
A balanced package



Sir Alan Budd

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Provost, The Queen's College, Oxford, 1999 -

Educated Oundle School (Grocers' Co. Schol.), London School of Economics (Leverhulme Schol. BSc.Econ) and Churchill College, Cambridge (PhD)

- 1966-69 Lecturer, Southampton University
- 1969-70 Ford Foundation Visiting Professor, Carnegie-Mellon University, Pittsburgh
- 1970-74 Senior Economic Advisor HM Treasury
- 1974-78 Senior Research Fellow, London Business School
- 1979-81 Special Advisor, Treasury and CS Committee
- 1980-88 Director, Centre for Economic Forecasting
- 1981-91 Professor of Economics and Fellow (1997), London Business School
- 1988-91 Group Economic Advisor, Barclays Bank
- 1991-97 Chief Economic Adviser to HM Treasury and Head of Government Economic Service;
- 1994 - Governor, London School of Economics
- 1998 - Chairman, British Performing Arts Medicine Trust
- 2000 - Chairman, Gambling Review Body

In this issue, *Locum Destination Review* takes a journey between two contrasting destinations - Las Vegas and Blackpool - as it maps out the future possibilities for gambling and related tourism. To understand how gambling in the UK might change, we asked Locum Non-Executive Director [Tony Hodges](#) to revisit a very different city, Oxford (where you take a punt down the Cherwell from Magdalen Bridge, rather than on a racehorse). There he interviewed the Provost of Queen's College, [Sir Alan Budd](#), who is better known as one of the most respected economists Britain can boast in modern times and, more recently, as Chairman of the Gambling Review Body. The report from this body now sits with the Department for Culture, Media and Sport, as consultation on it concludes and a Green Paper follows. Or does it? It has been described as 'a balanced package' but will it succeed in the parliamentary stakes?

The Chairman's dream

In his introduction to the Gambling Review Report, Sir Alan Budd reprints a typically clever yet charming statement of objectives that he had shared with his Review Body colleagues, at an early stage in proceedings, under the title 'The Chairman's dream'. It ran: '*I hope we shall be able to establish principles which are acceptable to all sensible people and shall make proposals consistent with those principles. The (unanimous) Report will then be published (to schedule) to widespread acclaim and all its recommendations will be accepted.*'

To Budd's credit, the Report was unanimous, published to schedule and, remarkably, given the subject, greeted with widespread approval, if not acclaim. Almost blushing, he confesses that the favourable press coverage is 'very pleasing'. This response is an achievement in itself since gambling is such an emotive issue.

So far, so good. The real test is to come. The last stage in the Chairman's dream is yet to be reached. Will his Review Body's report make it on to the statute book? The technical hurdles are still there to be negotiated, as history clearly shows.

The history lesson

The gambling industry is primarily governed by the Gaming Act of 1968 but, in truth, its controls are the result of an 'historical mish mash', as Budd puts it. The last review was carried out by the Royal Commission on Gambling under Lord Rothschild, reporting in 1978, but its proposals were rejected. 'Somehow the proposals were seen as too radical and various parliamentary forces and pressure groups were able to defeat them.' In explaining how this happened, Sir Alan Budd sounds daunting in his determination. 'I regarded this as a very important lesson for us. I did not want to produce a report and recommendations that were ignored or forgotten or defeated.'

The Rothschild proposals slipped down a crack between two governments, commissioned under Labour, rejected under Conservatives. (The only major idea to materialise, eventually, was the National Lottery; as our conversation unfolds, Sir Alan puts two and two together and deduces that Lord Rothschild might have slipped that notion through the back door at Number 10 when head of Mrs Thatcher's 'think tank'.)

Worryingly for Budd, his Review Body ran a similar risk, commissioned by one government department (the Home Office) and delivered to another (the Department for Culture, Media and Sport). A move reflecting the shift in attitudes to gambling, from borders of criminality to zones of acceptable pleasure? Perhaps, but in practice a consequence of the DCMS desire to take on the remit for horse racing. 'And innocently they inherited Budd,' he twinkles.

The political hurdle may not be as high as Rothschild's, who faced a new tide of conservatism with radical proposals. Budd faces a generally moderate parliament with essentially liberal proposals. Sir Alan's concerns on this issue are that the only strong criticisms his proposals have met in the press have been from 'the old left' and there is an Orwellian hangover in such parts, a resentment that gambling is thought necessary for the poor because 'their lives are so miserable.' (Sir Alan pours vitriol on this relic of conservatism: 'so patronising'.) He knows the report was 'in some ways much more liberal than anyone expected - it gave the casinos, for example, more than they expected - but that is not a view that everyone necessarily accepts, and it is not at all clear that Parliament is a very liberal body once everyone stands up.'

