http://www.thedailybeast.com/blogs-and-stories/2011-04-23/why-is-the-government-in-the-gambling-business/?cid=hp:mainpromo8#

# End the Government's Lottery Monopoly

by Stephen L. Carter

Why are states allowed to be in the gambling business and lock out the private sector? Stephen L. Carter on why state-run lotteries are bad for taxpayers, the poor, casinos, and bettors.

In case you missed it, the shares of European companies that offer on-line gambling have risen sharply in response to the crackdown by the Justice Department on sites that offer games of chance in the United States. This market reaction is of course entirely predictable. Capital flows to where it will find the highest returns, and online betting is only one of many fields in which America is being out-competed by the world.

Now, I am not writing to urge that we re-legalize online gambling, a practice effectively banned in this country by the 2006 federal statute prohibiting banks and credit card issuers from cooperating. Nor do I wish to cast my lot with observers who view as ominous the fact that the crackdown is occurring at the very moment when the District of Columbia seeks to raise revenue by exploiting vague language in the relevant federal law to become an online gambling capital. (Given the federal government's long history of ignoring the revenue needs of the District, I would be astonished to find a connection.)

No, I am writing to raise a more basic question: Why on earth do we allow the government to hold a monopoly on the very profitable (if rather disgusting) business of persuading the suffering to part with their money in the hope of a munificent return they are all but certain never to see? In other words, why is the government in the lottery business at all?

I am not, at the moment, challenging the morality of gambling generally. Rather, I am fascinated by how different lotteries are from other functions that we generally agree the state should undertake. So, for example, the state must famously provide for the common defense and protect the common environment, because if those services were provided privately, there would be no way to keep those who did not pay their share from reaping the benefits. A government might provide a charitable service—food stamps, for example—as a way of guaranteeing everyone a particular level of life's necessities. In other fields, such as health insurance, those who believe that the government should provide it believe that the state will do a better job than private insurers; and, whether they are right or wrong, they are at least offering an argument for not leaving the matter to the market.

But with lotteries, as with other forms of gambling, no such argument exists. There is absolutely no reason to believe that the state can provide gambling services better than the private sector does. This is not a situation in which the government will return more value to consumers than the private market will: a claim often made, for example, by critics of for-profit health insurers. As a matter of fact, state-run lotteries return around 50 percent of revenues to winners; in other words, the expected value from a $1 bet is 50 cents. No casino could stay in business offering odds this poor, but the government manages it by prohibiting competition.

Indeed, as William Norman Thompson points out in his history of gambling, in the states where other forms of gambling are legal, the bettor's expected return is significantly higher than in the lottery even when you factor taxes on the winnings. (Most states do not tax winnings from their own lotteries; the federal government, of course, taxes it all.) Overall, privately run gambling operations return something like 80 percent of bets in winning. In other words, from the point of view of the consumer, a state-run lottery is far worse than a private operation.

There is absolutely no reason to believe that the state can provide gambling services better than the private sector does.


(Photo by Roy Botterell / Getty Images)

There are other fields one might argue that the state should exit because the private sector could handle them better. For example, in the wake of stories about air traffic controllers falling asleep on the job, an increasing number of critics have suggested that the federal government runs the system quite badly, especially in comparison with the private companies that police the skies in so much of the West—notably Canada. But gambling is different. At least in the case of air traffic control, there are historical reasons to explain why we still have the cumbersome official bureaucracy in charge. In the case of gambling, the reason is a policy choice, and a simple one: raising revenue.

Make no mistake. The state is here using its monopoly power to control businesses that others would happily provide: the success of Las Vegas and of the very online poker sites the government is busily shutting down are the evidence. Most states prohibit the running of any "game of chance" for profit. These restrictions flowed originally from a concern about moral degeneracy, the fear that gambling could easily become all-consuming and destructive. Another concern was that con artists would find ways to fleece the unsuspecting, by concealing the true odds of winning.

Evidently, those concerns are unimportant once the profits begin flowing into government coffers. And make no mistake. Profit is what the state is after. In his textbook *Public Finance: A Contemporary Application of Theory to Policy*, economist David N. Hyman puts it this way: "Lotteries are profit-making enterprises that most states run like any business, with heavy advertising and innovation in products to generate sales." The earliest American efforts at raising funds through lotteries failed, largely because the public stayed away, often out of a sense of repugnance. The states that run lotteries today have learned the lesson, wearing away moral objections through a combination of heavy advertising and the trumpeting of huge jackpots by the complaisant media. And if we really no longer believe that games of chance are immoral, there is no reason not to let the private sector run them, at better odds for the bettor.

Now, it is true that we live in an era when the states need revenue, desperately. But are lotteries really the best way to raise them? The regressive effect of the lottery has been documented so often that the argument has become ubiquitous, simply part of the background: poor consumers spend a far higher proportion of their income on lottery tickets than wealthy consumers do. In other words, the states are raising revenue by tempting the worst off of their citizens to hand over their scarce dollars playing a game with a ridiculously low return.

At the federal level, liberals fight tooth and nail over every fraction of a percentage point that makes the Internal Revenue Code even slightly less progressive. A few years ago, a broad political coalition demanded that the cartoon figure Joe Camel be banned from advertising, lest young people be taught that smoking is cool. If we care about the poor as much as we claim, we should be willing to fight the same battles against government-run lotteries.