

ECON30580 Economics of Betting Markets

18. Regulation of Betting Markets

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Spring 2026

The Libertarian Case Against Bans or Tight Regulation

- The evidence of the damage caused by problem gambling raises the question of whether this activity should be banned or else much more tightly regulated.
- Libertarians argue that people should just be left to do as they wish with their own money.
- An example of the libertarian case is an article in *The Economist* “America’s Gambling Frenzy” (available on Brightspace). The article says “*The boom in betting should be celebrated, not feared.*”
- “*sports betting is a far cry from sitting at a machine, alone, feeding quarters into a slot. It is often a communal activity. Unlike roulette, a game of luck in which everyone understands that the house always wins, it can be a skill. Other vices that America enjoys and taxes, like alcohol, are responsible for more catastrophic harm.*”
- “*much about today’s gambling boom should be celebrated as an expansion of people’s freedom to lead their lives as they choose ... the boom is a consequence of people’s enjoyment. In surveys 40% of Americans say they bet on sports—and the share would be higher still if all states legalised it. Freedom is not only measured by speech and political liberty, but also by the ability to spend your money as you wish.*”

Practical Problems with Bans and Tighter Regulation

- Even if you disagree with the libertarian position and would like to ban gambling altogether, you would not be successful in eliminating it.
- History shows that people will gamble whether it is legal or not.
- Moving it to the black market provides a significant revenue boost for criminal organisations and removes any chance of regulation.
- Again, *The Economist*: “*In China the Communist Party has long waged war on all forms of gambling outside Macau and Hong Kong, but today it is struggling more than ever to suppress the industry. Criminalising gambling would deprive tens of millions of people of entertainment and drive the most compulsive bettors underground, where they would be more vulnerable to abuse.*”
- Beyond bans, some argue that aggressive regulation would discourage bettors from placing bets with legal bookmakers and move them to illegal ones.
- Betting industry lobbyists also point out that they are not the only industry that sells a product that can cause difficulties for people and those other products are not banned and tend to come with (at most) limited warnings.
- They say they do this already with their warnings to “gamble responsibly.”

The Case for Tighter Regulation

- In my opinion, the economic case for tighter regulation on gambling in most advanced countries is strong.
- In countries like the UK and Ireland, gambling rules were very substantially loosened in the 2000s without careful consideration of the consequences. And the emerging US sports betting industry has almost no regulation or policies surrounding problem gamblers.
- Many people enjoy gambling but problem gambling issues inflict **negative externalities**. The negative effects impact not just the problem gamblers but also their families.
- Taxpayers are also affected via the higher prevalence of unemployment among problem gamblers and their greater likelihood of having health problems.
- These are classic public finance arguments for restricting consumption of a good or service via taxes or regulation.
- Betting is taxed but we know that bettors are very sensitive to expected returns and if taxes rise enough, they will be able to seek out better odds from offshore bookmakers in tax havens.
- This leaves tighter regulation on the sector as the best option.

Regulation and Problem Gambling: The UK Experience

- The harms associated with problem gambling create a clear case for government intervention.
- Governments have always been heavily involved in the legal gambling industry
 - ▶ Granting licences
 - ▶ Setting operating conditions
 - ▶ Raising taxes
- The UK has one of the longest histories with a fully developed online gambling market.
- The Gambling Act 2005 created a highly deregulated environment:
 - ▶ Few restrictions on betting products
 - ▶ Extensive advertising permitted
 - ▶ Focus on self-regulation by bookmakers
- Today there is broad cross-party agreement that the current system requires tighter regulation.

Self-Regulation by the Industry

- The UK system relied heavily on self-regulation by bookmakers.
- The industry has introduced various “responsible gambling” initiatives.
- Example: Recent agreement that 20% of television gambling advertising will focus on safer-gambling messages.
- These initiatives are not meaningless but are unlikely to be sufficient given the scale of the problem.
- A key difficulty is that **problem gamblers are extremely valuable customers**.
- Research by economists David Forrest and Ian McHale found that **85% of online gambling profits come from just 6% of bettors**.
- This group includes wealthy “high rollers” but also clearly includes many problem gamblers.
- An industry that relies heavily on a small group of high-loss customers cannot be expected to put vulnerable customers first without strong external constraints.

