

Shanghai, Poverty, and the Oregon Lottery

by Michelle Howard



Aaron Johanson

I was staring at a line item in the 1997-99 Legislatively Adopted Lottery Funds Allocation, and I could only ponder what has happened to the high ideals promoted by those who sought to establish a lottery in the state of Oregon. "It will help the economy," they said, "the money goes for education." Where? In Shanghai?

When state lotteries came into existence, I was working on a graduate degree in economics. My professors clucked their tongues in unison. "Rationally, no one would ever play the state lottery. Your odds are much better in investments." Then a calculation would follow showing that if one invested the one dollar price of a weekly lottery ticket at an average rate of 10 percent (which is conveniently easy to calculate) every week for so many years, eventually a tidy sum would accumulate.

Later, it became evident that the poor were the major players in state lotteries. The poor, following the logic of my professors, have become the least rational players in the economic realm. Academic sentiment has fully made the rounds of discussion, and I have heard this claim repeated verbatim by respected business people.

Hogwash. Anyone with a lick of sense knows that you cannot invest one dollar anywhere on the planet for a real rate of return of even five percent, let alone 10 percent. In fact, none of the banks I contacted within the last year would let me open a savings account (at a two to three percent interest rate) for less than \$100. So let's try that calculation again. If a person saved a dollar a week for a year, they would have \$52, right? They would also have no bank account and no interest. After two years, the

same person who refused to play the lottery might be able to open a small savings account at two to three percent interest. After nine years they would be able to take that tiny account and buy a Certificate of Deposit and maybe, at current rates, earn five percent in interest. It would take nearly 26 years of savings before that one dollar a week plus interest approached enough to buy a position in a mutual fund (\$2,500), thereby reaping the mythic 10 percent rate of return. After about 32 years of steady savings the total would be just over \$5,000. No tidy sum would materialize for the rational, but poor, investor within his or her lifetime. This is not an argument in favor of the state lottery or against savings. It is to show that poor people who buy lottery tickets are not irrational. They have little to lose and even, at a long shot, much to gain from buying lottery tickets.

This example is given on the Oregon Lottery web site: "Jo, a nurse, went to work on Sunday and told her boss she was retiring. 'We're really going to enjoy our life,' said Jo. Jo says she always felt she was 'investing for the future' when playing Megabucks. The Simons intend to pay off all their bills and look for a home to buy. 'We're going to take our time,' said Lyle. 'We have a lot of nice friends in the area. We're just not sure what we want to do yet.'

"There's a special wish coming true for Jo. She made a donation to St. Jude's

Children's Hospital in Boston, honoring the memory of their daughter who passed away from muscular dystrophy in 1969, at the age of nine. 'I've already talked with the hospital, and there will also be a plaque honoring her,' said Jo."

It does not take a genius to read between the lines of this story. The Simons were a working-class family with a tragic history; they did not own a house; they had many bills to pay; and they considered buying a lottery ticket an investment. These are good people who even remembered to give back when money came their way. The Simons are not the irrational players about whom my college professors clucked their knowledgeable tongues more than a decade ago.

According to the Lottery representative with whom I spoke, the Lottery was seeking to refute the "myth" that the poor and those with low levels of education contribute the largest segment of lottery dollars. Officials claim that the demographic makeup of the average lottery player is similar to the demographic makeup of the state as a whole. However, I was not able to verify this rosy contention, even using studies forwarded to me by the Oregon Lottery.

One such study, conducted in 1997 for the Oregon Lottery by Market Strategies Inc., is consistent with dozens of others produced in other parts of the country, including some respected university studies. Disturbingly, those with low edu-

ation levels make up the largest proportion of lottery players in terms of both frequency and amount played per month. More than 60 percent of heavy lottery players are people with a high school education or less. "Oregonians who have completed high school or less typically spend more per month on Lottery games than any other education segment."

Nearly two thirds of players live in families with incomes below the state median. Other studies in Oregon show that expenditures for lottery tickets are significantly higher in low-income neighborhoods than in economically-better-off neighborhoods. At every dollar level of play, approximately 50 percent of players are either employed part-time or unemployed. The numbers simply do not add up the way Lottery officials wish they would.

In an informal survey of my own (completely unscientific), I called some 47 friends and family in Oregon across the economic spectrum and produced the following results: nearly everyone I asked who regularly plays the lottery in Oregon has a high school diploma or less. Only one of my college friends plays, and then only infrequently. Even this person has serious financial problems. This is more in line with other state and national studies. In the book, *Selling Hope*, written by two Duke University professors, the playing pattern is clear: minorities play more than whites; people with lower education levels play more often and play more heavily, and the poor spend a larger proportion of their income than the middle class or the well-to-do. The Oregon Lottery's singular claim that the well-educated and well-off spend the majority (or even a demographically equal share) of lottery dollars is carrying the idea of traditional Oregonian contrariness a bit far.