The constitutional hurdles may be higher. 'Goodness knows when legislation might be', he admits. (It has taken two and a half years, after all, for the Home Secretary to accept but two of the 81 changes to drugs legislation proposed by the Runciman report in April 1999.) 'One of the problems is that so much of gambling regulation is tied up in primary legislation and would need an Act of Parliament to change it. And one of the most scarce commodities in the world is parliamentary time! This is a technical problem and surely strategic truths should not be denied by mere logistics? Sadly they sometimes are. 'It may be possible to use interim deregulatory orders ... the DCMS will look at such proposals carefully because their immediate reaction was that this was a balanced package and you can't cherry pick.'

'A *balanced package*.' (His words, their words, my italics.) Perhaps this is the key. Just as on the one hand 'there is a lot of sympathy for those bits that tighten up legislation, including the business of children', so Budd thinks that 'industry is going to have to recognise that to a large extent it should all be taken together.' As the market will doubtless affirm.

1.1 Our recommendations are designed

- to simplify the regulation of gambling
- to extend choice for adult gamblers

while seeking to ensure that

- permitted forms of gambling are crime-free, conducted in accordance with regulation and honest
- players know what to expect, are confident they will get it and are not exploited
- there is protection for children and vulnerable persons

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The economics lesson

Throughout our conversation, Sir Alan's essential reasonableness kept peeking through, picking a way through the minefield of emotional positions that people take up when discussing gambling (and for that matter alcohol, drugs, pornography). Economists are in fact creatures of reason, despite what their differences and arguments and conflicting prognostications might suggest. (Perhaps it is this ability to reason that marks them out as ideal members or chairmen of Royal Commissions and Review Bodies? 'Economists have a way of looking at things which is possibly useful', he allows.) When Sir Alan makes it clear that 'the purpose of our recommendations was not the benefit, directly, of the gambling industry and certainly not the UK gambling industry as such', he is not being antagonistic. Far from it. He is just reiterating a rational commitment to the *market*. 'If British industry can benefit, so much the better. If it can't, then someone else will. That's the market. This will be provided by whoever can do it most efficiently.'

This rational argument for the market and its primacy links directly to Budd's commitment to consumer *choice*. This issue of choice seems more a tenet of economic faith (or rather an avowed economic principle) than even an example of social or political beliefs. 'I am an instinctive liberal', he admits, but if a social issue from liberal heartlands came head to head with an economic truth, you sense that for Sir Alan there would be no contest, no attempt to buck the market.

It is the principle of consumer choice that lies behind the deregulation wing of the Budd report. Hence the long list of 'relaxations' summarised in the panel above. Hence the recommendations that advertising restrictions be lifted and that gambling products and premises be allowed to advertise in future. Hence the fact that, if these proposals are accepted, resort casinos' development would be permitted, and a British Vegas or (heaven forfend) Atlantic City become feasible.



Casino punters will enjoy greater choice of gambling and non-gambling activities if Sir Alan Budd's proposals become law

'I would much prefer a society in which nobody gambled. It is not exactly a noble activity.'

The economist's reasoned view links the market, choice and the consumer in a very simple model. That model is complicated, indeed thrown out of kilter, by unnecessary regulation or intervention. So quite apart from the prevailing view that regulation should be questioned on its utility (for once a government view that places faith in the consumer), simplifying regulation is also a natural aim for the economist. Gambling regulation provided this Review Body with considerable scope for simplification. It recommends: a single Act of Parliament for all regulation; a single regulator for all gambling activities (the Gambling Commission); a single licensing authority for individuals and companies involved (again, the Gambling Commission). Bingo (if you will forgive the term).

Part of the move to simplify regulation is the call for flexibility in future controls, to enable response to technological progress, research and the results of the changes proposed. So: give the Gambling Commission discretion to adjust regulation, in order to close loopholes and meet new demands, (i.e. do not put future administrations and review bodies through all this again too soon).

Simple. Clean. Effective. Sweet reason. However, there was one rather curious economic lesson to be taken away from my session with Sir Alan Budd. It appears that economists actually find gambling rather difficult to understand.

'Gambling is irrational and counters one of the basic hypotheses of economics, which is known as "risk aversion". You cannot gamble if you are risk averse because you are increasing your risk whilst reducing your expected wealth and that is a peculiar thing to do! So was it really the best idea to ask an economist, even one as eminent as Sir Alan Budd, to chair the body reviewing what he describes as 'this most glaring example of irrational consumer behaviour'?

