

28 November, 2009.

Re: Productivity Commission Draft Report on Gambling

Comments below might be added to my earlier submission (270) on the draft. The subject impacts on the economics of the racing industry and on its organisational structure.

On Breeding

I note occasional mention in submissions of the allegedly excessive power of breeders – ie in influencing or controlling how racing is run. It is not made clear how this occurs, other than through their presence in or near racing bodies or their public prominence. (My own submissions have highlighted the undesirable principle of filling governing bodies with insiders but whether breeders as such are too prominent is a moot point. Indeed, are independent breeders properly classified as “insiders” or not?).

There is little doubt that some breeders do very well indeed, charging extraordinarily high service fees for top sires. These are obviously a function of the popularity and the past successes of their sires’ progeny.

(Thoroughbred sires’ service top out at around \$0.5 million while greyhounds have reached \$20,000. Run-of-the-mill sires’ fees might be one tenth of these figures).

Yet the demand for those services is strong and the better ones are usually booked out, not just in Australia but in other countries as well. “Shuttle” sires (horses) or the highly mobile artificial insemination processes (dogs) are the norm these days – both aspects playing an important part in the economics of the sector, and of the industry as a whole.

Yet the point that is missed is a decisive one: breeding is virtually the only part of the racing industry that is relatively free from regulation and where prices are set by market forces. The sector is a roaring success and therefore needs only to be left alone.

Of course, the downstream anomaly still exists; buyers of the breeding output are quite likely to lose money. The large average difference between the purchase price and training costs on the one hand and the eventual reward from prize money on the other hand may be expressed as the price of the prestige and excitement that goes with owning a winner.

However, that market freedom has been impacted in recent years by yet another crazy aspect of racing management. It is now almost universal – from state to state – for administrations to create breeding incentive schemes of one sort or another, apparently to encourage breeding activity within a given area. Owners or breeders, or both, receive cash bonuses when suitably qualified stock win races. “Me, too” is the dominant theme.

Since all states do it, and in much the same way, any original incentive to boost the activity in a particular state is negated. At the core, the policy is therefore a dud. It's also discriminatory in that an interstate visitor can win a race yet miss out on a bonus that would go to a locally bred winner.

In any event, never in any code has there ever been any economic analysis presented to justify these policies – either before or after their introduction. It is simply regarded as a “good thing to do”. Money allocated to the cause is therefore diverted from other areas – eg from prize money, facilities or whatever – where the investment (ie subsidy) might well be more productive, or at least more obvious.

A more enlightened and more commercially-oriented industry would be unlikely to follow such a course. Mind you, now that it exists, it would be hard – politically - for any one state to drop its scheme, fearing breeders or owners will then desert that state. (But whether such a desertion would occur, and, if it did, whether it would cost that state anything are also moot points. A significant contra-indication would be that breeding decisions are made primarily on the basis of the appropriateness of the breeding line and the size of the fee, rather than on any (modest?) cash incentive).

The underlying issue, which is repeated throughout the industry, is that artificial influences pop up everywhere. Once in place, they become part of the furniture and are difficult to eliminate. The absence of commercial discipline means that inefficiencies therefore persist.

This is yet another reason why the Commission needs to take a holistic approach to racing, and not just fiddle around with a few bookies' numbers.

Bruce N. Teague
HunterCoast Marketing
02 4325 2077