

# LEGISLATOR'S GUIDE

## to the Issues



## Gambling

### The Issue

It has often been suggested that Texas expand state-controlled gambling to increase state revenue in order to address the funding priorities du jour. For instance, one group suggested that gambling is a good way to “generat[e] more tax revenue for the state” in order to “rectify the anticipated budget imbalance.” However, turning to gambling for more government revenue is wrong on several counts.

First, raising revenue to keep up with calls for increased spending is not the right answer. Instead, Texas should restrain government spending at a level to keep it within available revenue. This approach of “living within one’s means” is simple and very similar to what most Texas families practice every day.

Second, whether the increased revenue comes from expanding an existing tax like the margins tax, from instituting a new tax like a tax on gambling, or from expanded economic growth, the result is the same: more government and more government spending. And the bigger the government and the more government spends, the more it can regulate. We will not have a “wise and frugal Government,” or liberty, if our default is to squeeze every penny we can out of the economy.

Third, a significant body of research has shown that gambling expansion does not increase state revenues to the level suggested by proponents. As the Foundation noted in a 2005 study:

The economic impacts of gambling have been examined by a large body of national and international research; however, the research findings are mixed. While there is general agreement that gambling can provide large state revenues and that there are socioeconomic costs attached to these revenues, researchers disagree about the dollar value assigned to these costs and whether the net fiscal impact is positive or negative. ...

Costs associated with gambling include: (1) a reduction of approximately 10 percent in state lottery revenues; (2) an investment of approximately 10 percent of revenues in regulatory costs for gambling; (3) criminal justice costs underwriting an 8 to 13 percent increase in crime; (4) lost state and local revenue resulting from diversion of spending from goods and services to gambling; and (5) lost jobs resulting from decreased spending on non-gambling goods and services. ...

According to some research, the economic impact of gambling is positive—however, most of these studies acknowledge limited or no calculation of costs.... Other research, however, indicates the economic costs associated with gambling cancel out the revenues with net-zero financial gains or result in an overall financial loss at the end of the day. For example, research conducted by Florida’s Office of Planning and Budgeting concluded in 1994 that Florida would experience

a significant deficit if the state expanded gambling; although tax revenues were projected to reach almost \$500 million annually, gambling costs were projected to total at least \$2 billion annually.

Finally, past experience has proven that allowing gambling can result in what is known as “regulatory capture.” The Texas Racing Commission is a perfect example.

In 2014, in an effort to help the horse racing industry, the commission allowed historical racing at racetracks in the Lone Star State, bypassing the Legislature which has the sole authority to allow new forms of gambling. Members of the Texas Legislature challenged the commission’s authority to authorize historical racing, while a state district judge ruled that it did not. The commission, filled largely with members from or sympathetic to the racing industry, persisted. It was not until the Texas governor replaced some members of the commission that it eventually repealed the rule in 2016.

The Texas Model (i.e., low spending and taxes; a predictable, low level of regulation and strong property rights protection; a sound civil justice system; and minimal dependence on/interference from the federal government) has helped make Texas the nation’s leader in job creation over the last decade. It has also helped us successfully meet past budget shortfalls without increasing taxes on hardworking Texans.

Rather than turn to gambling, or other sources, for new revenue, Texas should live within its means through reducing wasteful or unnecessary government spending.

### The Facts

- Researchers have found that the economic costs associated with gambling cancel out the revenues with net-zero financial gains or result in an overall financial loss.
- Costs associated with gambling include:
  - reduction of state lottery revenues,
  - increased regulatory costs for gambling,
  - criminal justice spending to counter an 8% to 13% increase in crime,
  - lost state and local revenue resulting from diversion of spending from goods and services to gambling, and
  - lost jobs resulting from decreased spending on non-gambling goods/services.

### Recommendations

- Do not expand or further legalize gambling in Texas.
- To address any potential budget shortfalls, Texas policymakers should reduce wasteful or unnecessary government spending.

### Resources

[VLTs — What Are The Odds Of Texas Winning?](#) by Chris Patterson, Texas Public Policy Foundation (March 2005).

[\*Gambling in America: Costs and Benefits\*](#) by Professor Earl L. Grinols, Cambridge University Press (Dec. 2009).

*Gambling Economics: Summary Facts* by Professor Earl L. Grinols, Baylor University (Nov. 2004).

[\*Racing Commission Should Abandon Effort to Legalize "Historical Racing" Slot Machines\*](#) by Bill Peacock, Texas Public Policy Foundation (Aug. 2014).

