An Alabama Lottery: Theft By Consent

ALABAMA POLICY INSTITUTE

Founding Principles In Action

Executive Summary

Lotteries are the most popular form of gambling in America. As recently as 1963, lotteries were banned in every state in America. Today, however, 38 states and the District of Columbia have legalized state-run lotteries.

Americans have spent more than $427 billion on lottery tickets—or about $375 every second—since their legalization in 1964. In 2001 alone, Americans wagered more than $38.9 billion on lotteries—about $136 for every man, woman and child in the nation.

Lotteries are also the biggest source of government revenue from gambling, generating about $11.8 billion for the states sponsoring them. In most states with lotteries, some or all of this revenue is earmarked for education.

This lure of "revenue from nowhere" has caught the attention of Alabama politicians since 1986. For the second time in four years, the citizens of Alabama are being told the best way to boost the quality of education in our state is by legalizing a state-sponsored lottery. The most recent proposal by Gov. Don Siegelman would establish a state lottery that he states could generate $200 million in revenues for the state's beleaguered Education Trust Fund.

With the recurring threat of proration and the lure of lotteries and casino gambling across three of our state lines, an Alabama lottery may seem to be a quick fix to our state's financial woes. Despite their popularity, though, lotteries are not the stable revenue source gambling supporters claim them to be, nor are they devoid of social and economic consequences. *An Alabama Lottery: Theft by Consent* examines the darker side of lotteries in other states, as well as what might happen if Alabama were to legalize its own education lottery. This report shows:

- To realize $200 million for education, an Alabama lottery would have to sell $571 million worth of tickets, or about $127 for every man, woman and child in the state.

- Legalizing a state lottery would create more than 16,000 new pathological gamblers, and cost the state more than $200 million in social and economic costs.

- The poor spend disproportionately more of their income on lottery tickets than middle- and upper-income families.

- Instead of attracting money from out of state, an Alabama lottery would cannibalize the existing economy by consuming local dollars.

- States that legalize low-stakes forms of gambling such as lotteries often legalize "harder" forms of gambling in a matter of a few years.

- Seventy-five percent of all high school students have gambled, and more than 2.2 million adolescents are already addicted to gambling.

- Five percent of all lottery players buy half of all lottery tickets.

- The fastest growing group of problem gamblers—in terms of those calling for help—is senior citizens, many of whom are being hooked on the lottery.

- Alabama residents buy only two percent of all lottery tickets from Florida and 4.5 percent from Georgia.

The Alabama Policy Institute (API) is an independent, non-profit research and education organization that is issue centered and solution oriented. We provide in-depth research and analysis of Alabama's public policy issues to impact policy decisions and deepen Alabama citizens' understanding of, and appreciation for, sound economic, social and governing principles.

Since 1989, API has been on the front lines of critical public debates, helping Alabama citizens, lawmakers and business leaders better understand and apply principles that maximize individual freedom, limit government interference and encourage personal responsibility. The Alabama Policy Institute is the largest free-market, solution-based policy research center in Alabama.

Alabama's Lottery: Theft By Consent

by Dr. John R. Hill

Layout, Design, and Editing by Kristin Day

For additional copies, please contact:
Alabama Policy Institute
P.O. Box 59468
Birmingham, AL 35259
(205) 870-9900
info@alabamapolicy.org

Lotteries are the most-played form of legalized gambling in the U.S. In 1998, 51.8 percent of Americans—100 million adults—played the lottery, compared to 29 percent who gambled at casinos and seven percent who wagered on horse races.[1] Americans have spent more than $427 billion on lottery tickets, or about $375 every second, since their legalization in 1964.[2] In FY 2001, Americans wagered $38.9 billion on lotteries—about $136 for every man, woman and child in the nation.[3] While state lotteries have the worst odds of any common form of gambling (the odds of winning the typical state lottery are about one in 12-14 million, and are getting higher),[4] they also offer the largest payoffs, with prizes regularly totaling tens—and occasionally hundreds—of millions of dollars.[5]

Lotteries are also the biggest source of government revenue from gambling, having generated approximately $151 billion for the states sponsoring them since their legalization in 1964.[6] In FY 2001 alone, lotteries contributed $11.8 billion—about 35 percent of money wagered—into state coffers.[7] They are also the only form of gambling in the U.S. that is a virtual government monopoly.[8]

In 2001, Americans wagered $38.9 billion on lotteries—about $136 for every man.

As recently as 1963, lotteries were banned in every state in America.[9] Today, 38 states and the District of Columbia have legalized government-run lotteries.[10] Their revenues fund a variety of initiatives, including education, economic development, transportation, prison construction, environment and natural resources programs, and senior citizens centers.[11] In almost every case, the lottery was presented to state legislators as a means of raising revenues without having to raise taxes.[12]

The lure of "revenue from nowhere" that accompanies the effort to legalize lotteries has caught the attention of politicians in Alabama since 1986. The most recent proposal would establish a state lottery and earmark all profits to the state's Education Trust Fund. Unlike several earlier attempts to establish a Georgia-style education lottery to fund college scholarships, voluntary kindergarten programs and technology upgrades in public schools, Alabama's latest lottery proposal would be directly tied to the state's education budget. As with the last proposal, lottery supporters expect their program could generate about $150-200 million for education per year.[13]

But, a study produced by Dr. Mark Thornton, Professor of Economics at Columbus State University and former Alabama Assistant Superintendent of Banking, suggests the state is too poor and does not have a population large enough to sustain a lottery that nets more than $72 million a year.[14] Some gambling analysts also estimate the social price Alabama will pay if it legalizes a lottery may be higher than any benefits it might receive.

Whose predictions are more accurate? This report examines other state lotteries to determine the social and economic consequences of introducing a lottery in Alabama.

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—New York State Comptroller H. Carl McCall

I. The Lottery and Education

Just because a lottery claims its funds go to education does not necessarily mean that a state's public schools are receiving additional funding from lottery profits.[15] Ironically, states *without* lotteries actually maintain and increase their education spending more than states *with* lotteries.[16] A 1997 study of the impact of lotteries on education funding concluded: "regardless of when or where the lottery operated, education spending declined once a state put a lottery into effect." Consider the following examples:

- In 1988, the first year of its lottery, Florida spent 60 percent of its budget on education. By 1993, however, education's share of the budget had dropped to 51 percent.[17] Last year, Florida's lawmakers considered such varied measures as increasing property taxes and installing video poker machines at dog and horse tracks to pay for education and human services.[18]

- In 1998, New York State Comptroller H. Carl McCall called the lottery's long-standing claim that its revenues go to education "a myth." A state audit found "every dollar given to a school district through the lottery formula is literally deducted from the amount that district would have received under school aid formulas," freeing up more of the state's general fund for other spending.[19]

In reality, the billions of lottery dollars earmarked for education do not amount to much. According to a 1999 Education Research Service report, lottery contributions constitute less than four percent of state and local education budgets in the states that assign their lottery revenues to education.[20]

Thus, instead of helping, lotteries can hurt education funding in the long run because they serve to undermine public support, even in Alabama where tax dollars are earmarked for education. When voters cast their votes regarding millages, school board referenda, or sales tax increases for education, they are increasingly saying "no" because voters believe schools are being amply funded with gambling money. In states with education lotteries this should come as little surprise because the public was led to believe that additional funds for education would not be needed. When Susan MacManus, a University of South Florida political scientist, asked local voters why they had voted against a sales tax increase for local schools, more than 80 percent of them gave the same reason: the lottery.[21] Consequently, the revenue that Alabama's schools would receive from a lottery would very likely make it even more difficult to convince voters to approve tax increases.

The experiences of other states show the presence of a lottery is a strong predictor of whether a state legalizes casinos

II. The Lottery-Casino Connection

The main obstacle to the introduction of many forms of casino gambling[22] in Alabama is a provision in the state's constitution specifically prohibiting lotteries. This provision has become a blanket prohibition on most forms of gambling because the courts have interpreted it as a prohibition on all games of "chance." However, the Alabama Constitution does not explicitly prohibit other forms of gambling besides a lottery or gift enterprise. Only court opinions have made this provision into a blanket prohibition on most forms of gambling.

The experiences of other states show the presence of a lottery is a strong predictor of whether a state legalizes casinos. According to research by political science professor Patrick Pierce of St. Mary's College, the presence of a state lottery is a stronger predictor of whether a state legalizes casinos than the fiscal health of the state, the political party in power, the timing of the electoral cycle, citizens' religious fundamentalism, and the adoption of casinos by neighboring states.[23] In fact, 15 of the 18 states with both lotteries and casinos—83 percent—legalized a lottery first. After these 15 states legalized a lottery, the legalization of casinos took an average of less than eight years.[24]

For many states that adopt low-stakes legalized gambling activities such as a state lottery, the progression to "harder" forms of gambling is swift. Indiana typifies this transformation. After legalizing a lottery in 1989, the state's lawmakers legalized riverboat casinos in their 1993-1995 budget to avoid raising taxes. Last year, Republicans in the Senate blocked legislation to expand gambling, yet they were lobbied hard to ease boarding restrictions by allowing riverboats to remain docked. The Democratic-controlled House also tried—unsuccessfully—to legalize casino barges and video gambling at horse-racing venues.[25]

In South Dakota, the transformation was even faster. In 1987, a state lottery was established[26]; by late 1989, the city of Deadwood initiated land-based casino gambling, which was followed by casino gambling on Indian reservations in 1990; and by 1991, video-machine gambling was available throughout the state.[27] There is no reason to believe the same thing would not happen to Alabama if the state legalized the lottery.

A dollar spent on a lottery ticket in Florida, Georgia or anywhere else does not equal a dollar devoted to education.

III. The Lottery and Economics

A. Where the Money Goes

A dollar spent on a lottery ticket in Florida, Georgia or anywhere else does not equal a dollar devoted to education. Instead, about 52 cents of each dollar is given back to gambling patrons in the form of prizes, and about 12-17 cents are used to cover administrative and retailing expenses. The remainder—about 31 cents per dollar in FY 2001—is then earmarked for the program or programs the lottery is obligated to fund.[28] Thus, to generate $200 million for education, an Alabama Education Lottery would have to sell about $645 million worth of tickets annually, or about $144 worth of tickets bought by each resident of the state.[29]

B. The Lottery and Interstate Gambling

Claiming that "Alabama already has a lottery" that Alabamians do not benefit from, gambling supporters contend that Alabama must expand gambling opportunities to reduce the number of local dollars being spent on state-sponsored lotteries in Florida and Georgia, and in Mississippi casinos. Despite its proximity to these popular gambling destinations, though, only a small percentage of patrons at these sites come from Alabama.

Because no state lottery keeps records of lottery players or their addresses, accurate calculations of interstate lottery ticket purchases are impossible. The best estimate of interstate lottery play comes from the Internal Revenue Service, which requires lotteries to report winners of prizes worth $600 or more. In Georgia, for example, IRS records from 1993-1997 suggest that Alabama residents buy only 4.5 percent of the state lottery's tickets.[30] That translates into about $104 million of the $2.3 billion worth of tickets sold in Georgia in fiscal year 2000.[31]

Alabamians spend even less on the Florida Lottery. From 1997 to 2000, Alabama residents bought only about 1.97 percent of the lottery tickets sold in Florida, or about $43.8 million worth of tickets per calendar year.

Likewise, Alabamians comprise a relatively small percentage of patrons to Mississippi's state-regulated casinos. According to the most recent quarterly survey data from the Mississippi Gaming Commission, only about 8.4 percent of all visitors to Mississippi's casinos come from Alabama. This is lower than patronage from Mississippi (32.3 percent) and its sister states: Arkansas (9.3 percent), Tennessee (10.4 percent) and Louisiana (10.4 percent).[32]

If spending patterns among patrons are assumed to be equal, it is probable that only about $60.2 million of the $714.8 million in revenue collected in Mississippi's casinos during the latest three-month period came from Alabama, or about $51 per patron per visit.[33] Even if Mississippi casino revenue exceeds $2.8 billion for calendar year 2002, Alabama's contribution would probably be no more than $236 million. This estimate is significantly lower than claims made by gambling supporters several years ago that Alabamians were spending $300 million annually at Mississippi's 12 Gulf Coast casinos alone.

