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Regulating Risks: Policy Recommendations for the Sports Betting Industry

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Table Of Contents

02 Introduction

03 Start of an Industry

04 An Unforeseen externality: Growth of Fantasy Sports

05 The Straw that Broke the Camels Back: Murphy v. NCAA.

06 Explosive Growth

07 Impact on the Game

08 Regulatory Action

09 Conclusion

Sports betting has been a taboo industry, with a history of corruption going all the way back to the 1919 World series where players on The Chicago white socks agreed to throw the series in return for a larger payout than their salaries. Other controversies have arisen in recent years include active players like Pete Rose facing legal troubles for betting on games, and even an NBA referee placing bets on games he was officiating. Films like Casino and Uncut Gems have created popular depictions of sports betting as an activity plagued by dangerous figures associated with organized crime. The **legalization** of sports betting has allowed for more legitimate forms of gambling to emerge, separate from that of organized crime. **Gambling websites** have become especially popular, allowing for all the excitement of gambling, all from the comfort of your home. These online sports betting companies can offer an alternative to the bookies and mafia figures who previously dominated the industry, while still fueling people's degenerative addictions that have left many people financially ruined.



THE START OF AN INDUSTRY

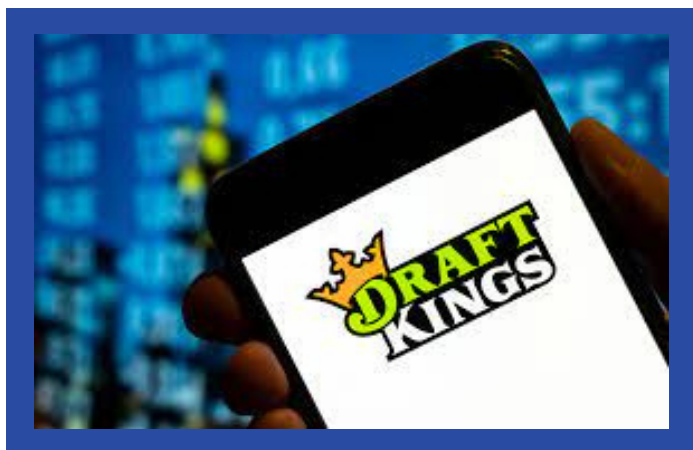


These online sports betting companies can offer an alternative to the bookies and mafia figures who previously dominated the industry, while still fueling people's degenerative addictions that have left many people financially ruined. With online sports betting seeing a massive increase in popularity, with the rise of brands like **Flutter Entertainment** (Owner of FanDuel), **Draft Kings**, and **MGM** dominating the sports betting market, the need to regulate, and focus on this issue is more urgent now than ever. The floodgates of sports betting were opened in 2006 with legislation that created a loophole allowing for fantasy sports. Soon after the passing of this legislation was passed, FanDuel and Draft Kings were founded in 2009 and 2012 respectively, quickly becoming the most popular sports betting apps on the market. Confusion over the legality of sports betting stems from the issue being left to the states with a slight majority of states having legalized sports betting since the 2018 **Supreme Court** decision on the matter, but with many states not yet passing legislation to follow suit. This brings up a difficult question of how state governments can adequately enforce their laws surrounding online gambling, with VPNs allowing someone in an illegal state to place bets from a state where the act is legal. Beyond the issue of enforcing the legality of sports betting on a state level, these states being able to turn these gambling activities into revenue for their municipalities raises the question of if states have the capacity to properly **regulate** this industry, or if the federal government would be able to take on this task more effectively.

