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SHOULD THE FEDERAL GOVERNMENT SPONSOR A NATIONAL LOTTERY?

Some Preliminary Considerations

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ABSTRACT

Several recent proposals advocate the establishment of a national lottery as a supplementary source of Federal revenue. This report discusses some of the economic and political considerations that underly the establishment of a national lottery.

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SHOULD THE FEDERAL GOVERNMENT SPONSOR A NATIONAL LOTTERY?*

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I. BACKGROUND AND HISTORY

The increasing appeal of a national lottery as a potential fiscal prescription owes itself to two basic developments:

1. Over the last several years concern over the Federal deficit, including long term funding of the Social Security system have heightened. 1/
2. Public acceptance of government-operated gambling has expanded considerably in the last decade. State-run lotteries have grown from one in 1964 to 17 currently. An additional four States approved lottery referendums or initiatives in November 1984. This trend reflects the public acceptability of legal gambling per se including government-operated lotteries. A 1984 poll by the Gallup Organization reported that 62 percent of Americans approved a lottery. 2/

* Some of the material used in this report is excerpted from U.S. Library of Congress. Congressional Research Service. Legalized Gambling in the United States. Report no. 83-84 E, by Bernevia McCalip. Washington, 1983. 34 p.

1/ For example, see: U.S. Library of Congress. Congressional Research Service. Public Opinion Polls on Government Spending and the Federal Deficit. Typed Report by Mark K. German. January 6, 1984. Washington, 1984. p. 89.

2/ Clark, Charles. National Lottery Is Long Shot for Reducing Federal Deficit. Congressional Quarterly, December 8, 1984. p. 3065.

Worldwide precedents exist for an American national lottery. Sixty-four countries, with a total of 90 lotteries, are members of the 28-year old International Association of Government Lotteries (IAGL), headquartered in Montreal. 3/

Jean-Marc Lafaille, IAGL Secretary-General, has observed generally that national lotteries tend to "be associated with centralized governments." Examples would be France and Spain. He noted that federalized nations have a greater affinity for state or provincial lotteries, citing Canada, West Germany, the United States, and Switzerland as examples. 4/

Historically, the United States has also experimented with such lotteries. There was one in the colonial era and another in the early 19th century. In 1776, the Continental Congress approved a lottery to raise \$10 million to finance the Revolution. One million tickets were to be sold at prices ranging from \$10 to \$40, and prizes ranged from \$20 to \$50,000. This lottery was subsequently abandoned, when it was realized that the majority of less than 4 million persons accounted for at that time could not afford the minimum \$10 ticket and the "wealthier ones who were Tories had no desire to aid the rebellion." 5/

On the other occasion, an Act of May 15, 1820, authorized the City of Washington to contract the professional services of a private group of managers to run a Federal lottery. The proceeds were earmarked for the construction of two public schoolhouses, a town or city hall, and a penitentiary. The acquired promoters called the scheme the "Grand National Lottery." However, although "thou-

3/ Ibid., p. 3064.

4/ Ibid., p. 3065.

5/ Scarne, John. Scarne's Complete Guide to Gambling. New York, Simon and Schuster, 1961. p. 136.

sands" of tickets were sold, the drawing was held, and the names of the winners announced, the payoff was never made and the "promoters were never apprehended." Consequently, the top prizewinner holding the \$100,000 lottery ticket sued the City of Washington for that amount before the Supreme Court, and, as a result, he was the "only winner to collect when the Supreme Court ruled in his favor." 6/

II. ECONOMIC CONSIDERATIONS

Roughly \$2,041 per capita would have to be spent annually by the noninstitutional population 16 years and over (176.4 million persons in 1984) in order for the national lottery's net revenue to eliminate totally the current Federal deficit of \$185 billion in FY 1984. Certainly, no one would anticipate that such levels would actually be achieved in a national lottery.

The per capita gross expenditures on a national lottery necessary to eliminate the deficit were estimated based on the following assumptions: 1) the national lottery would retain 50 percent of its gross sales as net revenue (this compares with only an average of 35 to 40 percent for State lotteries); and 2) the player base would come from the noninstitutional U.S. population 16 years and over. This population was 176.4 million in 1984.

III. PRO-CON ANALYSIS

The principal arguments for and against a U.S. national lottery have focused on the impact it would have on the poor. It is generally accepted that people with financial burdens are those most susceptible to "get rich quick" dreams.

Supporters of a national lottery believe however that such a scheme would

6/ Ibid., p. 136.

produce substantial revenue to help fight inflation and, they claim, would do so without having to increase taxes. Some proponents have contended that State revenues derived from a national lottery could be well in excess of amounts a State receives from current local legalized wagering. It would do so by giving participating States up to about 25 percent of the revenues produced from that State's sales. Currently, distribution of gross receipts from lottery ticket sales in the 18 jurisdictions (17 States and the District of Columbia) with government-operated lotteries vary somewhat from State to State, but, on average, States receive about 35 to 40 percent in net revenue (the amount that goes to the State treasuries).

Questions that states with lotteries might be concerned with would include: Would states have the right to not participate in a legislated national lottery system? Would a Federal lottery have a state revenue sharing provision and if so what would be the nature of such a provision?