The Commission's figures do not include revenues from the Choctaw-owned Silver Star Casino in Philadelphia, which, with more than 3,100 slot machines and 2,300 employees, is the second-largest casino in Mississippi.[34] While Indian casinos are not required to disclose their earnings, it is unlikely that Silver Star patrons from Alabama add more than 10-15 percent to that casino's annual revenue.

If gambling supporters are concerned about retaining some of the millions of dollars passing in and out of Alabama on a daily basis because of interstate commerce, attention would be better focused on neighboring states without casinos or lotteries. For example, less than three percent of Arkansas' travel and tourism revenue comes from visitors from Alabama, yet Alabama residents spent $60.1 million in Arkansas in 1995.[35] According to the Travel Industry Association of America, Alabama tourists spent $648 million in Tennessee alone in 1995—the year the most recent data is available—almost three times the amount spent on gambling in Mississippi's casinos.[36] If the pro-gambling lobby is concerned about other states bleeding money away from Alabama, they would do better to work at duplicating the family-oriented, non-gambling tourist attractions in Tennessee and Arkansas than to try to duplicate the socially destructive gambling attractions of Mississippi.

C. The Lottery as a Long-Term Revenue Generator

The millions of dollars supposedly to be generated by a lottery for Alabama's coffers assumes that demand for a lottery can sustain itself. It probably can't. Since the costs of operating a lottery are initially fixed, states with smaller populations (like Alabama) must surrender a larger portion of lottery revenue to administrative costs.[37] According to data from *LaFleur's Lottery World*, a lottery trade magazine, eight of the 10 states with the highest lottery profit margins in FY 2000 had populations of more than 10 million. On the other hand, six of the 10 states with the lowest profit margins had populations of less than two million.[38] University of Mississippi researcher Donald Moak notes: "For rural, Southern states, plans to use lotteries to alleviate severe budgetary shortfalls are hardly worth it…Southern states are not urbanized enough to support lotteries. That…translates into much higher operating costs which make lotteries economically questionable at best."[39] Alabama's per-capita income is also significantly lower than the national average, allowing fewer dollars to be played on the lottery, according to Auburn economist Daniel Gropper.[40]

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While the introduction of a state lottery may initially produce millions of dollars in revenues for education, long-term revenue opportunities are poor. According to Dr. Robert Goodman, an economics professor at Hampshire College and author of *The Luck Business*, it takes about three to five years for gambling interests to drain the existing consumer base.[41] However, because Alabama's per-capita income is significantly lower than the national average and the state lacks large, dense urban centers, the lottery could drain local assets at a much faster rate.

Clearly, it is local assets that will be devoured. With more than 100 casinos along the Mississippi River within a day's drive for tens of millions of people, and state-sponsored lotteries in Georgia and Florida, there would be little reason for tourists to come to Alabama to gamble.[42] Moreover, if the lottery were legalized to keep Alabamians from gambling in Florida, Georgia, or Mississippi, it is an admission that it is Alabamians the gambling interests want to prey upon.

The short-lived infusion of lottery dollars almost always results in profligate spending, which, in turn, forces legislators to raise taxes in order to shore up the budgetary shortfalls that develop when lottery revenue sags. According to a study by *Money* magazine, taxes in states with lotteries grew three times faster from 1990 to 1995 than in states without lotteries. In 1971, Governor Thomas Meskill of Connecticut successfully lobbied for a lottery by arguing, "Giving people the choice to raise money purchasing lottery tickets will let your state hold the line on taxes." In 1991, however, Connecticut legislators enacted the state's first income tax even though lottery sales had reached $671 million the previous year.[43]

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1. Little Room for Growth

As the number of states sponsoring lotteries and other forms of gambling has grown, the percentage of profits netted by state governments has declined. In 1970, so few lotteries existed that their sponsoring states received an average of 43 cents for every dollar wagered on the lottery. By 2001, the average had fallen to around 30 cents.[44] Suddenly buying a lottery ticket is not nearly as novel as playing a video poker terminal at a racetrack or a slot machine at the local casino.[45] Lottery directors themselves admit that the gambling market is saturated:

- Buddy Roogow, director of the Maryland Lottery, notes: "I'm worried that the megajackpot opportunities that have been made available recently in the long run only steal the enthusiasm that people have for traditional lottery games. I am very, very concerned about this. Jackpot fatigue is a real malady."[46]

- Chris Lyons, director of the Oregon Lottery, notes: "There is no question that players have more choices in today's gaming marketplace, and state lotteries have to be more attuned to those players than ever before. We're no longer the only game in town, and we're certainly not the newest."[47]

2. Slow Growth

Although lottery ticket sales have steadily increased every year since at least 1970, the rate of recent growth has slowed dramatically since the

1980s, when 20- and 30-percent growth rates were common. Indeed, lottery sales for 2001 increased only 3.2 percent over 2000.[48]

In response to fading sales, lotteries have increased the number and variety of both traditional and nontraditional games. "Eventually, you reach a point where you diversify as much as you can and you have to seek alternatives. Or you can stay put and lose sales and profits," says David Gale, executive director of the National Association of State and Provincial Lotteries.[49]

To keep interest up, most lotteries run dozens of games at a time, constantly debuting new game variations while retiring older ones. New Hampshire, for example, debuted 49 instant games during the 2000-2001 fiscal year.[50]

In 2001 the Ohio Lottery earned the dubious honor of having the largest decline in sales in the nation: 10.7 percent, or about $230.5 million less than the year before. The shortfall left the state's schools with $52 million short of the $664 million it was supposed to raise, forcing the state to dip into reserves and tap its pool of uncollected prize money.

In Georgia, which has been billed as having the most successful lottery in the country, declining ticket sales prompted the introduction of new games both to lure new players and to squeeze more dollars from existing ones. Today, Georgia routinely runs more than 35 instant ticket games at any time—some costing $10 per play—as well as seven on-line, or computerized, games such as Fantasy 5, Mega Millions, Quick Cash, and Lotto South.[51] Thanks to these new games, ticket sales remained high, yet the net proceeds to the state fell below the required 35 percent. The shortfall was blamed on the new games' larger payouts. To remedy this situation, the Georgia Lottery simply reduced payouts. The strategy, however, backfired, driving players away.[52]

3. Lotteries in Decline

Some lotteries are actually experiencing significant drops in ticket sales. From 2000 to 2001, ticket sales declined in 15 states.[53] The following examples typify how traditional lottery games are losing popularity in many states:

- One of the oldest lotteries in the nation, Ohio started its lottery in 1974 with upbeat predictions of being a steady source of money for public education. In 2001 the Ohio Lottery earned the dubious honor of having the largest decline in sales in the nation: 10.7 percent, or about $230.5 million less than the year before. The shortfall left the state's schools with $52 million short of the $664 million it was supposed to raise, forcing the state to dip into reserves and tap its pool of uncollected prize money.[54]
- While Oregon's gross lottery sales increased 4.5 percent from 1997 to

2000, the state's profit margin dropped three percent during the same period, resulting in approximately $8.4 million less for the state than three years earlier. According to recent research by the Oregon Gambling Addiction Treatment Foundation, this may be because past year gambling participation in both traditional lottery games and lottery-sponsored video poker have both fallen 21 percent and 14 percent, respectively. With more than a dozen different venues of gambling available in and around Oregon, the state is saturated with gambling. Only Internet gambling is showing any signs of growth.[55]

◆In Washington state, scratch ticket sales worth about $250 million a year have begun to flatten out. And a recent state study showed that retailers within 10 miles of casinos with slots sold seven percent fewer lottery tickets than expected.[56]

◆Competition from three new casinos in Detroit has sapped $154 million of gambling dollars from the Michigan Lottery since 1999. In 2001, proceeds to the state's School Aid Fund dropped five percent—$31.5 million—forcing the lottery to add more drawings, attempt to build bigger jackpots and introduce more varied instant games.[57]

◆Despite a surge in sales in FY 2002, the Illinois Lottery has yet to recover to its peak of $1.6 billion in 1996. From 1997 to 2001, sales sagged by more than $188.3 million. As a result, Illinois schools received almost $50 million less in 2002 than they did six years ago.[58]

◆Lottery ticket sales in Wisconsin have dropped 23 percent—$117.5 million—over the past seven years and show no sign of picking up.[59] The slide in sales is being attributed to increased competition from Indian casinos and a natural decline in interest in the game. "The lottery's sales curve is no different than buggy whips or toasters or anything else," says Todd Berry, executive director of the Wisconsin Taxpayers Association. "New products are tried because people are curious about them. But then they start to get boring and old, and sales start to fall off."[60]

◆In Texas, lottery ticket sales in Texas are down from $3.7 billion in 1997 to $2.8 billion in 2001, a 24.5 percent drop in revenues. Likewise, Texas' Foundation School Fund—to which all lottery profits are earmarked—realized $324 million less from the lottery in 2001 than in 1997. Interestingly, as lottery sales have begun to recover, the amount of revenue to schools has

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actually declined by $100 million from 1999 to 2001.[61]

Another reason lottery ticket sales have slowed is because gamblers are moving toward games offering better chances of winning and greater convenience. While lotteries typically pay back about 55 cents on the dollar in prizes, slot machines and other table games such as blackjack return at least 95 cents per dollar risked. According to *State Policy Reports*, "customers are gravitating toward the forms of gambling which give them the best deal."[62]

As for convenience, the pervasiveness of mobile Internet-enabled devices such as cell phones and interactive television is bringing the entire menu of gambling products into the home, superseding the handiness of the Seven-Eleven lottery ticket purchase. Despite the fact that it continues to be illegal to gamble over the Internet, consumers are enthusiastically embracing these new gambling venues. Gross revenues from Internet gambling increased 89.1 percent from 1999 to 2000, and expenditures are expected to rise to $6.4 billion—almost 10 percent of gambling wagers—by 2003.[63]

4. New Games and More Gambling

Some of the biggest contributors to lottery sales in the past decade have not been traditional lottery games at all, but keno and video lottery terminals (VLTs). Between 1999 and 2000, VLT gross gambling revenues grew by 18.6 percent, compared to only four percent for traditional lottery games.[64] VLTs, which were available in only five states in 2000, were responsible for $1.6 billion in gross gambling revenues—9.6 percent of all lottery revenues—or about $212 per capita in their home states.[65]

Keno and VLTs are popular because they offer faster play than all lottery games except scratch-off tickets. They also have higher prize payouts, often exceeding 70 cents for every dollar's worth of lottery tickets sold.[66] The fast pace of these games can generate more sales, yet states that depend too heavily on these games may see their profit margin shrink as a result of higher payouts.

Adding VLTs to a state lottery's game mix, though, also carries a social cost, and the gambling industry knows it. Eugene M. Christiansen, chairman of Christiansen Capital Advisors, LLC, notes:

Lotteries, racetracks and other pari-mutuel businesses might tap remaining pools of unsatisfied demand for machine gaming by seeking permission to add slot machines or VLTs to their operations. This works; it also increases social friction by making a demonstrably dangerous form of gambling more widely available. This is more of a problem with VLTs, with their neighborhood deployment, than it is for racetracks, which tend to be situated away from population centers.[67]

Another reason the lottery industry posted an overall profit for 2001 was Powerball, the nation's largest multistate lottery, with 21 states participating.[68] Powerball sales totaled approximately $1.06 billion in 2001, and were enough to make the difference between increased and lost lottery sales for eight states.

