

PRODUCTIVITY COMMISSION: GAMBLING INQUIRY**PETER MAIR: SUPPLEMENTARY SUBMISSION (AUSTRALIAN RACING)****TOO MUCH IS NOT ENOUGH**

I was pleased to see the Commission take the opportunity to deal with some contentious issues about the appropriate funding of the Australian racing industry. I applaud the commonsense driving the Commission's analysis and draft findings: the scope for ill-informed and deceptive debate is forever less.

That said, the question remains – what will be done once the Commission's findings are clarified and confirmed? My own guess is 'not much' in the foreseeable future. State governments, and state oppositions, are so electorally beholden to the 'racing vote' in marginal rural electorates that there will be no suggestion of any reform of racing industry excesses: NSW, with 18 months to go before an election, is painfully illustrative.

Presumably the role of the Commission does not extend to the marketing of its findings. Action will require the findings to be picked up by state governments, hopefully encouraged by the Australian government. Only national leadership could co-ordinate the national industry funding reforms proposed, and an overdue contraction of the racing industry.

These next steps may well require a more focused, open public discussion. At some point the investigation and analysis will need to look at the distribution of power within state racing authorities and the associated political alliances and dependencies.

Inevitably, in the course of deciding these next steps, the discussion will turn to the sense of a levy on breeders' sales revenues. My own preference is that the same end would be better achieved by a different means – an annual license-fee arrangement that would entitle 'paid up' horses to contest the best races, those with Listed and Group status.

On the face of it, these license fees would be paid by owners and derided (by breeder interests) as 'another slug on owners'. A more thoughtful analysis would soon see that an owner's liability to pay an annual license fee, to contest the best races, would sensibly reflect in a lower price paid to a breeder for a horse in the first place. If the general sense of a license fee were accepted, its practical implementation could be structured to assist the likely traumatic adjustment of the racing industry to a reformed funding model.

The second part of this supplementary submission directs attention to the distribution of power in the racing industry.

A. The Draft report: Racing

The Productivity Commission's Draft Report on *Gambling* blows a refreshing gust of independently authoritative commonsense over the *Australian Racing Industry*.

A decade ago, matters racing apparently did not fit comfortably into the Commission's *Gambling* inquiry brief and the inquiry was largely ignored by the industry. A similar outcome was on the cards again until the interest of racing industry administrators was piqued and a raft of 'late' submissions hit the deck in April and May.

A national plan for an inter-state cartel fleecing punters, the dream submitted by the industry, was an arrogant prelude to a rude awakening for them. At an intellectual level, the funding policy debate will never be the same.

In particular, the Commission has endorsed a national basis for the funding of racing and the sense of all wagering operators kicking in a uniform funding levy based on gross profits – a levy payable to the state administrators where the race was run (or directly to the race club conducting the race meeting).

In responding to the invitation for comment on the feasibility of a direct distribution model, I suggest that the Commission endorse the principle of payments being made direct to race clubs.

Practically, the initial proposal could suggest levy funds be split between clubs and state administrators, and endorse the sense of any remainder being used mainly to reward the club staging the race. This would allow scope to retain some funds to cover industry overheads for integrity and administration and, initially, to perhaps smooth the exit of surplus and redundant people and resources.

[The initial incidence of redundancy would not be even across the states and there could be some sense in establishing a modest national pool to fund the industry's contraction in some states.]

Looking beyond national funding reforms, it is likely that in each state the racing industry would be restructured, possibly around a single 'club' (with provincial and rural branches) with the competitive focus shifting to state v. state.

Commercial criteria for funding racing that punters are prepared to pay for, would guide an independent pricing tribunal setting a uniform levy on gross profits to ensure the sound conduct of the industry.

Some readers were confused about the degree of exclusivity intended to be preserved for TABs. As I understand it, TABs will continue to be the sole operators of totes, though unable to either exclude others offering 'tote odds' or others having retail terminals (or bookmaker stands) taking non-tote bets in pubs and clubs.

In short, the exclusive role of TABs will relate to retail agency shop-fronts and the offer of 'exotic' wagering options, especially trifectas, first-fours and quadrellas. TABs would, as now, attract an additional tax on turnover available for distribution, as now, between funds for racing; funds for government and, under a tendered contract, funds to cover TAB costs and profit.

One corollary of this prospect is presumably a single national TAB pool paying uniform dividends to punters and, hopefully, a uniform additional funding contribution, based on turnover, paid pro-rata to wagering nationally on individual race meetings.

For my money, the Commission has made an outstanding contribution to the sensible future funding of racing in Australia.

B. From *in-principle* to *in-practice*

The racing industry has, of course, heard the like of all this many times before.

What is likely to again be disturbing is the alacrity with which this industry simply shrugs off sensible proposals for reform and gets on with business run to a motto of ‘too much is not enough’.

Competitive developments associated with wagering operators other than TABs are taking a toll on industry funds but determined resistance from state authorities has ensured a snail’s pace of change.

I expect the Commission cannot do much about determined disdain directly. The responsibility for driving change may formally pass to the Australian Government: if so, I have little confident expectation of its determined commitment either unless the states invite it to take a coordinating role.

After a decade of close combat with an industry determined to defy commonsense, the prospects for reform need to embrace an explanation of the recalcitrance.