Strange to say, it was a brilliant idea. Not just because of his ability to reason, not just because he is 'trusted to behave in a fair and efficient manner', but also because Sir Alan knows about the problems and risks of gambling from the inside. He understands the dangers because he is, himself, an incipient problem gambler. In his boyhood, at the seaside, his parents would ask 'where's Alan?' and he had sloped off to the amusement arcade. 'I exhibit all the symptoms of problem gambling. If I go into a casino, I almost fall over from the flood of adrenaline. It is only by immense self-control that I have not gambled away the house and everything in it. So I can completely understand the problem gambler.'

What good fortune for the recruiters at the Home Office and the recipients of the Budd Report at the DCMS. A chairman who can balance the reason of market economics with sympathetic understanding of gambling's social dangers. Hence the balance of the package, perhaps, and its social responsibility.

The sociology lesson

How far the state can go in ordering people's lives is a central question running through the deliberations of this Review Body. It is the question of 'the social environment'. In Budd's words, this is 'the hardest issue'.

On the one hand, the liberal thinker will argue that 'people can have a reasonable concern for what sort of society they live in! Budd begins to sound like nanny. 'I would much prefer a society in which nobody gambled, actually. It is not exactly a noble activity. Everybody should have better things to do than go and play on a fruit machine. A society in which people are spending a great deal

of time on this - I feel the same about watching television - is not my dream society.'

On the other hand, the man of reason worries about letting nanny go too far (sighs of relief all round). 'So the question is what role does the state play in all this and I do not deny it can have a role - it's not an easy one philosophically but there is a state role. You can choose to say that part of what we want Parliament to do for us is to adjust things a bit. You can't change people's souls. You can't change people's lives. But you can ... prevent the worst.' A touch on the tiller, then, rather than the firm smack of nanny. A typically balanced view.

When it comes to gambling, the report aims to 'prevent the worst' with three forms of *protection*: from criminal elements; from exploitation of the vulnerable; from appeal to children.

Sir Alan was clearly quite disturbed by some of the confidential information he had encountered on differing levels of probity across the various arenas of the gambling industry. His team investigated many international models for 'clean' gambling and concluded that it was impossible to know, definitively, how clean the markets are. Budd does concede that 'as far as it can be seen, gambling is now largely clean though there are pockets ... we know of money laundering, for instance'. The risks of criminal influence that the Review Body could see and could therefore address emerged from historical legislation (the 'mish mash' again) and inconsistency across gambling sectors. 'Bookmakers are not subject to the same fit and proper tests as people in the gaming industry, for instance. When betting shops were made legal there wasn't the same central body ... the Gaming Board does not look after betting, for example. Bookmakers are licensed by local magistrates, even though a lot operate nationally. There is much less control. It's generally not heavily regulated and it does rely on local magistrates who do not behave consistently across the country. We think that the present system as it applies to bookmaking - while most people (in it) are absolutely splendid - can still allow dubious characters to get into the industry.'

Taken together, the longest sections of the Report's executive summary are those dealing with 'Keeping gambling crime free', 'Licensing of people' and 'Fairness to the punter'. The detail is reassuring. The single, regulatory body proposed (the Gambling Commission) would be given more powers, e.g. on criminal records, powers of entry, prosecution, licensing of staff in (for instance) bookmaking and adult-focused arcades, and on fit and proper tests. Budd is pleased to hear most bookmakers welcome all this because they are clean and feel it is only good that they should move out 'the dirt', but he is less impressed that 'they are worried about how intrusive our proposals on regulation of betting shop managers are. Actually they are not intrusive at all. They are enough'.

As ever, Budd draws the line at interference in the ways in which the industry administers itself. Of course 'it is wrong' that doping a horse is not a crime, that participants such as trainers or owners can bet on races in which their animals run. Indeed the report draws attention to what would be known in the financial services industry as 'insider trading' as follows: '... sports should consider how they could apply tougher rules to limit or prevent betting or passing of information to bookmakers by those involved in sports.' But it puts its faith in competition and the interests of individual sports - 'they have strong incentives to ensure that events are conducted honestly' - rather than further direct intervention from its proposed officers.

Where Budd emphatically does not have faith in the current marketplace is in the accessibility of gaming machines to the

'You can't change people's lives. But you can ... prevent the worst.'

