David Shipley writes: From the day it opened in April 2012, Revel Casino Hotel in Atlantic City loomed as a shimmering $2.6 billion monument to misguided optimism. Now, deeply unprofitable, it plans to close. Its saga illuminates two misconceptions about the relationship between gambling and government.

The first is that casinos will be a savior for state and local budgets. In the months before Revel opened, New Jersey Governor Chris Christie was brimming with confidence about the revenue the resort would bring, even after the state had to guarantee $261 million in tax credits to restart construction on the project when its original investor, Morgan Stanley, walked away.

When Revel finally opened its doors, it failed to attract much business as Atlantic City's gambling revenue continued its long decline. Now, in bankruptcy for the second time, it's one of four gambling houses in the city expected to close this year, taking with them nearly 8,000 jobs.

As casino competition intensifies -- more than two dozen have opened on the East Coast since 2004, with another 12 planned -- reality is hitting home elsewhere, too. In Delaware, the legislature has approved back-to-back bailouts of the state's casinos after they threatened layoffs. Indian tribes have been seeking federal grants as their gambling revenue has dried up. In New Jersey, programs for the elderly and the disabled funded by casino cash are now imperiled. And in impoverished East St. Louis, which relies on a casino for nearly half its budget, weak gambling receipts have contributed to cuts to police and fire departments.

Like any other business, casinos can bring in tax revenue. But governments tend to vastly overestimate their potential. (For one thing, it's an appealing way to avoid harder questions about taxes and spending.) A recent study found that, on average, casinos actually have a "small but negative net impact" on state revenue. That's likely to worsen as competition increases -- and states should recognize how precarious such revenue is.

The second dubious assumption is that new casinos can reliably revitalize moribund communities. When New Jersey authorized gambling in Atlantic City in 1976, it was intended to give a struggling seaside resort new life. Decades later, Atlantic City's unemployment rate is 11.8 percent, 30 percent of its citizens live in poverty, and its violent-crime rate is through the roof.

Revel was intended to be the cornerstone of yet another plan to turn all this around, with Christie creating a new state-run tourism district and boosting marketing dollars for the city. The state even paid to train Revel's staff -- all as market demand was visibly dwindling.

Now other states are dreaming the same dream. New York plans to open four gambling resorts in long-suffering upstate areas. Maryland hopes a giant casino can revive Baltimore's inner city. And so on.

This strategy, if it ever made much sense, is subject to diminishing returns. Casinos have a better chance of reviving an area when they draw tourists and gamblers from out of town, which is getting harder and harder as more states enter the arms race. And they can bring plenty of troubles of their own, including declining property values, increased problem gambling, higher bankruptcy rates and more crime. They also require an expansive regulatory bureaucracy, tend to act as a regressive tax, and can potentially cannibalize local businesses and jobs.

All of which isn't to denounce gambling. Casinos are fun, and you can't beat the buffets. But they're not the answer to life's problems, for a government as much as for a desperate gambler. States should regulate them, but let the market decide where they should go -- and whether they win or lose.