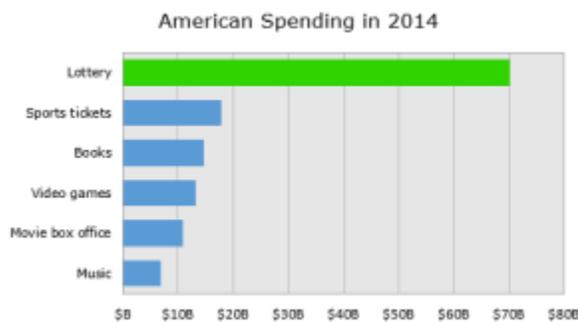




## The lottery is a tax, an inefficient, regressive, and exploitative tax

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By Max Galka



In 2014, Americans spent \$70 billion on the lottery (source: [NASPL sales data](#))

*In 2014, Americans spent \$70 billion on the lottery.*

When I read [this fact](#) back in May, I thought it was one of the craziest stats I had ever seen. **That's over \$630 for every household in the U.S.!** It sounds absurd.

Then again, the very concept of state-run lotteries is absurd.

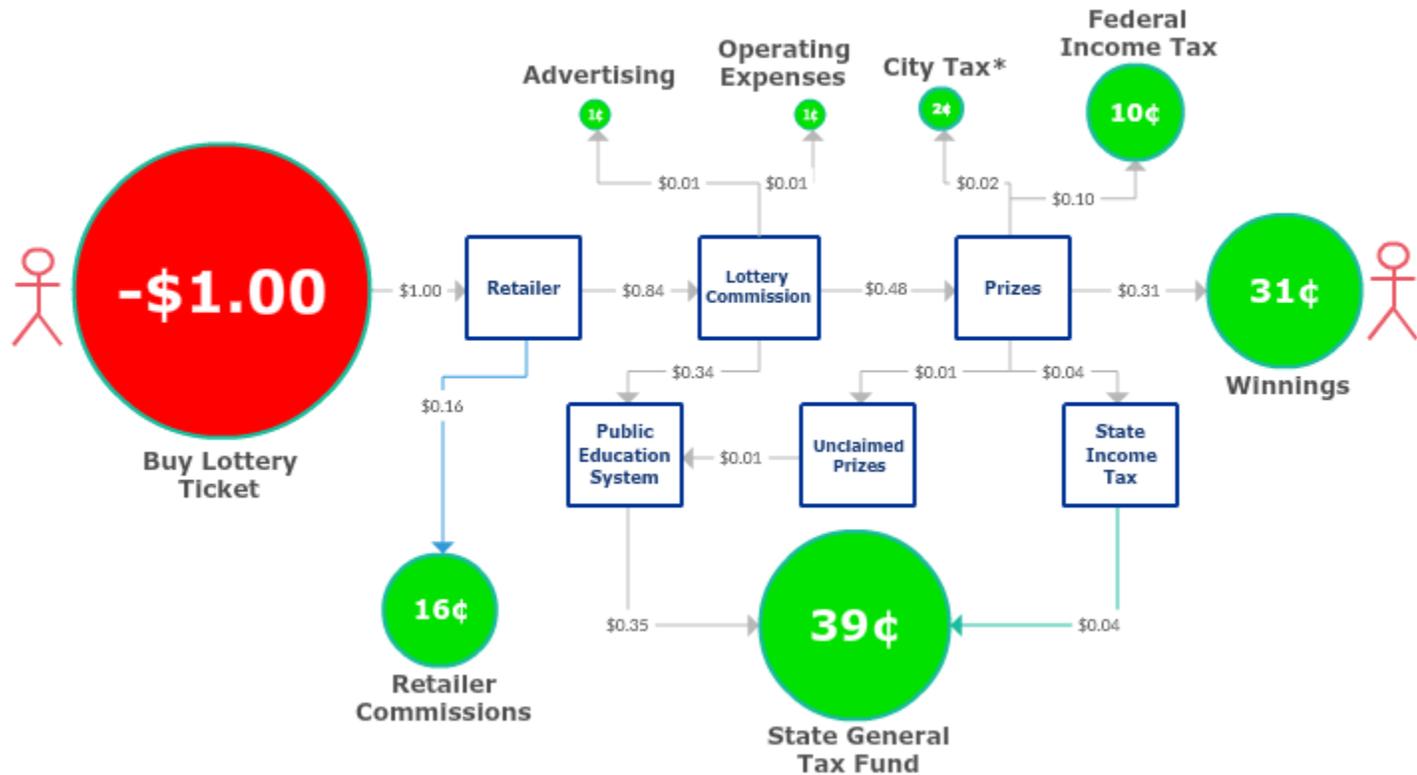
From “*don't drink and drive*” and “*just say no to drugs*” to “*buckle up for safety*” and “*the truth about smoking*,” our government takes a protectionist and proactive stance. Yet, when it comes to the lottery, **the government spends about \$1 billion per year in advertising that encourages risky behavior!**

