A Response to iDEA's Review of NERA's New Jersey iGambling Study

Prepared for the Campaign for Fairer Gambling

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Introduction

In March 2024, iDEA[1] published "A Comprehensive Analysis of NERA's Study on New Jersey's iGaming Economic Impact" to respond to our report, "Economic Assessment of iGambling in New Jersey." Meister Economic Consulting and Victor-Strategies ("Meister") conducted this review for iDEA, attempting to refute our model of the economic effects of gambling in New Jersey. Meister focuses on our key finding that land-based and online casinos employ fewer workers than businesses that offer other kinds of recreation, so when consumers choose to gamble rather than spending money elsewhere, less revenue goes to employees and is re-spent in the economy. Meister argues that legal iGambling is drawing revenue that would otherwise go to illegal gambling, so our report "vastly underestimates" the economic benefits of legal iGambling in New Jersey.

We also respond to a paper from the National Bureau of Economic Research (NBER), "Gambling Away Stability: Sports Betting's Impact on Vulnerable Households." This study finds that iGambling comes from consumers' borrowed money and the personal savings of households that are often financially constrained, in contrast to our assumption that it is diverted from alternate recreation. The negative effects of gambling in this study (e.g. rising household debt and the risk of default) are worse than simply losing revenue for alternate recreation. Our report finds effects between Meister's estimates and the NBER analysis and represents a reasonable middle estimate.

Meister's Cannibalization Claims do not Invalidate our Model

Meister's main objection to our report is the simplifying assumption in our model, which is that all spending on iGambling is diverted from alternate recreation (i.e. discretionary spending):[2] "NERA assumes that *none* of the existing illegal online gambling is channeled to licensed iGaming sites within New Jersey, one of the key achievements of legalized online gaming."[3] Meister asserts that "iGaming will channel some amount of illegal gambling to licensed online providers."[4] Meister provides only indirect evidence to support this idea because "it is much more difficult to gain a clear picture of" illegal gambling and many firms do not comply with any regulations or reporting requirements.[5] Meister offers no estimate for potential cannibalization from illegal to legal iGambling.

1 iDEA is the iDevelopment and Economic Association, an industry association of the iGambling space which seeks to "expand online interactive entertainment business in the United States through advocacy and education". Source: ideagrowth.org/about

2 The categories of alternate recreation are retail, food and beverage services, and entertainment. Alternate recreation does not include land-based casinos or other gambling.

3 "A Comprehensive Analysis of NERA's Study on New Jersey's iGaming Economic Impact" p. iv. Italics theirs.

4 iDEA, (March 2024). p. 4. Italics theirs.

5 iDEA, (March 2024). p.11.

Meister provides survey evidence from players of online slot machines and table games that "roughly half of gamblers… play (at least some of the time) illegally"[6] but this survey shows that more than half of the players gamble only at legal venues and only 18% of respondents indicate any crossover, i.e. gambling at both legal and illegal establishments. This shows that legal and illegal gamblers are largely separate customer groups.

Meister cites statistics from the American Gaming Association[7] that the percentage of online sports bets that are legal had risen from 44% in 2019 to 77% in 2023. Meister suggests that "when a legal option becomes available, people tend to switch away from illegal venues to legal ones."[8] However, the amount legally bet on sports increased from $1.9 billion in 2019 to $121 billion in 2023, rising by a factor of 64.[9] Assuming that legal and illegal bets are for similar amounts on average, these figures imply that the amount wagered illegally on sports increased from $2.4 billion to $36 billion, rising by a factor of 15. Meister's own statistics suggest that the legalization of sports betting and the subsequent flourishing of legal sports betting led to more illegal online sports betting, rather than cannibalizing it.

The evidence Meister presents next further supports the idea that legalizing sports betting has caused illegal online sports betting to flourish. Meister provides evidence of 1.7 million illegal attempts to place bets from within Mississippi to legal Tennessee and Louisiana sportsbooks in the 2023 football season.[10] They note a similar pattern in Georgia. However, out-of-state, illegal bets in the legal sportsbooks of neighboring states only occur because legal sports betting opportunities exist. Legal sportsbooks (e.g. in Tennessee, Louisiana) attract new business even from residents out of state, who evidently do not bet through illegal operations in their own states.

Meister cites statistics that:

> *Nearly 40% of sports bettors were wagering before its legalization in [New Jersey], including with friends (40%), co-workers (29%), family members (25%), non-New Jersey websites (23%), or bookies (22%). Furthermore, almost 50% of the survey respondents indicated their wagering increased after legalization.*[11]

This means that over 60% of sports bettors post-legalization are new to the activity, with the rate of wagering increasing even among those already doing so illegally. Survey respondents who had placed bets illegally through non-New Jersey websites would likely begin betting legally in-state, merely shifting from one regulated online operation to another. This reduces lawbreaking, but the focus of our report is macroeconomic effects rather than compliance with state law.

