Who Buys Lottery Tickets?

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by Brent Kramer

Public lotteries have a long history in the United States, going back to before independence from England. Early leaders of the emerging nation found lotteries to be an effective and politically acceptable way to raise funds. The New England colonies used lotteries to benefit colleges, churches, and public works. Before and after the Revolution, there was "an explosion of public works construction, such as roads, bridges, and canals, much of which was financed by lottery proceeds." [1] Opposition from some churches, the growth of private capital that could be borrowed, and, eventually, the ability of states to tax effectively led to the end of the early public lotteries.

New England State Lotteries, FY 2009

	Ticket sales in millions of dollars	Prizes in millions of dollars	Prizes as percentage of sales	Net operating income in millions of dollars	Net as percentage of sales	Transfer to state in millions of dollars	Transfer as percentage of sales
CT	$991.3	$604.7	61.0	$282.7	28.5	$282.9	28.5
ME	210.7	130.0	61.7	47.9	22.7	50.6	24.0
MA	4,425.5	3,217.8	72.7	842.0	19.0	859.4	19.4
NH	239.9	142.1	59.2	68.0	28.3	68.2	28.4
RI	2,558.9	2,004.4	78.3	343.3	13.4	344.3	13.5
VT	96.0	60.7	63.2	21.1	22.0	21.1	22.0
New England total	8,522.3	6,159.7	72.3	1,605.0	18.8	1,626.5	19.1
U.S. total	53,062.2	32,222.3	60.7	15,043.4	28.4	17,601.0	33.2

Note: All data except Rhode Island data come from the NH Lottery Commission, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010*, http://www.nhlottery.org/pdf/CAFR.pdf. Rhode Island data come from the Rhode Island Lottery annual report, 2009

In 1964, New Hampshire was the first state in the nation to establish a modern state lottery. The five other New England states followed in the 1970s: Connecticut in 1972, Massachusetts in 1973, Maine and Rhode Island in 1974, and Vermont in 1978. Today, 42 states and the District of Columbia have lotteries, with combined sales of more than $53 billion in fiscal year 2009.[2] Many of these were established as ways for the states to raise money for municipalities, mostly to supplement state grants to school districts. The net collections of the New Hampshire lottery go to an education trust fund. However, in Connecticut, Rhode Island, and Maine, revenues are mixed with all other revenues in the states' general funds. Massachusetts uses lottery money for general municipal aid.

The lotteries in New England, as in the rest of the country, are big business. In 2009, $8.5 billion in lottery tickets were purchased. Of this, $1.6 billion was transferred to the six state treasuries. (See "New England State Lotteries, FY 2009.") Although most of that difference (72 percent) is accounted for by prizes, the operating expenses and retailer commissions cost the programs about 9 percent of sales. Compared with the rest of the country, New England's lotteries (except for New Hampshire) pay out a higher share in prizes and—primarily as a result of higher prize shares—a lower share to their state coffers.

Much of the contemporary opposition to lotteries has come from those concerned with gambling addiction. However, those concerned with tax equity—how various taxes affect people of different means—have noted that state lotteries, like sales taxes, collect revenues disproportionately from people with lower incomes. Numerous studies have shown that residents of poorer areas pay higher shares of their incomes than those in higher-income regions.[3]

Consider Massachusetts—the state with nearly half the population of the New England region and more than half the lottery sales and the highest per capita lottery sales in the nation. An analysis by this author shows that, among the 52 Public Use Microdata Areas (PUMAs) for which the Census Bureau provides annual income data, each $10,000 decrease in median household income for a PUMA corresponds, on average, to a 0.4 percentage point increase in the share of total area income spent on lotteries. The average share of income spent on lotteries in fiscal year 2009 in regions of Massachusetts with median incomes between $50,000 and $70,000 was 2.2 percent, whereas for regions with median incomes between $30,000 and $50,000, the share was 3.4 percent. Although 1.2 percentage points may not seem like a big difference, 1.2 percent of a $40,000 income is $480 per family each year.[4]

Lotteries clearly have an appeal for the general public, both as a means of entertainment and as an investment in hope. And it is understandable that state legislatures, loath to increase taxes, continue to count on these programs for part of needed revenues. But it may not be fair to encourage the public to hold onto the illusion of riches when the "house" (in this case the public as a whole, via the state) always wins. A reasonable question for policymakers would be, "Do we really want to support our public needs by relying on poorer families' desire to gamble on getting rich?"

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Endnotes

1 Rhode Island Lottery *Comprehensive Annual Financial Report*, http://www.rilot.com/docs/financial/CAFR-Report-FY-2009.pdf.

2 All national data come from NH Lottery Commission, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010*, http://www.nhlottery.org/pdf/CAFR.pdf. For states, Fiscal Year 2009 is the year ending June 30, 2009.

3 See Brent Kramer, "The State Lottery: Making Massachusetts' Poor Poorer," https://wfs.gc.cuny.edu/BKramer/Who I am/BK_web_page.htm_files/Massachusetts_lottery.pdf.

4 While it is possible that some of the purchases in lower-income regions are by inward commuters, the study referred to here excludes many of these purchases from the analysis. The trend is, in any case, consistently documented.