By lowering the odds of winning, Powerball executives have actually increased ticket sales. In 1997, Powerball lowered the odds of winning its jackpot from one in 55 million to one in 80 million. Sales accelerated as jackpots went unclaimed and rolled over into larger and larger prizes.[69] This past July, Powerball announced it will again increase the odds of hitting the Powerball jackpot to one in 120 million to make jackpots in excess of $100 million more likely.[70]

B. Predatory Economics

Several studies have been conducted by the gambling industry to support their claims that gambling improves a state's economy. These claims were examined in a 1994 report by the Center for Economic Development at the University of Massachusetts. The report, which analyzed 14 industry studies, concluded that legalized gambling operations—including lotteries—are scavenger industries, only serving to transfer wealth from the many to the few. [71]

In order for lotteries to survive, they must cannibalize the economy, encouraging people to gamble money they otherwise would have spent at pre-existing businesses in the marketplace, including those selling lottery tickets.[72] Sooner or later, this massive diversion of revenue results in lost business and closures. In Louisiana, for example, "City Newstand, the business that ceremoniously ushered in the big-jackpot games with a brass

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band, LSU cheerleaders and a host of state dignitaries, recently got out of the Lotto business entirely. Even though the store got five cents for each $1 ticket, the money didn't make up for the lost business on other items, said the owner."[73]

Storeowners in California have also experienced a decrease in food sales equivalent to the revenue gained from lottery ticket sales. According to a survey of 1,200 stores taken by the California Grocers Association, two-thirds reported an average decline in food sales of seven percent since the beginning of the California lottery.[74] At least one chain of grocery stores, Holiday Quality Food Stores of California, has ceased the sale of lottery tickets. Jerry Neilsen, general manager of the chain, said his "stores had experienced a 10 percent decline in profits since they began selling tickets. Though they had sold more than $1 million in lottery tickets since it began, food sales had declined by a similar amount."[75]

If lottery revenues were immediately reintroduced into the economy, the negative economic effects of the game would be substantially reduced. Sadly, the boom-and-bust nature of lottery economics never allows this to happen. After prize money is awarded and the local government receives its share of revenue, the remaining funds are pocketed by the administrators of the lottery. Rather than being invested in capital or spent on consumer items, lottery promoters "reinvest" their dollars in newer forms of gambling in order to maintain the thrill of the game.[76] These costs also rise faster than other methods of revenue collection because immense amounts of cash must be spent on advertising to sustain the public's interest in playing.[77] As professor Jack Van Der Slik notes, "[state-sanctioned] gambling produces no product, no new wealth, and so it makes no genuine contribution to economic development."[78]

Likewise, William Duncombe, associate professor of public administration at Syracuse University's Maxwell School of Citizenship and Public Affairs, adds, "In the world of public finance…the lottery is the one source of revenue that does poorly on almost every criteria of evaluation."[79]

IV. The Lottery and Its Victims

Gambling proponents contend that people spend only their disposable "entertainment" funds on gambling. Playing the lottery is thus made to appear as a "voluntary tax" that provides funds while you are doing it.[80] In reality, those hardest hit by lottery losses are those who can least afford it:

the poor, minorities, underage gamblers and senior citizens.

A. The Poor

Although people from all income levels gamble, the poor are most adversely affected because they cannot afford even a small loss. Whereas the affluent tend to view the lottery as entertainment and as a source for increased spending on products and services important to higher-income households, the poor see it as a way to escape the drudgery of uninteresting, routine work and improve their living standards.[81]

"As your income goes down, you tend to see the lottery as an investment," says Robert Goodman, director of the United States Gambling Research Institute.[82] "For the poor, the lottery is not harmless entertainment," says Dr. J. Emmett Henderson, head of the Georgia Council on Moral and Civic Concerns. "It is a desperate but vain attempt to survive. But the odds of winning are so cruel that the lottery turns out to be theft by consent."[83]

Because lotteries are regressive—that is, low-income households spend a larger percentage of their income on lotteries than families with more wealth—they devour what little "discretionary" income they have, money that could be saved or spent on better food and clothing.

Because lotteries are regressive—that is, low-income households spend a larger percentage of their income on lotteries than families with more wealth—they devour what little "discretionary" income they have, money that could be saved or spent on better food and clothing. Lottery proponents have tried to dismiss the allegation that lotteries are regressive by noting that low-income households spend proportionately more on every item with a fixed price than wealthier households. "After all, $200 a week takes up a greater percentage of $10,000 than it does of $100,000. In fact, other state-imposed measures, such as the sales tax and the gas tax, are also regressive. In many cases those in lower income brackets pay more than 20 percent of their income for such taxes, while those in high income brackets pay only about five percent."[84]

The response of lottery supporters regarding regressivity is not convincing, though, for at least three reasons. First, "it avoids the fact that lotteries are a greater burden to the poor than other economic classes. The fact that other sources of revenue may do the same is irrelevant."[85]

Second, Alabama's overall tax code already unfairly burdens the poor. A 2001 report by the Public Affairs Research Council of Alabama found "the state and local tax burden [as a percentage of income] is somewhat larger for low-income families than for high-income families."[86]

Similarly, the Center on Budget and Policy Priorities has repeatedly cited Alabama as one of only nine states that taxes the income of "very poor families," an indication of regressivity. Out of 42 states that tax income, Alabama had the lowest threshold for taxing income ($4,600 in 2001).[87] Alabama's poor cannot afford another regressive tax, even if it is "voluntary."

In Maryland, almost half—47 percent—of the state's heavy players come from households earning less than $20,000 a year. An almost equal number—48 percent—have a high school diploma or less.

Finally, the poor spend more on lottery tickets on an absolute scale. Even if an equal number of gamblers came from all income classes, the 39 million gamblers who live below the poverty line who gamble would still be unable to afford it.[88] Yet, years of research on where tickets are sold strongly suggests the poor are more likely to play the lottery than other income groups:

- Gamblers with household incomes of less than $10,000 bet nearly three times as much on lotteries as those with incomes over $50,000, according to the National Gambling Impact Study Commission (NGISC).[89]

- A 1998 survey conducted by Georgia State University found that families in Georgia earning less than $25,000 per year spend two to three times as much on the lottery as a percentage of their income than households earning $50,000 or more.[90] Other research by the University of Georgia found that, in Georgia's 10 poorest counties, the lottery sold an average of $218 worth of tickets for every man, woman and child in 1997. In the 10 wealthiest counties, however, per-person lottery ticket sales averaged only $177. When per-capita income is considered, Georgia's poorest residents spent more than twice as much of their annual income on the lottery than those living in wealthier counties.[91]

- In Indiana, research by the *Indianapolis Star* found that household spending on lottery tickets averaged $53 for every $10,000 of mortgage wealth in the poorest counties of the state, while the wealthiest counties spent only $8 per $10,000 of mortgage wealth.[92]

- In Maryland, almost half—47 percent—of the state's heavy players come from households earning less than $20,000 a year. An almost equal number—48 percent—have a high school diploma or less.[93]

- In Massachusetts, individuals in the poorer cities of Worcester and

Chelsea spent an average of $336 and $445, respectively, on lottery tickets in the early 1990s, while wealthier towns such as Weston and Amherst spent an average of $30 and $42 per capita, respectively.[94]

Another common method of inferring whether members of particular income groups play the lottery is counting ticket sales and lottery outlets in a given county or ZIP Code area:

◆Research recently published the *Cincinnati Enquirer* found that sales of Ohio Lottery tickets are the briskest in areas of the state where people earn less. Specifically, more than 62 percent of the lottery's sales in FY 2000 came from neighborhoods where annual household incomes fell at or below the statewide median of $38,970. Likewise, more than 61 percent of the 10,146 businesses that sold lottery tickets in 2000 were in lower-income neighborhoods. Finally, a ZIP Code analysis of winners of more than $1,000 found that winners in the poorest neighborhoods outnumbered those in the richest neighborhoods by a margin of two-to-one.[95]

◆In Maine, low-income residents tend to be the biggest lottery ticket buyers, according to an *Associated Press* analysis of lottery sales and census figures. In 1997, for example, Cumberland County residents made the most money per household in the state—$41,393—yet they spent the least per capita: $121 per year. Conversely, Washington County residents had the smallest median household incomes—$25,673—yet they spent $198 per year on the lottery, the highest county average for Maine and 33 percent higher than the state average of $149.[96]

◆Seventy-nine percent of the money spent on lottery tickets in 1997 in Lexington, Kentucky was spent in ZIP codes where residents' per capita income was below the county average of $20,274. Research by the *Lexington Herald-Leader* found that spending on lottery tickets in north Lexington's 40405 ZIP code in 1997 was $259 per person. But in 40502, an area where per capita income is more than twice as high, lottery spending was only $78 per person. The average amount spent per person on the lottery was $131. Of the five counties reporting higher-than-average spending on lottery tickets, all had below-average income.[97]

◆In Georgia, the poor who live in predominantly urban areas spend far more of their income on lottery tickets than wealthier counties. According to a study conducted by the *Atlanta Journal-Constitution*, ticket sales dur-

In Maine, low-income residents tend to be the biggest lottery ticket buyers, according to an Associated Press analysis of lottery sales and census figures.

ing the first year of Georgia's lottery were highest in neighborhoods with the lowest income levels and the highest proportion of minority residents. In ZIP codes with average household incomes below $20,000, the lottery sold $249 worth of tickets per resident, compared with $97 in ZIP codes with incomes exceeding $40,000.[98]

◆In 1997, the *Washington Post* compared lottery ticket sales in Washington D.C., by ZIP code. They found that, as the median household income in a ZIP code declines, ticket sales significantly increase.[99]

B. The Lottery: Choice of the Poorest Gamblers

Many lottery players are not poor, yet less-educated, low-income players participate at a rate higher than their percentage in the population. Spending on lottery tickets sharply declines as players' education increases, according to Duke University public policy professor Philip J. Cook. High school dropouts, for example, spend an average of $597 annually on lottery tickets, compared to $229 annually for college graduates. Likewise, individuals earning less than $25,000 annually spend nearly as much on lottery tickets yearly as those earning more than $100,000; $448 and $454 respectively.[100] Multiple studies from across the nation support Cook's claims:

In Wisconsin, an Associated Press survey found that residents living in the poorest neighborhoods in the state spent, on average, four times as much of their income on lottery tickets as did those in wealthier neighborhoods.

◆In California, a 1999 report found that one fifth of the state's lottery players account for 90 percent of all ticket sales. The same report also noted that people from households earning less than $25,000 per year made up 41 percent of the lottery's heaviest gamblers, spending an average of more than $830 per year.[101]

◆In Wisconsin, an *Associated Press* survey found that residents living in the poorest neighborhoods in the state spent, on average, four times as much of their income on lottery tickets as did those in wealthier neighborhoods.[102]

◆In Virginia, four in 10 "heavy" players—those who spend an average of $47 or more for lottery tickets in two weeks, the equivalent of more than $1,200 a year—have household incomes of less than $25,000. Among the other "heavy" players in Virginia, one in six have incomes of less than $15,000 a year, and one in five have never finished high school. These rates are roughly double those of all Virginia adults surveyed by the lottery in 1995 and 1996.[103]

◆A 1994 report on the gambling habits of Maryland's lottery players found that the poorest one-third of the state's population purchase half of the state's lottery tickets. In addition, one-third of Maryland families with an annual income of less than $10,000 spent one-fifth of their income on lotteries. A similar study conducted in Connecticut revealed that those with incomes of less than $5,000 spent 14 times as much on the lottery as those with incomes above $25,000.[104]

◆A 1994 study in Detroit, Michigan found that persons with less than a high school diploma spend over five times more as a percentage of their income, than those with a college degree. Researchers Mary Herring and Timothy Bledsoe noted: "The degree of lottery participation is a declining function of income and education, and participation is higher among black, male, and older respondents."[105]

A 1994 study in Detroit, Michigan found that persons with less than a high school diploma spend over five times more as a percentage of their income, than those with a college degree.

