

# **Analyzing the Costs and Benefits of Legalized Sports Betting**

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Spring 2025

## **Abstract**

Following a 2018 Supreme Court ruling that overturned the prohibition on sports betting in most states, 38 states have since passed laws legalizing sports gambling. A majority of the literature looks at the negative impacts of legalized sports betting. As with anything in life, there are often both costs and benefits for engaging in an activity. Although many studies analyze the costs of legalized sports betting, most ignore the fact that benefits also exist. This study examines both the costs and benefits of legalizing sports betting. With structured regulatory oversight, it appears that legalized sports betting is a net positive.

Keywords: Sports Betting, Gambling Markets, Regulation, Household Investment Choices  
JEL Codes: Z2, D1, G1, G51

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## I. Introduction

Sports betting is a big business and, as such, the debate over its legalization has received considerable attention. Recent studies on the legalization of sports betting have tended to focus on the societal costs associated with legalization. But prohibiting a thing does not necessarily mean it goes away (as the prohibition of alcohol taught us); in most cases, the activity simply shifts to the illegal (or “black”) market. That was clearly the case with sports betting before it was legalized. As with most things, while there are costs to sports betting, there are also benefits to having a legalized market that have not been adequately addressed in this recent literature. As a parallel, imagine if research on the end of alcohol prohibition focused only on the increase in expenditure on legal alcohol and increased consumption and associated misbehavior, while ignoring the enormous savings from reduced enforcement expenditure, decline in mob-related violence, and increased safety from regulated products.

The recent wave of state legalization of sports betting has occurred in the wake of a 2018 ruling by the U.S. Supreme Court, which declared the Professional and Amateur Sports Protection Act (PASPA) unconstitutional. That Act, passed in 1992, effectively outlawed fixed-odds sports betting in most states. It banned all fixed-odds sports betting at any location (and online) for new sports betting operations, which is why specific locations, such as Las Vegas, were allowed to continue hosting sports betting.

It is noteworthy that PASPA did little to diminish demand for sports betting, which continued apace in black markets through both bookies and, increasingly, offshore websites. Following the 2018 Supreme Court ruling, many states rapidly introduced legislation to legalize in-person and online sports betting. This led to massive growth in the legalized sports betting

markets, driven at least in part by the re-shoring of previously illegal betting activity, which was estimated at \$120 billion in wagers in 2023, generating around \$11 billion in revenue.

Both costs and benefits existed before and after PASPA, and analyzing both is critical to understanding the impact of PASPA and the legalization of sports betting. It can be costly for a subset of customers, and may attract the estimated 1%-2% of the population that suffers from problem gambling. However, legalization can be beneficial by providing legal channels to monitor gambling behavior, generate additional tax revenues, serve as a utility-enhancing recreational activity, and allow for rehabilitation facilities and access to be normalized.

Sports leagues, which historically opposed wagering, have embraced the highly regulated modern sports betting market in part due to its ability to identify irregularities in wagering activity that may indicate concerns about sports integrity. Reporting requirements in the legal market make it easier to track, identify, and prosecute those attempting to exert undue influence on the game.

Sports betting is a form of entertainment, in the same way as the lottery, poker, and casinos are forms of entertainment (Statman, 2002; Dorn and Sengmueller, 2009; Grinblatt and Keloharju, 2009; Kumar, 2009; Kumar et al., 2011; Chen et al., 2021; and Kormanyos et al., 2023). As such, this study focuses on the fact that both costs and benefits exist, and both sides should be analyzed to make an informed decision on the impact of overturning PASPA and for more efficient policy responses with legalized markets. The following section takes a brief look at recent literature. This is followed by sections analyzing the costs and then the benefits of legalized sports betting. The final section offers conclusions.

## II. Recent Literature

This section provides a brief overview of four recent studies. More detailed discussion of each study is embedded in the subsequent sections on costs and benefits.

First, Baker et al. (2024) seek to, “estimate the causal effect of online sports betting on households’ investment, spending, and debt management decisions.” They do so by examining the differences across states that legalized sports betting at varying times. Perhaps unsurprisingly, they find that legalization increases legal betting, but the scale of such betting is small: only 7.7% of households are bettors, and bettors on average deposit only \$102 per quarter, or 0.66% of their income, into sports betting accounts.<sup>2</sup> They also find that this increase in legal sports betting is associated with a very small reduction in net investments in some households. However, their data do not include an analysis of illegal sports betting websites or bookies, so it is impossible to know how much of the increase in legal sports betting represents a switch from illegal betting.<sup>3</sup> Their data set also does not include investments through employer-offered 401k accounts, which are a primary source of investments for most Americans, and thus reflects only investments made through discretionary spending.

