Time to unbridle U.S. thoroughbred racetracks?
Lessons from Australian bookies*

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Abstract

We consider a policy reform relaxing price controls in American pari-mutuel wagering on horse racing by examining bookie behavior in Australia’s fixed-odds gambling sector. Descriptive regressions indicate that bookmaker takeouts (the effective prices of races) vary substantially and systematically with race characteristics, though in sometimes counterintuitive ways. Estimates of an explicitly reduced form model of bookie takeout, however, qualitatively match both intuition and prior findings in the literature. Counterfactuals using these estimates suggest that regulatory reform that permits racecourses to alter takeout across races would increase variable profit by 3-6%.

Keywords: regulatory reform, gambling, horse racing

JEL codes: L22, L5, L83

The U.S. horse-racing industry, like many other heavily regulated American sectors, is in decline. Figure 1 shows the annual handle (amount wagered), purse (prize money), and racedays for U.S. thoroughbreds over the last decade.¹ Since 2001, all measures are lower, and handle is down by 40%. An obvious remedy is a change of state laws dictating that tracks charge a uniform takeout rate (i.e., price) for all races, and a notable economic literature argues that lowering takeout rates would increase cumulative takeout (variable profit).

In this paper, we argue for a complementary margin of deregulation, namely that tracks should be given the authority to set takeout rates that vary across races.² Predicting the

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¹Figures taken from Equibase annual press releases ("Thoroughbred Racing Economic Indicators"). Handle and purse are in 2001 US$ with inflation-adjustments made using US-CPI data.

²These proposals and others are included in the NTRA Player Panel Recommendations, 2004.