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Know Who Will Win the Election? You Can Bet on It!

 By **STEPHEN MOORE**
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If you want a sneak peak into who's up and who's down in this year's elections, don't seek out John Zogby or some other pollster, call your bookie. Or better yet, go to a gambling Web site like tradesports.com, an online betting parlor headquartered in Dublin, Ireland. What will pop up on your screen are the latest odds on every Senate race. As of Oct. 18 at 4 p.m. Bob Casey was a 87% favorite to wrestle the Pennsylvania seat away from Rick Santorum.

Do you really want to know how much the Mark Foley scandal has ruptured GOP chances to hold the House and Senate on Nov. 7? I can tell you with precision. Before the scandal, the betting odds of Republicans holding the House were just shy of 50-50. Two weeks after Mr. Foley's coming out party, they had slid all the way down to 37%. The GOP's Senate odds fell to 66% from 76%.

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A few years ago election betting was a fringe activity with a few thousand participants. Now it's becoming a national obsession with well more than 100,000 bettors (and 10 times that many observers) on dozens of Web sites with at least three million trades a year. Sites like Tradesports allow bets of up to \$1 million (their take is five cents per trade). Tradesports.com CEO John Delaney tells me: "We're growing a lot; this is like eBay." It won't be long, he says, before political betting "becomes a \$1 billion a year industry."

I wouldn't bet against him. With office pools, Vegas games and Internet gambling on politics, national elections have become the political equivalent of the NCAA's March Madness. CNBC now tracks the movement of numbers for Republicans holding the House about as closely as it does the price of Exxon Mobil stock.

And the betting action is no longer limited to elections. You can now double down on even the most esoteric political events: Will the U.S. launch an airstrike on Iran before the elections? When is the next time Bill Clinton will show his face on Fox News?

This has great entertainment value for political junkies, but do online betting parlors really have predictive value? Actually, yes, and they offer a nice lesson in how futures markets work. Such markets, which allow individuals to bet on the likelihood of future events, are based on the theory of "the wisdom of crowds" -- the idea that a large group of individuals can predict outcomes better than an expert. Or as F.A. Hayek put it: The myriad data necessary for predicting or directing economic outcomes are "not given to a single mind." That's why few stock pickers can consistently outperform the market as a whole.

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There are plenty of validations of the reliability of betting markets. A study in the American Economic Review once found that the futures market for orange juice is a better predictor of weather patterns in Florida than weathermen, because they have so much money at stake in coming up with the right answer. The predictions markets select the Oscar winners correctly much more often than supposed insiders.

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So it is with political betting markets. "It has been empirically proven," boasts Mr. Delaney, "that Tradesports beats the pollsters 80% of the time." The day before the 2004 elections, Tradesports correctly picked the Senate winner in 33 of 34 races. Unlike polls, which are snapshots through the rear-view window, election markets occur in real time, with the odds rapidly changing to incorporate new and relevant information -- even from "insider traders."

You can get seasick following these lines too closely. Election day 2004 was a roller-coaster. Republicans rode high in the morning, but there was a massive sell-off of "Bush stock" when Mr. Bush's lousy exit polls leaked out in the afternoon, and his price tumbled to 20%. But by 8 p.m., it had recovered to 80%. Some economists have suggested that because so many of election bettors are Wall Street-type Republicans, the odds are artificially skewed in the GOP's favor. If so, this would be an instance of the Notre Dame football effect: You pay a slight premium to bet on the Irish because they have such a loyal following.

What about market manipulation? Can wealthy traders create the equivalent of a "bank run" on a candidate, thus reversing the momentum of a race? In October 2004 a bettor tried to do that by placing a series of large bets on John Kerry. Within moments of the first bet the presidential line moved radically -- Bush's likelihood of winning went from 54 to 40 -- but then a flood of cash came in behind Bush because the odds were now seen as a bargain, and soon the line migrated back to its starting place. A study by economists at the University of North Carolina on speculative attacks on election markets found "little evidence that political stock markets can be systematically manipulated beyond short time periods."

So it would appear that these election gambling sites are efficient markets. They are certainly just as much fun as betting on the Redskins-Giants game. Right now, things are looking grim for Republicans on the betting lines, but conservatives have some reasons to cheer. The latest odds of Hillary Clinton winning the White House in 2008 have tumbled to 22%.

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