NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

News Release

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N.C. CENTER EXAMINES STATE RUN LOTTERIES

The "wild card" of the 1985 General Assembly is the proposal to establish a North Carolina state lottery that would raise an estimated $175 million a year. So says former state Rep. Al Adams of Raleigh in the latest edition of North Carolina Insight, the quarterly magazine of the N.C. Center for Public Policy Research.

Why a "wild card"? Because if the legislature enacts substantial tax cuts proposed by Gov. James Martin or the package of cuts passed by the House on April 18-19, the state's revenue pool will be reduced -- and legislators may be scrambling for new sources of revenue. These new revenues may be used to fund pet pork barrel projects or new programs pending before the General Assembly. Indeed, the lottery bill introduced by Rep. Frank Rhodes (R - Forsyth) earmarks lottery revenues for education, specifically to improve teachers' salaries. So while many observers don't give a lottery proposal much of a chance, the subject nonetheless could pop out of the deck and onto the legislative calendar late this session.

The Center produced "The Numbers Game: A Lottery for North Carolina?" as a resource for legislators, reporters, and citizens who need a summary of the arguments for and against a lottery. Written by regular Insight contributor Steve Adams, the article examines the experience of the 17 states, plus the District of Columbia, which have state-run lotteries. Four additional states (California, Missouri, Oregon, and West Virginia) have authorized, but not implemented, lotteries.

A state lottery would be nothing new for North Carolina, Adams relates. In the 18th and 19th centuries, lotteries paid for churches, schools, buildings at UNC-Chapel Hill, and other public purposes. Outlawed for 150 years, though, lotteries have since been viewed as gambling and therefore objectionable on moral grounds. Governor James G. Martin is quoted as saying "Lotteries are a tax on the weak and shouldn't be considered for replacing state revenues lost through tax cuts."

Other states have overcome those objections because of the lure of new revenues. In fiscal year 1984 alone, Adams writes, states took in gross proceeds of nearly $7 billion, and net revenues of more than $2.6 billion. "Lotteries have been a cash cow for 17 states and the District of Columbia," writes Adams. Rep. Rhodes adds, "I realize we're in the Bible Belt, and the fundamentalists oppose it. That's their privilege. But my bill is squeaky clean."

With net profits averaging about 40 percent from state lotteries, the urge to adopt one for North Carolina is becoming more attractive. Polls show public acceptance growing. For example, a poll by the UNC School of Journalism in the spring of 1983 indicated that 59 percent of North Carolina's citizens favored a lottery, with 28 percent opposed, and 13 percent with no opinion.

However, warns Adams, the lottery cash cow is not always a reliable producer of monetary milk. While some states are realizing more in revenue than they expected, others, like Maine, are getting far less than anticipated. And the states that are faring well in this numbers game find they must market their product aggressively -- thereby encouraging their citizens to gamble their earnings.

While the winnings from lotteries can make some citizens rich beyond their wildest dreams, the article says that a player's chances in lotteries are quite small. Most state lotteries do not advertise that particular fact, but a player is seven times more likely to be hit by a bolt of lightning than to win a cash prize. Typical lotteries pay 40-50 cents in prizes for every dollar bet. By comparison, roulette pays out 94.7 percent of bets, slot machines 75-90 percent, and on-track horse race betting 82 percent.

Adams' research also reveals that the debate over whether a lottery represents a regressive tax is far from over. It is true that the poor are not forced to spend any of their income on a lottery, which makes it a voluntary form of taxation. And it is also true, he says, that the poor do not particpate in lotteries in numbers out of proportion to their representation in the population.

But, he explains, the poor do spend a higher percentage of their incomes to participate in a lottery than do those of other economic groups. Thus, a lottery does indeed represent a regressive form of taxation and raising revenues.

Still, there's no question that lotteries are a money-maker, writes Adams. "They're attractive because they spare legislators the pain of raising taxes and citizens the burden of paying them. Yet, lotteries may not be as fiscally responsible as they first appear," he states.