Extending choice for adult gamblers

1.6 We propose that

- the 24-hour rule for casinos and bingo halls be abolished
- the permitted areas rule for casinos be abolished
- casinos be permitted to provide a wider range of gambling activities, including betting and bingo
- casinos be permitted to provide slot machines with unlimited stakes and prizes
- the current prohibition on alcohol on the gambling floor in casinos be lifted
- casinos be permitted to provide live entertainment
- bingo halls be permitted to offer unlimited prizes, rollovers and unlimited linked games
- betting shops be permitted to have jackpot machines
- betting on the National Lottery be permitted
- credit cards be approved for gambling purchases with the exception of direct use in gaming machines

1.7 Our proposals in respect of casinos would permit the development of resort casinos. The question of whether a particular location should be granted a monopoly right to provide a gambling centre is a matter of public policy which is outside our terms of reference.

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vulnerable, particularly children. The Report seeks, therefore, to tighten up legislation on 'ambient gambling' and machines available in arcades. Sir Alan is forceful on this front. 'Machines are the most addictive form of gambling. The best way to trap someone is with machines. They are designed to be addictive.' The guiding principle that balances liberalisation and protection is enshrined here: 'Our approach is basically to have unlimited gambling on premises *designated for the purpose*' (my italics). 'That is why we want machines taken out of the fish and chip shops and do not want to make it easier for people to have more machines in pubs, just as we said we did not want betting in pubs.'

Perhaps the most important historical accident to be rectified was to be found in the seaside amusement arcade of old (precisely where young Alan Budd would be found by his worried parents). As a result of innocent, mechanical anachronisms, 'we are the only country in the world that lets children play fruit machines ... We do think there are dangers in children gambling and we do try to reduce those dangers.' The trade association, BACTA, is predictably up in arms over the Report's restriction on stake and prize money. 'This will destroy us', they complain. 'What they don't understand is that the alternative proposal is not to leave things as they are but to abolish it completely.'

Complainants from the industry - and these are many, from arcades, clubs, pubs and seaside resorts - would do well to note that the Government minister responsible at the DCMS has a track record in seeking to protect vulnerable minorities such as children. And that the Report recommends the Government reviews the

Protecting children (extract)

1.24 The United Kingdom is unique, in the western world, in allowing children to play on gaming machines. We considered banning access of under 18s to all gaming machines, however we limited our proposals to the following

- coin-in/coin-out machines in family entertainment centres (outside any restricted area) to have a maximum stake of ten pence
- low stake/low prize machines to be limited to cash prizes only
- the prize limit on low stake/low prize machines be frozen at £5 and the stake at ten pence
- under 18s not be permitted to play on all-cash machines (i.e. machines with a maximum stake of 30p and maximum prize of £15) or jackpot machines wherever they are located

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Protecting the vulnerable (extract)

1.20 We were unwilling to see an increase in ambient gambling, that is, gambling opportunities that are available in locations which are not dedicated to gambling. We also wished to limit the extent to which gambling could be combined with the consumption of alcohol. We do not therefore propose permitting

- betting in pubs, or
- alcohol in betting shops

1.21 We propose that gaming machines

- be banned from premises such as cafes and taxicab offices
- not be permitted at 'exempt entertainments.'

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position five years on, to determine whether it should come into line with other countries' and simply ban gambling for under 18s.

Even in this arena, Budd maintains a sense of balance. Others might have allowed missionary zeal to deliver more aggressive, less reasonable or practical proposals, but Budd would not be shouldering his social responsibility if the Report went too far to be accepted and implemented. The social concern shines through. In the calls for research into the causes of problem gambling, for the funding of its treatment, and for the establishment of a Gambling Trust for the research, preferably funded by the industry on a voluntary basis.

Just as this article and journal is going to press, the gambling industry is gathering in London to discuss 'the opportunities and threats created by the Gambling Review.' In its Forum agenda, it appears to assume the Government will act on the Report; 'what you need to do in order to survive and prosper in the post-Budd commercial environment', it promises to cover. The industry is clearly ready to forecast more confidently than Sir Alan: 'I never pay any attention to what people are forecasting about next year.' This from the man who was Director of the Centre for Economic Forecasting for eight years.

The lesson of forecasting

The best example in the Report of Sir Alan's wisdom in being wary of forecasters is its treatment of the internet. In the beginning, the forecast growth of on-line gambling was one of the two main reasons for the Home Office's instigation of the Gambling Review. (It was, understandably then, concerned about loss of revenue and regulatory power.) The Report's proposals on this are sensible but low-key, based on authorised sites and a 'sort of kite-mark approach'; no longer central. As Sir Alan puts it, 'this is not as urgent as people once thought.' Another forecast bites the dust.