Not surprisingly, the poor and less educated are also significantly more likely to develop gambling addictions. Research collected by the NGISC shows that individuals earning less than $25,000 per year are four times more likely to become pathological gamblers than those earning $50,000 or more per year. The same report also found a strong relationship between academic achievement and gambling addiction. Specifically, individuals earning a high school degree or less are five to 11 times more likely to become problem or pathological gamblers.[106]

Father Thomas O'Gorman, a priest serving a poor, African-American congregation on Chicago's West Side, supplies a poignant example of the amount of spending on the lottery by the poor. One Sunday, out of curiosity, he asked his parishioners to save their losing tickets and bring them to services next week. The following Sunday he collected nearly $5,000 in losing ticket stubs.[107]

Low-income adults with gambling problems are also more likely to run up debts that are proportionately higher than those of more affluent gamblers. A six-year study of 1,800 problem gamblers in Minnesota found that those with incomes of less than $10,000 had debts averaging $18,700, and individuals whose incomes ranged from $10,000 to $20,000 had debts averaging $19,100. Problem gamblers with incomes of more than $50,000, however, had debts averaging $37,800. "Individuals with an income of less than $10,000 annually have little chance of overcoming such a burden," said William Rhodes, an author of the 1997 study. "People in this type of situation may be forced to sell belongings, [and] change residences more frequently."[108]

C. Minorities

Lottery games, legal and otherwise, have existed in minority neighborhoods for decades, according to public policy professor Philip Cook of Duke University and co-author of *Selling Hope: State Lotteries in America*.(109) And, like the poor, African-Americans and Hispanics tend to play the lottery, particularly instant games, in disproportionately large amounts. According to a March 1999 study by Cook, African-Americans who regularly play the lottery spend nearly $990 annually on tickets, more than four times higher than the $210 average for whites.[110] Research at the state level supports Cook's findings:

Not only do minorities spend more money on the lottery than whites, they are also more likely to be victimized by gambling addiction.

◆A 1997 market survey for the Maryland lottery found that 61 percent of heavy players, those spending more than $10 dollars a week on tickets, were African-American, yet this group makes up only about 26 percent of the state's population.[111]

◆African Americans make up the majority of the biggest spenders in Virginia—those who spent an average of more than $90 every two weeks on the lottery, or the equivalent of $2,362 per year.[112]

Not only do minorities spend more money on the lottery than whites, they are also more likely to be victimized by gambling addiction. According to NGISC, African-Americans are three times more likely to be problem or pathological gamblers than their white counterparts.[113] Research mentioned earlier that was conducted by Georgia's Department of Human Resources has found that while minorities comprise 28 percent of Georgia's population, 48 percent of all problem or pathological gamblers in the state are non-white.[114] In New York, 32 percent of the state's problem gamblers were found to be minorities, compared to the 11 percent to 15 percent who participated in the study.[115]

D. Underage Gamblers

In at least 24 states with lotteries, the message is the same: "Lotteries benefit children." Indeed, 15 state lotteries donate 100 percent of their profits to education.[116] An advertisement for the Ohio Lottery Commission, for example, states: "Some of our biggest winners have never even heard of the Lottery."[117]

Despite Ohio's claims to the contrary, the lottery is familiar to almost every school-age child, especially teenagers. The fact that it is illegal for teenagers to play the lottery or any other type of gambling does not seem to keep them from playing.[118] According to the National Research Council's (NRC) review of the literature on adolescent gambling, between 52 and 89 percent of all teenagers have gambled in the past year, with an average (median) value of 73 percent.[119] This high rate of participation in gambling makes it "an average and expectable activity among adolescents," according to Dr. Howard Shaffer of Harvard Medical School's Division on Addictions.[120]

Pediatric literature notes that teenagers are particularly susceptible to the immediate gratification and excitement that comes with gambling. "Gambling in our culture is not seen as a problem," says Jean Dede, a certified compulsive gambling counselor at an addiction treatment center in Springfield, Illinois. "For young people, the lure of gambling can be hard to resist. Kids love fantasy and action. They want to have cash and look good. [Gambling] becomes about power and getting something for nothing."[121] Gambling is also seen as a coping mechanism for dealing with daily stresses and feelings of depression.[122]

Pediatric literature notes that teenagers are particularly susceptible to the immediate gratification and excitement that comes with gambling.

So many teenagers are gambling that many become addicted to it. "Research shows that 90 percent of the nation's compulsive gamblers got started in adolescence," according to Dr. Michael Gordon, an Atlanta addictionologist who specializes in treating pathological gamblers.[123] According to research conducted at McGill University in Montreal, the average pathological gambler starts serious gambling at the age of 10.[124] Much of this gambling is with parents and grandparents, so most children with gambling problems do not appear to feel the need to hide their gambling from their families.[125] Indeed, less than 10 percent of children fear getting caught gambling.[126] Of even greater concern is the finding that the time between the beginning of gambling and becoming a problem or pathological gambler is significantly decreasing: that is, it is taking less time for underage gamblers to become gambling addicts.[127]

While considerable disagreement surrounds the exact number of adolescent problem gamblers, most studies concur they are up to three times more likely than adults to develop serious gambling problems:[128]

- So many teenagers are gambling that more than 2.2 million adolescents are already addicted to gambling, according to a 1997 report by the Harvard Medical School Division of Addictions. This number will likely continue to grow, since the same report noted an additional 5.7 million teenagers are at risk of becoming pathological gamblers.[129]

◆An August 1999 report by the American Academy of Pediatrics estimates that as many as 1.1 million adolescents ages 12 to 17—about five percent of America's 20 million teenagers—are pathological gamblers, which is a much higher percentage than adults (0.9 percent).[132]

An August 1999 report by the American Academy of Pediatrics estimates that as many as 1.1 million adolescents ages 12 to 17—about five percent of America's 20 million teenagers—are pathological gamblers, which is a much higher percentage than adults.

Research at the state level supports these claims:

◆According to research sponsored by the Georgia Department of Human Resources in 1996, 62 percent of the state's adolescents have gambled. The study also found that almost three percent (2.8 percent) of 13- to 17-year-olds are already problem gamblers, and another 10.3 percent are at risk of becoming problem gamblers. In other words, a minimum of 8,400 Georgia adolescents are already experiencing severe problems with their gambling, and another 47,950 adolescents are at risk of developing gambling difficulties.[133]

◆Data from the Massachusetts Department of Public Health indicates that lottery activity among that state's students is second only to alcohol in prevalence among illegal teen activity.[134] Almost 70 percent of seventh graders have bought lottery tickets, 30 percent within the past month, according to a 1994 survey of more than 2,000 students from nearly 100 public schools.[135] Moreover, minors as young as nine years old were able to purchase lottery tickets on 80 percent of their attempts.[136] Another study conducted by the same organization in 1997 found that 49.5 percent of 7th to 12th grade students in Massachusetts had purchased a lottery ticket in their lifetime and 21.8 percent had done so in the past month.[137]

◆In 1997, researchers at Louisiana State University-Shreveport surveyed 12,066 Louisiana students in grades six through 12. They found that 86 percent had gambled, many by age 13, making experimentation with gambling more common than drug or alcohol use. Two-thirds—66 percent—indicated they had gambled on scratch-off lottery tickets, and about 32 percent had played Lotto. The survey also found that 10 percent of the state's students are problem gamblers, and another 5.7 percent have been identified as pathological gamblers. In addition, African-Americans and Hispanics were significantly more likely to be identified as pathological gamblers.[138]

◆Ninety percent of Indiana's teenagers have gambled at some point in their lives, according to a July 1998 report conducted by Louisiana State University. Of the 3,270 students questioned, 64.7 percent said they had played instant, or scratch-off, lottery games. Only 12 percent of the survey sample had reached their 18th birthdays.[139] Approximately 11.2 percent of the teenagers surveyed identified themselves as problem gamblers, while another 7.5 percent were classified as pathological gamblers.[140]

◆A March 1998 survey by the New York Council on Problem Gambling of more than 1,100 teenagers found that 75 percent have gambled in the past year, with 15 percent participating on a weekly basis. Nearly one-third had purchased lottery tickets. Despite their substantially lower incomes, adolescents in New York reported spending approximately one-third as much as adults on gambling. Fourteen percent of the students questioned were at risk of becoming problem gamblers, and 2.4 percent were identified as already seriously addicted to gambling. Next to betting on games of personal skill and sports betting, the lottery was identified as the game most likely to turn adolescents into problem and pathological gamblers.[141]

◆Two-thirds of Oregon youths gambled in 1998, and as many as 13,000 may be in need of gambling addiction treatment, according to a December 1998 phone survey of 1,000 adolescents. The study, which was paid for by the Oregon State Lottery and the Spirit Mountain Casino, identified four percent of the state's adolescents as problem gamblers. Another 11 percent showed signs of being compulsive gamblers. Thirty percent of those surveyed had played the lottery in the past year, often getting tickets from parents or other family members.[142]

Even more disturbing is what is happening to these young people as a result of their gambling. The aforementioned survey of high school students in Massachusetts also found five percent had already been arrested for a gambling-related offense; 10 percent experienced family problems due to gambling; and eight percent had gotten into trouble at work or school because of gambling.[143] Likewise, a 1998 study by Louisiana State University found that young people in Louisiana's criminal justice system are four times more likely to have a gambling problem than are

Even more disturbing is what is happening to these young people as a result of their gambling. The aforementioned survey of high school students in Massachusetts also found five percent had already been arrested for a gambling-related offense; 10 percent experienced family problems due to gambling; and eight percent had gotten into trouble at work or school because of gambling.

their peers. Two-thirds of the hard-core gamblers in detention admitted stealing to finance their gambling.[144]

Adolescents with gambling problems are also more likely to have tried many illegal drugs, including cocaine, steroids, and inhalants, according to a 1998 report by the American Academy of Pediatrics. The same report also found that adolescent problem gambling was associated with increased instances of violence-related behaviors such as carrying a weapon and being involved in a fight. These findings may understate the seriousness of the problem, since a number of youths that engage in a variety of these high-risk behaviors may have already dropped out of school, where the study was conducted.[145]

According to a variety of studies conducted by child psychologists Rina Gupta and Jeffrey Derevensky at McGill University in Montreal, adolescent problem and pathological gamblers have lower self-esteem and higher rates of depression than their peers.

The emotional damage to adolescents with gambling problems can also be enormous. According to a variety of studies conducted by child psychologists Rina Gupta and Jeffrey Derevensky at McGill University in Montreal, adolescent problem and pathological gamblers have lower self-esteem and higher rates of depression than their peers.[146] While adolescents with gambling problems claim to have a peer support group, it is often the case that old friends have been replaced with gambling associates.[147] One of the most tragic statistics related to teenage gambling is the fact that 17 percent of all gambling-addicted adolescents will attempt suicide.[148]

In addition to creating thousands of underage problem gamblers, state lotteries also act as a "gateway drug," increasing all other types of gambling among teens, according to Dr. I. Nelson Rose, a professor at Whittier Law School in Los Angeles who specializes in the study of gambling.[149] After a state lottery was legalized in California in 1985, the percentage of high school students who gambled in any form increased by 40 percent.[150]

In the words of the *Final Report of the National Gambling Impact Study Commission*: "[These findings] raise serious and troubling concerns regarding the accessibility of gambling, particularly convenience type, and the ineffective safeguards that are presently in place. Parents simply cannot rely upon the government or the industry to prevent underage gambling."[151] There is reason to expect that the same rates of teen gambling addiction and its associated consequences would occur in Alabama.