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6 iDEA, (March 2024). p.11.

7 American Gaming Association (2023), "Assessing Shifts in the Sports Betting Market 5 Years Post-PASPA," Washington, D.C. (http://www.americangaming.org/wp-content/uploads/2023/05/AGA_PASPA_LSBResearch.pdf).

8 iDEA, (March 2024). p.11.

9 Legal Sports Report. "US Sports Betting Revenue & Handle. (27 January 2025). https://www.legalsportsreport.com/sports-betting/revenue/

10 iDEA, (March 2024). p.12.

11 iDEA, (March 2024). p.13.

Meister argues that:

> *These findings from Analysis Group (2024), Innovation Group (2022), the American Gaming Association (2023), GeoComply (2023, 2024), and Rutgers (2023) strongly undermine NERA's assumption that all iGaming revenue is substituted away from existing brick-and-mortar casinos and other entertainment industries. In fact, once iGaming was introduced in New Jersey, some portion of its revenue almost certainly came from illegal gambling channels.*[12]

Not all illegal gambling channels are created equal. People who place bets with friends, family, and coworkers offline are likely to continue to do so. New Jersey bettors who would bet illegally on legal websites out-of-state divert money to New Jersey which is a detriment to those states as much as it is a benefit to New Jersey. Therefore only the proportion of betting that was placed with illegal bookies will create a tax benefit for state governments. Finally, alternate recreation is far more effective at creating knock-on economic benefits than iGambling, so legalization and the resulting shift away from other discretionary spending is more important from an economic perspective than any shift from illegal to legal gambling.

Addressing the Strawman of Cannibalization from Land-based Casinos

Meister objects to the idea that online gambling operations are cannibalizing land-based casinos, asserting that Meister's research "strongly undermine[s] NERA's assumption that all iGaming revenue is substituted away from existing brick-and-mortar casinos and other entertainment industries."[13] Regarding the idea that "iGaming [is] directly substituting away from brick-and-mortar casinos" Meister asserts that "NERA provides no evidence… and in fact research shows has not been the case."[14]

Meister's objections are irrelevant to our report. In constructing the model, we assumed that in the absence of iGambling consumers would spend their gambling money in other discretionary categories instead, represented by the retail, dining, and entertainment industries only, and not from brick-and-mortar casinos.

The iGambling company DraftKings affirms that "our business is particularly sensitive to reductions from time to time in discretionary consumer spending"[15] and expressed concern that unfavorable "economic conditions may reduce our users' disposable income or result in fewer individuals engaging in entertainment and leisure, such as sports betting [and] online gaming." This suggests that consumers gamble from a pool of disposable income. Our assumption that all gambling losses have been redirected from other entertainment industries reflects the limited discretionary income of many gamblers. The gambling company Flutter (which has digital and terrestrial interests) takes a similar

12 iDEA, (March 2024). p.13.

13 iDEA, (March 2024). p.13.

14 iDEA, (March 2024). p.14.

15 DraftKings (2023), SEC Form 10-K, p.15.

view, reporting that "betting and gaming faces competition from other entertainment and leisure activities."[16]

We did compare the economic effects of land-based casinos with iGambling in New Jersey, although iGambling is the main topic as reflected in the title of our report. We estimated the total economic activity and wages from land-based gambling in New Jersey, in contrast to the activity and wages that would have resulted if New Jersey customers had spent this income on non-gambling alternatives. Our analysis of land-based gambling was parallel to our analysis of iGambling, with similar methodologies. In our report we never assumed that iGambling cannibalized land-based casinos or explored the possibility.

The Social Effects of iGambling

Meister says "NERA dedicates a single page of its report" to the social effects of iGambling. We do discuss the social effects only briefly, affirming on that page that "the focus of this paper is on the *economic* effects of gambling."[17]

Meister objects at length to our round estimate that "there could be $740 million in social costs associated with gambling, of which $350 million may be associated with iGambling in particular." However, the objective of this section is strictly top-down, and serves instead as an indication that "the economic costs of iGambling is likely greater than just the modeled decline in jobs, wages, and economic activity" rather than a bottom-up quantification.[18]

Using this top-down approach, we estimated the effects of problem gambling and how this translates into real losses, which have to be set against potential benefits. After the Supreme Court struck down the national ban on sports betting in 2018, "calls to the National Council on Problem Gambling helplines grew by 150%, from 32,666 in 2019 to 83,660 in 2023"[19] despite some level of illegal sports betting having already existed. We provided our round estimate to highlight that the tax benefits of legal iGambling must be set against losses and hardship. Indeed, Meister "agree[s] that problem gambling is associated with certain social harms and negative impacts."[20]