Baker et al. (2024) also find evidence that sports betting is complementary to entertainment in general. Specifically, they find that while household aggregate spending remains unchanged, the introduction of legalized sports betting results in a shift in consumption. Notably, expenditures on food and entertainment rise, which they attribute to the complementary experience of watching and betting on live sports (while cutting back on spending on non-betting activities).

Second, Hollenbeck, Larsen, and Proserpio (2024) consider the effect of state-by-state legalization of sports betting on various measures of consumers’ financial health. The authors

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<sup>2</sup> Baker et al (2024) Table 2.

<sup>3</sup> Baker et al (2024) page 10.

find that on some measures, financial health does appear to decline: credit scores decline by 0.3% on average following legalization, while bankruptcy rates increase by around 0.02%.<sup>4</sup> The biggest effect statistically is on collections on accounts, which rise by about 8%, although that is only \$30.<sup>5</sup> Meanwhile, credit card and auto loan delinquency both fall.

Based on these results, the authors argue that for most people, increased access to sports betting facilitates harmless recreation, but for a small fraction who are problem gamblers, it is harmful. This may be so, although the study design means it is possible that some of the modest changes in measures of financial health were driven not by the legalization of sports betting but by other contemporaneous changes in large states that legalized (such as New York or Illinois) or those that didn't (such as California, Texas and Florida).

While it is estimated that nearly 90 percent of the adult population participates in some form of gambling (not just sports), the most troubled gamblers are, according to Black et al. (2022), estimated to be 1.4 to 3.4 percent of the population (what they call pathological gambling, which is considered to be the most severe form of a gambling disorder). Previous literature (e.g. Gabellini et al., 2023; Meyer et al., 2009; Shaffler and Korn, 2002) found that problem gamblers experienced a range of harms, including financial stress, disruption of family life and relationships, criminality, health issues, waning job performance, and even suicide. However, a majority of that literature came before legalized sports betting, so relies on data from casino gambling or illegal gambling. As such, it is not clear that legalization of sports betting per se is responsible for these harms.

It is unclear from this past research linking problem gambling and health whether there is a causal link between the two or whether both are caused by unobserved underlying factors (such

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<sup>4</sup> Hollenbeck et al. (2024) pages 12-13.

<sup>5</sup> Id pages 13-14.

as psychological traits or environmental conditions). The third study considered here, Taylor et al. (2024), attempts to address this causal effect by looking at sports betting legalization on tax revenues, reckless gambling behaviors, problem gambling hotline calls, and suicides. By utilizing an individual-level credit card panel dataset, the authors find that sports betting legalization is associated with increases in legal gambling and reckless gambling behaviors. Also, finding that calls to the problem gambling hotline significantly increase, but inconclusive evidence of any link to suicide. However, as with the other studies discussed here, the authors' baseline for gambling is other *legal* gambling activity; they acknowledge that they do not consider any previous or contemporaneous *illegal* gambling.<sup>6</sup> Yet, estimates suggest that the use of illegal offshore sportsbooks was and remains widespread, so this presents a possibly significant lacuna.<sup>7</sup>

While the increase in calls to gambling hotlines in states that have legalized sports betting might indicate that irresponsible gambling has increased, there is evidence that people who bet legally are more willing to contact such hotlines than those who are participating in an illicit activity. The almost immediate increase in calls to gambling hotlines following the legalization of sports betting strongly suggests that most of the increase in calls came from people who were already problem gamblers (i.e., latent demand), not people who had become problem gamblers following legalization.<sup>8</sup>

Finally, Arnesen and Matsuzawa (2024) look at the relationship between legalized sports betting and unexpected emotional reactions related to National Football League (NFL) home team upset losses and reported family violence or intimate partner violence (IPV). On the basis

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<sup>6</sup> Taylor et al., page 5.

<sup>7</sup> E.g. <https://igamingbusiness.com/sports-betting/yield-sec-projections-illegal-market-still-has-strong-hold-on-us-gamblers>

<sup>8</sup> E.g.: <https://pmc.ncbi.nlm.nih.gov/articles/PMC10249729/>

of this, they report a positive link in IPV and an upset loss with legalized gambling (finding the effect to be larger in states with legalized betting). However, they also find that IPV declines when the home team wins when it is expected to win, so they could have argued that legalized sports betting *reduces* IPV when there is an expected home-team win.