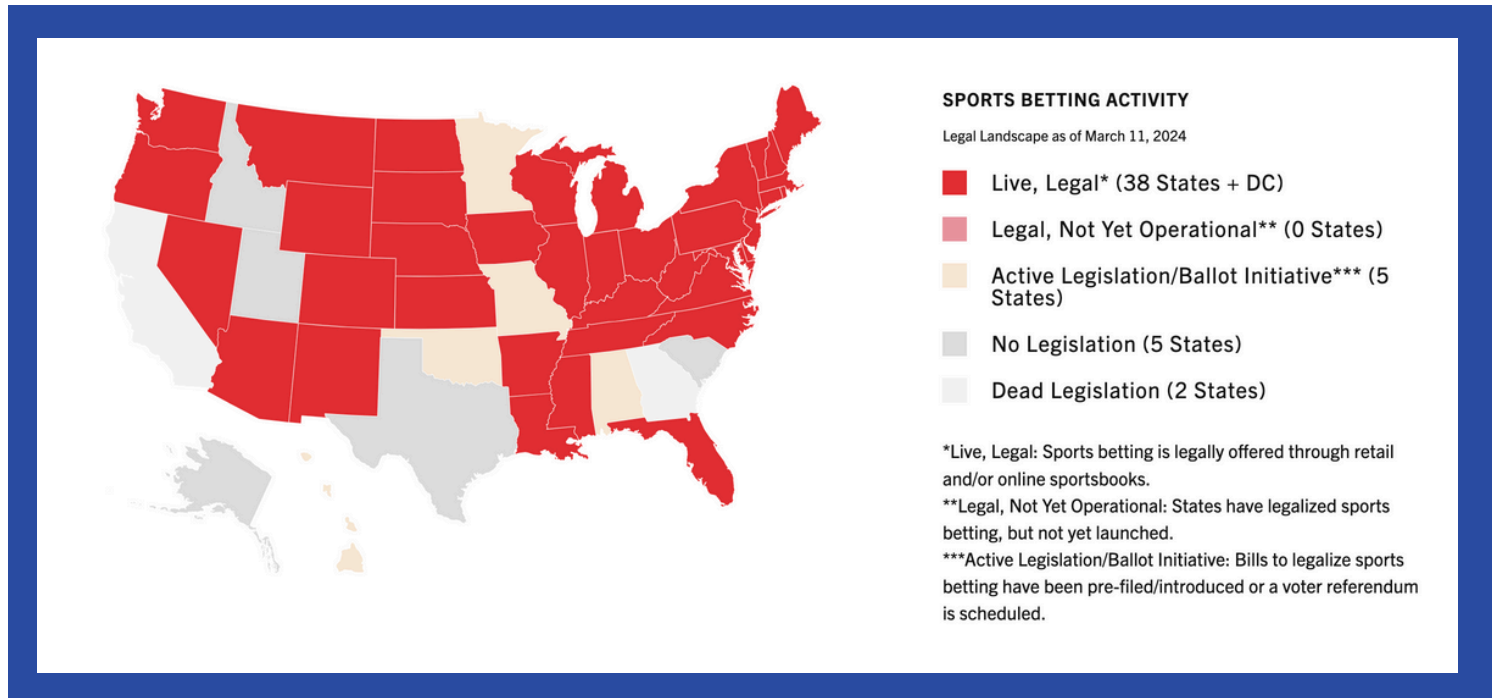
AN UNFORSEEN EXTERNALITY: GROWTH OF FANTASY SPORTS



While some cite the 2018 Supreme Court case **Murphy v. NCAA** as the start of legalized sports gambling in the United States, the beginnings of its rise can be traced back to federal regulation. In 2006, Congress passed the **Unlawful Betting Enforcement Act**, banning online gambling companies from accepting payments from localities which prohibited gambling. This particularly hurt online poker companies, forcing them to set up systems to confirm the age and geographic location of gamblers on their sites, ultimately leading to substantial portions of the U.S. being cut off from legal avenues to gamble. Despite its effective regulation of traditional online gambling platforms, the **U.B.E.A** did leave gambling adjacent operations, particularly **fantasy sports**, to operate outside of its regulations. For legislatures, fantasy sports were seen as a game of skill, requiring players to test their knowledge of the game against other participants rather than overt game of chance like poker or blackjack. Allowing for Fantasy Sports to remain legal opened the floodgates for sports betting **companies** to **monetize** and expand fantasy sports from a game played between friends and coworkers over a small pot of money, if any at all, to a legitimate gambling operation where people could bet serious money on drafting a fantasy team on a weekly basis and winning or losing money based on the performance of their team for that week. Companies like Draft Kings were able to turn this loophole into a **multibillion-dollar industry.**

