Virginia lottery (1993) is now deeply in debt to a company that lent her money using the winnings as collateral. Willie Hurt of Lansing, MI, won $3.1 million (1989) and within two years was broke and charged with murder, wasting his fortune on a divorce and crack cocaine. Charles Riddle of Belleville, MI, won $1 million (1975); afterward he got divorced, faced several lawsuits, and was indicted for selling cocaine. Eight years after winning $18 million in 1993, Missourian Janite Lee filed for bankruptcy.

The list of broken dreams abides. Most lottery winners learn that sudden money can cause as many problems as it solves. For many, it can cause a disaster because part of the problem is that they buy into the hype. Craig Wallace, an executive of a company that buys lottery annuity payments in exchange for lump sums, told Goodstein: "These people [winners] believe they are millionaires. They buy into the hype, but most of these people will go to their graves without ever becoming a millionaire.” Going broke is a common malady, particularly with smaller-amount winners.

Lottery marketers manipulate the situation to sell more tickets. Each winner is photographed with a 3'x5' standup "check" and the caption "newest millionaire." In fact, a $1 million purse is really a promise to be paid $50,000 a year before taxes. Lottery winners, however, mistakenly believe that they are indeed "millionaires" and are likely to go on spending sprees. Scott Hankins, Mark Hoekstra, and Paige Marta Skiba ("*The Ticket to Easy Street? The Financial Consequences of Winning the Lottery," working paper, 2008*) found that large-lottery winners fare no better with their finances than anyone else. The windfall may temporarily reduce their financial hardships; however, it increases their long-run likelihood of bankruptcy, perhaps induced by living beyond their means. Lottery buyers usually have a higher propensity to "gamble" or "speculate" in other areas of their lives, such as making greater investments in risk-laden investments and stocks.

Lotteries are legal -- and popular -- in all states but Alabama, Alaska, Hawai'i, Mississippi, Nevada, Utah, and Wyoming, and in nearly one hundred countries (including several Muslim majority countries). According to the North American Association of State and Provincial Lotteries (NASPL), American lottery sales in 2008 topped $60 billion, an amount larger than the gross domestic product of nearly 120 countries.

Lotteries are universally regarded as a vice, and most religions view them as sinful. Unlike smoking (which the government actively discourages) and drinking (which the government regulates), neither the state nor the federal government take any meaningful action to reduce gambling. This is perhaps due to an inherent conflict of interest. In 2008, states raked in $18 billion in revenue. For instance, the Iowa Lottery Authority announced on 30 Jul. 2009 that since 1985, when it began operations, it has disbursed more than $2.4 billion in prizes and raised nearly $1.2 billion for state programs. Besides the revenue stream, lotteries are legalized in the name of individual rights. At issue is not the constitutionality of legalized gambling, but the questionable ethics of state governments sponsoring, encouraging, and exploiting its citizens' vices, to raise revenue.

Although governments also raise revenue from other "sin" activities like the consumption of alcohol, pornography or tobacco, lotteries are perhaps the only vice that governments "manufacture" and encourage, states Richard Whitaker ("*State Lotteries and Agency Costs Hidden Costs to Nonparticipants," American Journal of Economics and Sociology 66, no. 3 [2007]: 533-44*). Far from discouraging gambling, some states faced with large budget deficits actually seek to make more forms of gambling available, reports Dunstan McNichol ("*U.S. States Push More Gambling to Help Replace Declining Taxes Share," Bloomberg, 20 Jul. 2009*). And yet 2007 lottery sales combined amount to a meager 1.1 percent of state budgets, says the Tax Foundation (www.taxfoundation.org). Do states really have to depend upon this revenue source, given the other negative social consequences of gambling?

Conor Dougherty of the "Wall Street Journal" (10 Aug. 2009) remarks that the present economic downturn has caused casino, slot machine, and lottery revenues to fall for the first time in many of the states that have grown to depend upon gambling as a crucial source of income. In 2008, according to the American Gaming Association, an industry trade group, revenue contributed by commercial casinos to state and local governments was only 5.7 billion, down 2.2 percent. In many states, the decline continues. Eight of the twelve states that allow commercial casinos saw their take of gambling revenue fall in the fiscal year ending June 2009 compared with the same period a year ago, according to data from states and the Nelson A. Rockefeller Institute of Government at the State University of New York at Albany. In a sampling of twenty state lotteries, among them California and Illinois, fourteen had year-over-year drops in revenue for the fiscal year ending in June, according to Rockefeller Institute. The National Conference of State Legislatures reports that lawmakers in at least fourteen states have considered expanding gambling as an alternative to raising property or income taxes. Fired up by lobbyists' contributions and the assumed voting day advantage politicians are eager to enhance gambling operations. For instance, in his 10 Aug. 2009 op-ed in "The Morning Call," Tom Knox, Pennsylvania Democratic gubernatorial candidate, asserting his state's needs for jobs, wrote: "Though most solutions will require a long-term strategy, there is one thing that can be done now to create an immediate demand for thousands of new jobs -- the legalization of table games. The simple act of legalizing table games at each licensed casino will create, literally overnight, the demand for thousands of new employees....Estimates presented to the Legislature predict that table games will create 10,100 new direct employment positions statewide."