In sum, the recent literature appears to focus primarily on the potential costs of legalized sports betting. But in so doing, it also inadvertently points to some potential benefits, even while it fails to acknowledge any trade-offs. The next two sections seek to address these gaps by assessing and making explicit the costs, benefits and trade-offs associated with the legalization of sports betting.

### III. The Costs of Legalized Sports Betting

This section looks at the potential costs of legalized sports betting identified in the studies discussed in Section II and related literature.

#### *Substituting from Traditional Investments and Household Health*

Investing and gambling both involve risks, but whereas investing has a positive expected return, gambling has a negative expected return. That is, on average over the long run, an investor is financially better off, while a gambler is worse off. There are two reasons for this: first, investments are by their nature made in activities whose purpose is to generate a positive return, whereas gambling is made in activities whose purpose is to generate zero net return. To use an analogy: investments are made in a slice of an expanding pie, whereas bets are made in a slice of a fixed pie. Second, for any form of legalized betting or gambling, the entity organizing the bet, the “house”, takes a fee, resulting in an average payout that is negative. To return to the analogy: the house takes a cut of the fixed pie, meaning that the total amount distributed to

bettors is smaller than the total amount staked. So, the average bet must have a negative net return.

When an individual shifts from activities with a positive expected financial return, such as investing in stocks, bonds, or real estate, to activities with a negative expected financial return, such as gambling or buying any kind of depreciating asset (most cars, for example), the individual is financially worse off. It is important to note that money is neither created nor destroyed when people place bets, it is merely redistributed from bettors to the entities facilitating the bets (which receive fees for organizing the betting markets).

Baker et al. (2024) find that legal online betting options provide a pattern of immediate increase in monies that move into these platforms, which is sustained over time. However, as noted, the scale of this shift is small, and the authors do not seek to investigate the extent to which it results from reductions in spending on illegal betting. Moreover, the study only looks at bank accounts and debit card data, which does not capture the full scope of household investments, most notably investment in employer retirement and investment plans. Additionally, the analysis is done at the state level, so the study does not test or show that the specific households that engage in sports betting actually reduce investments or have any changes in financial outcomes. Regardless, the relative change identified is a small fraction of the overall change in investments, indicating that any changes in investments are primarily being driven by other types of non-sports betting spending. While, at the state level, a \$1 increase in sports betting in low-savings households is associated with a reduction in net investment of \$3.07, this does not indicate a link between the activities in the same household. Even a strict link would be expected to have at most a one-to-one ratio between increased betting and decreased investment, suggesting that other things are at play here. Skepticism of the relationship



is particularly in order because, in general, the authors' results show significant increases in other spending categories and a relatively small shift in both sports betting and investments. They also find no effect on average stock market activity (although this does not account for retirement accounts or accounts without stock sales or dividends), except for financially constrained households, which show significantly reduced activity. These households experience an increase in overdraft occurrences, a sign of financial instability, and an increase in household indebtedness. But, again, it is difficult to draw clear conclusions from these data because of the state level of aggregation. To the contrary, the authors' results show that changes in other types of spending are far greater than the changes in sports betting, so to the extent there are changes in investment, they are likely due to other types of spending besides sports betting.

It is also important to note that this data come from legal sports betting apps, so it is unclear how much of this increase in betting is a move from the illegal market to the legal market. But the decrease in other forms of investment among financially constrained households may suggest that these households have increased sports betting relative to when it was illegal. However, again, sports betting only accounts for about 5.2% of the increase in overall spending, implying that there are multiple other spending categories within the remaining 94.8% increase that could be impacting this change.

One additional finding is a reduction in expenditure on cryptocurrency following the legalization of sports betting, particularly in low-savings households; however, given the volatility of cryptocurrencies, it's possible that most participants perceive such spending as a form of gambling. This shift from cryptocurrencies to other risky investments is consistent with the findings in Dorn et al. (2015) and Gao and Lin (2015), who find that households substitute

between gambling types of activities such as market trading, lottery play, trading cryptocurrencies, and now sports betting.