Opponents of a national lottery believe that although many individuals have a strong desire to gamble, it is against their own self-interest to do so, and the U.S. Government is morally obliged not to encourage gambling. As in any form of gambling, opponents also argue that such a lottery would, as is also thought of lottery activity in general, be a very regressive tax in that it would attract a higher proportion of the income of low-income individuals than it would of the income of those with the higher incomes. In defense of this argument, supporters believe that a Federal lottery would produce billions of dollars of additional funds to help finance Government services or to help defray a portion of the Federal deficit.

A national lottery has potentially short-term problems which tend to make most legislators approach the idea cautiously. Potential problems with the administration of a nationally maintained lottery scheme, cause it to be

viewed as utopian to some and frightful to others. Obviously a lottery could not be accomplished without the appropriate leadership and financing to counter the numerous challenges and problems. In particular, such an operation would initially require (a) a substantial appropriation of start-up funds, (b) establishment of another Federal administrative bureaucracy, (c) coordination with States, especially those currently operating a State lottery, (3) a regulatory body to monitor and control operations, (e) a distribution network, and (f) consideration of equity questions, especially as to allegations that the lottery might be viewed as a "pseudo-tax on lower-income groups."

Finally, among the issues to be resolved is the question of "rate of return" to the States: would the States view a national lottery to be in their own specific self-interest. In comparison to individually State-approved and run lotteries, a national lottery which would operate in all States could prove to be much more controversial, especially in States with historically strong objections to such wagering, and, contrary to otherwise available economies of scale, national lotteries might prove to be less cost-effective than individually approved and run State lotteries.

APPENDIX 1.

Legislative Proposals for a National Lottery, 94th-99th Congresses

94th Congress

H.R. 13459 (Eilberg)

Establishes a national lottery in the Department of the Treasury and creates a trust fund ot known as the Lottery Trust Fund. Provides that revenues from such lottery be used to render assistance to low-income senior citizens in paying their electric and telephone bills. Introduced April 29, 1976; referred to the Committee on Ways and Means.

H.R. 13863 (Eilberg et al.)

Establishes a national lottery in the Department of the Treasury and creates a trust fund to be known as the Lottery Trust Fund. Provides that revenues from such lottery be used to render assistance to low-income senior citizens in paying their electric and telephone bills. Introduced May 18, 1976; referred to the Committee on Ways and Means.

95th Congress

H.R. 1582 (Eilberg)

Establishes a national lottery in the Department of the Treasury and creates a trust fund to be known as the Lottery Trust Fund. Provides that revenues from such lottery be used to render assistance to low-income senior citizens in paying their electric and telephone bills. Introduced January 10, 1977; referred to the Committee on Ways and Means.

H.R. 8712 (Beard)

Establishes the National Lottery Commission to assist in financing programs under Title II (Old-Age, Survivors, and Disability Insurance) of the Social Security Act. Authorizes the Commission to establish a lottery and to issue regulations governing its operation. Requires that revenues from the sale of lottery tickets be deposited in the Federal Disability Insurance Trust Fund and the Federal Old-Age and Survivors Insurance Trust Fund. Introduced August 3, 1977; referred to the Committee on Ways and Means.

97th Congress

H.R. 6871 (Matsui)

Amends the Voting Rights Act of 1965 to allow privately sponsored, nonpartisan, nonprofit voter lotteries designed to encourage individuals to register to vote or to vote. Introduced July 27, 1982; referred to the House Judiciary Committee.

98th Congress

H.R. 85 (Collins, et. al.)

Establishes a national lottery the revenues from which shall be used to help finance the Old Age, Survivors and Disability Insurance program. Introduced January 3, 1983; referred to more than one committee.

H.R. 6241 (Luken)

Establishes a National Lottery Commission to study lotteries in the United States and other countries and make recommendations on the feasibility of establishing a national lottery. Introduced September 13, 1984; referred to the Committee on Ways and Means.

H.R. 6278 (Murphy, A.)

Establishes a national lottery the revenues from which shall be used to help finance the Old Age, Survivors and Disability Insurance program and reduce the principal on the Federal debt. Introduced September 19, 1984; referred to the Committee on Ways and Means.

99th Congress

H.R. 49 (Collins)

Establishes the National Lottery Commission to administer an annual lottery for the benefit of Medicare programs. Establishes the National Medicare Lottery Trust Fund. Introduced January 3, 1985; referred to more than one committee.

H.R. 363 (Luken et al.)

Establishes a National Lottery Commission to study lotteries in the United States and other countries and make recommendations on the feasibility of establishing a national lottery. Introduced January 3, 1985; referred to the Committee on Ways and Means.

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APPENDIX 2.

CRS Reports on Related Subjects

U.S. Library of Congress. Congressional Research Service. Overview of state lottery operations [by] Kevin F. Winch, Bernevia McCalip, Gary W. Shorter, and Kent Ronhovde. [Washington] 1985. 38 p. (Report no. 85-520 E)

----- Legalized gambling in the United States [by] Bernevia McCalip. [Washington] 1983. 34 p. (Report no. 83-84 E)