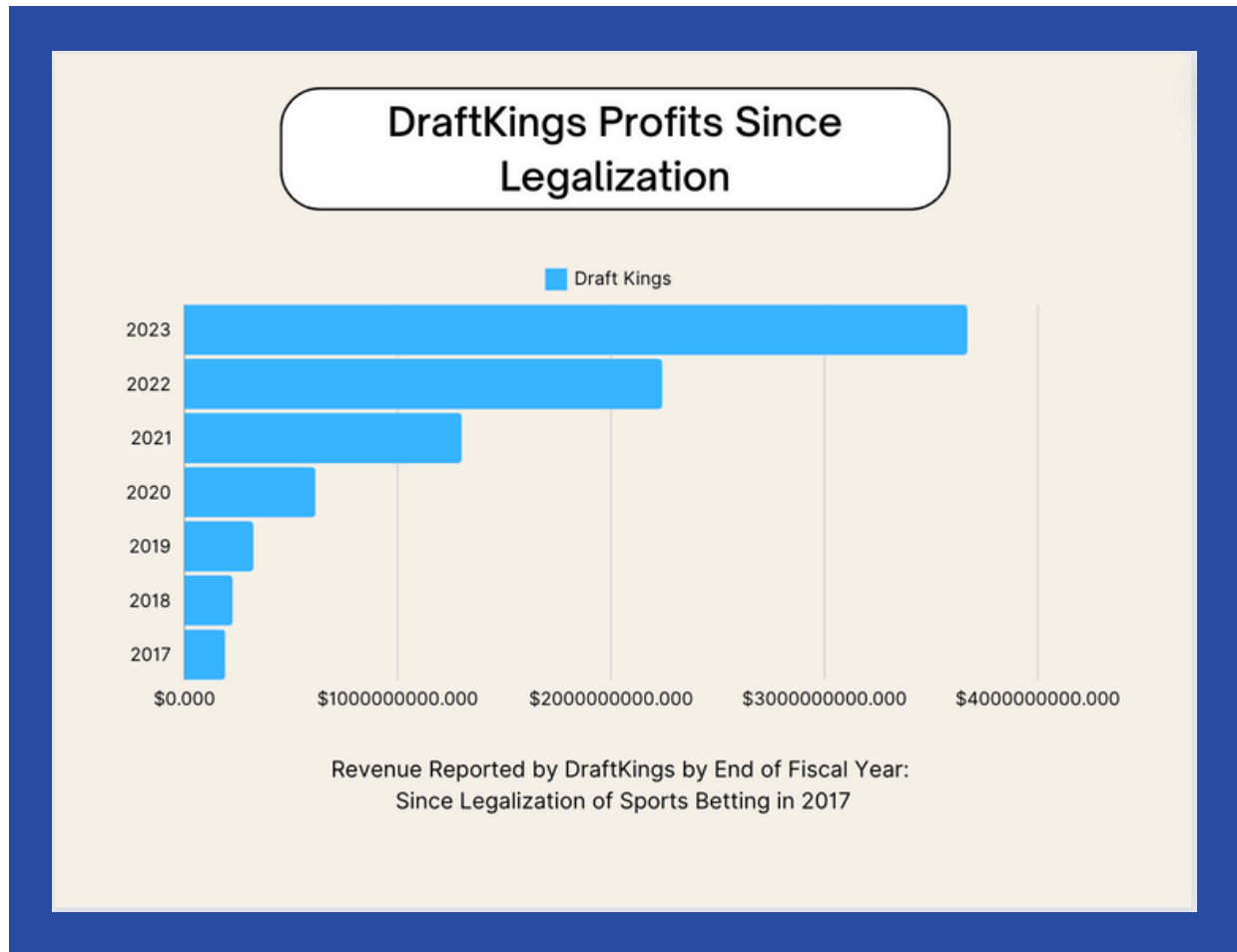


THE STRAW THAT BROKE THE CAMELS BACK: MURPHY V. NCAA.



While the U.B.E.A. did set the stage for a massive expansion in the sports betting industry we see today, it was the Supreme Court case of **Murphy v. NCAA**, which truly opened the floodgates. In the case, the state of New Jersey argued that the Professional and Amateur Sports Protection Act of 1992 (**PASPA**), which outlawed sports gambling outside of the state of Nevada, was unconstitutional. The state believed that in passing the **PASPA**, Congress had overstepped its authority by restricting the right of state legislatures to legally authorize sports betting operations at casinos and racetracks within a state's borders. When the case reached court in December of 2017, the Court ruled that PASPA was **unconstitutional**, with the court split 7-2 in favor of New Jersey's argument that that the law violated the 10th Amendment, intruding on the state's right to **self regulate** within its borders. In the majority opinion, Justice Alito argued that the entirety of the PASPA violated the constitution's anti-commandeering clause, making the law in its entirety unconstitutional. Following the ruling, online gambling began to spread rapidly across the country, with organizations like Fanduel and DraftKings making the switch from fantasy sports to online sports betting overnight.