E. Senior Citizens

While senior citizens are not the nation's largest sub-population of gamblers, their numbers have grown as legalized gambling has spread across the nation.(152)

In 1996, the average age of visitors to Las Vegas was 49.4 years, and slightly more than three of every 10 visitors were age 60 or older, according to the Las Vegas Convention and Visitors Authority.[153] "Seniors are participating in every type of gambling today," says Pat Fowler, executive director of the nonprofit Florida Council on Compulsive Gambling. "It's so acceptable in our society that everyone can gamble in any form they choose without any fear of being criticized for it."[154] In Minnesota, a 1997 survey found that 61 percent of adults age 65 years or older had gambled in the past year, up from 50 percent two years earlier.[155] "There's no question senior gambling is on the rise," says Ron Karpin, head of the New Jersey Council on Compulsive Gambling and founder of the first senior gambling outreach program in the country. "They're the fastest-growing segment of the population, they're more affluent than ever, and—its' a sad comment on our society—they're bored."[156]

While gambling appears to be a pleasant pastime for many senior citizens, it is becoming a genuine problem for a growing number of them.

At least one state lottery has tried to publicly target the senior citizen market. With ticket sales to seniors in decline since 1990, the Maryland Lottery targeted seniors in 1993 with a "Lottery on Wheels," a mobile game-playing machine that visited convalescent homes and shopping malls where seniors walked for exercise. Ticket sales to seniors increased from 21 percent of total sales in 1993 to 24 percent in 1994 and 1995, before declining to 22 percent in 1996.[157] The program was stopped in 1997 after the state's attorney general began investigating it at the request of the president of the state's American Association of Retired Persons.[158]

While gambling appears to be a pleasant pastime for many senior citizens, it is becoming a genuine problem for a growing number of them. According to Pat Fowler, seniors are particularly vulnerable to the lure of gambling for several reasons: their retirement income is steady, they have a lot of free time, and they often do not have much to do. Seniors also face a number of stresses not shared by the general population, such as losing loved ones, retiring from a job, or moving to different parts of the country. The stress of dealing with these challenges makes many seniors particularly prone to gambling disorders. "Gambling provides an escape, a way to cope," agrees Betty George, executive director of the North American

Training Institute, a gambling treatment center.[159]

The fastest growing group of problem gamblers—in terms of those calling for help—is senior citizens.[160] In 1997, nine percent of calls to Minnesota's hotline for problem gamblers were seniors, up from only three percent five years earlier.(161) In 1993, 16.5 percent of callers to Florida's hotline were older than 55. By 1997, that number had grown to 18.5 percent.[162] Of those who called in 1995, 72 percent identified the lottery as the source of their problem.[163]

The spread of legalized gambling across the nation has also led to an increase in the number of senior citizens who are facing financial ruin because of problem gambling. "Problem gamblers who are retirees may suffer more severe consequences because they may not have the ability to recover financially," says Dewey Price of the Missouri Department of Public Health, and president of the Missouri Alliance to Curb Problem Gambling.[164] While problem gamblers among the elderly typically do not accumulate as much debt as younger gambling addicts, they are particularly vulnerable to becoming problem gamblers, according to Eric Zehr, vice president of addiction recovery services at the Illinois Institute for Addiction Recovery at Proctor Hospital. "Gambling is a hidden disease and the elderly are a hidden population within it. They think they're going to be socializing in their gambling groups."[165]

The spread of legalized gambling across the nation has also led to an increase in the number of senior citizens who are facing financial ruin because of problem gambling.

"There is a growing number of older adults…who have an undetected gambling problem, says Dennis McNeilly, a clinical psychologist at Creighton University in Omaha, Nebraska. "It's a very, very hidden problem among the older age group. They are taking risks they've probably never taken in their entire lives." McNeilly, who treats problem gamblers at his clinic, said that three years after the introduction of riverboat gambling at a nearby Iowa casino, bingo and casino gambling have become the leading activities for Omaha-area adults over the age of 65.[166] And, as gambling activity has increased, so has the number of problem gamblers he has treated. In 10 years of clinical practice, McNeilly never saw a single case of addicted gambling disorder. In 1997 he saw 25 cases.[167]

V. The Lottery and Addictive Behavior

If a lottery is legalized in Alabama, its accessibility and ease of play will almost certainly draw people into gambling who have not gambled previously. In Texas, for example, researchers at the state Commission on

Alcohol and Drug Abuse found that the introduction of a state lottery increased the number of adults who gambled on any game from 48.6 percent in 1992 to 67.7 percent in 1995.[168] "It attracts people who have never walked into a casino. It's completely different than skill gambling," says Joanna Franklin, executive vice president of the National Council on Problem Gambling.[169]

As gambling has become increasingly available and acceptable, the number of problem and pathological gamblers has also increased.[170] While the exact number of Americans with serious gambling problems remains a serious source of debate, practically all studies acknowledge the number is increasing. In 1997, the Harvard Medical School of Addictions released a study summarizing the findings of 120 previously conducted studies on the prevalence of gambling disorders. They found that the number of adults in the United States and Canada affected by severe gambling disorders grew from 0.84 percent between 1977 and 1993 to 1.29 percent between 1994 and 1997. In addition, 3.88 percent of teenagers and 4.67 percent of college students were found to have a gambling problem—three to four times greater than adults.[171] This total number of compulsive gamblers—about 4.4 million—is about equal to the nation's number of hard-core drug addicts. Another 11 million Americans are problem gamblers, meaning they are at risk of becoming compulsive gamblers.[172]

More recently, a March 1999 survey commissioned for the National Gambling Impact Study Commission (NGISC) found that five million Americans are problem or pathological gamblers, at a cost to society of about $5 billion annually.

A study released in February 1999 by the National Opinion Research Center (NORC) estimates the number of gamblers with problems serious enough to require psychiatric treatment at about 2.5 million. The same study identified another three million Americans as problem gamblers, and 15 million adults at risk of becoming pathological gamblers.[173] More recently, a March 1999 survey commissioned for the National Gambling Impact Study Commission (NGISC) found that five million Americans are problem or pathological gamblers, at a cost to society of about $5 billion annually.[174]

For many of these problem gamblers, the source of their trouble is the lottery. For example, of the 3,600 calls to the Florida Council on Compulsive Gambling's hotline from July 1997 to June 1998, 27 percent were from adults addicted to playing the lottery.[175]

Multiple addictions are also common among those with gambling problems. According to Nancy Petry, a researcher at the University of Connecticut School of Medicine in Farmington, 28 percent of heroin addicts, 22 percent of cocaine users and 12 percent of alcoholics were also pathological gamblers—levels far higher than among the general population.[176]

A. Addiction: Economic Costs

For almost 20 years, considerable controversy has surrounded attempts to quantify the exact cost to society of problem and pathological gamblers. Many early studies attempted to quantify this cost by using data from gamblers in treatment programs such as Gamblers Anonymous. Their findings, in turn, have been extrapolated to the rest of the gambling population, generating annual "costs to society" ranging from about $8,000 to more than $50,000.

These costs, though, may not represent the best estimates to apply to the general public. In any given year, it is estimated that only about three percent of gambling addicts seek professional help.[177] Moreover, it has been argued that the severity of these participants' circumstances—financial and otherwise—was so dire that it drove them to seek help.[178] Thus, it is very likely that the average cost to society of a pathological gambler—at least inasmuch as such a cost can be measured in dollars—is, for now, lower than earlier estimates.

Some of the most recent research attempting to quantify the costs to society of problem and pathological gamblers was released in March 1999 by the National Opinion Research Center (NORC) as part of the National Gambling Impact Study Commission's (NGISC) *Final Report*. The NORC report examined selected economic costs to society (e.g., job loss; welfare and unemployment benefits; degradation of the gambler's physical and mental health; and gambling treatment costs) and the likelihood of a gambling addict's burdening society with any or all of these costs. Based on their estimates, NORC concluded that problem and pathological gamblers cost society approximately $715 and $1,195 per year, respectively (or $758 and $1,266 in inflation-adjusted dollars).[179]

There are at least four reasons why the NORC estimates are substantially lower than earlier assessments. First, there are many societal costs of gambling that are impossible to calculate. These costs—such as family problems and the mental anguish often created by gambling—are important and should be considered, but they are not quantifiable and, therefore, cannot be compared directly with other dollar costs.[180]

Second, of the more than 2,400 persons surveyed as part of the NORC study, only 30 problem and 21 pathological gamblers were identified.[181] Because of this extremely small sample size, it was impractical to assess other annual costs to society that tend to occur infrequently (e.g., the costs of divorcing, filing for bankruptcy, or being arrested and the cost of corrections). Moreover, the NORC report did not attempt to quantify non-recoverable money borrowed from friends, family or co-workers so the gambler could continue his or her gambling. The authors of the NORC report themselves consider their economic estimate a "lower bound."[182] Had a larger sample of gambling addicts been available, the average overall cost to society would be somewhat higher.

Third, there is a problem with timing when it comes to associating a gambler's addiction with his or her burden on society. In the words of a 1999 benefit/cost analysis of gambling to the Louisiana Control Board:

> *It may take quite a few years before some costs are transformed from costs to the individual to costs to society. Consider the following example: a relatively affluent individual with a substantial gambling problem is losing thousands of dollars a year gambling. nitially, the person may withdraw money from savings, borrow on credit cards or other sources, or not purchase other things. At this point, all of the costs of the person's gambling problem are internal. Eventually, if this pattern persists, past savings will be gone, credit card debt will be at the limit, and necessary purchases will be affected. At that point, the individual may turn to other kinds of behavior to support his or her gambling losses. These behaviors may include personal bankruptcy, embezzlement, and theft. When this happens, the costs become social.*[183]

Finally, the NORC report provides some evidence that these quantifiable costs will not remain low. In addition to estimating the costs to society of gambling addicts over the past year, the report also calculated the lifetime economic costs to society of the same persons to be about twice the amount of past-year estimates. This finding suggests two possible explanations: first, that addiction may be a recurring problem for many gamblers.[184] If some gambling addicts succeed at temporarily pulling themselves out of their problem, this would help explain why so few seek professional help. Another possible explanation for gambling addicts' lifetime cost to society being only about twice the past-year rate is that the gamblers polled may be relatively new addicts; men and women who have developed gambling problems as the games have become more accessible to them in the past few years.

1. What Gambling Addicts Cost Society

a. Productivity and Job Loss

Two ways pathological gamblers burden the public are through lower job productivity and loss of employment. According to statistics gathered from callers to a gambling crisis hotline at the Florida Council on Compulsive Gambling, 42 percent reported problems at work or school related to their gambling, and 30 percent said they had missed work because of their gambling habit.[185]

Two ways pathological gamblers burden the public are through lower job productivity and loss of employment.

As for job loss, recent research by the National Research Council (NRC) finds that "roughly one-fourth to one-third of gamblers in treatment in Gamblers Anonymous report the loss of their jobs due to gambling."[186] In fact, problem and pathological gamblers are two to three times as likely, respectively, to have received unemployment benefits during the past 12 months.[187]

When the costs of lower productivity and higher rates of job loss are coupled with the costs of prosecuting and incarcerating gamblers for crimes caused by their addiction, the cost to society of an adult pathological gambler totals about $13,200 a year, according to a 1994 economic analysis by Dr. Robert Goodman.[188] When adjusted for inflation, this cost rises to approximately $15,700 per pathological gambler per year.[189]

b. Debt

On average, pathological gamblers have more than double the debt of non-gambling households.[190] In 1996, attendees at a conference on problem gambling in Pierre, South Dakota were told the average gambler entering treatment owes between $53,350 and $92,000.[191] According to

Thomas Croatis, the Director of Consumer Credit Counseling Services in Des Moines, Iowa, the percentage of people seeking financial counseling services because of excessive credit card debt related to gambling has risen from two to three percent in the late 1980s to 15 percent today.[192] "Credit fuels the gambling addiction, which results in heavy credit card debt for gamblers," says Ed Looney, executive director of the Council on Compulsive Gambling of New Jersey, Inc. "Problem gamblers many times have eight or ten different cards and are maxed out on all of them in terms of their credit limits."[193] A variety of studies support these anecdotes:

- In a 1996 report to the New York Council on Problem Gambling, Dr. Rachel Volberg noted problem and pathological gamblers lost significantly more in a single day, charged one or more credit cards to the limit, and took out cash withdrawals on credit cards significantly more than non-problem gamblers.[194]

- Another report based on a survey of 1,818 Louisiana residents found that, while non-problem gamblers spent an average of six percent of their monthly income on gambling, pathological gamblers spent an average of 45 percent of their monthly income on gambling.[195]

- From June 1998 to May 2000, California's Problem Gambling Helpline received more than 10,000 calls. Of these, the average caller was $26,217 in debt because of gambling.[196]

c. Bankruptcy

Personal financial disasters like job layoffs, large medical bills, divorce, and easy access to credit remain the dominant reasons for filing for bankruptcy. Gambling-related debt, however, may be emerging as another significant contributor.[197] While the exact number remains unknown, America's fascination with gambling has placed financial pressures on some families and helped contribute to a record high in personal bankruptcies in 1999.[198]

Personal financial disasters like job layoffs, large medical bills, divorce, and easy access to credit remain the dominant reasons for filing for bankruptcy. Gambling-related debt, however, may be emerging as another significant contributor.

