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Gambling, Saving, and Lumpy Liquidity Needs[†]

By Sylvan Herskowitz[*]

I present evidence that unmet liquidity needs for indivisible, "lumpy," expenditures increase demand for betting as a second-best method of liquidity generation in the presence of financial constraints. With a sample of 1,708 sports bettors in Kampala, Uganda, I show that participants' targeted payouts are linked to anticipated expenditures, while winnings increase lumpy expenditures disproportionately. I show that a randomized savings treatment decreases demand for betting. And I use two lab-in-the-field experiments to show that unmet liquidity needs and saving ability are important mechanisms. These results cannot be explained by betting as a purely normal good. (*JEL* C93, D81, G51, L83, O12, O16)

Gambling has been popular for millennia (Schwartz 2013). Today, it is a global industry with revenues estimated at nearly half a trillion dollars.[1] Over the past decade, sports betting has emerged as one of the fastest growing forms of gambling, itself frequently valued over a hundred billion dollars.[2] While the world's largest markets have historically been in major developed countries such as the United Kingdom, Japan, Australia, and China, new technologies have enabled international companies to enter previously untouched markets, with growth fastest across the developing world and, in particular, throughout Africa.[3] While many view gambling as a valuable source of entertainment and tax revenues, critics raise concerns about potential harms from gambling, including increased crime, indebtedness, and

*[illegible]

[†]Go to https://doi.org/10.1257/app.20180177 to visit the article page for additional materials and author disclosure statement(s) or to comment in the online discussion forum.

[1]https://www.statista.com/statistics/253416/global-gambling-market-gross-win/

[2]http://www.statista.com/topics/1740/sports-betting/
http://www.bbc.com/sport/0/football/24354124

[3]For background on global betting expansion, see industry reports from H2 Gambling Capital (2015), PricewaterhouseCoopers (2014), and Moro (2009).

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