

The Sports Gambling Experiment Has Failed

OU Economics Club

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Since PASPA was overturned in 2018:

- 38 states legalized sports betting
- **\$93 billion** wagered in 2022 alone
- \$10 billion in annual sportsbook revenue
- Calls to the National Problem Gambling Helpline **up 45%** (2021–22)

Thesis

Today I will argue that the legalization of mobile sports gambling in America was a **policy mistake** and that the evidence is now clear enough to say so.

Four main bet types:

Type	Example
Moneyline	Chiefs -180 to win outright
Point Spread	Chiefs -6.5 (win by 7+)
Over/Under	Total pts > or < 47.5
Prop Bets	Mahomes throws 2+ TDs

The Vig ("Juice")

The house's cut, baked into every line.

Fair coin flip: +100/ + 100

Sportsbook offers: -110/ - 110

⇒ Bet \$110 to win \$100

⇒ House edge $\approx 4.5\%$

Compounds over thousands of bets.

Example: Chiefs vs. Raiders

Team	Spread	Moneyline
Kansas City Chiefs	-6.5	-230
Las Vegas Raiders	+6.5	+195

- KC must **win by 7 or more** for a Chiefs spread bet to pay off
- Raiders bettors win even if Raiders **lose by up to 6**
- **Both sides** of the spread pay -110 juice (bet \$110 to win \$100): book profits from vig regardless of outcome
- Moneyline: want KC to just *win*? Pay -230. Raiders outright upset pays +195

Key: The spread is a pricing tool, not a forecast.

Parlays: Chain multiple bets; all must hit

Legs	Payout	Fair
2	$\approx 2.6\times$	$\approx 4\times$
4	$\approx 10\times$	$\approx 16\times$
6	$\approx 40\times$	$\approx 64\times$

House edge **balloons** with each leg.

In-Game: Wager as play unfolds

- Lines update every few seconds
- Hold **15–25%** (vs. $\sim 5\%$ pre-game)
- Designed for impulse, not reflection

“Whenever I see in-game odds I usually want to puke at how wide they are.”
— Zvi Mowshowitz

Futures: Bet on season-long outcomes

- Who wins the Super Bowl, MVP, division title
- Hold often **20–35%**: book prices all outcomes, implied probs sum to $>130\%$
- Money locked up for weeks or months
- Heavily marketed at season start

Worst odds of any bet type (and the most aggressively advertised).

	Stock Market	Sports Betting
Expected return	Positive (~7% real)	Negative (house edge)
Time horizon	Long-run compounding	Resolves in hours
Market efficiency	Semi-strong EMH	Lines are efficient
Best-case	Everyone can win	Zero-sum minus vig
Edge persistence	Possible long-term	You get banned

- Betting lines are largely **efficient** (*Pankoff 1968; Gandar et al. 1988*)
- Beating the book systematically is nearly impossible for retail bettors
- The rare bettors who *do* beat it are **banned**

Even with fair prices, bettors lose because of systematic psychological errors:

- **Gambler's Fallacy**
“They're due for a win” (streaks don't predict)
- **Hot Hand Fallacy**
Bet more after winning streaks (streaks don't persist)
- **Overconfidence**
Everyone thinks they know football better than the market
- **Loss Chasing**
Down \$200? Bet bigger to recover
- **Recency Bias / Mean Reversion**
Last week's blowout feels more predictive than it is
- **Sunk Cost Fallacy**
“I've already bet this season, I can't quit now”

The house doesn't need to cheat when human psychology does the work!

Post-PASPA (2018) market:

- FanDuel & DraftKings control ~80% of market
- Both companies still **not consistently profitable**
- Business model: burn cash on promos to build the habit, then extract
- Only predatory models can survive the customer acquisition costs

The Math (Mowshowitz 2024)

\$70B wagered by regular gamblers
× 10% house hold
= **\$7B extracted/year**

1 bankruptcy per \$70,000 in sportsbook profit

The product is designed to maximize extraction, not entertainment.

“Anyone showing any skill? They are shown the door.”

— Zvi Mowshowitz, former sharp bettor

How books identify sharps:

- Reduce bet limits on consistent winners
- Close accounts (often without explanation)
- Track patterns — sharp action moves lines

How pros disguise themselves:

- Log in at 2am to seem compulsive
- Reverse withdrawals to simulate addiction
- Bet on their home team before making real plays

“Simulating addictive behavior is an effective way to get sportsbooks to send you bonus money and keep your accounts open.”

