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Mega Failure: Why Lotteries Are A Bad Bet For State Budgets

By Pat Garofalo on Mar 30, 2012 at 3:25 pm

The jackpot for the upcoming Mega Millions lottery drawing has grown to a whopping $640 million. This sky-high total has some state legislators hoping for a big payday via the tax bill that would come from one of their residents taking home the prize. "I'd love it if a Rhode Islander wins," said Rep. Helio Melo, the chairman of his state House's Finance Committee.

If a Rhode Islander were lucky enough to win, the state's take would be more than $20 million. But the fact that state legislators are giddy at the prospect of a lottery-financed tax windfall merely shows how foolhardy it is that states depend on lottery revenue at all. As Elizabeth Winslow McAuliffe pointed out in Public Integrity, "while lotteries were initially perceived as fiscal saviors, they have not generated the anticipated revenue." Many states earmark their lottery revenue for a specific purpose, most often education, but it turns out that that formula isn't workable:

The educational "bonus" appears to be nonexistent. Miller and Pierce (1997) studied the short- and long-term effect of education lotteries. They found that lottery states did indeed increase per-capita spending on education during the lottery's early years. **However, after some time these states actually decreased their overall spending on education. In contrast, states without lotteries increased education spending over time. In fact, nonlottery states spend, on average, 10 percent more of their budgets on education than lottery states** (Gearey 1997).

The National Gambling Impact Study Commission has found that "there is reason to doubt if earmarked lottery revenues in fact have the effect of increasing funds available for the specified purpose." The Nelson A. Rockefeller Institute of Government also found that "new gambling operations that are intended to pay for normal increases in general state spending may add to, rather than ease, state budget imbalances."

As Citizens for Tax Justice put it, "it becomes a case of diminishing returns as neighboring states introduce new and better lotto games. Then, states either lose business to another state or hit a ceiling for how many lotto tickets a population can buy. That is, as a revenue source, it's a short or medium term quick fix but not a long term solution."

And then there's the simple fact that the lottery is, in essence, a regressive tax, with about a 38 percent tax rate (a rate usually reserved for the very richest Americans). According to the Bloomberg News "Sucker Index," residents of Georgia are doing the most damage to their own finances through the lottery, followed by residents of Massachusetts.