

The Wall Street Journal's Market Watch

# Why the \$1.6 billion Powerball is everything that's wrong with America

Published: Jan 13, 2016 9:17 a.m. ET

QUENTIN FOTTRELL NEWS EDITOR

It seems everyone in America played the [Powerball lottery in the hopes of winning \\$1.6 billion](#). Office workers organized pools and hopefuls from all income brackets lined up at kiosks.

But this latest Powerball draw was different from other draws, scratch cards and games. Studies suggest that low-income Americans are still giving a higher share of their income to government lotteries. "Scratch cards are the primary source of income" for lotteries, says Les Bernal, national director of Stop Predatory Gambling, a Washington, D.C.-based nonprofit group. "They provide instant gratification and you can play them all day long. Most people take their winnings and plow them straight back into lottery tickets."

U.S. lottery sales make the latest Powerball draw look like small potatoes: Lotteries are expected to have raised an estimated \$78 billion in 2015, according to the North American Association of State and Provincial Lotteries, with some scratch cards costing as much as [\\$50 in Texas](#) and [\\$30 in Massachusetts](#). "There is not a single act of government today that promotes more inequality of opportunity," Bernal says. "This is government-sponsored gambling. It's a 'Hail Mary' investment strategy for the poor." Profits from the Powerball are used to fund public projects approved by state legislatures. [Big jackpots are taxed at the maximum federal rate of 39.6%](#) (and that doesn't include state and city taxes).

The Powerball captured the public imagination combining gambling, the excitement surrounding a growing jackpot and, for at least three people, a rags to riches Hollywood narrative that's played out on TV and social media. Some 43 U.S. states, the District of Columbia, Mexico, Puerto Rico, and the U.S. Virgin Islands offer government-operated

lotteries that supplement state taxes and public projects. “But they very much prey upon the poor,” says [Victor Matheson](#), professor of economics at the College of the Holy Cross in Worcester, Mass. “They are in the business of selling hope and taxing people who aren’t good at math.” Video lottery terminals, which resemble slot machines, are also profitable sources of funds for lottery coffers in around a dozen U.S. states. Vulnerable people need more consumer protection from lottery advertising, Bernal says. State lotteries are exempt from [Federal Trade Commission “truth in advertising laws](#). Matheson says his research has shown that the jobless may be more likely to take bigger financial risks with their money. “The FTC lacks jurisdiction over lotteries run by state governments, so that would be a question for states,” a spokesman for the FTC told MarketWatch. And the Federal Communications Commission prohibits the broadcast of lottery advertisements, but has exemptions for lotteries “[conducted by a state acting under the authority of state law](#).”

Without discretionary income should probably not gamble, given the odds are against them (one in 292 million chance with the Powerball), but Bernal says that it’s hard to resist for anyone who is rich or poor when they are bombarded by aggressive advertising with tantalizing jackpots and scratch cards that (maybe) offer instant success. Those TV commercials show what life would be like if you won with catchphrases like “[What if?](#)” and “[The possibilities are endless](#).”

Increased levels of lottery play have been linked with certain sections of the U.S. population — men, African-Americans, Native Americans, and those who live in disadvantaged neighborhoods, according to one 2011 study — “[Gambling on the Lottery: Socio-demographic Correlates Across the Lifespan](#)” — of over 2,600 adults and nearly 2,300 youths aged 14 to 21 published in the December 2011 edition of Journal of Gambling Studies. Lotteries are pervasive in the U.S., but it’s difficult to track buyers of tickets outside of nationally representative surveys. The study noted, “There is relatively little empirical research on the extent of gambling on the lottery in representative socio-demographic groups characterized by age, gender, race/ethnicity and socioeconomic factors.”