*“for every dollar raised for the state by a lottery an additional 52 cents must be taken in to pay the expenses of raising that dollar”*

– [John Locke Foundation](#) analysis of the South Carolina Lottery

Taking the New York Lottery as an example, this is why lotteries are so inefficient.

## The Path of a New York Lottery Dollar



\* New York City imposes a 3.875% withholding tax on winnings of more than \$5,000

Sources: [NY Lotto financials 2014](#), [NY Tax and Finance](#), [Tax Foundation](#)

### Where does the money go?

- After taxes, winners receive only about 31 cents in prizes for each dollar of ticket sales.
- About 51 cents go to taxes, city, state, and federal.
- The remaining 18 cents are the Lottery's expenses. These costs are what make lotteries so inefficient. In short, for every tax dollar it raises, the New York Lottery must raise an additional 36 cents to pay for the expenses of raising that dollar. For comparison, the [IRS](#) expends less than a cent for each dollar it raises.

- You may be wondering why **no part of that dollar ends up with public education system**. Like most other state lotteries, New York’s lottery was founded for the “[sole purpose](#)” of funding public education. So why isn’t that where the money ends up?

## **When lotteries give money for education, tax dollars get pulled out and spent elsewhere**

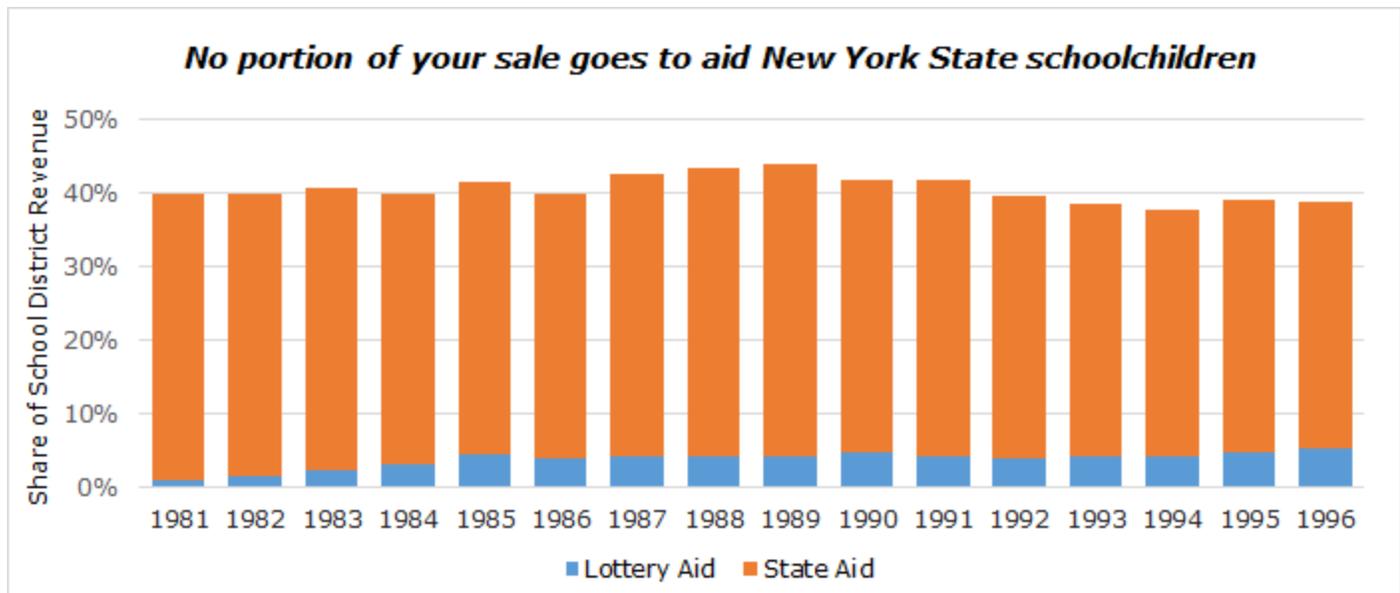


*“a portion of your sale goes to aid New York State schoolchildren.” [TV ad](#)*

Most state lotteries pre-commit, or *earmark*, their money for a particular cause, usually education. This should come as no surprise if you’ve ever seen a lottery commercial. Supporting a “good cause” is one of the primary messages they use to promote themselves, both to players and to the voting public.

