

Texas Public Policy Foundation

Government Reform

Legislator's Guide to the Issues 2017-18

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 in 2012 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, this approach is wrong on two 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 is very similar to the practice that most Texas families put into practice every day.

Yet even this seemingly fiscally conservative approach to spending doesn’t leave any room for savings. So while Texas has restrained the growth of spending better than most other large states, it still has plenty of room for improvement.

For instance, between 1990 and 2010, the sum of population growth plus inflation in Texas totaled 115%. During the same time, however, state spending increased by more than 300%, roughly two-and-a-half times that amount.

The same is true when it comes to public education spending. Total Texas public school expenditures increased 334% from 1987 to 2007, an increase of 142% when adjusting for inflation. On a per-pupil basis, Texas’ costs increased from \$3,659 in 1987 to \$11,024 in 2007, a 66% increase per-pupil when adjusted for inflation.

Whether the increased revenue in these examples comes from expanding an existing tax like the margin tax, from instituting a new tax like a tax on gambling, or from expanded economic growth, the result is the same: more government.

The ultimate measure of government’s ability to regulate the industrious pursuits of its citizens is how much it spends. The more it spends, the more it must tax. The more it spends, the more it can regulate. We will not have a “wise and frugal Government” if our default is to spend every penny we can squeeze out of the economy.

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 runaway leader in job creation over the last decade. It has also helped us successfully meet past budget shortfalls without increasing taxes on hardworking Texans.

Second, 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% in state lottery revenues; (2) an investment of approximately 10% of revenues in regulatory costs for gambling; (3) criminal justice costs underwriting an 8 to 13% 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. ...

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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.

Rather than turn to gambling or other sources for new revenue, Texas should instead address whatever budget shortfall we may face through reducing wasteful or unnecessary government spending.

The Facts

- Many 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 and services.

Recommendations

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

Resources

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

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

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

