

Executive Summary: When a Town Wins the Lottery

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Background

There are large disparities in economic growth across locations. Even within countries, some towns might be more prosperous than others. Many factors could explain these differences, and economists have often theorized that wealth plays a key role in shaping local economic growth by increasing investment and consumption. This underlying logic provides a rationale for fiscal stimulus measures and place-based policies to support struggling towns. Governments have often evaluated such policies, however, targeted regions are not selected at random, making it challenging to isolate the causal effect of wealth transfers.

Method

We use the largest lottery in the world, the Spanish Christmas Lottery, to study how wealth shocks impact local economies. The Spanish lottery is unique among lotteries because instead of one grand prize winner, many people living in the same town win simultaneously. This leads to large, correlated wealth shocks to randomly selected towns each year, with the median wealth shock in our sample equal to 2 percent of a town's GDP. Using newspaper records and government administrative data, we match winning towns to similar towns that never won but had the same probability of winning. We then use a dynamic difference in difference design to estimate the lottery's causal effects on economic outcomes at the local level.

Results

Two years after a win, car purchases, rural property values, and home sales all increase. However, winning towns have fewer firms, less migration, and lower levels of employment. Although this indicates a decrease in economic growth in the short term, we find some evidence of an increase in population in the long term for towns that won the lottery during the decades following the Spanish Civil War.

Conclusion

Despite the enormous magnitude of these wealth shocks, we do not find causal evidence that wealth shocks increase economic growth in the short term. However, we find some evidence that the lottery lead to long-term population growth for towns that won during the postwar period.

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