



A lottery sign showing a \$970 million jackpot is cleaned as dozens of people line up outside the Thompson Center, a state of Illinois building, for their chance to grab free Mega Millions lottery tickets in 2018, in Chicago. ANTONIO PEREZ/CHICAGO TRIBUNE

As states look to generate more revenue in an inflationary economy, along with the risk of a recession, progressive governors like J.B. Pritzker who advocate for progressive income taxes also support one of the most regressive taxes: lotteries. This sort of "taxation" increases revenue without the stigma associated with conventional taxation, which feels to some like a penalty.

Lotteries have been in the news over the past year. One Mega Millions jackpot reached \$1.35 billion in January, while a Powerball jackpot crossed \$2 billion last November.

The big winners in these drawings are the lottery agencies, the states where tickets are sold, and the Internal Revenue Service and state Department of Revenue. The big losers are all the people who bought tickets hoping to win the grand prize.

Consider the state of New York. The state income tax structure there is highly progressive. Yet the state Gaming Commission's Lottery and Video Lottery operations generated \$3.6 billion of profit on sales of \$10.4 billion in fiscal year 2021-22, making it the most profitable state lottery agency in the nation. That equates to sales of \$540 per New York state resident. Massachusetts residents spent more than \$800 per capita in 2020, making them

Why do progressive governors support lotteries?

By Sheldon Jacobson

the biggest losers.

Yet such sales are not evenly distributed across the population.

The preponderance of people who buy lottery tickets are the very people who can ill afford to squander their money in such a manner. They tend to be low-income earners who dream of escaping their financial plight by a big lottery win.

Hoping for such a win, when the odds are so greatly against the person who buys a ticket, means that the money spent on tickets has a net negative return. In other words, for every dollar given to the lottery agency, just between 17% and 79% of the funds are returned to those who buy a ticket, depending on which state

they bought their ticket. Accumulating this return over hundreds of millions of tickets sold, the net effect is a highly regressive tax.

To put this in perspective, almost all casino games have a more favorable payback. For example, slot machines in Las Vegas return more than 90% of the money that people put into them. Similarly favorable returns are possible for casino games like craps and blackjack.

When states advertise that they use lottery profits for schools, they are misrepresenting the situation. By directing lottery profits for such purpose, they free up general purpose funds for other state-supported activities that may not be viewed as favorably in

the eyes of people who buy lottery tickets.

For example, if lottery profits were advertised for funding tax incentives to attract new companies into a state or providing rehabilitation services for people with drug addiction or who are homeless, residents may be far less inclined to buy a ticket, even if some of the lottery profits may indirectly facilitate such investments and services.

Nearly every state participates in the Powerball and Mega Millions lotteries. In addition, many states run their own scratch-off lotteries to generate additional revenue without directly raising income or sales taxes.

Some will argue that income and sales taxes are mandatory, while buying a lottery ticket is voluntary. This is certainly the case for someone who buys a ticket on occasion as a form of entertainment. Yet for those who have a gambling addiction, there is little choice.

For states that support progressive income taxes, lotteries are their antithesis. For example, California had more than \$8 billion in lottery ticket sales in 2021. It also has a highly progressive income tax structure, with several income tax brackets.

If governors are committed to progressive income taxes, banning lotteries is in line with this stance. For those with no income taxes or flat income taxes, lotteries are consistent with such policies.

The optics of such a change would be disastrous; hence, it is certain to never occur. If anything, lotteries will continue to expand, not shrink, given how they are effective in generating revenue for state coffers. Moreover, their very regressive nature means that the people who are the most negatively affected by them are also the people with the least political clout to do anything about them.

Every time the Powerball or Mega Millions jackpots cross \$1 billion, every state treasury grows a little faster. The net effect is a regressive tax that few progressive governors are willing to acknowledge.

Sheldon Jacobson is a professor in computer science at the University of Illinois at Urbana-Champaign. A data scientist, he applies his expertise in data-driven, risk-based decision-making to evaluate and inform public policy.