Areas for Policy Progress

- Goal should be to reduce harm without disrupting normal recreational betting.
- Areas where progress is possible:
 - ① Restrictions on advertising
 - ② Greater transparency about gambling losses
 - ③ Stronger protections for problem gamblers
- **Restrictions on Advertising**
 - ▶ Advertising from bookmakers pushes the bets that have the biggest loss rates and encourages the most damaging outcomes for bettors.
 - ▶ Sponsorship and advertising around sporting events normalises regular betting and makes it harder for problem gamblers to quit.
- **Transparency:**
 - ▶ Some US states require separate reporting of volumes and profits on parlay and non-parlay bets.
 - ▶ Similar reporting requirements could easily be introduced in other countries.
 - ▶ Advertisements for products like Accas could also include warnings about their historical loss rates.

Focus on Problem Gamblers

- Bookmakers should be required to check whether people have the income to sustain their gambling losses and cut them off if not.
- In the UK, some checks now exist: Net deposits of £150 over 30 days can trigger checks for whether the person has serious debt problems.
- There are ongoing debates about stronger **affordability checks**. These would require gamblers with large losses to provide information about income.
- These proposals have their critics
 - ▶ Some say the checks are an invasion of privacy.
 - ▶ Others ask why gambling should get special treatment: pubs do not have to check whether customers can afford alcohol.
- These arguments can be countered.
 - ▶ There are limits to digital privacy. Like it or not, your data is being used and re-used many times already.
 - ▶ There are relatively few licensed gambling operators: This makes it feasible to impose a duty of care on firms.
- Another recent UK policy: Restrictions on stakes and betting frequency in online casino games, which problem gamblers often get addicted to.

The Firm-by-Firm Problem

- Current rules generally operate on a firm-by-firm basis.
- If a gambler hits limits at one operator, they can simply move to another firm.
- They may also gamble right up to the limits across multiple firms simultaneously.
- No single operator sees the full picture of the gambler's total losses.
- One proposed solution is a **single customer view** system.
 - ▶ This would involve centralised data on gambling losses across operators, only seen by an independent body.
 - ▶ Once a gambler crosses a combined loss threshold, gambling firms receive alerts triggering stake limits or affordability checks.
 - ▶ The UK already operates a national self-exclusion system, GamStop. When you sign up, you get cut off from all the licensed operators.
 - ▶ This shows that cross-operator coordination, and tracking individual customers, are both feasible.
- Implementation of the SCV seems a long way off.

The Offshore Threat

- Whenever tighter regulation or higher taxes are proposed, the industry raises the same argument:
- Customers will move to unlicensed offshore operators.
- This concern is not entirely imaginary. Unlicensed online gambling is sizeable in many countries.
- However, the threat is often treated as a conversation stopper rather than something to be actively addressed.
- In the UK, enforcement has often been reactive:
 - ▶ Warnings
 - ▶ Cease-and-desist letters
 - ▶ Website takedowns
- This resembles whack-a-mole enforcement.
- Many betting brands targeting Asian markets have advertised on Premier League shirts or pitchside boards, even though they do not have UK licences.
- Clubs are allowed to partner with these firms provided geo-blocking prevented UK customers from betting. In practice, geo-blocking can often be bypassed using cheap VPNs.

Crime and Offshore Gambling

- Beyond tax evasion and their non-compliance with responsible gambling regulation, there is another reason to be tough on unlicensed offshore gambling firms.
- The unlicensed operators are often linked to wider criminal ecosystems.
- These may include:
 - ▶ Scam centres
 - ▶ Payment laundering networks
 - ▶ Forced labour and human trafficking
- Online gambling brands and fraud operations often share:
 - ▶ Infrastructure
 - ▶ Payment channels
 - ▶ Ownership structures
- Tolerating large unlicensed gambling markets can therefore provide cover and cash flow for organised crime.

France: A Different Approach

- France adopted a much stronger enforcement approach in 2022.
- The regulator was given powers to:
 - ▶ Block illegal gambling sites
 - ▶ Delist them from search results
- These actions could occur without lengthy court procedures.
- In the first 18 months, as many sites were blocked as in the previous 12 years.
- The strategy is a “full-court press”:
 - ▶ Target websites
 - ▶ Target payment systems
 - ▶ Restrict advertising
- The goal is not total elimination but keeping offshore betting a niche activity.
- And the goalposts keep shifting: Many of the unlicensed operators have moved to taking bets in cryptocurrencies, making payments systems restrictions less effective.

An Unfortunate Regulatory “Equilibrium”

- The current situation often reflects an unfortunate equilibrium.
- Licensed operators argue stricter regulation will push customers offshore.
- Governments emphasise the difficulty of policing offshore operators.
- Each side points to the same problem to justify caution.
- The result is weak enforcement and inadequate regulation.
- Breaking this equilibrium requires treating offshore gambling as a separate policy problem, not as an argument against reform.
- Ireland has now established a new Gambling Regulator charged with focusing on public safety and well-being. It is likely to face interesting choices in the coming years.