Forecasting is the reason economists argue amongst themselves too much. 'I never read articles about what is going to happen to the exchange rate or for that matter share prices and save myself an enormous amount of time as a result.' (Thank you. Another useful tip, Sir Alan.) He likens the economic system to the weather, in a sense 'chaotic', where 'small changes in the starting conditions, which you can't measure, have enormous effects on where you go a few periods out.'

Yet I cannot interview one of the most influential economists in the western world and not ask for his views on how the economy is likely to behave in these dramatic and troubled times. His response is typically measured, indeed balanced.

'The United States was probably heading for recession and all this does is make it worse. The importance of the events of 11 September is not in the direct economic effects, including defence expenditures and the like. It is in the psychological response to those events. That is what matters, people seeing those events and the effect that has on their behaviour. So far it has had much more effect in the US than here, not surprisingly since it happened there not here. Confidence, which was already shaky there, has taken a nosedive ... The Americans will do all they can to offset the event (of technical recession) but it is very likely that they won't. Sir Alan is clear that the US economy is interest rate-sensitive but 'these things don't act quickly enough.'

He is more confident on prospects for the UK economy. 'The British are feeling "well, we'll be a bit cautious but life goes on". If we have a technical recession here, I shall be surprised. The MPC can go on cutting the interest rate if it wants to. There is a built-in, rapid expansion coming, with very big increases in public spending, so that will keep it all going along. So I would be surprised if we get a recession here. Of course, a slowdown we have had. We have been having that since last year. Nothing new there.'

I put it to Sir Alan that the UK economy is in fact in pretty rude health - 'absolutely', he agrees - and ask, somewhat cheekily, if this is a result of good husbandry or good luck. He admits to some luck, because until recently 'the world has been fairly stable' but also, fairly, places responsibility on the shoulders of good policies since 1993. 'That's quite a long time now, eight years of good policies.' Quite a contrast with preceding years when 'you could well establish that, in Great Britain, government policymaking had made things worse, that by acting either too late or too violently it actually destabilised the economy rather than stabilised it.' So, two good Chancellors in succession then? Sir Alan's fairness knows no bounds as he corrects me. The answer is three. Although Norman Lamont has been much castigated, Sir Alan gives him due credit for 'setting in place a remarkably successful framework of policy after we left the Exchange Rate Mechanism. He was persuaded that it was

essential to clean up the fiscal side and Lamont must be given credit. He was followed by Clarke and then by Brown ... but he started it in the '93 budget.'

Full circle and back to the history lesson. We do not dwell on the fact that the Chief Economic Adviser to the Treasury who persuaded Lamont to clean out the fiscal stables and who went on to advise both Kenneth Clarke and Gordon Brown until 1997 was none other than one Alan Budd. He would be embarrassed if one observed that his had been an important touch on the Treasury's tiller for those three Chancellors, and that, as a result, the UK electorate owed him a debt of gratitude for the health of its economy. No, such an observation would not be proper.

Sir Alan Budd is not, as can be seen, a man for forecasts. (Despite the fact that, before becoming an academic, he trained amongst the marketeers at Beechams: pioneers, from whom many of us learnt, in econometric modelling). He is due to retire as 'Head of House' at Queen's in 2008, in the first August after his seventieth birthday, but cannot see that far ahead. He likes Oxford, aesthetically, though I suspect he misses the anonymity he enjoys in London. My own forecast is that the future of his college will be enhanced by his tenure: he will not want to retire without having made his contribution to its heritage.

There will be many more newspaper headlines to come about the Budd Report and its implications for gambling and society, as the consultation period ends and parliamentary debate begins. Yet this is not a man much impressed by seeing his name in headlines. If his 'balanced package' becomes law, he will be pleased. If he can leave behind a healthy bequest at Queen's, as he has in the UK economy, again he will be quietly pleased. Sir Alan Budd is one of a long line of influential British men and women who are hardly recognised by the population they serve, are modestly paid for their efforts, in contrast to noisy celebrities, yet are the true authors of these islands' history.

Before leaving, we are discussing the fact that - to my surprise - people who get involved in Royal Commissions and Review Bodies are expected, in principle, to donate their time free. Wryly, he smiles and tells me he is about to give a talk about the experience, and will tell the College: 'If you have led a certain sort of life, you are punished.' More seriously, he could not devote as much time to another Review Body in the near future, but is 'happy to be associated with something that provides a bit more consumer choice, which, in the end, is what I believe in.' For now, his mission is 'to arrange life so as not to work at weekends ... that would be nirvana.' It has taken a while but we have finally uncovered an imbalance in the life of Sir Alan Budd.