Federal law does not require individuals or businesses in any state to identify the reasons for filing bankruptcy.[199] However, mounting evidence suggests a link between gambling and bankruptcies:

- Nearly one in five pathological gamblers (19.2 percent) who participated in the 1999 NORC survey reported having filed for bankruptcy, compared to 5.5 percent of low-risk gamblers and 4.2 percent of nongamblers.[200]

◆"In one of the few studies to address the relationship between gambling and bankruptcy, Robert Ladouceur and his associates found that 28 percent of the 60 pathological gamblers attending Gamblers Anonymous reported either they had filed for bankruptcy or reported debts of $75,000 to $150,000."[201]

◆Among lifetime problem and pathological gamblers in Montana, 10 percent have filed for bankruptcy, compared to four percent Montanans who do not gamble. By comparison, 22 percent of Montana residents in Gamblers Anonymous have filed for bankruptcy.[202]

◆In 1998, Nevada had the highest per-capita rate of bankruptcy in the nation; one bankruptcy for every 39 households in the state, compared to the national average of one in 68. One in seven bankruptcy petitions filed in Las Vegas in August 1998 cited gambling debt as a reason for filing bankruptcy. The gambling industry has attempted to downplay these statistics by claiming they are products of Nevada's explosive population growth rate. While Nevada's population grew by 4.1 percent from 1997 to 1998—more than double the rate of any other state—its bankruptcy rate rose even faster: 17 percent, compared to 2.7 percent for the nation as a whole.[203]

◆Twenty-eight percent of Iowans filing for bankruptcy consider themselves gamblers, and 19 percent identified gambling debt as an important factor, according to research by Tahira Hira, a human development and family studies professor at Iowa State University. The same study also found that gamblers declaring bankruptcy had 19 percent more debt than non-gamblers, and owed an average of $41,342.[204]

◆One survey of 394 Gamblers Anonymous members in Wisconsin, Illinois and Connecticut found that they each owed an average of $95,000. Nearly one-third had lost or quit their jobs because of their gambling, and more than one in five had declared bankruptcy.[205]

◆Some addicts spend so much money on gambling they wind up on the street. In a random survey of more than 1,100 persons in 26 Rescue Mission shelters in early 1998, 18 percent—almost one-fifth—cited gambling as a reason for their homelessness. Eighty-six percent said they used to play, or still played, the lottery, compared to 34 percent who gambled at casinos and 25 percent who bet on horse and dog races. Only 23 percent continued to gamble once they became homeless, yet that number rose to 37 percent after they began to pull their lives back together.[206]

2. What a Lottery Could Cost Alabama

No one knows how many Alabamians are already addicted to gambling, so any estimates of the economic effects of introducing a lottery or any other form of gambling to the state are, at best, speculative. However, because Alabama has only four dog tracks and a handful of bingo sites within its borders, the state may presently have a lower rate of addiction than others where gambling is more widespread, more heavily advertised, and more accessible.

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All things being equal, one way to estimate the economic cost to society of legalizing a lottery in Alabama would be to calculate the state's current population of gambling addicts as roughly equal to the national average before the recent expansion of gambling venues. Subsequently raising the percentage of gambling addicts to the current national average would provide an estimate of the number of problem and pathological gamblers produced as a result of legalizing a lottery.

According to research conducted by the Harvard Medical Center Division on Addictions, the number of adults that could be classified as pathological gamblers grew from 0.84 percent in 1977-1993 to 1.29 percent from 1994-1997.[207] If legalizing a lottery in Alabama increased the percentage of pathological gamblers in the state to the national average, 13,958 additional pathological gamblers would be created.[208] Of these, only about three percent per year—419 persons—would likely seek treatment.[209] If Goodman's inflation-adjusted estimate of $15,700 per gambling addict is multiplied by the number of pathological gamblers created by the legalization of a lottery, their cost to Alabama would be approximately $219.1 million per year.

B. Addiction: Emotional Costs

The cost of pathological gamblers to society is expressed in more than dollars and cents. The gambler himself often degenerates from an honest, intelligent person to one who has almost no appreciation for the consequences of his actions.

1. Depression

Gambling losses often lead to thoughts of desperation. According to a 1999 survey by the NRC, problem and pathological gamblers are four times more likely to have poor mental health, and are almost twice as likely to have received psychiatric treatment in the past year.(210) Not only have several studies found that pathological gamblers have higher rates of depression than non-pathological gamblers, research suggests problem gambling leads to depression, instead of depression leading to gambling.[211]

More than 10 years of research has provided strong evidence that gambling addicts are significantly more prone to attempt suicide than non-gamblers.

2. Suicide

More than 10 years of research has provided strong evidence that gambling addicts are significantly more prone to attempt suicide than non-gamblers:

◆In an early report in the *Journal of Gambling Studies* on the relationship between problem gambling and suicide, a sample of 500 participants in Gamblers Anonymous was surveyed to gather data on suicidal history. Of the 162 who returned the survey, 47 percent reported they had considered suicide and 13 percent had attempted suicide. By comparison, an estimated 9.9 percent of heroin addicts in methadone treatment programs attempt suicide, and only about 1.1 percent of the general population ever attempt suicide over their lifetime.[212]

◆More recently, the National Council on Problem Gambling found that approximately one in five pathological gamblers attempts suicide.[213] Similar studies of compulsive gamblers in New Jersey, Wisconsin and Illinois report that 18 percent of compulsive gamblers in those states have attempted suicide.[214]

◆Estimates of the prevalence of gambling-related suicide may, in fact, be understated. According to testimony before the NGISC, gambling-related suicides and suicide attempts often are not reported as suicides, not explicitly linked to gambling, or disguised so as not to look like a suicide.[215]

◆Pathological gamblers are 16 to 19 percent more likely to attempt suicide than are drug addicts, according to Phil Scherer, assistant clinical coordinator at the Illinois Institute for Addiction Recovery.[216]

3. Emotional Costs: Others

Problem gamblers are not the only ones who suffer; the average pathological gambler affects, directly or indirectly, eight other people, including family, friends, and co-workers.[217] A 1996 study in Australia of the socioeconomic effects of gambling found that 27 percent of respondents who gambled regularly said family or friends have criticized their gambling, and that 22 percent felt gambling was more important than socializing.[218] In a 1996 Virginia Lottery survey, 13 percent of those who had purchased tickets said playing the lottery reduced the money they spent on household expenses, and seven percent said lottery play had caused family disagreements.[219] Almost 20 percent of wife abuse cases involve domestic disputes related to gambling.[220] For spouses of gambling addicts, "they always have that fear that their significant other is going to gamble again," says Larry Atwood, a counselor at the Keystone Treatment Center in Canton, South Dakota. "Are they going to lose their house, their cars? Because of the wide mood swings associated with gambling, the gambler is either up or down like a yo-yo, depending on how they are doing."[221]

Problem gamblers are not the only ones who suffer; the average pathological gambler affects, directly or indirectly, eight other people, including family, friends, and co-workers.

Children often become the innocent victims of a parent's gambling addiction. Child abuse also increases dramatically when gambling comes into an area, according to a 1995 report from Maryland's attorney general.[222] A survey of 250 members of Gamblers Anonymous revealed 10 percent of gamblers' children were abused by the gambler; 25 percent of children had significant behavioral problems such as poor school work, running away, drugs, alcohol, or gambling of their own; and as many as 50 percent of spouses said they were physically or verbally abused by the gambler.[223] Spouses and children of gambling addicts are also at far greater risk for suicide attempts.[224] "I've had instances where their kids have been teased at school because the kids know their parents are out gambling, and they haven't got any lunch money; they haven't got any clothes," Atwood said.[225]

These marital stresses often culminate in divorce. According to the 1999 NORC report, 53.5 percent of pathological gamblers reported having been divorced, versus 29.8 percent of low-risk gamblers and 18.2 percent of non-gamblers. The same report also found that respondents representing approximately two million adults identified a spouse's gambling as a significant factor in a prior divorce.[226]

4. Getting Help

At present, only about three percent of Americans with moderate to severe gambling-related problems are receiving treatment.[227] Even if the remaining 97 percent wished to receive help, problem gamblers are quickly learning the mental health community is not equipped to help them. Although there are about 10,000 treatment programs around the country for substance abusers, fewer than 150 centers treat compulsive gamblers. An even smaller number specifically cater to problem gamblers.[228] Only four states—Connecticut, Maryland, New Jersey, and New York—have public gambling treatment centers.[229] To complicate matters, only about 1,000 therapists and counselors nationwide are certified to provide gambling treatment. Often, insurance companies do not cover the costs of gambling-related therapy.[230]

One organization that has managed to grow with the spread of gambling is Gamblers Anonymous. Since 1990, the number of GA programs has increased by more than 400, including four chapters in Alabama.[231] While GA meetings have risen in both number and attendance, though, their effectiveness as a source of treatment for gambling addicts is quite limited. According to Christopher W. Anderson, an Illinois therapist and recovering gambler, studies show that less than five percent of people who join GA stay clean for a year, unless GA meetings are coupled with some other type of therapy. "Some people don't want to adhere to GA's dictum to give up gambling," said Anderson. "They are only looking for ways to control [their spending]. They think, 'How is GA going to help me? I owe $100,000. I don't want to stop gambling. I want to stop losing.'"[232]

5. Help from the Industry?

Much of the cutting edge research on gambling addiction and its treatment is actually being financed by the gambling industry. Aware that the tobacco industry lost credibility when it denied the health risks of cigarettes, the gambling industry is acknowledging that a small percentage of the population has a serious problem with gambling. Some of the biggest names in gambling research have accepted thousands of dollars in grants. Others, however, call the studies self-serving because they focus on the medical side and ignore the social costs that problem gambling can trigger. "They have an agenda," says Valerie Lorenz, executive director of the Compulsive Gambling Center, Inc. in Baltimore. If the gambling industry can say something is neurologically wrong with a problem gambler, "then it's not [their] responsibility."[233]

Two-thirds of states with legalized gambling earmark money to fund gambling treatment centers, telephone hotlines for problem gamblers, and so forth. The amount given to help gambling addicts, though, is appallingly small compared to the billions in profits state lotteries make each year. Of these, funding ranges from $10,000 to $2.3 million. One reason gambling interests may devote so little money to treatment is the enormous financial stake they have tied up in problem gamblers. Even though the number of problem and pathological gamblers is relatively small, a number of studies show that these hardcore gamblers provide a significant percentage of any gambling operation's income:

One reason gambling interests may devote so little money to treatment is the enormous financial stake they have tied up in problem gamblers.