Additionally, all forms of gambling have been shown to have an impact on the financial health of the household. So, to the extent that legalized sports betting substitutes for illegal sports betting and other gambling activities, it is not clear that there is a particular harm created by legalization. As noted, Hollenbeck, Larsen, and Proserpio (2024) find very small changes in measures of financial hardship in states that legalize sports betting. Average credit scores fall by around 0.3%, which is about the same as an individual's credit score varies over the course of a year.<sup>9</sup> So it seems ambitious to claim that sports betting is a primary, let alone a singular, cause of such a small change. The authors also find that the legalization of sports betting is associated with a 0.02% increase in average bankruptcy rates, which is also a very small change in absolute numbers and difficult, if not impossible given their data, to link to sports betting itself. It is also associated with an increase in debt sent to collections, which rises by about \$30. However, credit card and auto loan delinquencies are lower in states that introduce sports betting (the authors attribute this to credit rationing, which may or may not be the case), so the data is at most mixed on positive vs. negative impacts, and regardless, reflect very small changes that are not statistically significant.

The study also finds that these results are stronger for states that allow online sports betting compared to states that restrict access to in-person betting. However, all the data analyzed spans from 2016 to 2023 (including the COVID-19 pandemic), has a relatively small marginal impact, and the authors fail to show (or even test) whether the specific households that engage in sports betting actually have any changes in financial measures.

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<sup>9</sup> For example, see <https://www.myfico.com/credit-education/blog/fico-scores-often-change>

Past research shows that some harms can be significant for problem gamblers, including financial stress, disruption of family life and relationships, criminality, health issues, waning job performance, and even suicide (Gabellini et al., 2023; Meyer et al., 2009; and Shaffler and Korn, 2002). But most of the prior literature came before the legalization of sports betting, so it relies on data from casino gambling or illegal gambling. Moreover, it is unclear if this past research linking gambling and health is causal or whether both are caused by the presence of unobserved underlying factors (such as psychological traits or environmental conditions).

### *Emotions and Violence*

Arnesen and Matsuzawa (2024) look at the relationship between legalized sports betting and unexpected emotional reactions coming from the National Football League's (NFL) home team upset losses and reported family violence or intimate partner violence (IPV). Utilizing data from 2011-2022, this study theorizes that "Gambling participation can result in unexpected outcomes where individuals will feel more negative emotional cues." However, they do not observe betting activity at the individual level, and they do not observe betting volume even at the aggregate level. Instead, they assume that if the home team is heavily favored, that indicates a betting pattern, when in reality people may bet less on those games because the home team has to win by more points to cover the spread.

The authors report a link between an increase in betting to a 10 percentage point increase in IPV from an upset loss with legalized gambling (presumably because more bets are made on what some bettors think is a sure thing, thus the shocking realization that they lost money, increasing in-home violence), and report a larger effect in states with legalized online betting, where bets were larger, around paydays, and for teams on winning streaks. However, the authors also find, but do not emphasize, that IPV *decreases* after sports betting is legalized when the

home team wins a game it was expected to win. Similarly, when the home team has an upset win, the presence of sports betting is associated with a slight and statistically insignificant decrease in IPV. Thus, of the multitude of potential outcomes (i.e., upset losses, close losses, upset wins, etc.), three are associated with outcomes that have higher IPVs than their counterparts, and three show evidence of IPV in the opposite direction. While sports betting itself cannot be tied directly to any of these instances based on the dataset used in the study, a fair reading of the results indicates that IPV rates in the presence of a legal sports betting market experience very small variations both up and down (again leading to the possibility that these tested outcomes are being driven by something other than the sport, or sports betting, impact).

Other studies have shown that periods of negative economic shocks, such as the Great Recession (Schneider et al., 2016), COVID-19 (Arenas-Arroyo et al., 2021), mass layoffs (Lindo et al., 2018), and stock market losses (Lin and Pursiainen, 2023), all show increases in violence (which, at least for some of these events, overlap the data in Ames and Matsuzawa, 2024). Additionally, IPV victimization can generate negative externalities that affect other peers as well (Carrell and Hoekstra, 2010, 2012; and Carrell et al., 2018).

