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# Lottery, Casino and other Gambling Revenue: A Fiscal Game of Chance

Cash-strapped, tax-averse state lawmakers continue to seek unconventional revenue-raising alternatives to the income, sales, and property taxes that form the backbone of most state tax systems. One of the most popular alternatives to these major revenue sources is state-sponsored gambling. A May 2018 ruling from the U.S. Supreme Court legalizing sports betting has opened the possibility for states to expand the tax revenue collected from gambling. As this policy brief points out, however, gambling revenues are rarely as lucrative, or as long-lasting, as supporters claim.

## Approaches to Legalized Gambling

Like many areas of tax policy, gambling policy is made in a decentralized way: each state's lawmakers choose which (if any) forms of legalized gambling to allow. As a result, states have very different approaches to allowing gambling activities. Some form of government-sanctioned gambling is now allowed in all but two states (Utah and Hawaii). By far, the most popular forms of legalized gambling are lotteries and casinos: 44 states and the District of Columbia have state lotteries, and more than half of the states have some form of casino gambling. Many states also allow "pari-mutuel" gaming, wagering on live events such as horse racing and greyhound racing.

## The Perils of State-Sponsored Gambling

State legislatures across the country continue to consider proposals to use new gambling revenues to fund public services or to reduce other taxes. Wyoming became the latest state to authorize a state lottery in 2013. Maryland and New York authorized casinos in new markets in 2016 and 2017. And several states have considered or approved additional tax breaks for the gaming industry. Advocates of state-sponsored gambling typically see it as a painless,

voluntary tax—and one that is at least partially paid by residents of other states. A tax paid by non-residents may seem especially attractive to lawmakers who are reluctant to increase any other taxes despite revenue needs. Gambling proponents also argue that absent legal gambling, many state residents will either gamble illegally or travel to other gambling friendly states—with no benefit to the state. But there are a host of reasons states should not look to potential gambling revenue to fulfill state budget needs.

- ◆ **Lengthy implementation periods** and frequent delays, mean that state coffers rarely receive the immediate boost that gambling supporters promise. Legal challenges, facility construction, and the search for gambling operators are just a few of the most frequent speed bumps on the road to implementing legalized gambling. While these obstacles can usually be overcome with time, lawmakers should not expect to receive much if any immediate budgetary relief by legalizing gambling.
- ◆ Even if gambling boosts state revenues in the short- or medium-term, **competition from other states** will eventually make state-sponsored gambling less profitable and ultimately will shift much of this tax primarily onto in-state residents rather than tourists from other states. When a state introducing a lottery is surrounded by non-gambling states, lawmakers can initially count on residents of these other states visiting to play the lottery. But as more neighboring states open casinos of their own, the attraction of gambling in other states will fade. As more states seek a piece of the gambling pie, every other state's share of the pie will decline—and

more of each state's gambling revenues will come from the pockets of its own citizens.

- ◆ Instead of increasing the total amount of state revenue available to fund public services, **gambling may simply shift money from one revenue source to another**, limiting the net gain to the state. When consumers spend more money on gambling activities, they will spend less money on other items, such as recreation and even basic needs. Since these other types of purchases are usually subject to state sales taxes, any increase in state gambling revenue usually means a decrease in state sales tax revenue.
- ◆ Rather than simply capitalizing on existing illegal gambling activities, legalized **gambling encourages consumers to spend more on gambling activities** than they otherwise would. When states use gambling as a revenue source, they depend on the continued flow of this revenue to help fund important public services. This often leads to the unwholesome sight of state-sponsored advertising that actively encourages its citizens to gamble more. For instance, in 2014 the North Carolina legislature approved a doubling of the state lottery's advertising budget to encourage more of their residents to gamble with the assumption that this would generate more revenue for education spending. The same year, the Pennsylvania Legislature decreased the percent of revenue the state lottery was required to contribute to services for senior citizens after lottery officials promised that it would increase net revenue by enticing more players with bigger payouts. In the years after implementing these policies, North Carolina education spending failed to reach pre-recession levels and Pennsylvania's net lottery revenue decreased. In this respect, gambling is very different from "sin taxes" on alcohol and cigarettes, which are often enacted not to raise money but to discourage socially harmful behavior. States using gambling revenues face constant pressure to actively encourage their residents to gamble more.
- ◆ **Promises of additional spending for specific public services may be illusory.** Advocates of state-sponsored gambling often seek to earmark gambling revenues for specific purposes, usually to help fund education. These advocates often promise that total state spending on education will increase as a result of the new gambling revenues. But it is just as likely that lawmakers will use gambling revenues to replace revenues that have been shifted from education to other areas—leaving total spending on education unchanged. States facing budget shortfalls will find this "shell game" especially tempting.
- ◆ **Privatization of state lotteries may divert even more funds away from public services.** Most state lottery commissions are a government agency that sub-contracts with a private vendor to administer the lottery. A few states have fully privatized their lotteries—a gimmick states have turned to for short-term financial gains and as a means to boost sales with outside marketing and gaming experts. Vendors and lawmakers often promise that revenue for public services will increase thanks to the expert marketing and sales strategies of the private companies. As with other revenue forecasts from gambling, the projections of these private companies are often far above net revenue leaving state governments scrambling to plug budget holes.
- ◆ Like other "sin taxes," gambling is **not always a truly voluntary tax.** Compulsive gambling has been recognized as an addictive disease. Relying on compulsive gamblers to fund public services amounts to taking advantage of these gamblers' addictions. And because state gambling administrators tend to downplay the poor odds of winning, gamblers are usually given incomplete information about these odds—which means, in a sense, that gamblers are being tricked into these "voluntary" spending decisions.
- ◆ Gambling revenue **disproportionately relies on low-income people and people of color.** Individuals with lower incomes spend a larger share of their income on

gambling than those with higher incomes. While all forms of gambling are generally evenly distributed across income levels, state lotteries are disproportionately consumed by people with low incomes. Due to a long history of segregation, discrimination, and institutionalized racism, Black and Latino families are overrepresented in neighborhoods of concentrated poverty—the same neighborhoods that have a glut of lottery choices. Contrary to gambling proponents claims, many low-income lottery players don't see it as merely entertainment, but rather a high-risk investment like day trading. States that expand the gambling industry while failing to provide the investments

necessary for low-income families to improve their economic situation are exacerbating the economic circumstances of marginalized communities.

- ♦ Gambling may introduce a **variety of social costs** associated with compulsive gambling, including increased crime rates, decreased private savings, increased debt and bankruptcies, and job losses. These added financial difficulties associated with compulsive gambling can reduce the quality of life for children living in families headed by gamblers. These social costs can result in increased social welfare spending by state governments in the long run.

### Conclusion: Uncertain Benefits, Hidden Costs

With anti-tax sentiments as prevalent as ever, lawmakers have found it increasingly difficult to continue providing public services their residents demand without busting their states' budgets. As a result, gambling is becoming more attractive to lawmakers as a means of supplementing inadequate revenue streams. But state-sponsored gambling is both unsustainable and inadequate as a long-term revenue source. States that use gambling revenues as a "quick fix" to avoid politically difficult structural tax reforms in the short run likely will be forced to confront the same difficult tax policy decisions in the future.