◆Of the people who played the lottery in 1998, the top five percent spent $3,473 or more per person, accounting for 51 percent of all lottery ticket sales. The top 10 percent—who spend an average of $2,250 annually—account for two-thirds of total ticket sales. By comparison, the average expenditure by a state lottery player in 1998 was $316, according to Duke University public policy professor Philip J. Cook.[234]

◆A 1991 survey by the University of Minnesota's Center for Urban and Regional Affairs found that one percent of 459 gamblers surveyed wagered 50 percent of the money. Ten percent of those interviewed bet 80 percent.[235]

◆In Virginia, 29 percent of the state's lottery ticket sales are made to just two percent of its adult population.[236]

◆According to a 1996 survey of about 7,000 adults in four states and three Canadian provinces, Illinois criminal justice professor Dr. Henry Lesieur found that the five percent of adults with serious addictions accounted for 30 percent of all the money lost by those surveyed.[237]

◆A similar survey conducted by Dr. Lesieur in Illinois found that two percent of all adults bet 20 percent of the money spent on state-run games.[238]

◆In Montana, compulsive gamblers make up only 3.6 percent of the adult population yet purchase 17 percent of all lottery tickets.[239]

VI. The Lottery and Crime

Lotteries have a reputation as a "victimless vice;" that is, they hurt only those who choose to play. In addition to hurting themselves and their families, however, problem gamblers often go on to commit crimes against the rest of society.

A. Lotteries and Street Crime

By legalizing gambling, the state greatly reduces the stigma associated with it, increasing the number of people who gamble, which increases the number of problem gamblers. That, in turn, increases the numbers of those who turn to crime to finance their addiction.[240] In the words of an April 1999 report by the National Research Council: "As access to money becomes more limited, gamblers often resort to crime to pay debts, appease bookies, maintain appearances, and garner more money to gamble."[241] Several studies have shown links between gambling and crime:

By legalizing gambling, the state greatly reduces the stigma associated with it, increasing the number of people who gamble, which increases the number of problem gamblers. That, in turn, increases the numbers of those who turn to crime to finance their addiction.

◆A study of criminal statistics in all 50 states published in 1990 by professors John Mikesell and Maureen A. Pirog-Good of Indiana University noted that "adoption of a state lottery is associated with a three percent increase in the state crime rate." This increase is the equivalent of 5,478 additional property crimes per year in each state with a lottery.[242]

◆According to research by NORC, problem and pathological gamblers have higher arrest and imprisonment rates than non-gamblers. About 33 percent of problem and pathological gamblers have been arrested, compared to only 4.5 percent of non-gamblers. Likewise, 21.4 percent of pathological gamblers and 10.4 percent of problem gamblers have been imprisoned, compared to less than one percent of the non-gambling population.[243]

◆The same types of crimes that come with other forms of gambling addiction also accompany lotteries. According to research by the Compulsive Gambling Center in Baltimore, at least two-thirds of compulsive gamblers engage in criminal activity to finance their addiction, including check forgery, tax evasion, embezzlement, bookmaking, prostitution, selling drugs, and fencing stolen goods.[245] Before their addiction, many gambling addicts had no prior criminal record.[246]

All taxpayers contribute toward the cost of policing, judging and incarcerating criminals. Gambling increases these costs.[247] Consider the following studies:

◆Approximately 47 percent of male pathological gamblers were involved in at least one form of insurance-related crime. Dr. Henry Lesieur, the author of the study, notes that each pathological gambler who commits this type of crime averages $65,468 in fraudulent insurance claims, at an annual cost to the insurance industry of about $1.32 billion.[248]

◆Since 1992, crime and criminal justice system costs in Wisconsin due to gambling amount to nearly $51 million a year, according to a study by the Wisconsin Policy Research Institute.[249]

These charges do not include other costs such as reduced quality of living, and physical and emotional damage. The human and social costs for addicted gamblers, their spouses, children, families, and society are impossible to calculate.[250]

B. Lotteries and Illegal Gambling

With annual wagers in 2001 topping $38.4 billion and gambling profits over $11.8 billion, critics note that lotteries provide a great opportunity for corruption—political and otherwise.[251] Gambling proponents, however, argue that state-controlled lotteries actually reduce the amount of illegal gambling by drawing money away from numbers games sponsored by organized crime. "The choice isn't lotteries or no gambling, realistically," according to Bill Vernon, spokesperson for the Massachusetts lottery. "The choice is a lottery in which people play and you get $720 million to cities and towns—or illegal numbers."[252]

Which of these claims is more accurate? When the lottery was legalized in New Jersey, it took away only about 15 percent of all money originally spent on illegal gambling and created an untold number of new gamblers.[253] In 1976, the Commission on the Review of the National Policy toward Gambling concluded that illegal gambling actually increased from nine percent in states with no legalized gambling to 22 percent in states where three or more forms of gambling were permitted. The Commission concluded that this rise was probably because of an increase in the number of illegal gamblers overall.[254] "The lottery introduces beginners to gambling; illegal gambling then lures these new players into its games."[255] Common "perks" used to entice otherwise legitimate lottery players into

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mob-sponsored games include immediate cash prizes, better odds, and special services including lines of credit and delivery of bets and prizes.[256] More recent research in New York and Kentucky supports these findings.[257]

Illegal gambling operations have other reasons to welcome a state lottery: Most illegal operators today use the state's daily game winning numbers as their own, to ensure their customers a fair game. The existence of a state lottery also allows operators of the illegal games to engage in practice of "laying off" bets. In other words, if a bettor places a wager that, if a winner, would bankrupt the bookie, the bookie makes the same bet on the lottery. Hence, if the illegal bettor wins, the operator can pay him from the money he has won from the state lottery.[258]

According to Jim Moody, chief of the FBI's organized crime section in Washington, D.C., "Gambling and the industries surrounding it, like loan sharking, are still the number-one money-makers for organized crime."[259]

C. Gambling and Corruption

When the infamous bank robber Willie Sutton was asked, "Why do you rob banks?" he replied, "That's where the money is!" If opportunity is a driving force for crime, communities with legalized gambling can expect to attract criminals and corruption.[260] Nationwide, the influence of corruption and organized crime is well documented:

◆In Kentucky, five members of the Kentucky Lottery Commission resigned after a report found that lottery officials wasted taxpayer's money on perks, broke state laws in awarding contracts, and engaged in other dubious practices, including allowing retailers to keep lottery money for more than a month.[261]

◆Rhode Island-based GTECH is one of the nation's leading lottery contractors, operating 24 of the nation's state-sponsored lotteries. In 1996 a Fortune magazine investigation concluded that "[r]are is the company that has faced as many allegations of baldly sleazy conduct as GTECH."[262] As an example, California's state lottery director resigned in 1993 after a controversy erupted over his desire to award a $400 million contract to GTECH without soliciting bids from other firms.[263]

◆In New Jersey, three of the last six mayors of Atlantic City have been indicted for influence peddling and corruption, among other things.[264] In August 1992, Newark Internal Revenue Service director John J. Jenkins announced that 11,829 possible violations of money laundering laws were pending against New Jersey casinos.[265]

◆Gambling interests have also been accused of corrupting the outcome of a 1996 Senate race in Louisiana. In January 1997, defeated GOP nominee Woody Jenkins presented the U.S. Senate Rules Committee with a 4,000-page document to support his claim of election fraud, including a dozen affidavits from people who say they were promised payment to vote illegally. Also within the report were allegations that nursing home patients and inner-city residents were transported to the polls in gambling company vans, a clear violation of Louisiana voting laws.[266]

VII. Lotteries as a State-Sponsored Vice

Economic and social concerns aside, state-sponsored lotteries also affect public and private morality. Like all other forms of gambling, lotteries are founded on greed; the desire to get something for nothing. For up to two percent of America's adults and five percent of its teens, this greed becomes pathological, often destroying the life of the gambler and harming his or her family, friends, and co-workers.

Economic and social concerns aside, state-sponsored lotteries also affect public and private morality. Like all other forms of gambling, lotteries are founded on greed; the desire to get something for nothing.

In the past, both state governments and the federal government have gone to great lengths to deter their citizens from destroying themselves. As a result of their efforts, hundreds of billboards for cheap liquor have been removed from decaying inner city neighborhoods. Likewise, very few public places remain in which people may smoke. Yet these same governments are pouring hundreds of millions of dollars into promoting behaviors that produce the same devastating effects as other addictions. Dr. Robert Goodman, author of *The Luck Business*, notes:

> *Rather than providing real hope for economic improvement, public officials are promoting the illusion of economic improvement—becoming deeply involved in finding new ways of manipulating people's desire for a more secure future. They are enticing people into taking part in what should properly be called the 'pathology of hope.*'[267]

By focusing on the benefits of the lottery and ignoring or minimizing the loss, most states with lotteries operate with the mindset of a gambling addict in denial.[268]

A. Advertising the Lottery

In the words of President Grover Cleveland, "a public office is a public trust."[269] State governments that sponsor lotteries, however, can destroy this trust by trying to both promote and regulate this vice.[270] "In seven major markets, three-quarters of the advertising time purchased by the local state government was for selling the state's lotteries. The government is pushing the consumption of a product which is monopolized by the state and whose only public virtue is that it generates some revenue for state government."[271]

In the words of President Grover Cleveland, "a public office is a public trust."

Lottery advertising has been refined to a $364 million a year art, or about $1 million per day.[272] A variety of marketing methods are used by the lottery, including identifying likely players, compiling extensive socioeconomic profiles, conducting focus group research, test-marketing new products, and so forth. Few avenues are left untouched: the Colorado state lottery reportedly "spent $25,000 for a study called Mindsort to analyze the left and right sides of the brain to understand how to manipulate player behavior."[273] All of this research is done to retain players and increase the player base.

"People judge the odds of winning partly on the basis of their ability to recall instances of people who have won similar prizes," says Philip Cook, a professor of public policy studies at Duke University and co-author of (bital)Selling Hope: State Lotteries in America(eital). "If you couldn't recall seeing anybody win, you'd say it's impossible. Lotteries, in their advertising, do everything they can to make you think it's possible."[274]

In a move to the contrary of most lotteries, the Missouri Lottery originally carried the following disclaimer with its advertisements: "This message is not intended to induce any person to participate in a lottery or purchase a lottery ticket." This practice was dropped in 1988, however, because it hurt sales. It is probably safe to assume that a private firm would not be permitted to drop its government-mandated warning label if sales were slack.[275]

Because they are state entities, lotteries are exempt from Federal Trade

Commission truth-in-advertising standards and rules, and can in fact operate in a manner that true commercial businesses cannot.[276] Of the 37 states and the District of Columbia that hold lotteries, only three states—Minnesota, Virginia, and Wisconsin—have advertising guidelines written into law forbidding ads designed to induce people to play.[277] According to the National Gambling Impact Study Commission:

> *While the Federal Trade Commission requires statements about probability of winning in commercial sweepstakes games, there is no such federal requirement for lotteries. Lottery advertising rarely explains the poor odds of winning. Many advertisements imply that the odds of winning are even "better than you might think."*[278]

As an example of the legal latitude some lotteries receive, the California Lottery admitted in 2001 after it was sued that it had kept 11 instant lottery games active even after all the grand prizes had been won. Although the case was thrown out, a separate division of the state's attorney general's office said that if a private nonprofit group had conducted a raffle in the same way, it would probably have been in violation of state laws against deceptive business practices.[279]

Instead of promoting the entertainment and recreational aspects of playing, lottery advertisers romanticize the game in poor and lower-income neighborhoods as a quick, easy and even recommended way to financial success.