With the possible exception of the budget item for gambling-addiction treatment, not one item on the budget is targeted toward the poor or working poor. All items target business segments, loosely designated as "development". It is hard to see how the expenditures for tourism and trade help anyone but businesses associated with these trades. It is impossible to justify expenditures for a state garden, wheat research at a single university, livestock shows, local airports, etc. as helping anyone but narrow special interests. Certainly a marina improvement only helps boat owners and does not contribute in any meaningful way to the economy of the state. Since when did an old movie house in Salem, no matter how delightful, become a development issue?

Other winners in the state lottery budget are retailers (about \$300 million every two years), game vendors (\$50-55 million every two years), and the Oregon Lottery administration itself (approximately \$80 million in two years). The only money the poor see out of lottery revenues is a share of the 50 percent or better mandated by law that is returned in the form of prizes. Perhaps the poor also benefit in small part from the 85 percent that goes into education funding, but given that the funds also go to state universities which they are unlikely to use, the net benefit to the poor is highly questionable. Oregon prides itself on having a progressive income tax system. Although we do not have a sales tax, the lottery, which comprises 10 percent or more of Oregon's biennial budget for education, is extremely regressive. It is a back door way of extracting

tax revenue, from those who can least afford it, to help fund education for the children and grandchildren of those who can largely afford it. To use it to fund some of the above "development" projects is even worse. For more insidious ideas of taxing the poor, you would have to return to Europe and the days prior to the French Revolution.

So, what is the answer? How about a system that no longer taxes the poor to pay for education? A system that brings in money to help the poor improve their lot in life? A system where voluntary funds finance development projects? Such a system is far from an impossible dream. Bits and pieces of it have been tried with great success. Why not combine the lottery in a simpler form with an old fashioned idea, the savings bond?

Continued on page 29

**According to the Oregon Lottery web site this is where the money goes:
Legislatively Adopted Lottery Funds Allocation (figures include carry-overs)**

Education

State School Fund	\$450,456,170
Higher Education: Cereal Wheat Research & Breeding Activities	\$750,000
Scholarship Commission: Student Community Service	\$17,600

Economic and Community Development

Film & Video	\$924,501
International Market Development	\$3,102,683
Tourism	\$5,808,851
Progress Board	\$0
Program Support	\$11,918,950
Community Development Fund	\$67,573,017
Pacific NW Economic Region Association	\$50,000
Shanghai Trade Office	\$167,000
Portland International Livestock Exposition	\$50,000
Elsinore Theater	\$50,000
Oregon Gardens	\$500,000
World Affairs Council	\$90,000
Oregon State Fair	\$250,000

Natural Resources

Department of Environmental Quality

Debt Service (Sewer Loan & Revolving)	\$4,474,542
Debt Service - Orphan Site	\$2,103,229
Underground Storage Tanks Financial Assistance	\$357,000
Underground Storage Tanks Grants to Airports/Marine Facilities	\$500,000

Parks & Recreation

Debt Service Parks Bonds	\$1,276,555
--------------------------------	-------------

Water Resources

Governor's Watershed Enhancement	\$1,810,000
Field & Technical Services	\$360,000

Transportation

Westside Light Rail	\$20,000,000
Burns Airport	\$100,000
Paisley Airport	\$60,000

Administrative

Gambling Addiction Treatment	\$4,000,000
------------------------------------	-------------

Total **\$576,750,098**

Information in this summary was provided by the Oregon Department of Administrative Services and the Legislative Fiscal Office; last updated on May 18, 1998.

Pareto's Parade

Continued from page 18

example, have little money, it's unlikely you will vacation this spring on a Caribbean cruise or on a Hawaiian beach. Most likely, if you have a spring vacation, you will spend it home, perhaps doing chores around the house. If you have plenty of money for groceries, you can choose between steak and hamburger. If you have little money, hamburger is your limit.

Some people romanticize poverty, in country music songs, about poor-but-honest farmers, cowboys, coal miners and truck drivers, holding such people up as examples for the rest of us to follow. This is because poverty is not so much about values as it is about things. Wealth is measured in things. "He who dies with the most toys wins." To some degree, that is true; one's accumulation of things is in part a measure of the person by many. However, most of us will never be rich. We will remain relatively poor, as will our descendants.

