Bad Bet

Michael Sandel
March, 1997
The New Republic

Political corruption comes in two forms. Most familiar is the hand-in-the-till variety: bribes, payoffs, influence-peddling, lobbyists lining the pockets of public officials in exchange for access and favors. This corruption thrives in secrecy, and is usually condemned when exposed.

But another kind of corruption arises, by degree, in full public view. It involves no theft or fraud, but rather a change in the habits of citizens, a turning away from public responsibilities. This second, civic corruption, is more insidious than the first. It violates no law, but enervates the spirit on which good laws depend. And by the time it becomes apparent, the new habits may be too pervasive to reverse.

Consider the most fateful change in public finance since the income tax: the rampant proliferation of state lotteries. Illegal in every state for most of the century, lotteries have suddenly become the fastest-growing source of state revenue. In 1970, two states ran lotteries; today, thirty-seven states and the District of Columbia run them. Nationwide, lottery sales exceed $34 billion a year, up from $9 billion in 1985.

The traditional objection to lotteries is that gambling is a vice. This objection has lost force in recent decades, partly because notions of sin have changed but also because Americans are more reluctant than they once were to legislate morality. Even people who find gambling morally objectionable shy away from banning it on that ground alone, absent some harmful effect on society as a whole.

Freed from the traditional, paternalistic objections to gambling, proponents of state lotteries advance three seemingly attractive arguments: first, lotteries are a painless way of raising revenue for important public services without raising taxes; unlike taxes, lotteries are a matter of choice, not coercion. Second, they are a popular form of entertainment. Third, they generate business for the retail outlets that sell lottery tickets (such as convenience stores, gas stations and supermarkets) and for the advertising firms and media outlets that promote them.

What, then, is wrong with state-run lotteries? For one thing, they rely, hypocritically, on a residual moral disapproval of gambling that their defenders officially reject. State lotteries generate enormous profits because they are monopolies, and they are monopolies because privately operated numbers games are prohibited, on traditional moral grounds. (In Las Vegas, where casinos compete with one another, the slot machines and blackjack tables pay out around 90 percent of their take in winnings. State lotteries, being monopolies, only pay out about 50 percent.) Libertarian defenders of state lotteries can't have it both ways. If a lottery is, like dry cleaning, a morally legitimate business, then why should it not be open to private enterprise? If a lottery is, like prostitution, a morally objectionable business, then why should the state be engaged in it?

Lottery defenders usually reply that people should be free to decide the moral status of gambling for themselves. No one is forced to play, they point out, and those who object can simply abstain. To those troubled by the thought that the state derives revenue from sin, advocates reply that government often imposes “sin taxes” on products (like liquor and tobacco) that many regard as undesirable. Lotteries are better than taxes, the argument goes, because they are wholly voluntary, a matter of choice.

But the actual conduct of lotteries departs sharply from this laissez-faire ideal. States do not simply provide their citizens the opportunity to gamble; they actively promote and encourage them to do so. The nearly $400 million spent on lottery advertising each year puts lotteries among the largest advertisers in the country. If lotteries are a form of “sin tax,” they are the only kind in which the state spends huge sums to encourage its citizens to commit the sin.

Not surprisingly, lotteries direct their most aggressive advertising at their best customers—the working class, minorities and the poor. A billboard touting the Illinois lottery in a Chicago ghetto declared, “This could be your ticket out.” Ads often evoke the fantasy of winning the big jackpot and never having to work again. Lottery advertising floods the airwaves around the first of each month, when Social Security and welfare payments swell the checking accounts of recipients. In sharp contrast to most other government amenities (say, police protection), lottery ticket outlets saturate poor and blue-collar neighborhoods and offer less service to affluent ones.

Massachusetts, with the highest grossing per capita lottery sales in the country, offers stark evidence of the bluecollar bias. A recent series in *The Boston Globe* found that Chelsea, one of the poorest towns in the state, has one lottery agent for every 363 residents; upscale Wellesley, by contrast, has one agent for every 3,063 residents. In Massachusetts, as elsewhere, this “painless” alternative to taxation is a sharply regressive way of raising revenue. Residents of Chelsea spent a staggering $915 per capita on lottery tickets last year, almost 8 percent of their income. Residents of Lincoln, an affluent suburb, spent only $30 per person, one-tenth of 1 percent of their income.