- an industry racing out of control

The central theme of the explanation proffered here is how a select group of industry participants – powerful breeders – appropriate money contributed by owners and punters: overseeing arrangements where both the owners and the punters are willing to pay ‘too much’, and willing to lose, and much of the too much ends in the hands of the powerful breeders. A subordinate theme is the political devilry that ensures the taxing authority of the state is suborned, via monopolistic TAB arrangements, to provide the plunder available for distribution to the powerful breeders.

One less obvious insight in the explanation is recasting ‘owners’ as essentially punters – just punters who bet big when paying to buy and train a horse that, like any other single bet, may be a winner but collectively across all owners is guaranteed to lose. Owners generally are, like other punters, inevitably substantial net losers in the pursuit of a raft of personal and social benefits, but, collectively, not sustained by net prize-money.

Whether owners or punters, the essence of these wagers is about buying something akin to entertainment but knowing to lose: a very costly entertainment for owners. The game goes awry when punters losses are inflated by excessive TAB takeouts and lavish prize-money inflates prices owners pay for their next ‘bet’.

A painfully insightful analysis of the Australian racing industry is buried in the diabolically satirical novel, *Animal Farm*¹.

This Orwellian analogy is apt. Leaving the financial management of the racing industry in the hands of administrators mainly drawn from the breeder ranks has given it all the characteristics of a failing socialist command economy where sequestered funds are allocated according to claimed participant needs, and the needs are limitless – too much is never enough.

While there are other influences at work, the work of the Commission coincided with embryonic proposals that the breeders' sales revenues might be levied directly to partly fund industry costs and prize-money.

Whatever the driving force, the breeders staged a rally mid-year, an invitation-only 'big meeting' convened at a major auction 'barn'. [Those looking closely can now see written on the side of the barn, the first commandment of the racing industry: the words 'too much is not enough'.]

In this context it is powerful breeders that have assumed the lead role of a Napoleon-like control group: they are aided and abetted by state racing boards dominated by industry insiders and loosely linked in a nominal national body which is rendered powerless, deliberately. [For state racing authorities, the word 'national' simply means an iron-curtain akin to a Berlin Wall without gaps, one intended to protect the different state TAB monopolies from bookmaking competitors diverting wagering turnover from these TABs.]

As with other floundering dictatorships, the display of 'national' power is focused on common enemies: Betfair and bookmakers 'stealing' industry money and TVN's quality broadcast coverage that is stopping punters enjoying the full, wall-to-wall, pie-in-the-SKY, national daily display of too much is not enough.

Accordingly also, as with other floundering dictatorships, displays of frustrated power are channeled into ostentatious nonsense. Recently, in a contrived display of concern for public sensitivities, allied with a naive RSPCA, the national racing body decided to outlaw overuse of a 'whip' designed to not hurt horses. At other times, an overwrought and ineffective preoccupation with protecting industry integrity has extended to excessive penalties and personal persecutions of licensed participants for trivial offences. This vocal pursuit of integrity in the racing industry victimizes vulnerable participants but withholds intelligently thoughtful reforms that would protect participants and promote integrity. Such reforms would not find favor with the Napoleon set: integrity offences are routinely tolerated and encouraged in the racing industry -- the racing stewards are denied the powers needed to do their job properly.

This Napoleon-like control group, in turn, is protected by teams of obsequious characters employed to man the front-lines, maintaining strict discipline over politicians delivering the money as well as all industry participants.

Consistent with the Orwellian analogy, these players embrace Squealers – silver-tongued spin-doctors using shrill rhetoric to twist the truth and rewrite history while painting black as white – along with a raft of compromised-Pravdas that print and broadcast the Squealers' deceptive rhetoric.

¹ The elements of this durably and broadly prescient story are briefly summarized in two study guides available on the internet: see *Animal Farm* at <http://www.sparknotes.com/lit/> or <http://www.gradesaver.com/>

Among the more shameful deceptions is a recurrent refrain that the Napoleon-set has as its primary concern, protecting the flow of funds to owners (losing at least half of their costs) and the many thousands of underpaid participants helping to put the show on 'for the greater good' of the industry.

In truth good people have been misled by the rhetoric of faux concern to overpay for slow horses and take low-paying jobs with no future.

The roles of other familiar farm characters are taken by different groups all glorying in their pleasure of making personal sacrifices to 'sustain the industry' while waiting for the promised Sugarcandy Mountain to materialize from the mists of deception.

The "*I will work harder*" role of Boxer, the dependable worker, is variously played by financially dependent participants – including trainers, stable-hands, jockeys and club administrators: historically these Boxer-set players have typically been the raw material of battlers headed for a glue factory -- even now, most of the workers cannot be suitably rewarded for their input: in a bloated industry there just not enough money to go around at the deep end of disappointment.

Reminded of Orwellian themes, people will see different issues of relevance to the Australian racing industry: I would, however, be surprised if most did not see the essential parallels of corruption running rife through the states' administration of the racing industry as it did in the political regimes Orwell exposed.

I hope the Commission now also finds that additional, detailed attention needs to be focused on the racing industry: if not, do not expect much change anytime soon in a racing industry adept at claiming too much is not enough -- and capable of delivering electoral mayhem if it does not get what it wants.

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