— Zvi Mowshowitz

Recent integrity scandals:

- **Tim Donaghy (2007):** NBA referee bet on (and fixed) games he officiated
- **Jontay Porter (2023):** NBA player leaked injury info; suspicious prop bets cashed
- **Mafia rigged poker case (2025):** Former NBA players used as “face cards” to attract victims
- **College point-shaving rings:** Ongoing investigations as stakes rise
- **Texas Tech QB & Heisman Hopeful Brendan Sorsby:** Gambling addict at risk of losing eligibility

Why Legalization Raises the Stakes

- More money on every game = more incentive to corrupt it
- Prop bets on individual stats create new vectors
- Micro-markets are **much harder** to monitor than game outcomes
- NIL income provides active players with disposable income to gamble with

The integrity of the game is not free.

Hollenbeck, Larsen & Proserpio (2025)

“The Financial Consequences of Legalized Sports Gambling”

U.C. Consumer Credit Panel — ~7M Americans, 2016–2023

- ~**10% increase in bankruptcy likelihood** (online access)
- ~7.5% more debt in collections
- Credit scores fell 0.8 pts (2.75 pts for mobile)
- Effects concentrated in **subprime** borrowers

Scale of the Problem

9 more people per 100,000 file bankruptcy

≈**30,000 more bankruptcies/year**

in states with online betting

+\$30 more debt in collections

per consumer

Tax revenue: \$1.5B vs. rising debt burden

These are *lower bounds*

Effects averaged across **all** residents (most of whom never bet). Only ~14% adopt betting post-legalization. ⇒ Implied effect on **actual bettors** is **5–10× larger**.

Baker et al. (2024) — “Gambling Away Stability: Sports Betting’s Impact on Vulnerable Households” (NBER WP)

- Average household invests ~\$380/quarter
- Sports betting legalization ⇒ **\$53 drop in quarterly investment** (≈14%)
- Effect applies to **all** households; grows over time (> \$144 drop after 4 years)
- Traditional gambling (casinos, lottery) **unchanged**, so betting crowds out *savings*, not other bets

Key Insight

If sports gambling were normal consumption, we’d see it shift the *consumption basket*.

Instead, we see it **come out of savings**. \$1 of sports betting crowds out nearly \$1 of equity investment.

Arnesen & Matsuzawa (2026) — “Sports Betting Legalization Amplifies Emotional Cues & IPV”

SSRN Working Paper, R&R at Review of Economics & Statistics

Building on Card & Dahl (2011): NFL upset losses raise IPV

Finding: In states with legal sports betting, upset-loss effect on IPV is **6–10 percentage points larger**

Heterogeneity (amplified by):

- Mobile (not just in-person) betting
- Areas with larger betting markets
- Sundays right after payday
- Teams on a **winning streak**

Causal Chain

1. Fan bets on favored home team
2. Team loses unexpectedly
3. Emotional cue (disappointment)
+ Financial cue (money lost)
4. **Violence at home**

When home team loses as expected:

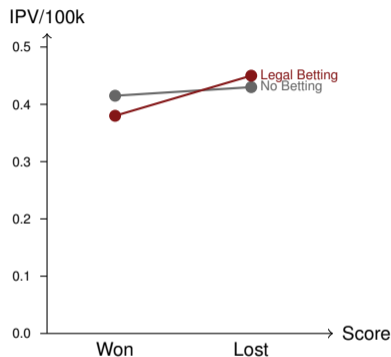
- IPV rate: similar with and without legal betting

When home team suffers an upset loss (was favored):

- **No betting states:** modest 3.6% IPV increase
- **Betting states:** **19% IPV increase**

Source: Arnesen & Matsuzawa (2026), Figure 3b

The smartphone in the pocket made this happen on the couch instead of at the casino.



Schematic based on Figure 3b, expected-win subsample

Who Wins from Sports Gambling?

Winners:

- **Sportsbooks:** FanDuel \$4.3B, DraftKings \$3.7B revenue (2023)
- **State governments:** \$1.5B in tax revenue (2022)
- **Media:** ESPN Bet, broadcast integrations, ad revenue
- **Sports leagues:** official data partnerships, in-stadium books

Who pays for all this?

- The average bettor (expected loss every year)
- Problem gamblers disproportionately (most revenue comes from a small share of heavy users)
- Families via savings destruction and IPV
- Taxpayers who fund social services

“Sin” industries make most of their profits on heavy users, who are often the people who suffer the most negative impacts from use.

“For an alcoholic, [mobile sports gambling] is like being forced to carry a flask in their pocket 24/7 — while talk of what alcohol to choose gets constantly woven into all their entertainment — and they by default get notifications asking if now is a good time for a beer.”