It’s true that lottery money does go to schools. But when it does, tax dollar get pulled out of education and spent elsewhere, and the schools are no better off.

In the case of New York, the state Comptroller called this idea a “myth” in a [1998 report](#), stating “*lottery earnings have been earmarked for education primarily as a public relations device.*” A 2013 investigation by [City Limits](#) reached a similar conclusion.



As lottery aid grows, state aid shrinks ([NY State Comptroller](#))

And it's not just a problem for New York. Many studies have examined the question on a national level and found the same to be true everywhere. Whatever money lotteries provide for education is offset by a reduction in funding from the state.

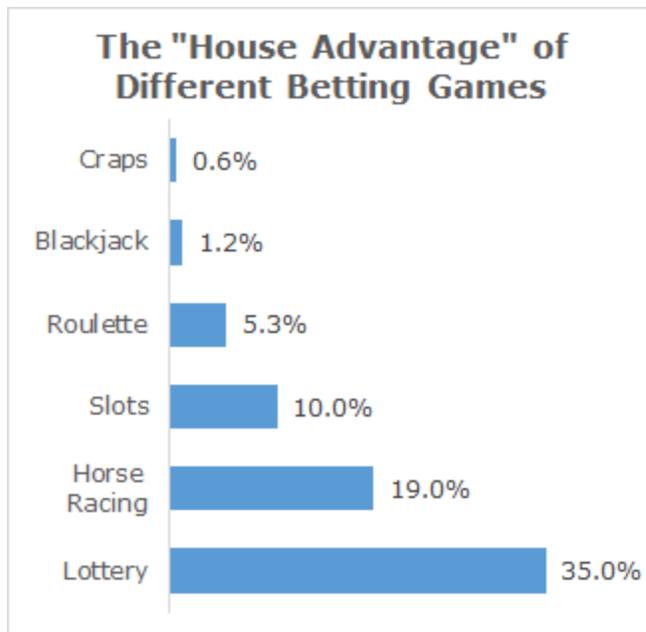
*“...the introduction of an education lottery fails to significantly increase state education expenditures. Instead, unrelated expenditures increase. Thus, the lottery does not change government’s contribution to education.”* – [Centre for Market and Public Organisation](#)

*“Earmarking funds for education may serve to make lotteries more politically viable but has no practical impact on budget allocations”*– [Stanford Institute for Economic Policy Research](#)

If it's more efficient to raise money through taxes, and it all ends up in the same place anyway, why do we have lotteries at all?

You may point out that there is one key difference between lotteries and taxes, which makes the two incomparable. **Lotteries are not taxes because they are voluntary, right?**

**The lottery is not a tax. The inflated price of lottery tickets is.**



It's common to hear people call the lottery *a tax on*

*people who are bad a math / a tax on the stupid*, **but is it really fundamentally different from a tax?**

I wrote a post back in June examining [the lottery as a tax on the poor](#), and it led to several debates about this very question.

To settle the matter, I reached out to an expert, Professor Ross Rubenstein, an education policy and public finance researcher at Georgia Tech who has authored several papers on lotteries. According to professor Rubenstein, "*Revenues raised by lotteries can be viewed as an excise tax on one item – lottery play.*" He sums it up well in this [article](#) published in the National Tax Journal.