EXPLOSIVE GROWTH



Since **2018** there have been rapid changes in state legislation regarding Sports Betting. Most notably, almost every state across the country has begun the process of implementing fully legal sports betting. As of now, **38** states, and the District of Columbia, have implemented both full legalization, and established institutions through which to participate in this growing phenomenon. The institutions vary state from state, but most use a combination of retail and online infrastructure to capitalize on legalization. The growing phenomenon can best be explored through the exponential growth in **profits** by sports betting companies such as Flutter Entertainment (FanDuel, Sky Betting & Gaming, Sportsbet), DraftKings, and Bet365. Moreover, due to the rapid expansion of the market, traditional gambling institutions such as MGM Casinos have also begun to enter the market. The **explosive growth** of competitors in this sector indicates the **increased participation** of sports betting across the nation and the profits from which to gain.

IMPACT ON THE GAME



The impact of sports betting on players and fans alike has been an issue that has plagued the integrity of sports since its inception. Problems with **match fixing**, insider “trading,” and **point-shaving** have long occurred regardless of the legality of sports betting. Moreover, ever since its legalization the number of **scandals** has **increased** exponentially. Most notably, the 2024 **Shohei Ohtani** scandal has brought the issue back into the forefront of discussions regarding sports betting. The scandal involved his interpreter Ippei Mizuhara placing a series of bets with an **illicit bookie** beginning in 2021. Since then, Mizuhara accumulated roughly **\$4.5 million in debts**, eventually asking Ohtani to pay off some of his debts. Unaware of the nature of these transactions, Ohtani was inadvertently implicated and later suspected of **collusion** with Mizuhara following the media uproar. While Ohtani was eventually proven innocent, this scandal was an explosive start to the 2024 Major League Baseball season.

The inherent nature of sports betting often leads to scandals and can negatively impact sports, however, sports betting as an institution can also have **negative ramifications** for the players themselves. Most recently, there has been a push by NCAA president Charlie Baker has called upon states where sports betting is legal to remove “prop bets” on players. The term **prop bets** refer to bets placed on how particular players will perform during a game. The prominence of prop bets has resulted in an increase in negative fan interactions with players. Instead of fans being upset with players simply due to poor performance, they are now berating players simply because their bets didn’t “hit.” This has led to an increase in negative **psychological impacts** on players, and in particular college age players who have not developed the necessary coping skills to ignore hecklers and other such demonizing language.

REGULATORY ACTION



In terms of possible regulatory options for the sports betting industry, there are multiple ways in which policymakers can set limits on the possible negative externalities. On one hand, a direct approach would see the government have companies impose **limits** on the amounts of **money** that individuals can bet on their sites. This would limit individual gamblers' possible exposure to loss, ensuring that those who gamble do so when it makes sense for them financially. From a taxation point of view, the government could place **direct taxes** on gambling winnings, having companies extract the revenue directly from the transaction rather than waiting for yearly tax returns to receive the funds. This path also has the ability to place **barriers** on individuals from **gambling** when it is not financially feasible by adding **additional fees** to the sports betting process.

Additionally, the government should limit the amount of **free money promotions** these sites can offer, limiting the ability of individuals to continue gambling past the point where it no longer is financially viable. While these options would not disincentivize the large portion of the population from sports gambling, it will ensure that the government, and by extension society, gain meaningful **benefits** from an industry that has the potential to ruin lives. An alternative approach would be more indirect, limiting the industry's exposure to the general public rather than directly regulating individual gamblers. This would **prevent predatory advertisements** that specifically target those with gambling problems, **limiting airtime** that these companies can run **ads** on TV or on phones, streaming, etc., can help limit people's impulse to place bets when they otherwise would not. Beyond the share of advertising that these companies should be allowed to have over popular media, many of the incentives offered can also be the difference between someone sparking or reigniting a gambling addiction or abstaining from gambling altogether. This path would see the government place limits on the amount of advertising airtime that **sports betting** firms can purchase from broadcasting corporations.



CONCLUSION



After looking over the issue of sports betting, it is not so simple to solve the problem as to legalize it or outlaw it entirely. A **complete ban** will not take away the vice as people have found ways to gamble with or without the authorization of the government, as can be seen with the associations between sports betting and bookies/organized crime. The issue is much more **complex** as it is preferable for people to take part in this vice through legalized, regulated avenues, but the **convenience** can create an issue with fanning the flames of people who struggle with this **addiction**. There are multiple paths the government can take moving forward in terms of regulation, and legislation, but with the rise in popularity over such a brief period of this industry, **actions must be taken** to ensure that current issues are not further exasperated.

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