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September 2, 2009

Senator George H. Bunting Jr.
Legislative Hall
P.O. Box 1401
Dover, DE 19903

Representative John C. Atkins
Legislative Hall
P.O. Box 1401
Dover, DE 19903

Dear Senator Bunting and Representative Atkins:

I write to you, strictly as a constituent and life-long citizen of the State of Delaware and *not* in my official or professional capacity, regarding the efforts to balance the state's budget. It is clear that the Governor and the Legislature have made the policy decision (despite the sports betting setback in the Third Circuit Court of Appeals) to expand gambling as a mechanism to increase state revenues. For the record, I think this is a mistake, for reasons far too numerous to recount here. Suffice it to say for now that I believe the social costs of gambling, in the long run, will outweigh the social benefits. Nevertheless, if this is the path on which we are now irrevocably embarked, I believe it is important to implement this decision so as to maximize the chances that it will succeed as a public policy (that is, ensure that it will indeed produce significant revenue gains for Delaware).

Gambling is a regulated industry. Entry is limited by government. In Delaware this is not just a matter of requiring a license available to anyone able to pay a modest fee and perhaps meet minimum legal, financial, and regulatory qualifications (as is the case, for example, with opening a liquor store, a bank or an adult entertainment business). Instead, entry requires an applicant to convince the Legislature and the Governor to permit it to compete with those already so favored (Harrington, Dover and Delaware Park). Any explicit limitation on entry into a market imposes a net deadweight economic loss on society. In addition, the large profits of gambling enterprises result in classic "rent seeking" activities, that is, efforts to keep or to appropriate these profits. Such efforts include, among other things, lobbying for and against increased gaming opportunities. Indeed, the

reason gaming is so profitable to its owners is precisely because it *is* a regulated industry—competition is restricted and profits are assured. The huge profits from gambling and the resultant temptations to corruption--both the risk of quasi-corruption via large campaign contributions and the outright corruption of lobbyist bribes (recall the Abramoff scandal)--could be eliminated at a stroke by abolishing the limitations on entry. Unobstructed entry (with only modest qualifications required) would increase gambling venues until the price of gambling fell to the cost of operating a gambling business. Of course, if the price of gambling were lower there would be more gambling and more social costs (including gambling addiction, bankruptcies, broken marriages, etc). Nevertheless, as I said at the outset, Delaware has made the policy decision to accept the social costs of gambling in exchange for enhanced state revenue. Hence, no principled reason exists for maintaining entry barriers. Instead, competitive market forces should determine the economically optimal number of gambling venues. We also should eliminate the fig leaf long used to justify limiting slots to only three racinos—as protection for the horse racing industry. Horse racing is a dead or dying industry (Pimlico, for instance, is bankrupt), just as agriculture in Delaware is a dying industry (we grow more housing developments than poultry).

In short, we should adopt an intellectually honest approach to the gaming industry in Delaware. If gambling is to become Delaware's economic savior, in the same sense that the Financial Center Development Act was once advertised to be, protectionist barriers to entry should be removed (just like the FCDA—only modest qualifications to become a bank credit card company in Delaware). A free and competitive market without artificial entry barriers will attenuate risks of corruption, increase state revenues, and yield the optimal number of venues the available population base can support. Ending needless taxpayer subsidies to a dead industry (horse racing) and regulation by the state (akin to Nevada) will further increase state revenues. Elimination of weak venues (e.g., Harrington) by strong venues (Del Pointe? Wilmington?) is merely the competitive market working the way it is supposed to work. The same economic law of survival of the strongest applies to grocery stores, restaurants, and other businesses. Why not casinos? What is it about the gaming business that makes it special, that entitles it to unique government protection from competitive market forces? Why does the gaming industry deserve a government guaranteed monopoly? Harrington has no God-given right to host a protected gaming business venue. Neither does Dover. All other things being equal, would more people visit a gaming site in Harrington or in Rehoboth? In Millsboro or in Lewes? In Wilmington or in Dover? (Why do you suppose there is a Walmart every twelve miles in Delaware? Why does Starbucks open stores within a block of each other?) I think you know the answer to this question, but let's put it to a test. Let the free, competitive market (consumers of the gaming product will demonstrate their preferences by their venue choices) establish the optimal locations for gambling venues in Delaware.

As gambling venues proliferate to meet demand, travel and time costs to gamblers are lowered; demand for gambling products increases, and revenues to the state grow. Isn't *that* the policy rationale for expanded gambling in Delaware—increasing state revenues?

Finally, the News Journal reported that an apparent compromise has been reached between the three racinos and the State over the split of revenues from table games and sports betting. As I understand it, the State will receive roughly 30% of gaming revenues from table games and sports betting, while the three racinos (Harrington, Dover and Delaware Park) will pocket about 70%. This arrangement, if correctly reported, is an insult to every taxpayer in Delaware, and is fundamentally inequitable and unfair. I urge you to oppose this “compromise” and to insist that new negotiations occur immediately, with an independent and skilled negotiator representing the State. An exclusive monopolistic license from the State is worth far more than a 70/30 split, and a truly skilled, independent negotiator could do much better for the taxpayers who are “selling” monopoly rights to the racinos. (Perhaps Kansas has the right idea—let the State operate the casinos and take *all* the revenue!)

To repeat, I do not think it is wise to grant a monopoly in the first place (for the reasons detailed above), and I would instead encourage you to support an open auction of gaming licenses and to remove all protectionist barriers. Putting licenses up for open, competitive bids and removing entry barriers would be far preferable to the system currently in place. Let free market forces drive this process, extirpate the risk of corruption that accompanies a monopoly, and the people of Delaware will be better served in the long run.

I appreciate the time you have taken to read this letter, and I apologize for its length. If you have any questions about anything I have written, please do not hesitate to call or write me.

Very truly yours,

William B. Chandler III

xc: Senator Joseph Booth
Senator Robert Venables
Representative Pete Schwartzkopf
Representative Biff Lee
Representative Gerald Hocker