September 12, 2024

Sports Gambling and Consumer Finance

Sports gambling is a common form of gambling where bettors wager on the results of athletic events. Before 2018, sports gambling was illegal in most states. In 2018, the Supreme Court held in *Murphy vs. National Collegiate Athletic Association (NCAA)* that the Professional and Amateur Sports Protection Act (PASPA, P.L. 102-559) was unconstitutional and that states could legalize and regulate sports gambling. Since the ruling, 38 states and the District of Columbia have legalized sports gambling (LSG).

This growth in LSG has led to scrutiny over its impact on consumer finances. Two recent working papers provide evidence that LSG has led to adverse consumer finance outcomes. Congress may weigh these concerns with other policy considerations, including taxation revenue from gambling, job growth in sports gambling sectors, and consumer choice. This InFocus focuses on sports gambling opposed to gambling broadly because of this recent legal change and recent legislative action focusing on sports gambling.

Legislation introduced in the 118th Congress would make changes to sports gambling advertising (H.R. 967, H.R. 7891, S. 2495) and modifications to the federal excise tax for sports gambling (H.R. 6982/S. 3579, S. 4872).

Sports Gambling Background

In 1992, PASPA generally banned sports gambling. The law forbade states from legalizing and regulating sports gambling. However, PASPA excluded states with existing sports gambling markets and regulations: Delaware, Oregon, Montana, and most prominently Nevada.

Offshore and illegal operators traditionally dominated the U.S. sports gambling marketplace, resulting in limited regulatory oversight. This illegal sports gambling was sometimes linked with organized crime, and there were a few prominent cases of prosecuting illegal sports gambling outfits.

New Jersey challenged PASPA as unconstitutional beginning in 2010 in an aim to legalize sports gambling. In 2018, the Supreme Court held in *Murphy vs. National Collegiate Athletic Association (NCAA)* that PASPA was unconstitutional as it stripped state governments of their authority to legalize gambling. As stated by the majority opinion, "Congress can regulate sports gambling directly, but if it elects not to do so, each State is free to act on its own." For more on this case, see CRS Legal Sidebar LSB10133, *The Supreme Court Bets Against Commandeering: Murphy v. NCAA, Sports Gambling, and Federalism*, by Jay B. Sykes.

Online sports gambling is also legalized in 30 of the 38 states that have LSG. States vary in their sports gambling restrictions. States have different age requirements, and some states permit only tribal-sponsored online sports betting. Other states ban particular types of bets, such as those on in-state professional and college teams or bets on specific players. LSG is generally run by sportsbooks, which set betting odds and take bets on games. These sportsbooks are often associated with traditional casinos and often take bets online and in casinos.

This legalization has led to the growth of the LSG industry. According to the American Gambling Association, LSG revenue grew from $0.9 billion to $10.9 billion from 2019 to 2023. LSG states benefited from additional tax revenue associated with LSG, totaling $2.2 billion in 2023. Polling by Sienna College and St. Bonaventure University found that one in five Americans have sports gambling apps on their smartphones and that 39% of men ages 18-49 have sports gambling apps. Among consumers who have previously bet on a sports gambling app and still have an account, roughly 60% place bets at least once a week.

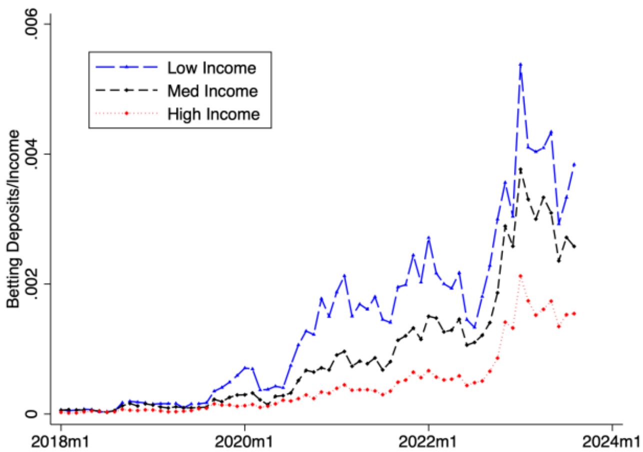
Impact on Consumer Finance

The growth in LSG has led to increased concerns over consumer protections and the impact of LSG on consumer finances. In 1999, research found that 10% of U.S. bankruptcy filings were linked to gambling and that at least 20% of compulsive gamblers filed bankruptcy. Since 2018, there have been increasing calls to gambling addiction hotlines. These calls seem to be largely driven by increases in sports gambling and other online gambling relative to traditional in-person casino games. Some have linked LSG's rise in popularity with the general trend in increased smartphone usage.