Another common argument for prohibiting sports betting is the preservation of the sport's integrity. Prohibitionists argue that betting erodes the integrity of the sport because games can be fixed by players and referees, often at the command of criminal or other entities, which may include individuals who make threats to athletes after they place large bets or lose substantial sums of money on a play or game. However, a 2016 report on illegal gambling, the advisory board, chaired by the former deputy director of the Federal Bureau of Investigation, Tim Murphy, concluded that the status quo is failing and has led to many unintended consequences

(2016 is when PASPA was in effect, and thus sports betting was illegal). The report went on to state that illegal sports betting was “fueling criminal enterprises.”<sup>10</sup>

#### IV. The Benefits of Legalized Sports Betting

This section considers the benefits of legalizing sports betting. A legal market allows transactions to occur with less friction, more transparency, and other benefits.

##### *Contract Enforcement (and Violence)*

Agreements relating to illegal activities are not legally enforceable as contracts. And when agreements cannot be enforced legally, parties to the agreement must find alternative means to enforce it or resolve disputes. Violence, or the threat of violence, is often the means by which parties enforce such illegal agreements.

When a person buys illegal drugs, engages in the purchase of any other illicit good, or engages in illegal sports betting, there is no way to enforce the agreement through legal channels. Oxford Economics (2017) found that in 2017, approximately 28% of U.S. adults bet on sports via illegal sportsbooks (either offshore or local bookies). While the proportion is likely lower today due to legalization in many states, many people still make illegal bets and the amount bet illegally may be higher.<sup>11</sup> Each of those bets has a set buy-in price and an expected payout. However, if you make such an illegal bet and are not paid in the end, you cannot take the sportsbook or bookie to court over the payout, which means other means of enforcement must be employed to achieve the expected outcome. In the case of bookies, this typically means violence.

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<sup>10</sup> This report can be found here: American Gaming Association. “Law Enforcement Summit On Illegal Sports Betting: After-Action Report.” AGA. September 21, 2016. Available at [https://www.americangaming.org/sites/default/files/research\\_files/After%20Action%20Report\\_PDF-Web.pdf](https://www.americangaming.org/sites/default/files/research_files/After%20Action%20Report_PDF-Web.pdf)

<sup>11</sup> [https://www.fairergambling.com/wp-content/uploads/2025/06/GYS\\_YS\\_State-Supplement-1\\_State-Groups\\_06.12.2025\\_PT\\_RLD.pdf](https://www.fairergambling.com/wp-content/uploads/2025/06/GYS_YS_State-Supplement-1_State-Groups_06.12.2025_PT_RLD.pdf)

When sports betting activities are conducted legally, bets are contracts, with all the associated rights and obligations, and they can be disputed and resolved in a peaceful and dignified legal manner. Allowing those who have been harmed to enforce their contracts peacefully not only makes the industry itself safer and easier to use, but it also reduces the negative externalities that occur with extra-legal enforcement, including violence and intimidation, making people around them safer as well.

*Tracking the Money and Threats, and a Reduction in Illegal Gambling*

In 1992, when PASPA was being contemplated by Congress, the former commissioner of the NFL, Paul Tagliabue, testified that “Widespread legalization of sports gambling would inevitably promote suspicion about controversial plays and lead fans to think ‘the fix was in’ whenever their team failed to beat the point-spread.”<sup>12</sup> The assumption was that legal sports betting would lead to more game fixing, bringing professional sports into disrepute. But PASPA was not able to eliminate sports betting; it merely kept it underground, which meant that the bets could not be observed.

In a legalized betting market, it becomes easier to detect possible issues, trace the money back to who bet, and thereby detect any illegal influence on the game. When the markets are illegal, it is nearly impossible to trace the money to the bettors and make these links. Wistreich (2016) says, “When sports betting is legal, sportsbooks have strong incentives to avoid game-fixing, since they are likely to be harmed by it. Recent developments in the ability to analyze patterns in betting and to relate those to game outcomes enable sportsbooks to better detect instances of game-fixing, either directly or through third parties. At least two companies are

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<sup>12</sup> S. REP. 102-248, S. Rep. No. 248, 102ND Cong., 1ST Sess. 1991, 1991 WL 258663, 1992 U.S.C.C.A.N. 3553 (Leg.Hist.) at 3556.

already providing such services, one of which is working with the NBA to help maintain sports integrity.” With this, as more betting shifts to the legal market, the ability to fix a match undetected falls drastically.

Studies confirm that such techniques can reduce the incidence of game fixing (Forest and McHale, 2019). Another study suggests that by applying machine learning models to sports betting data, it is possible not only to reduce game fixing but also to reduce illegal sports betting (Kim et al., 2024).