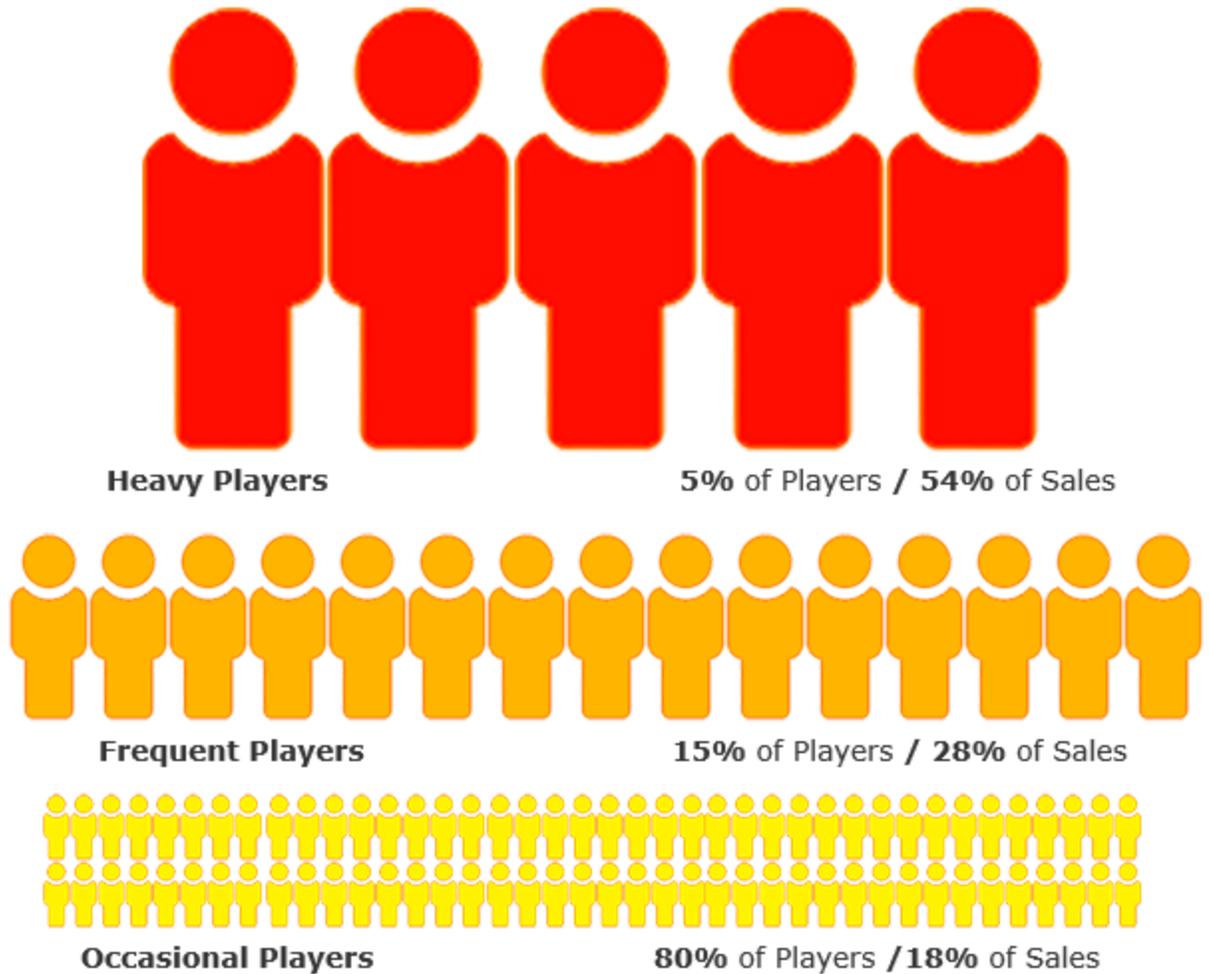
*If a competitive market existed for lottery products, it is unlikely that each firm's profits would approach 35 percent of revenues. Although purchases of lottery tickets are "voluntary," the implicit tax on a dollar spent on a lottery product is not voluntary, just as sales taxes paid on purchased goods are not voluntary.*

Choosing to play the lottery is voluntary. **But much like sales taxes, the inflated price of lottery tickets is not.**

It is illegal for anyone but the state to run a lottery. So unlike casinos, which face competition from other casinos, **lotteries operate as a monopoly**, so they can set their pricing artificially high, or equivalently, their payout rates artificially low.

