Fiscal cliff: How N.C. representatives voted

The fiscal cliff deal approved by Congress kept the Triad's representatives working on the New Year's holiday.

So how did they do? The Triad's House of Representatives delegation was split in their vote, and they crossed party lines. Reps. Howard Coble, a Republican, and Mel Watt, a Democrat, voted for the bill. Reps. Virginia Foxx, a Republican, and Brad Miller, a Democrat, voted against the deal.

North Carolina's two senators, Republican Richard Burr and Democrat Kay Hagan, voted in favor of the deal. Expected to be signed quickly by the president, the bill's deadline was technically breached Jan. 1. The bill raises taxes on Americans with the highest incomes and reduced Congress some time. About $310 billion in sequenced spending cuts, once part of the fiscal cliff, are now scheduled to occur in two months if Congress doesn't act again.

BUSINESS PULSE SURVEY

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And while the fiscal cliff deal won't raise income taxes for 99 percent of Americans, most will still pay more federal taxes in 2013. The deal approved by Congress does not prevent a temporary reduction in the Social Security payroll tax from expiring. Last year, the cut was worth about $1,000 to a worker earning $50,000 per year.

A legally sanctioned numbers racket

Last month the North Carolina Supreme Court ruled that video sweepstakes parlors are subject to the state's ban on private gaming shops. The parlors had claimed that the 2010 law banning them was unconstitutional because video games are like books and movies and hence protected by the First Amendment. I'm no lawyer, but that seems like a stretch. Regardless, the sweepstakes parlors hope to appeal the decision to the U.S. Supreme Court.

Let's set the legal issues aside and focus on the economic implication of the state Supreme Court's ruling. It ensures that the state gets to keep its monopoly over gambling. The state-run North Carolina Education Lottery is growing, but it's growth so impressive that when you get to declare your competition illegal.

Since its inception, the NCEL has struck me as neither fish nor fowl. Or rather, it's both a bad fish and a bad fowl. It's both a tax scheme and a business enterprise and neither is designed well.

As a government revenue program, the NCEL is problematic because it amounts to a regressive tax. Its success depends on lower-income people buying lottery tickets. Study after study has shown that the poor spend more on lottery tickets than richer folks. For example, a 2012 report by North Carolina Policy Watch found that in poor counties, per capita ticket spending was more than double the state average. Extending gambling to the situation, because encouraging people to buy lottery tickets effectively means encouraging the poor to buy them.

Moreover, it's not all clear that the lottery improves education funding. Yes, the NCEL generated $435 million for the public schools in the 2011-12 fiscal year, but money is fungible. A pair of 2012 studies by the liberal-leaning North Carolina Justice Center and the libertarian John Locke Foundation both found that lottery proceeds have replaced rather than added to education allocations from the general fund.

Initially, the NCEL sent 35 percent of its proceeds to the public schools. That figure has fallen to 29 percent, as lottery officials have increased prizes in order to fight "lottery fatigue" and boost sales, which are growing slowly.

But wait, say lottery supporters. The lottery isn’t a tax, because no one forces people to buy lottery tickets. They’re purchased freely. OK, so the lottery is a business enterprise. Unfortunately, it’s a business that gives its customers a raw deal.

In the 2011-12 fiscal year, the NCEL paid out 60 percent of its proceeds in prizes. That’s an increase from 51 percent five years ago, but it falls far short of the 90 percent pay-out reported for video sweepstakes parlors. That’s right, those private dens of iniquity give their customers a better deal than the state lottery. No wonder the state wants to ban private gambling.

Of course a lower pay-out is precisely what economic theory predicts for a monopoly. As a rule, economics tolerates monopoly when competition would be inefficient, for example due to duplication of infrastructure. Simply wanting to avoid competition isn’t a valid justification for a monopoly.

If the lottery is a tax, then it’s regressive and fails to increase education funding. If the lottery is a business, then it’s an unrequired monopoly.

Politicians may claim that they’re combating various social ill by banning private gambling (though they seem to be blind to those associated with public gambling!). But the effect is to force their constituents who want to gamble to deal with a legally sanctioned numbers racket.

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