*The Powerball captures the public imagination combining gambling, the excitement surrounding a growing jackpot and, for one person at least, a rags to riches Hollywood narrative that’s played out on TV and social media.*

Americans in the lowest fifth socioeconomic status group had the highest rate of lottery gambling (61%) and the highest mean level of days gambled in the past year (more than 26 days), the study concluded. There were very few observed differences in lottery gambling for those in the three upper socioeconomic status groups — approximately 43% gambled on the lottery and the three upper groups averaged about 10 days of gambling on the lottery in the previous year of the study, a trend that was found in other countries with lotteries. What's more, African-American respondents spent significantly more money per year on the lottery than respondents in any other specific racial/ethnic group.

Read: [Will winning the Powerball lottery make you happier?](#)

The North American Association of State and Provincial Lotteries dispute such findings. Lottery retailers are located in areas where people work, not just in low-income neighborhoods, along with grocery stores, he adds. “This is why you will find more lottery outlets in the center of a city,” he says, “just as you would find more grocery stores and convenience stores.” Since the New Hampshire lottery was founded in 1964, according to the NASPL, lotteries have raised more than \$200 billion for government programs in North America. “The profile of lottery players usually tracks the profile of a state’s population mix,” says David Gale, spokesman for the NASPL. “With jackpot amounts such as the current one, the base of players always broadens as new players join the game.”

Lotteries may offer the poorest Americans the biggest hope for escape from poverty. Last year, the Maine Department of Health and Human Services analyzed data from the Bureau of Alcohol and Beverage and Lottery Operations on individuals who won money in the state lottery. Some 4,865 winning tickets of \$1,000 or more were cashed in by 3,685 individuals receiving state benefits over the previous five years, [reaching \\$22 million in lottery jackpots of various sizes](#). But — unless they were an unusually lucky group of people — a far larger number of people on benefits would have to spend up to a total of \$200 million for such a high number of people on state benefits to win that amount, [David Just, a behavioral economist at Cornell University, found](#). “If they’re winning a lot of money, they’re spending a lot more money,” Just told MarketWatch. “For every 1% uptick in unemployment, we also found a 10% increase in lottery sales.” At-risk and problem gamblers are significantly more likely than recreational gamblers to be male, black, unemployed and have an annual income of less than \$15,000 per

year, [a separate 2015 study](#) of nearly 10,000 people in Massachusetts by the University of Massachusetts concluded.

For that reason, Brent Kramer, a research associate at the Fiscal Policy Institute, and others call lotteries a “regressive tax” by offering the poor the fantasy that they will become overnight millionaires. “If the promised return is by far illusory — and it is — it would be hard to argue that those purchases do not constitute a tax on those who believe the state’s hype,” Kramer wrote in a 2010 paper, “[The New York State Lottery: A Regressive Tax](#).” The Powerball has a crossover appeal, Emily Oster, an associate professor of economics at Brown University, [concluded](#). The Powerball becomes “progressive” — meaning high earners spend more on tickets than more than low earners — when the jackpot is \$806 million or more, Oster found.

Of course, there is one argument against the theory that lotteries target the poor with aggressive advertising and, as such, constitute a de facto tax for the poorest Americans. “Playing the lottery — or engaging in any other legal gaming — is a fun form of entertainment [for individuals of-age](#) with appropriate discretionary income,” says Lee Park, a spokesman for the New York State Gaming Commission, which operates the New York Lottery. Gale, of course, agrees. And he says lottery tickets aren't like a tax on the poor because, “If you don’t buy a lottery ticket, you do not go to jail,” meaning if you don’t pay your taxes, you might.

There is one small consolation: The three people who won the \$1.6 billion Powerball will likely need the money (just not all of it). “It would be really bad optics if the CEO of Exxon Mobil bought a Powerball ticket and won it,” Matheson says. “But that’s not likely to happen.” That said, [three hedge-fund managers won a \\$254 million Powerball jackpot](#) in Connecticut in 2013. Anne Noble, the Connecticut Lottery’s chief executive, said at the time, ““The lottery is all about dreaming, and that runs across all demographics and all people.”

*Listen to Catey Hill and Quentin Fottrell discuss the lottery and whether a win would make you happier in their podcast, “[Money, Markets and More](#).”*