Assuming a tax rate of 12 percent, he claimed that legalizing table games would produce $120-$160 million in recurring revenue. In addition, the currently proposed table game licensing fee of $10 million would produce an additional $120 million, which he said was more than half of the state's entire annual budget for all community colleges. He stressed that the "job creation benefit of table gaming is extremely cost-effective when compared to attempts by the state to create jobs," citing a 2001 program to create 900 jobs that had cost the state $900,000 and, sixteen months later, the company closed and fourteen jobs were actually lost. In 2002, another $12 million state grant awarded with the expectation of 6,000 new jobs resulted in only 2,000 new jobs. By comparison, he declared that "the legalization of table games would provide substantial job creation without the expenditure of a single dollar of taxpayer money.

Costs and Benefits of Lotteries

The NASPL, which represents fifty-one North American lottery organizations, argues that lottery profits fund education, healthcare, capital construction, and other good causes. With 1-in-2 American adults reportedly sometimes buying a lottery ticket and 1-in-3 being weekly players, lotteries may have replaced baseball as the national pastime (see "The *1989 Gallup Poll: Public Opinion," SR Books [28 Jun. 1990], 138*). Undoubtedly the players perceive some benefit, which may explain their popularity. Like other games of chance, lotteries thrill participants with risk-taking and the anticipation of an unlikely victory. However, the harm outweighs the good (see Qur'an 2:219).

Lotteries prey upon the most vulnerable, for those with smaller amounts of disposable income spend a greater proportion of their earnings on them, say Charles T. Clotfelter, Julie A. Edell, and Marian Moore ("*State lotteries at the turn of the century: Report to the national gambling impact study commission," working paper, Duke University, 1999*). Donald I. Price and E. Shawn Novak found that minorities are more likely to purchase lottery tickets ("*The tax incidence of three Texas lottery games: Regressivity, race, and education; National Tax Journal 52, 1999, 741-51*). During economic downturns, people increase their spending on lotteries and other risky ventures, even when they cannot really afford to do so, says John L. Mikesell ("*State lottery sales and economic activity," National Tax Journal 47, 1994, 165-71*).

People living within fifty miles of a casino have a high probability of becoming pathological or problem gamblers; a casino located within ten miles is associated with a 90 percent increase in becoming a problem gambler, states John W. Welte, William F. Wieczorek, Grace M. Barnes, and Joseph H. Hoffman ("*The Relationship of Ecological and Geographic Factors to Gambling Behavior and Pathology," Journal of Gambling Studies 20, 4, winter 2004, 405-23*). According to the U.S. General Accounting Office (GAO), compulsive gamblers are also prone to higher rates of divorce. Nearly 1-in-3 respondents had tried to kill themselves. No other addictive population reaches this figure, report R. Keith Schwer, William N. Thompson, and Daryl Nakamuro ("*Beyond the Limits of Recreation: Social Costs of Gambling in Southern Nevada," 2003 working paper*). Gamblers also have a hard time kicking the habit: "Of the 80 participants followed for 12 months, 92 percent experienced relapse" (D. *Hodgins and N. el-Guebaly, "Retrospective and Prospective Reports of Precipitants to Relapse in Pathological Gambling," Journal of Consulting & Clinical Psychology 72, no. 1, 2004, 72-80*).

Internet gambling has brought the vice right into homes and within easy reach of young impulsive and vulnerable addicts. Alarmingly, electronic gambling is even more addictive -- the "crack cocaine" of the industry, says the National Coalition against Legalized Gambling's "Facts about Gambling" (NCALG, www.ncalg.org). According to the GAO's Dec. 2002 report: "Since the mid-1990s, Internet gambling operators have established approximately 1,800 e-gaming websites in locations outside the United States, and global revenues from Internet gaming in 2003 are projected to be $5.0 billion dollars." Internet gambling is approximately 4.3 percent of the total $116 billion in business-to-consumer global e-commerce. This growth comes despite the fact that law enforcement officers believe that such gambling can be "a significant vehicle for laundering criminal proceeds." For instance, on 10 Aug. 2009 the FBI indicted Douglas Rennick, 34, for bank fraud and other offenses stemming from his role in processing more than $350 million for Internet gambling companies [during 2007-09] and operating accounts under false names, relates "The American Chronicle."