For growing numbers of people, playing the lottery is not the free, voluntary choice its promoters claim. Instant games such as scratch tickets and Keno (a video numbers game with drawings every five minutes), now the biggest money-makers for the lottery, are a leading cause of compulsive gambling, rivaling casinos and racetracks. Swelling the ranks of Gamblers Anonymous are lottery addicts, like the man who scratched $1,500 worth of tickets per day, exhausted his retirement savings and ran up debt on eleven credit cards.

Meanwhile, the state has grown as addicted to the lottery as its problem gamblers. Lottery proceeds now account for 13 percent of state revenues in Massachusetts, making radical change all but unthinkable. No politician, however troubled by the lottery’s harmful effects, would dare raise taxes or cut spending sufficiently to offset the revenue the lottery brings in.

With states hooked on the money, they have no choice but to continue to bombard their citizens, especially the most vulnerable ones, with a message at odds with the ethic of work, sacrifice and moral responsibility that sustains democratic life. This civic corruption is the gravest harm that lotteries bring. It degrades the public realm by casting the government as the purveyor of a perverse civic education. To keep the money flowing, state governments across America must now use their authority and influence not to cultivate civic virtue but to peddle false hope. They must persuade their citizens that with a little luck they can escape the world of work to which only misfortune consigns them.

Sweet Dreams in Hard Times Add to Lottery Sales

Katie Zezima
September 12, 2008
New York Times

When gasoline prices shot up this year, Peggy Seemann thought about saving the $10 she spends weekly on lottery tickets.

But the prospect that the $10 could become $100 million or more was too appealing. So rather than stop buying Mega Millions tickets, Ms. Seemann, 50, who lives in suburban Chicago and works in advertising sales for a financial Web site, saved money instead by packing her lunch a few days a week, keeping alive her dreams of hitting a jackpot and retiring as a multimillionaire.

“With companies tightening and not giving cost-of-living increases, you have to try to make money elsewhere,” she said, though conceding, “It might be convoluted logic.”

Many state lotteries across the country are experiencing record sales, driven in part by intense marketing but also by people like Ms. Seemann who are trying to turn a lottery ticket into a ticket out of hard times.

“When people view themselves as doing worse financially, then that motivates them to purchase lottery tickets,” said Emily Haisley, a postdoctoral associate at the Yale School of Management who in July published a research paper on lotteries in The Journal of Behavioral Decision Making. “People look to the lottery to get back to where they were financially.”

Of the 42 states with lotteries, at least 29 reported increased sales in their most recent fiscal year. And of those 29, at least 22, including New York, New Jersey and Connecticut, set sales records. Further, sales in some states are on a pace to finish higher still in the current year.

“I was surprised, because I thought with gas prices up and people not leaving the pump to go into the stores, we’d see a greater impact” on the downside, said Jodie Winnett, acting superintendent of the Illinois Lottery, whose sales increased 3 percent in the last fiscal year and are doing even better this year.

Others are not at all surprised.

Rebecca Hargrove, president of the Tennessee Lottery, said that in her 25 years working in lotteries, “I’ve noticed that if there’s a recession or a downturn in the economy, people cut back: it might be on the new car, the new house or the new fridge.”
“But the average player spends $3 to $5 a week on lottery tickets,” Ms. Hargrove said, “and it’s a pretty benign purchase.”

John Mikesell, a professor of public finance and policy analysis at Indiana University, published a study in 1994 showing that from 1983 to 1991, lottery sales tended to rise with unemployment rates.

“The findings were that in slump periods, lotteries historically have gotten a little bump upward,” said Professor Mikesell, who has not analyzed recent lottery data. “It’s taking a shot at getting some relief in hard times. It’s usually not a good gamble, but it’s a dollar, and if they happen to accidentally hit it, it may well change their lives.”

