Article of the Week

1. Show evidence of close reading
2. Underline or highlight questions
3. Answer the two questions
4. Write a 1+ page reflection

**Play the Lottery? You Bet.**

By Bill Saporito

(*Time* 12-5-11)

Of all the sucker bets in the history of investing-penny stocks, chain letters, homeownership-lotteries still have a peculiar place. The American Revolution was financed in part by lotteries. So was Harvard which produced some of the geniuses who destroyed our economy in 2007-but no hard feelings. The Founding Fathers knew their fellow colonials were easy marks, and today 43 states and the District of Columbia follow the tradition of fleecing their citizens. Last year we wagered $58.8 billion on lotteries, according to the North American Association of State and Provincial Lotteries (NASPL); the states kept about $18 billion in profits. The financial meltdown was a nonevent for lottery sellers, as sales stayed up when the economy went down.

Your odds of winning the Powerball drawing, worth $60 million as I write, are 1 in 195,249,054, meaning your expected return on investment is-are you kidding me? You have a better chance of being struck by lightning. In *Time*’s recent special issue on money, the article “What to Stop Spending On” specifically called out lottery tickets. I did not write that article. Instead, I am staring at the Powerball ticket I just bought. I’m one of those people who save for a rainy day and stick primly to a low-risk portfolio. But that approach won’t give me go-to-hell money, as in telling the boss where he can migrate to when my lotto check clears. Or how about never-again-have-to-fly-commercial money?

Social critics revile lotteries as state-sponsored regressive taxation because people buy lottery tickets disproportionately to their incomes-it’s a tax on the poor, in other words. The NASPL disputes that characterization, but research by economist Melissa Kearney at the University of Maryland shows that when state lotteries are introduced, they suck up 2.5% of household expenditures that would otherwise go to food, rent, and things like children; the spending level reaches 3.1% when instant games enter the picture. But Kearney is not a lotto scold; she now sees lotteries as perfectly rational outlays, subject to the controls that would be imposed on vices like alcohol. “For the majority of lottery players, they are getting a bit of entertainment or consumption value,” she says. “Simply the fact that it isn’t a positive return doesn’t mean it’s an irrational choice.”

The standard abmonition against lottery gambling is that people-especially those in low-income households-would be better off putting that money into a mutual fund or savings account, where it would grow. Very wise advice, this. Except that had you redirected your lottery spending to stocks over the 10 years ending December 2010, your annualized return would have amounted to -1.54%, according to Standard and Poor’s. This is actually worse than expected return on sitting in a casino. And it’s not as though people are making a choice between spending $10 on lottery tickets and buying Apple shares at $378 a pop. For the cash-constrained, says Kearney, “there is not another asset available to them to be life-changing. They have some chance that they are going to win a million bucks. So it becomes not a terrible proposition.”

From a social-and-economic-policy perspective, it’s important to promote savings. There’s a way to do that and still offer the promise of a big prize, says Kearney. The Michigan Credit Union League has created a savings account linked to a lottery-like payout for its member institutions: put, say, $25 into a savings account and you’re entered into a raffle. This has required maneuvering around regulations that prohibit bans from sponsoring lotteries, though lottery-linked investing accounts have been around since the 18th century. Yup, the Founding Fathers used them in their scheme to finance the Revolution. The result produced the United States, which wasn’t a bad return on a game of chance.

So I’ll continue to buy my $4 worth of lotto tickets each week. I know rationally that I will never win the big one. But my mind will never tire of spending the imaginary jackpot. And there are many other even more foolish places to waste money. Why does Wall Street keep coming to mind?

1. What is the author’s purpose?
2. Who is the intended audience?