Recently, the NCAA signed a contract with a technology firm, Genius Sports, allowing licensed sportsbooks to receive official data from the NCAA, but with them having to share their data to increase the ability of the NCAA to track and enforce betting manipulation and track organized crime (which, they believe, will help them deal with match fixing, especially at the smaller schools where data is more complex to get). This agreement, which is only possible because sports betting is now legal in many states, thus enables the NCAA to leverage its data in exchange for help with tracking and enforcement of legal activities.<sup>13</sup>

There are also cases of sports betting operators who have proactively flagged suspicious activity, which has uncovered issues in the market. For example, in 2023 “executive director of the Ohio Casino Control Commission issued an emergency order prohibiting any wagers on Alabama's baseball program after receiving a report from an independent monitor detailing two suspiciously large bets placed in advance of the Crimson Tide's matchup against LSU.”<sup>14</sup> This use of detailed data analysis can only occur when the markets exist in a legal setting.

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<sup>13</sup> From ESPN:

[https://www.espn.com/mens-college-basketball/story/\\_/id/44938703/ncaa-deal-sportsbooks-looks-crass-sneaky-smart](https://www.espn.com/mens-college-basketball/story/_/id/44938703/ncaa-deal-sportsbooks-looks-crass-sneaky-smart)

<sup>14</sup> From U.S.A. Today: <https://www.usatoday.com/story/sports/college/2023/05/12/alabama-baseball-gambling-scandal-college-sports-new-reality/70200887007/>

To the extent that people worry that bettors will influence athletic competitions and the athletes themselves, this strengthens the argument for legalized betting. Additionally, when the sports betting market was largely illegal, it was a substantial drain on law enforcement resources to enforce these crimes, rather than focusing on other types of law enforcement.

### *Rehabilitation and Stigmas*

Society assigns labels to individuals who are deemed to be engaging in activities that are considered inappropriate or socially unacceptable (Becker, 1963; and Becker and McCall, 2009). The stigmatization and shame associated with these activities make seeking help more difficult. That is, when society accepts the action as acceptable, it is more appropriate to request it when a problem exists. Public stigma towards people places obstacles in the way of their recovery (Luo et al., 2024, referencing drug use). These stigmas make seeking help more difficult, and an illegal activity has a worse stigma than a legal one, as the legality of the activity is often used as a proxy for its social acceptability.

Thus, when sports betting is legal, it is easier to ask for and seek help for any addictions or other problems you are having related to the activity (such as the emotional responses that lead to IPV). Additionally, with legalization comes advertisements for help, which has been attributed to helping people because now they know where to go for help. Lloyd (2012) finds that stigmatization has a profound effect on the lives of problem drug users, and it dramatically impacts their chances of recovery. In addition to destigmatizing the activity through legalized sports betting, the tax revenues generated can be allocated to recovery programs.

Recall that Holenbeck et al. found that calls to gambling hotlines increased in states that have legalized sports betting and suggested this indicates that irresponsible gambling had increased. But an alternative interpretation is that the reduction in stigma associated with



legalization led people with pre-existing or latent problem gambling to call such hotlines. Indeed, there is evidence that people who bet legally are more willing to contact such hotlines than those who are participating in an illicit activity (see Lischer et al., 2023). Moreover, because legalization is associated with the promotion of these helplines, such promotion, rather than an increase in problem gambling, could well explain much of the increase in calls. Indeed, Keith Whyte, executive director of the National Council on Problem Gambling, was quoted in the Sports Business Journal noting that “We think one of the biggest drivers of helpline calls is not the underlying rate of problem gambling, but the promotion of the helpline ... I think a lot of people with gambling problems have suffered in silence and never known where to turn. But when online sports betting was legalized, and all of a sudden the airwaves were blanketed with ads that include 1-800-GAMBLER, there’s a lot more people that are saying ‘Oh, maybe there is hope and help available.’”<sup>15</sup>

#### *Tax Revenues, Jobs, and GDP*

Illegal betting has been happening underground (through bookies) and on easily accessible offshore websites. With a legal market, the goods in the market will likely be reshored and can then be taxed; sports betting is no different. With the legalization of sports betting, significant tax revenues are generated to boost both local and state governments. Many of these tax dollars also came from the reshoring of illegal offshore markets. In Arnesen and Matsuzawa (2024), it is found that, in 2022 alone, states with legalized sports betting collected a total of nearly \$1.5 billion in tax revenues. With the running total of tax revenue generated from legalized sports betting being almost \$9 billion.<sup>16</sup>