Two recent papers have attempted to quantify the effects of LSG on consumer finances. In one working paper, researchers from UCLA and USC found that after four years the average credit score in LSG states decreased by 0.3%, while credit scores decreased by 1.0% in states that also allowed online LSG. This suggests that online LSG was driving much of the decline. In general, LSG states also had 8% increases in debt transferred to debt collections, increases in auto delinquency rates, and ultimately a 28% increase in bankruptcy rates.

In another working paper, economists from Northwestern, BYU, and the University of Kansas found that LSG led to increases in sports gambling. This trend decreased consumers' savings and investments and most affected financially constrained households. Further, this sports gambling increased gamblers' overdrafts and credit card debt. In general, betting deposits, or the amount gamblers put into their gambling accounts, grew as a share of income over time in response to LSG. These trends were most acute for low-income households, as seen in **Figure 1**. For consumers who made at least one sports bet, nearly 40% of them made 10 or more deposits into sportsbooks.

Figure 1. Sports Betting Deposits as a Share of Income



Source: Scott R. Baker et al., "Gambling Away Stability: Sports Betting's Impact on Vulnerable Households," July 12, 2024, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4881086.

The gambling industry says it already takes steps to counteract the potential negative effects by encouraging responsible gambling. For example, advertisements for sports gambling are generally accompanied by disclosures encouraging responsible gambling and provide information on support help lines. States spent about $100 million in 2023 to combat problem gambling and fund gambling help lines—largely using taxes from gambling revenue.

Policy Tradeoffs

The associated potential negative effects of LSG on consumer finances may be weighed with consumer choice, additional tax revenue, and the impact on illegal gambling. Based on the growth in LSG, consumers appear to desire legal gambling. Policymakers may also determine that LSG allows consumers increased ability to decide where to spend their money. Enabling consumers to gamble legally can spur on business revenues, new jobs, and tax revenue.

Imposing additional restrictions on LSG could help to re-entrench illegal and offshore gambling, which are unregulated, with limited consumer protections and little governmental benefit in terms of tax revenue. Local, state, and federal governments benefit from the LSG tax revenues, but this revenue comprises only a small fraction of total revenue for most localities. Sports gambling can also create local jobs for LSG states, but many of these jobs may be relatively low-wage. For more on gambling's impact on economic development, see CRS In Focus IF12461, *Casino Gambling and Economic Development*, by Adam G. Levin.

Selected Legislation: 118th Congress

Advertising

In part, LSG has benefited from increased consumer awareness partially driven by prominent advertising on sports media. Previously cited polling by Sienna University and St. Bonaventure found that three-fourths of all Americans have seen sports gambling advertising.

Critics such as Northeastern University's Public Health Advocacy Institute argue that sports gambling advertisements use popular celebrities and risk-free bets to encourage sports gambling, which could in turn lead to addiction. Research by the NCAA found that more than half of young adults who saw sports gambling ads said those ads made them more likely to gamble. Research in other countries linked gambling advertising to riskier or more frequent betting. Massachusetts has restricted sports gambling advertising targeted at younger audiences, while Ohio has fined sportsbooks for false advertising.

Others contend that self-regulation is sufficient to stem these concerns. The American Gambling Association has adopted a responsible marketing code that includes provisions to limit college advertising and support responsible gambling. The National Football League has self-regulated the number of sports gambling commercials during their games. Overall, spending on sports advertising is declining, meaning this issue might become less salient. Spending on sports gambling television advertisements fell by 15%, or $200 million, from 2022 to 2023. In total, sports gambling ads are less than 1% of total spending on television advertising.

There is legislation in the 118th Congress focused on sports gambling advertising. H.R. 967 would ban sports gambling companies from advertising on any platform regulated by the Federal Communications Commission including television, radio, and internet. H.R. 7891, a broader bill targeted at potentially protecting minors from online harms, has a provision that social networks and other covered platforms should take "reasonable measures" to prevent and mitigate the promotion and marketing of gambling to minors. S. 2495, another broader bill focused on college athletics, has a provision to prohibit college athletes from entering into name, image, and likeness contracts with gambling companies. Such contracts generally include marketing and promotional materials for the companies.

Federal Treatment

Congress could alter the federal treatment of sports gambling activity. The federal code currently imposes an excise tax of 0.25% for LSG and 2% on illegal sports gambling on the total amount wagered. This tax contrasts with those at the state level, which are generally based on the total revenue an entity generates.

In the 118th Congress, H.R. 6982 and S. 3579 propose using part of the federal gambling tax revenue to award grants to states to address gambling addiction and award other grants for general research on gambling addiction. This proposal contrasts with S. 4872, which would exempt sports gambling from the federal excise tax. For more general information on excise taxes, see CRS Report R46938, *Federal Excise Taxes: Background and General Analysis*, by Anthony A. Cilluffo.

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