Ample evidence also exists that many government-sponsored ads target those audiences that will spend (and lose) the most. Instead of promoting the entertainment and recreational aspects of playing, lottery advertisers romanticize the game in poor and lower-income neighborhoods as a quick, easy and even recommended way to financial success.[282] Some examples:

◆One lottery advertisement showed a soda vendor at a sports game trying to serve three customers at once, without success. The message below him read: "If I win Pick-6, I won't have to do this anymore."[283]

◆In one 1989 ad for the New York Lottery, a couple with eight children stands in a room in a tenement. The message below them, written in Spanish, states: "The New York Lottery helped me realize the Great American Dream."[284]

◆Another advertisement in New York showed a mother teasing a daughter for studying for a scholarship. After all, Mom had already bought a lottery ticket to solve their financial problems.[285]

◆In a Michigan ad, a man stands at the lottery counter and complains that he has a better chance of being struck by lightning. Zap! A lightning bolt leaves his hair singed. "One ticket, please," he responds.[286]

◆An advertisement in Illinois showed a gentleman mocking those who invest their money in stocks and bonds; he prefers to put it into the lottery.[287]

The timing of lottery advertisements provides additional evidence that lotteries target the poor. For example, an advertising campaign for Ohio's SuperLotto game reads: "Schedule heavier media weight during those times of the month where consumer disposable income peaks…Government benefits, payroll and Social Security payments are released on the first Tuesday of each calendar month. This, in effect, creates millions of additional, non-taxable dollars in the local economies of which the majority is disposable."[288]

One reason minorities tend to play the lottery more frequently may be that some lotteries spend disproportionate amounts advertising in minority-oriented newspapers.

One reason minorities tend to play the lottery more frequently may be that some lotteries spend disproportionate amounts advertising in minority-oriented newspapers:

◆In Kentucky, for example, the state lottery bought $9,000 worth of campaign advertising in the *Louisville Defender,* an African-American weekly newspaper. Because the newspaper has only about 1,800 readers, this amounts to about five dollars per person. In contrast, the lottery paid the *Courier-Journal*, the state's largest newspaper, $23,000 for the same campaign. But because the newspaper's daily circulation is 232,000, the lottery reached readers at a rate of about 10 cents apiece. Kentucky lottery spokesman Rick Redman played down the finding, noting that spending at the *Louisville Defender* was higher because the lottery helped sponsor an insert for Black History Month. The campaign the lottery paid for at both papers, however, was one year long.[289]

◆In Ohio, the lottery advertised in the *Cincinnati Herald*, an African-American weekly with a circulation of 10,000, but avoided the *Cincinnati Enquirer*, with a daily circulation of 205,000.[290]

What makes lottery advertisements even more deplorable is that most promotional ads fail to accurately tell players the odds of winning a jackpot. Some examples:

◆In New York, ads touting a $45 million pot gave the odds of winning based on winning the lowest prize—about one in four chances. The odds of winning the $45 million: one in 12.9 million.[291]

◆In Indiana, one newspaper ad for the Hoosier Lottery's "Daily Millions" proclaimed: "You could win the top prize of one MILLION dollars in cash, all at once, EVERY DAY of the week!"[emphasis original] Another incentive was also offered: buy a $1 ticket and get another one free. The odds of winning the $1 million are one in 9.2 million.[292]

Other lottery ads play off of the fears of habitual players. For example, a recent Maryland ad featured a restaurant customer who sees a "6" in his waitress' hairdo, a "2" in his pasta bowl and a "0" in the water ring under his glass. When he fails to play the 6-2-0 combination that night, the sequence turns out to be the Pick 3 winner. "Your numbers," the announcer asserts, "are out there."[293]

What are the odds of winning the lottery? Next to impossible.

For the person already addicted to gambling, repeated exposure to these ads can be disastrous. According to recent research by Dr. Jon E. Grant at the University of Minnesota in Minneapolis, almost half of pathological gamblers say that advertisements—on television, radio or billboards—can trigger their desire to gamble. Of particular concern was the finding that persons who are predisposed to gamble after exposure to gambling ads were most likely to become addicted to it within one year of starting to gamble.[294]

And what are the odds of winning the lottery? Next to impossible. Even in the most honest forms of gambling, the odds are consistently with the house, not the bettor, so that in the long run, the house will eventually make more than it loses.[295] This fact is especially true regarding large-jackpot lotteries. Statistics show:

◆In a typical state lottery, the odds of picking the right numbers are one in 12-14 million. By comparison, your chances of being struck by lightning are one in 1.9 million.[296]

◆The odds of winning the typical state lottery are equal to being dealt four royal flushes in a row in spades in a game of poker, then meeting four strangers, all of whom have the same birthday.[297]

◆If a person bought 100 $1 lottery tickets every week for his entire adult life from age 18 to 75, that $296,400 investment would still only give him less than one chance in 100 of hitting the jackpot.[298]

Lottery players can win smaller prizes by playing games in which fewer numbers are chosen. These prizes, however, are considered to be less of a benefit to players as they are a marketing strategy to encourage participation in larger games. According to lottery expert John Koza, the presence of several small prizewinners helps give the impression that many people are winning, thus feeding interest in the larger, harder games. Most winners of small prizes, though, don't pocket their winnings and walk away. Instead, most "reinvest" it in the hopes of getting a larger prize, making the total return to players even smaller.[299] "If they buy $20 worth of tickets and they win $5, they can play $25 worth of tickets for $20, and they've got five extra chances of winning that top prize," says Mark Nichols, an economics professor on the faculty of the University of Nevada's Institute for the Study of Gambling and Commercial Gaming.[300]

If the potential payouts on smaller games involving the picking of three or four numbers begin to favor bettors, and not the state, some lotteries intervene by not selling any more tickets with certain number combinations. For example, in late December 1999 and January 2000 the Ohio lottery halted sales of the numbers "1999," "2000," and other combinations of zeros and twos after sales exceeded the lottery's liability limits.[301] In the words of William Thompson, a University of Nevada Las Vegas gambling expert, ""They [state lotteries] are saying they want to be in the gambling business, but they don't want to be gamblers."[302]

"A person who buys a lottery ticket has about the same chance of winning as someone without a ticket," notes Robert Detlefsen, an Alexandria, Virginia political scientist who studies the gambling industry. "The difference is statistically insignificant."[303]

The impact these ads make upon an individual's ethics should be obvious. Dan Corditz, managing editor of *Financial World*, states, "It is strikingly ironic that an activity that is frequently sold as a boon to education is teaching youngsters that the best way to get rich is not to study or work hard, but to hit the lottery."[304] Columnist George Will agrees:

> *Aggressive government marketing of gambling gives a legitimizing imprimatur to the pursuit of wealth without work. Gambling is debased speculation, a craving for sudden wealth unconnected with investment that might make society more productive...The more people believe in the importance of luck, chance, randomness, fate, the less they believe in the importance of stern virtues such as industriousness, thrift, deferral of gratification, diligence, studiousness.*[305]

States that run multi-million dollar lotteries are not doing anything illegal in the strictest sense. Winners eventually receive all their money—minus taxes—often over a couple of decades. Yet if a private company advertised using the same tactics as the lottery, federal regulatory agencies would close it down.[306] As Massachusetts marketing firm president Herbert Kahn observes:

> *In order to attract financially unsophisticated people to the lottery, the state misrepresents the winnings in almost exactly the same way finance companies used to do before the Truth-in-Lending Law. It is ironic that today not even the sleaziest moneylender is permitted to do things that state lotteries do as a matter of routine.*[307]

Criticism of the advertising practices of lotteries is not confined to those outside of the industry. In a May 1997 address to his fellow lottery directors, Jeff Perlee, Director of the New York State Lottery, warned:

> [*Although most lottery advertising is responsible in its claims, some ads] are so far-fetched and fanciful that they would not stand up to the same "truth-in-advertising" standards to which advertising conducted by private industry is held. Add to that the fact that our advertising is often relentless in its frequency, and lottery critics and even supporters are left wondering what public purpose is served when a state's primary message to its constituents is a frequent and enticing appeal to the gambling instinct. The answer is none. No legitimate purpose justifies the excesses to which some*

lottery advertising has resorted.[308]

B. Lottery Payouts

Even for the lucky handful of individuals who win the lottery, having the winning ticket does not necessarily make them an instant millionaire. If winners were given the lump sum of their prizes, they could invest the full amount and live comfortably off of the interest, even after taxes. Except for lotteries in two states—Illinois and Minnesota—this never happens.[309] Rather, the state buys an annuity with a face value of the prize sum (a $1 million annuity costs about $400,000) and uses the interest to pay out the winnings over a period of 20 to 26 years, depending upon the state in which the prize is won. At the end of the payout period, the winner receives no more cash and the state keeps the annuity, further lowering the amount it pays out in prizes. While most states with lotteries have dispensed with attaching state taxes to lottery winnings, they are not exempt from federal or Social Security taxes. Moreover, inflation lowers the purchasing power of the prize over time. Thus, a $1 million lottery winner receives only about $33,000 a year for an average of 20 years, hardly what could be considered millionaire status.[310]

Other studies have shown that most multi-million dollar winners claim their winnings have made their lives worse, not better. One would think that after winning the lottery, people would be satisfied, but typically they are not.

Other studies have shown that most multi-million dollar winners claim their winnings have made their lives worse, not better. One would think that after winning the lottery, people would be satisfied, but typically they are not. According to research published in 1999 by Charles Clotfelter and his associates, lottery jackpot winners substantially increase their spending on lottery tickets after winning the lottery.[311]

Moreover, the jolt of sudden wealth is traumatic enough that about one-third of lottery jackpot winners go bankrupt. "They [lottery winners] win $10 million, and think they really have that much—but in reality they have much less and get in deep over their heads," says Richard Salvato, CEO of Woodbridge Sterling Capital, the nation's largest buyer of lottery payouts. As many as four of every 10 lottery winners wind up in distress and sell their remaining checks to Sterling or similar companies seeking the safe investments. The companies even advertise toll-free numbers, such as 1-800-WHY-WAIT.[312]

If a lottery winner is unfortunate enough to die before he or she has been paid in full by the state, estate taxes on the unpaid remainder must be paid immediately by the winner's family, with monthly penalties added after nine months. *New York Times* writer Lois Gould describes the nightmare:

> *A preliminary analysis, drawn up for the North American Association of State and Provincial Lotteries, poses this question: "What can happen to a deceased lottery winner's estate and beneficiaries? Answer: A financial disaster of incredible proportion. The analysis describes the tax liability for the heirs of an unmarried winner of a $20 million jackpot—payable in annual installments of $1 million over 20 years—who dies after receiving the first payment. The heirs would receive a tax bill of more than $5 million.*[313]

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Conclusion

A state-sponsored education lottery would not be in the best interest of the citizens of Alabama. Despite the popularity the lottery enjoys in many states, the costs associated with a legalized lottery vastly outweigh its usefulness as a source of state revenue.

The dollars generated by a state-sponsored lottery come at a high price. By targeting the poor with glitzy, oversimplified ads and around-the-clock ticket availability, lotteries sap vital dollars from the poor, perpetuating the desperation in low-income communities. As a result, the biggest winners in states with lotteries are those who never play the game and reap the benefits of lower taxes, more affordable education, or both.

When lotteries are legalized, the number of problem and pathological gamblers increases dramatically. Crime also increases as gambling addicts seek more money to bet on the lottery. Hundreds of millions of dollars in social and economic costs are lost annually as a result of problem and pathological gamblers.

In addition to the dollars lost to gambling, problem and pathological gamblers destroy their families and themselves. Gambling addicts often abuse their spouses and children, abuse alcohol or drugs, lose their jobs, and attempt suicide with far greater frequency than non-gamblers.

Ironically, some of the biggest losers in states with lotteries are the children lottery funds are supposed to help. As more states adopt the lottery, the number of teen gamblers has risen sharply, perpetuating the growth of a generation of underage problem and pathological gamblers. Lotteries also undermine the ideals of the importance of work and savings, replacing them with a "get rich quick" philosophy that almost no lottery players ever enjoy.

Government exists to serve and protect the people. Instead of working in the interest of their citizens, state governments that run lotteries exploit the greed, ignorance, and gullibility of citizens to make as much money as possible. In order for government to win, its citizens must forever lose.

Too many Americans already live with a "something for nothing" mentality; this disease does not need to spread to Alabama's households where public schools are funded on the backs of the poor, minorities, and the elderly.

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ALABAMA POLICY
INSTITUTE

P.O. Box 59468
Birmingham, AL 35259
205/870-9900
http://www.alabamapolicyinstitute.org
info@alabamapolicy.org