#### *Utility-Enhancing while Increasing Attendance and Viewership*

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<sup>15</sup> <https://www.unitedwaycleveland.org/211-problem-gambling-hotline/>

<sup>16</sup> From: <https://www.legalsportsreport.com/sports-betting-revenue/>

People engage in activities that they perceive will improve their well-being. Baker et al. (2024) find evidence of a shift in consumption generally. There was a significant increase in expenditures on food and entertainment that far outpaced changes in spending on both sports betting and investments. The Baker et al. paper even suggests that their evidence, combined with the correct regulatory framework, could curb impulse betting and lead to more efficient outcomes, especially for households with the most binding budget constraints and those most likely to be negatively impacted by their investments. For instance, the authors discuss that the price transparency and the ability to foster competition for complex bets (which are often difficult for consumers to value correctly) may help eliminate most of the problematic forms of gambling (Calford, 2024).

Morris and Bentley (2017) also provide information on how well-regulated foreign markets handle the legal sports betting market, with “...sports betting companies offer consumers ways to manage their betting in order to reduce compulsive gambling.” And that “[m]any U.S. casinos already do this for other forms of gaming.” And this is something that already exists in the legal market. In the U.S. sports betting markets, operators provide extensive responsible gaming support and education, monitor consumer behaviors for signs of problem gaming, and take action when there is an indication of a potential problem. State laws and regulations specifically require responsible gaming measures in order to obtain and maintain licensure. These features are noticeably absent in the illegal market.

Additionally, when sports betting is legalized, fan engagement increases, which in turn boosts viewership and other forms of participation with sports leagues. In legal markets with well-defined regulations, gaming companies are often required to provide consumer protection programs to maintain their licenses. Also, and simply put, it is utility-enhancing to allow people

the freedom to engage in an additional entertainment option that many people enjoy, and a vast majority of people do safely and responsibly.

## V. Conclusion

Like all forms of gambling, sports betting has both costs and benefits associated with it. However, most of the recent literature has focused on the costs of sports betting or gambling in general. The present study acknowledges these costs and benefits and attempts a more balanced assessment of both in order to adduce the net effect of legalizing sports betting.

Studies to date have analyzed post-sports betting legalization changes in consumer financial health for those with the most constrained budgets, as well as evidence of emotional and health impacts. However, an analysis of those studies reveals small effect sizes and a lack of evidence of a causal connection between the premise and the outcome, calling into question the utility of the studies.

Fewer studies analyze the multiple benefits of legalization, such as increased tax revenues, which can positively impact states by funding critical priorities. Additionally, with a legal sports betting market, it is significantly easier to track, trace, and prosecute game fixing and player harassment (which were occurring when sports betting was illegal, but were harder to track). Legalized sports betting also increases utility and fan engagement in the sports for which bets are placed. And lastly, when an activity becomes legal, states require legal sports betting operators to provide responsible gambling resources and to monitor and intervene in instances of potential problem gambling. Features that are absent in the illegal market. It also becomes easier to admit when you have a problem and seek help, because the stigmas of having a problem are

more difficult to deal with when you have to admit you are having a problem with an illegal activity.

Although the net effect of these is still up for debate, Baker et al. (2024) are likely correct that, with well-written regulations and consumer protections, especially for those in the most vulnerable groups, the impact of legalized sports betting is positive. Sports betting is a form of entertainment that is not all that dissimilar to other forms of entertainment. Indeed, if sports betting has an adverse effect, it has the same negative effects as other forms of gambling (such as lotteries, casinos, etc.) and should be treated in the same way – they should either all be legalized or all be prohibited.

But we know that prohibition does not work. Looking at the U.S. experience with alcohol prohibition from 1920 to 1933, Miron (1998) shows that prohibitions lead to undesirable outcomes while typically failing to achieve their goal of dramatically reduced consumption. By contrast, taxes levied at an appropriate but not onerous rate, combined with suitable regulatory measures, are likely to reduce socially harmful consumption more effectively than a prohibition, while avoiding the negative side effects that prohibitions create. We know sports betting was occurring illegally before it was legalized, and it is now legal, and a move back to making it illegal would shift it back to the illicit market (and not make it go away).

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Disclaimer: Funding was received to research this topic, but I, as the author, retained solely my intellectual thoughts, analysis, and all editorial rights.