

Online gambling would benefit from better regulation

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Credit: Michigan State University

The U.S. government's attempt to crack down on Internet gambling is widely seen as a convoluted mess. Yet, more controlled and defined regulation would likely benefit the \$41 billion industry and protect consumers alike, finds a new study by Michigan State University business scholars.

The study is the first to estimate the costs and benefits of the Unfair Internet Gambling Enforcement Act, which was signed into law by President George W. Bush in 2006. Despite ongoing uncertainty and confusion stemming from the law, the industry has reacted positively, with the value of publicly traded online [gambling](#) firms increasing nearly 3 percent.

"The online gambling industry is at the point where it wants controlled regulation," said Mark Johnson, MSU finance professor and study co-author. "We conclude that both the industry and individuals - including underage and problem gamblers - would be better off if regulation exists."

The law essentially made online gambling such as virtual poker and blackjack illegal except for "fantasy" sports, online lotteries and horse/harness racing. Although the law was passed in 2006, governing rules weren't issued for two more years. In addition, the Department of Justice seemed unsure of its own enforcement strategy until 2010.

Then, in 2011, the Justice Department appeared to flip-flop positions by signaling that online gambling was legal if allowed by state law. While uncertainty remained - the DOJ's ambiguous ruling didn't exactly open the floodgates to Internet gambling, the study says - it did open the possibility that future rulings might further clarify the law.

Johnson and his fellow researchers studied the public value of online gaming firms in the years following passage of the 2006 [law](#), and found that values increased when such positive signals were given. The Justice Department's 2011 ruling, for example, was associated with a 3.5 percent boost in firm values.

Worldwide, the online gambling market has nearly tripled in the past decade, from \$14 billion in 2005 to \$41 billion in 2015, according to

industry estimates.

"Internet gambling is expected to continue to grow," Johnson said. "And while it's unclear which types of [online gambling](#) will be and won't be legal in the future, if the U.S. government more clearly defines 'legal gaming,' the benefits and risks associated with investment in all areas of the [industry](#) will be altered."

Johnson co-authored the study with A.J. Singh, professor of hospitality business, and Yifan Zhou, a former finance student. The paper appears in the *Journal of Hospitality Financial Management*.

Provided by Michigan State University

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