From Moses to Jesus and beyond, we are counseled to help the poor in various ways, from outright gifts to providing them the means to lift themselves out of poverty. The Communists thought they could do away with poverty by doing away with wealth. Instead, the wealth was redistributed in the same proportion. Some reactionaries believe that by helping the wealthy become wealthier, more will trickle down to the poor. That has not proven true either in the American experiment, or in the British experiment.

Vilfredo Pareto's principle—that 20 percent of any population will control 80 percent of its wealth—seems to hold true. Mother Theresa made it her business to help "the poorest of the poor," people literally plucked from the gutters of Calcutta, where they had lain down to die. A bit of the wealth Mother Theresa had extracted from those willing to give it was redistributed to these poor in the form of food, clothing and medical care, making them not so poor as those still lying in the gutters.

Economists say that wealth is created by the addition of value to a thing or a service. A rough diamond when cut and polished increases its value by many times. Transporting a thing from the place where it is made to the place where it is consumed increases its value. If a population can be put on the path of wealth-building by the establishment of transport, or fabrication plants, or means of communication, an opportunity to create wealth is at least possible.

Within the population, however, Pareto's principle will continue to hold. When Lyndon Johnson launched the War on Poverty, many newspapers published an editorial cartoon by Bill Mauldin which showed two hillbillies with rifles hiding behind a hill. The caption read, "Johnson declares war on poverty." One hillbilly is saying to the other, "He'll know he's been in a helluva fight."

Chuck Doud is editor of *The News Guard*, a weekly in Lincoln City. He has been an editor and/or publisher of several newspapers.

Prosperity and Poverty in Oregon

Continued from page 17

wage, increased medical coverage for the working poor, safe and cost-sensitive child care and affordable housing initiatives are needed to give the poor a fair shake. Cutting military budgets and reducing corporate welfare may be essential to achieving these reforms.

Sources

Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends* (Washington, DC: 1997).

Earl Shorris, *New American Blues: A Journey Through Poverty to Democracy* (New York, NY: W.W. Norton & Company, 1997).

The Milton S. Eisenhower Foundation, *The Millennium Breach: Richer, Poorer and Racially Apart* (Washington, D.C.: 1998).

Holly Sklar, *Chaos or Community* (Boston, MA: South End Press, 1996).

United States Conference of Mayors, *Status Report on Hunger and Homelessness in American Cities* (Washington, D.C.: 1997).

Oregon Health Division, Center for Health Statistics, *Minority Health: Mortality Profile of Oregon Residents* (Portland, OR: 1996).

Gordon Dickey is a program development consultant with Easter Seals of Oregon, Volunteer Transportation Inc., the St. Vincent de Paul Society and the Camp Angelos Retreat & Conference Center. He is a past Executive Director of the Oregon chapter of the American Lung Association. Dickey holds a masters degree in Social Work from Catholic University and a doctorate in applied theology from San Francisco Theological Seminary.

Shanghai and the Lottery

Continued from page 25

The savings bond, which has fallen into disuse, embodies the idea that small savers, by using hard work and frugality could also help fund development (and wartime efforts) for the good of the country and of themselves. With a small amount of money (twelve dollars or more), the saver could invest it and double that small savings amount within a specified number of years. Additional bonds could be purchased at anytime. The rates of return are modest, but unlike the lottery, a savings bond allows for a future amount that is guaranteed. Accounting for bearer bonds would be much simpler than accounting for thousands of tiny savings accounts, thus reducing the transaction costs that prevent banks from catering to these small savers. The final beauty of the whole system is that it would be voluntary, just as the present state lottery system.

To make the bonds even more attractive, one could combine a lottery feature into the savings program. Special numbers on the certificate could be "winners," thus encouraging savings by the poor and working class even more by adding an element of excitement or fantasy and increasing the net revenues to the state. This hybrid system would be a win-win situation for everyone. Such a savings bond plan would assure a low-cost provision of funds to finance state capital improvement and development projects. It would also provide a guarantee of some future income for those who save, primarily the poor and working class. It would not feed the gambling addictions of a few and would not further impoverish the poor and working class. It would not feed the creeping corruption that seems to follow gambling but could instill positive work values.

Furthermore, a portion of revenues derived from the poor and working class could be invested in the problems of poverty, drug and alcohol treatment, day-care, micro-loan programs, assistance services for intermediate and emergency needs, and, most especially, provision of health care. These sorts of human "development" projects are of far greater importance to the health of the state than an odd, little trade office in Shanghai.

Michelle Howard, an associate editor of *Oregon's Future*, taught economics at Willamette University, wrote the weekly "Business Sense" column for the *Valley Business Weekly*, as well as children's books and erotic short stories. She was the editor for this forum on poverty. Michelle was murdered in Salem in October, 1998.