The Costs of Bad Debt

For the purposes of our modeling, we assumed that all spending was discretionary. In making this assumption, we acknowledged that spending could have been diverted from savings or other

16 Flutter Entertainment (2023), SEC Form 10-K, p. 24.

17 NERA (2023), p.46. Italics in original.

18 NERA (2023), p.46.

19 Taylor et al. "Online Gambling Policy Effects on Tax Revenue and Irresponsible Gambling." (18 June 2024).

20 iDEA, (March 2024). p.19.

necessities, rather than from discretionary spending, and that this would have worse negative outcomes.

The NBER paper, "Gambling Away Stability: Sports Betting's Impact on Vulnerable Households" focuses instead on the evidence and consequences of gamblers spending non-discretionary money.[21] The NBER says that "following legalization, sports betting spreads quickly… increasing over time. This increase does not displace other gambling or consumption but significantly reduces savings."[22] According to the NBER, not all gamblers are spending their own disposable income, but instead run up credit card balances and more frequently overdraw their bank accounts.[23] This finding implies worse economic effects than when gambling comes from discretionary money.

As the NBER finds, some consumers fund gambling with borrowed money. In these cases, household debt with no clear means of repaying it imposes costs to individuals and families. Social costs include the worsening of poverty, as the NBER finds that "access to online sports betting… exacerbates financial difficulties faced by constrained households."[24] Outside of the world of gambling specifically, International Monetary Fund economists published a study in 2018 finding that access to credit might backfire, as "[borrowing] may eventually come back to hurt households when they face a rising debt service once interest rates start rising and the credit boom ends."[25]

Economists find that household debt creates wider economic problems as well, as recent studies suggest that higher total household debt is associated with lower GDP growth, higher unemployment, and a greater risk of future banking crises.[26] The household sector as a whole becomes more sensitive to changes interest rates and to income shocks like those caused by unemployment. Household debt therefore makes the economy more sensitive to income, house prices, and interest rates.[27]

Academics have also found that household debt imposes the economic risk of default. Formal bankruptcy may be as common as 1.5% of all households.[28] The risk of nonpayment contributes to personal loans that carry real interest rates of 8% annually, with average credit card rates around 12%, which are well above the risk-free rate. A single percentage point increase in the household debt-to-GDP ratio can lower long run growth by 0.1 percentage point. Negative long-run effects on consumption intensify when the ratio exceeds 60%, with effects on GDP growth intensifying over 80%.[29]

21 Baker et al. "Gambling Away Stability: Sports Betting's Impact on Vulnerable Households." (November 2024).

22 NBER (2024), Abstract.

23 NBER (2024), p.2.

24 NBER (2024), p.2-3.

25 Alter, Feng & Valckx. "Understanding the Macro-Financial Effects of Household Debt: A Global Perspective." (2018). p.4.

26 Alter, Feng & Valckx (2018), p.4.

27 Guy Debelle, "Macroeconomic implications of rising household debt." BIS Working Papers. (June 2004). pp.1, 21.

28 Exler, Florian and Tertilt, Michèle. "Consumer Debt and Default: A Macro Perspective." (February 2020). p.1.

29 Lombardi et al. "The real effects of household debt in the short and long run." (January 2017). Abstract.

Household debt is currently 64% of US GDP,[30] so the United States is in range for consumption to be negatively affected. As the NBER shows, iGambling tends to increase the level of household debt and therefore increases these negative outcomes.

Conclusion

Even drawing on Meister's own evidence, it is clear that most new legal iGambling activity in New Jersey is not actually diverted from illegal iGambling. Instead, as the NBER finds, much of it comes from reduced savings and increased credit card debt, which comes with a wide range of household and wider economic costs, which we had not quantified in our report. Our assumption that it diverts from alternate discretionary avenues represents a reasonable assumption and possibly an underestimate of the economic costs of iGambling.

30 CEIC Data, "United States Household Debt: % of GDP." https://www.ceicdata.com/en/indicator/united-states/household-debt--of-nominal-gdp.

ABOUT OUR WORK

This work is the most recent in a series of works we have written on behalf of the Campaign for Fairer Gambling, funded by Derek Webb, a gambling reform advocate and philanthropist. Recent works commissioned by the Campaign for Fairer Gambling include:

- Economic Assessment of Online Gambling in Great Britain, 18 July 2024
- Economic Assessment of iGambling in New Jersey, 9 November 2023

We stand by the validity of our work for the Campaign for Fairer Gambling.

QUALIFICATIONS, ASSUMPTIONS, AND LIMITING CONDITIONS

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