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Lies and statistics

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How likely is Mark Latham to win the next election? Early polls point to a real chance of success; various pundits describe him as a risk.

To parse out honeymoon effects from real effects, we need a more reliable indicator than the polls - one that helps reveal Latham's true potential in the 2004 election.

In an article published in the *Australian Journal of Political Science* last year, we argued that betting markets provide such an indicator. In the 2001 federal election, the daily odds posted by Centrebet, Australia's largest private bookmaker, predicted voting patterns far better than any pollster.

By forcing punters to put their money where their mouth is, we learn their true feelings. And with powerful financial incentives in play, the betting market aggregates information across the nation's political pundits, insiders and informed gamblers.

According to the betting market, Latham was a sound choice for the ALP. That Simon Crean's number was up was clearly reflected in the odds: he had drifted in the betting, with the probability of a Labor victory in the next election falling to 28 per cent just before his resignation.

These odds remained unchanged when Crean announced his resignation, indicating that the ABC slogan ("Anybody But Crean") was not supported by the betting market.

Following Latham's elevation to the leadership, many press pundits initially thought that the ALP caucus had pulled the wrong rein - so too did the bookies, letting Labor's odds drift further to a 25 per cent chance of winning.

But it seems that the punters disagreed, and there has been nearly \$20,000 bet on Labor since, with the latest odds of a Latham prime ministership improving to 33per cent (about the same as John Howard's odds six months before the 2001 election).

Centrebet's Gerard Daffy admitted that "we got it wrong", suggesting that Latham "has been fairly impressive to date".

The betting odds can also suggest what would have happened under Kim Beazley. If the pre-ballot probability of a Labor win (28 per cent) reflected an average of the election-winning abilities of candidates Beazley and Latham, we can infer from the fact that, with Latham as leader, Labor is a 33 per cent chance, and that Beazley would have been about a 23 per cent shot.

According to the punters, the Labor caucus backed the more likely winner.

As for opinion polls, our research suggests that long-range polls are generally so inaccurate that they are best ignored.

While polls taken a year before an election have predicted vote shares with an average error of about 5 percentage points, simply guessing that previous election's results will recur is about as accurate, and guessing that the election will be close actually yields more accurate predictions.

So if you want to predict the outcome of the next federal election, remember, the current favourite in the election forecasting stakes isn't the polls - it's the bookies.

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