— Zvi Mowshowitz (2024)

The individual problem:

- Not that gambling is legal
- **Frictionless, ubiquitous, notification-driven mobile access**
- We ran the experiment. We have the data. The data are bad.

The Social Problem: Talent Drain

Sportsbooks hire data scientists, statisticians, and quants **in large numbers**. These people could be doing medical research, financial analysis, or business intelligence.

Private gains (sharp edges for the book) vs. **social losses** (talent diverted from value creation).

The gambling industry is a **rent-extraction machine** that funnels scarce quantitative talent *away* from productive work.

Cal Newport's "attention engineers" thesis:

Social media companies hire people who **borrow principles from Las Vegas casino gambling** to make their products maximally addictive (variable rewards, intermittent payoffs, dopamine loops)

Sports betting apps **close the loop** by **being the casino**, delivered via the same notification-driven smartphone.

Every in-game bet is an attention extraction event engineered to keep you engaged and spending.

Newport on Sports Betting (2026)

- 33% of men / 22% of women have accounts
- ~70% of college students on campus bet
- 60% of heavy bettors can't pay a bill
- ~20% of young adult bettors meet addiction criteria

*"You literally **cannot make money** over time on these services. If they're letting you bet, you are, by definition, bad at it."*

Newport would have said this *before* the data came in. Now we have the receipts.

Freddie deBoer's rules (2022): one app, meticulous records, never chase losses, set hard limits

He stayed disciplined. He kept winning. He says he had no problems.

He is the exception. He knows it. He says so.

The question isn't "can I handle it?" Most people asking that question can't. And the apps are designed to help the house find out before you do.

Sports gambling correlates with:

- Financial instability
- Relationship conflict
- Addictive screen loops
- Displacement of genuine leisure

We need to restore the friction that existed before 2018.

The libertarian objection:

Adults should spend their money how they choose.

The response:

1. These aren't revealed preferences. they're **manufactured** by push notifications and dark patterns
2. Externalities are real: IPV, bankruptcies hit *families*, not just bettors
3. We already regulate other addictive goods (alcohol hours, cigarette ads, casino location)

Policy Menu

Stronger:

Require in-person betting at physical locations
(Mowshowitz's proposal)

Weaker but achievable:

Ban mobile gambling advertising
Require opt-out self-exclusion defaults
Invest tax revenues in treatment & DV shelters

At minimum:

Stop expanding online casino gaming

Outcome	Magnitude	Source
Add. bankruptcies/yr (online states)	~30,000	Hollenbeck et al. (2025)
Bankruptcy likelihood increase	~10%	Hollenbeck et al. (2025)
Debt in collections increase	~7.5%	Hollenbeck et al. (2025)
Drop in household investment	14% (\$53/quarter)	Baker et al. (2024)
IPV increase (upset losses)	+6–10 pp	Arnesen & Matsuzawa (2026)
Diversion of productive labor	??	Me
Losses in ability to cogitate and focus	??	Newport (2026)
State tax revenue	\$1.5B/yr	AGA (2023)

Tax revenues \ll social costs. Wealth transferred from financially vulnerable households to sportsbook shareholders and state budgets. Effects concentrated among subprime borrowers.

What the economics says:

1. Betting lines are efficient, retail bettors will not beat them
2. The industry is structurally predatory
3. Legalization caused **measurable** financial and physical harm
4. Mobile access was the accelerant
5. Tax revenues do not cover social costs

The Verdict

We made a policy mistake in 2018.

The question is what we do about it.

“We’ve taken too many vices that we long had the wisdom to make *annoying*, and started making them *frictionless*.”
— Zvi Mowshowitz

Key references:

- Arnesen & Matsuzawa (2026): Sports betting & IPV [*R&R, ReStat*]
- Hollenbeck et al. (2025): Financial consequences
- Baker et al. (2024): Household savings
- Card & Dahl (2011): Family violence & football [*QJE*]
- Mowshowitz (2024): “The Experiment Has Failed” [*Substack*]
- deBoer (2022): “My Rules for Sports Gambling” [*Substack*]
- Newport (2026): “What’s Worrying Jonathan Haidt Now?” [*calnewport.com*]

Discussion Questions

1. Is the right response a mobile ban, higher taxes, or something else?
2. How should we weigh freedom of choice against externalities?
3. Does the “rational consumer” defense hold here?
4. Should states redirect gambling tax revenue to offset harms?
5. What other “hidden harms” can you think of, besides occupational shifting and general cognitive costs of always being distracted by gambling?