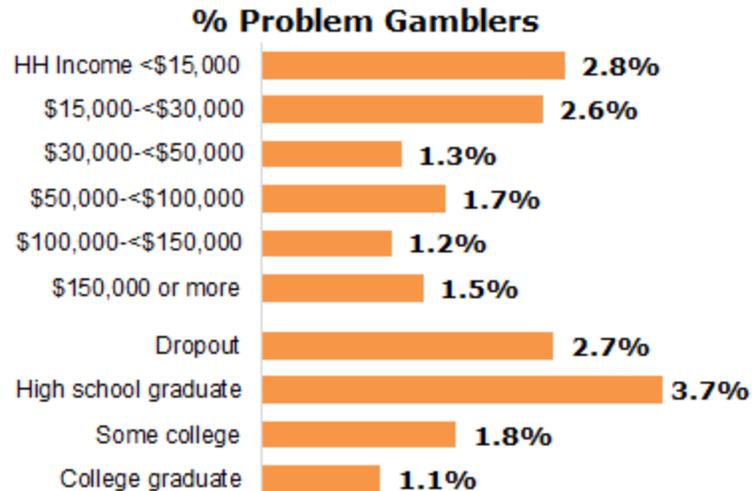
**It's not a tax on the stupid. It's a tax on addicts, and their families.**

## 54% of Lottery Sales Are Made by 5% of Players



Source: [State Lotteries at the Turn of the Century](#)

More than half of U.S. adults play the lottery occasionally, but only a small percentage of those players account for most of the sales. According one [report](#), **54% of lottery sales come from only 5% of players** (roughly 2.5% of U.S. adults).



Pathological gambling is most prevalent in those with low income and low education (Source: [SEIGMA](#))

Pathological gambling is classified by the American Psychiatric Association as an [addiction](#). It affects an [estimated](#) 1.7% of U.S. adults. And contrary to the casino-going stereotype, more [gambling addictions are related to lottery](#) than any other game.

As shown in the chart, pathological gambling is more common among people with less income and lower levels of education, which raises an obvious question.

### **How can someone making less than \$15,000 afford to spend so much on the lottery?**

State lotteries portray their income as coming from [entertainment budgets](#) or as a substitute for other forms of gambling, but the data tells a different story.

#### ***Money for lotteries literally comes off their families' plates***

Between 1982 and 1998, 21 states introduced a lottery. This is how low income household spending changed in response. *Nearly all* of the lottery gambling was paid for by spending less on non-gambling items, including clothing, food, and rent.

For the families that do play the lottery, particularly families of problem gamblers, the spending reductions would be substantially greater.

***“the effect of lottery advertising is to create an impression that winning is easy”***

– [Report to the National Gambling Impact Study Commission](#)

Lotteries are exempt from the Federal Trade Commission [truth-in-advertising](#) laws. Instead, the states are self-regulating, allowing lotteries to get away with misleading and predatory advertising far beyond what private businesses are allowed.



Stated odds of winning: **1 in 4.82**. Odds of winning something of value: **1 in 10.1**.

Take, for example, the Louisiana Lottery's [Tic Tac 2s](#) instant win game. On the back of the ticket, it states, "approximate odds of winning are **1:4.82**."

What it doesn't mention is that **more than half of these "winners" don't actually win anything of value**, just another losing ticket. The odds of winning a cash prize, which is all anyone cares about, are only **1 in 10.1**. And even then, most will only win \$2 or \$3. The odds of winning a prize worth more than \$30 are **1 in 2944**.

Lotteries also intentionally direct these advertisements to low income and minority communities. For example, in Ohio's marketing plans for its SuperLotto game, it stated that advertisements should coincide with the receipt of "[Government benefits, payroll and Social Security payments](#)."

The California Lottery released a document in 2013 seeking "[African American Consumer Market Advertising Services](#)"

In one "blighted neighborhood" of Chicago, the Illinois Lottery put up a billboard with the slogan, "[This could be your ticket out](#)."

### **What is the solution?**

Lotteries are portrayed as a form of voluntary entertainment that serves a good cause. But as the data shows, they are really just a predatory and inefficient tax. They exploit families that are struggling with addiction, and they do so by misleading them into thinking winning is easy.

Is the solution to ban lotteries altogether? I don't think so. There is clearly demand for this type of gambling, so the focus should be on providing it in a way that is not exploitative.

- The government should get out of the lottery-for-profit business. Their incentives are completely at odds with the government's responsibility to protect the welfare of its citizens.
- The government could offer a lottery alternative that actually benefits the players, such as [prize-linked savings accounts](#) (so far, state governments have proactively prevented businesses from offering them).

- Allow private businesses to offer lotteries and compete with each other. Doing so would improve the odds for players, and it would allow the government to regulate them without conflicts of interest.
- At the very least, if state governments are going to continue offering lotteries, they need to be regulated at the federal level and with the same standards as private businesses.