Social Implications

Besides the inherent injustice in any form of gambling, lotteries can have social costs. In his 1995 study, Howard J. Shaffer of the Harvard Medical School's Division on Addictions wrote: "Gambling is an addictive behavior, make no mistake about it ... Gambling has all the properties of a psychoactive substance, and again, the reason is that it changes the neurochemistry of the brain." NCALG's Carl Bechtold noted: "Gambling causes excitement, often leading the participant to forget about outside problems and the stresses of everyday life. Electronic gambling devices in particular offer a seemingly non-competitive diversion from reality. Gambling establishments usually serve and often encourage the use of alcoholic beverages, which further loosens players' inhibitions. The games themselves are made to satisfy the demands of excitement; and the ensuing 'loss of control' is part of the 'enjoyable' experience of gambling" ("Tide of gambling yields backwash of addiction," NCALG White Paper).

Even when not addictive, the ubiquitous promotion of lotteries equate success with luck rather than work, thus undermining a fundamental societal norm, say William A. Glaston and David Wasserman, whose study found that lotteries lead to an increase in crime ("Gambling away Our Moral Capital," Public Interest 123 [1996]: 58-71; see also John Mikesell and Maureen A. Pirog-Good, "State Lotteries and Crime: The Regressive Revenue Producer Is Linked with a Crime Rate Higher by 3%," American Journal of Economics and Sociology 49, [1990]: 7-19), while Ranjana Madhusudhan found that state lotteries contribute to increases in the overall number of gambling addicts ("Betting on Casino Revenues: Lessons from State Experiences," National Tax Journal 49 [1996]: 401-12). In the first eighteen hours of operation on opening day at Pittsburgh's $780 million Rivers Casino, gamblers wagered an incredible 14 million dollars (Pittsburgh Post-Gazette, 10 Aug. 2009).

Lotteries are also a form of regressive tax, providing states with revenue from non-tax sources. Such revenue is less accountable to public scrutiny, and non-lottery players are willing to view it favorably because it shifts the tax burden to gamblers. Empirical studies, however, suggest that "the [lottery-generated] tax benefit is largely diminished by the above normal spending increases," writes Richard Whitaker ("*State Lotteries and Agency Costs: Hidden Costs to Nonparticipants," American Journal of Economics and Sociology 66, no. 3 [2007]: 542*). Moreover, the poor often bear a disproportionate share of this indirect taxation, although it must be noted that lotteries, unlike taxes, are optional. Nonetheless, given that people have known cognitive biases, lotteries can easily become addictive, in part because players fail to properly asses risk and are lured by cheap tickets and mesmerized by large payoffs, relates Alok Kumar ("*Who Gambles in the Stock Market?" Journal of Finance 64, no. 4 [2009]: 1889-1933*).

Lotteries and other forms of gambling are increasingly popular despite social concerns and religious prohibitions. Such indulgence is profoundly irrational, for the cost of a lottery ticket exceeds its fair value. Lotteries add very little to a state's overall revenue. But to be fair, there are some exceptions, as in some states (mostly states in the U.S. northeast) lotteries account for 6 to 8 percent of state revenue. This meager benefit is offset, however, by damages to the society's moral fabric. Lotteries and other forms of gambling encourage a "get-rich-quick" mentality that induces other forms of risky social behavior. Gambling discourages hard work, encourages greed and materialism, and leads to compulsive gamblers who are more prone to divorce and suicide. Muslim Americans should work with other faith groups to draw attention to the problems associated with gambling, particularly compulsive gambling, that have destroyed countless lives and caused untold misery. A March 2003 NCALG survey found that there are about 2 million compulsive and 6 million problem gamblers in America alone.

Las Vegas casino mogul Steve Wynn (formerly Weinberg) told Charlie Rose on CBS' "60 Minutes" (12 Apr. 2009) that the only way to win in a casino is to own one, "unless you're very lucky," adding that he has never known a gambler who comes to a casino, wins big, and actually walks away. In gambling, there is only one winner, the house (the gambling establishment), and it ain't yours.

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