To be sure, other factors as well are pushing lottery sales. Lottery directors have spent the last few years heavily marketing their products through greater presence in stores, new games and partnerships with sports teams and television shows.

Among their new offerings are $20 and $50 scratch-off tickets that provide higher payouts, as well as additional fast-paced electronic games, part of the goal being to draw players who might otherwise head to a casino. Indeed, New York State’s 10 percent increase in lottery sales in the last fiscal year was due largely to the introduction of more video lottery terminals.

“We’re going after discretionary entertainment dollars,” said Anne M. Noble, president of the Connecticut Lottery, whose sales increase last year was 4.3 percent. “Let’s keep it fresh, keep it fun, encourage people to play in moderation and use the money they do have.”

In Massachusetts, where the per-capita sales volume last year was $707, the highest in the country, officials rolled out a $20 instant-win ticket in September, partly in hopes of appealing to gamblers who might be tempted to go to one of the two casinos in neighboring Connecticut.

It seems to have worked. Thanks in part to the introduction of the ticket, the Massachusetts Lottery achieved a record $4.7 billion in sales for the 12 months ended June 30, compared with $4.4 billion for the year before, and sales have continued to rise in the two months since the end of the fiscal year.

Drawing those casino players to the lotteries has been crucial. Though experts say casino gambling and lotteries have both been historically recession-proof, high gasoline and food prices have contributed to a revenue decline experienced this year by gambling destinations including Las Vegas and Atlantic City. (Atlantic City did record a slight rise in August.)

“The lotteries are on every street corner, and you do have to travel a bit to get to a casino as a general rule,” said John Kindt, a professor of business administration at the University of Illinois who has studied lotteries. “The accessibility of the lotteries is a plus for them. They’re in everybody’s backyard.”

The higher sales of the current economic downturn have generally drawn higher net revenue along with them, in continuation of a longer trend. A study issued in June by the Rockefeller Institute of Government, a research arm of the State University of New York, found that lottery revenue had grown steadily over the last 10 years, with the highest growth rates during the nation’s last recession, in 2001-2.

Increased lottery returns do little to offset declines in larger sources of revenue, like sales and income taxes, that have forced some states to impose hiring freezes, layoffs and wage reductions during the current downturn. “If your personal income tax is weak or sales tax is weak, the lottery isn’t enough to make up for that,” said Scott D. Pattison, executive director of the National Association of State Budget Officers. “But any revenue that is doing well, or at least not too bad, certainly helps.”

Somewhat incongruously, there is a thought that the hard times contributing to the lottery sales boom may well bring about its demise: if the economic slump continues, or even deepens, the thinking goes, many players may at last have had enough.
No one can know, of course, whether that reversal will be fully realized. But a survey of regular players by Independent Lottery Research, a consulting firm based in Chicago, found last month that 20 percent of them were already playing less or buying less expensive tickets.

So lottery directors are girding for the possibility of their own hard times, and that means staying innovative. To keep players buying, Buddy W. Roogow, director of the Maryland Lottery, is partnering with sports teams —a winning player may get tickets to a home-team game, for instance, rather than cash —and has introduced a simulated-racetrack game. “We have a challenge ahead of us,” Mr. Roogow said.

For now, anyway, Sheyda Belli, 38, a human resources director in Aliquippa, Pa., continues playing the lottery, though she and her husband tightened their belts by canceling their summer vacation and cutting back on all manner of other expenses, including cable television and eating out.

“I always joke with my husband that I’m a winner,” Ms Belli said, “until they tell me I’m not.”

The other day Lou Mott, who owns a convenience store in Aliquippa, a town that has struggled since its steel mills closed in the 1980s, sold tickets to about 40 people in the 45 minutes before the state lottery numbers were broadcast. Most spent $10 or more each.

Though Mr. Mott shakes his head in bewilderment at some of his repeat customers, including one retired woman who spends up to several hundred dollars a day on scratch-off tickets, he understands the motivation.

“I guess everyone is looking for a rainbow,” he said.