Adams summarizes the arguments for and against a lottery as follows:

| Arguments against a Lottery | Arguments for a Lottery |
|---|---|
| 1. A lottery is not a reliable source of revenue and has to be marketed aggressively to generate revenues. | 1. In 1985, 21 states and the District of Columbia have authorized lotteries, which can generate revenue without a tax increase. |
| 2. A lottery weakens the legislature's sense of responsibility about developing public support for a tax increase and generating the revenue necessary to meet a perceived need. | 2. It is a voluntary tax. |
| 3. a. Poor people pay a disproportionate share of their income, making a lottery a regressive tax.<br>b. Lotteries must be aggressively marketed to succeed, putting the state in the position of encouraging the poor to play (i.e., to spend their more limited income). | 3. Poor people participate in a lottery in proportion to their representation in the population. |
| 4. Morally, the state should not encourage gambling. | 4. North Carolina had a lottery in the 1830s. |
| 5. In 1983, no more than 6.4 percent of any state's total general fund comes from lottery revenues. | 5. Some lotteries net over 6 percent of a state's general fund, a significant amount. |
| 6. Earmarking revenues is a bad budgetary practice. | 6. Lottery revenues can be earmarked for a socially acceptable purpose. |
| 7. There have been scandals in the administration of lotteries in Ohio and Pennsylvania and administrative problems with games in New York and Maine. | 7. There is no evidence of Mafia involvement in state lotteries, and lottery officials report few law enforcement problems. |
| 8. The odds of winning are small compared with roulette at casinos, off-track betting, and other types of gambling legalized by states in order to earn revenues. | |

The N. C. Center for Public Policy Research is an independent, non-profit organization formed in 1977 to conduct research on state government and important public poicy issues facing the state. The Center is funded by the Mary Reynolds Babcock and Z. Smith Reynolds Foundations in Winston-Salem, 45 corporations, and 600 individual members. Past Center reports have examined the 320 boards and commissions in state government, insurance regulation, and disparities in funding among local school districts.

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**TO:** All N. C. News Editors and Reporters

**FROM:** Bill Finger and Jack Betts
Editors, North Carolina Insight

**RE: PRO AND CON DEBATE ON REPEAL OF INVENTORY AND INTANGIBLES TAXES IN N.C.**

Enclosed is a complimentary copy of the latest edition of the quarterly magazine of the N. C. Center for Public Policy Research, North Carolina Insight. This issue features a "pro" and "con" debate on the merits of repeal or retention of the property taxes on business inventories and intangible personal property. This debate -- designed as a reference aid for members of the General Assembly, the news media, and the general public -- examines in detail the reasons for repealing the taxes and for retaining them in their current state.

The articles set forth the best arguments -- backed up by research and footnoted for quick reference -- for each of the opposing sides in the debate. In addition, the articles on each form of taxation are laid out so that legislators, reporters, and citizens can easily identify the arguments and counter-arguments on specific points, page by page.

The tax articles also draw together for the first time several charts, graphs, and tables, including:

- a rundown on which states levy taxes on business inventories and on intangibles taxes (table 1, page 6);
- where North Carolina stands among the 50 states in terms of specific tax burden (chart on page 6);
- how the burden of state revenues has shifted over the past 20 years from business to individuals (pages 3 and 18-19);
- the degree to which each of the state's 100 counties depends upon revenues from both the inventory and intangibles taxes (table 2 on page 7).

Authors for the tax section of North Carolina Insight are intimately familiar with the subject. They are William H. Armstrong, editor of We The People, the monthly magazine of the N.C. Citizens for Business and Industry, who writes in favor of repeal of the business inventory taxes; Jane Sharp, President of the N.C. Consumers Council, and Jan Ramquist, Legislative Chair of the League of Women Voters of North Carolina, both of whom write in favor of retaining inventory taxes; James Culberson, President of First National Bank of Randolph County, who writes in favor of repealing intangibles taxes; and Sarah Denny Williamson, a Wake County taxpayer who has testified before legislative committees on taxation and who writes in support of retaining the intangibles tax.

In addition, the tax section is accompanied by an introduction on the tax debate of 1985, written by Insight Associate Editor Jack Betts, and a sidebar on state tax policy as it relates to attracting retirees to North Carolina (sidebar on pages 12 - 13), written by Insight Editor Bill Finger.

As the state Senate takes up debate on legislation passed by the House of Representatives to cut both inventory and intangibles taxes, the latest issue of Insight should serve as a valuable reference guide for those seeking to understand what "rendering unto Caesar" is all about.

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