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## Election Time: What Are the Odds? By Joanna

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People who criticize politicians for paying too much attention to the polls may have a point.

According to online wagering sites, would-be public servants could've predicted election outcomes a lot better by looking at the betting odds.

With the 2002 congressional election mere weeks away, campaign managers may heed that advice by perusing the [Iowa Electronic Markets](#), one of the operations with the most experience processing wagers on U.S. voting results.

The site -- a nonprofit endeavor run by the University of Iowa's Tippie School of Business -- has provided a market since 1988 for traders to buy and sell contracts predicting U.S. election results. Currently about 17,000 people are placing trades for the November election.

"The central premise is that markets can reveal information about future events," said Forrest Nelson, an economics professor at the university and board member of the Iowa Electronic Markets.

So far, Nelson says the market has proven fairly accurate in predicting presidential elections. In the last four presidential contests, traders' predictions for candidate vote totals have come within 1.5 percent, on average, of the actual results.

Measuring the accuracy of congressional election predictions is a more complicated matter, Nelson said, because wagers are placed only on which party will gain a majority in each chamber. Because the election hinges on multiple state races, odds are harder to set.

In the November elections, the most favored outcome on the Iowa exchange is maintaining the status quo, with Democrats keeping control of the Senate and Republicans holding a majority in the House.

Traders view the second most likely result as a Republican majority in both chambers. A Democrat-controlled House and Senate ranks third, while a Republican Senate and Democratic House is seen as the least likely outcome.

The ranking hasn't fluctuated greatly since the market opened for election-related trading in July. Traders briefly pushed up the odds of a Republican Senate victory after Sen. Robert Toricelli (D-N.Y.) dropped his re-election bid. The odds reverted back to their earlier levels when former Sen. Frank Lautenberg stepped in to take Toricelli's place.

Thomas Rietz, a finance professor at the University of Iowa, believes market odds often prove more accurate than polling results because people are betting real money.

Although the sums are small (starting accounts require a minimum of \$5 and a maximum of \$500), participants do tend to be more thoughtful when "they're putting their money where their mouth is," Rietz said.

The market also tends to attract people who are genuinely interested in politics and therefore more likely to make informed decisions, Rietz said.

Justin Wolfers, a Stanford University finance professor, came to a similar conclusion in a study that examined the accuracy of bookmakers predicting the outcome of Australia's federal election.

In a survey of wagering on Australia's 2001 federal election, Wolfers found that the candidate favored by the country's largest bookmaker, Centrebet, prevailed in 43 of 47 contests.

Wolfers said no direct U.S. equivalent to Australia's political bookmaking business exists. Because online gambling is not legal in the United States, political bettors have limited options.

However, Wolfers believes even small-scale forums like the Iowa Electronic Markets, which operates legally as an education and research endeavor, provide a worthwhile snapshot of voter attitudes.

"It gives us a minute-by-minute history of campaigns," Wolfers said. "You can sort of see which sorts of events matter and which don't."

Among overseas gambling sites, it's far more common to see wagers on the presidential election than on the congressional race. Two online bookmakers, William Hill and Betfair, are currently taking wagers on which party will win the White House in 2004. (Both sites currently show the

Republican Party as the favorite.)

But Mark Davies, Betfair's spokesman, says very little betting activity tends to show up so far in advance. Most gamblers don't want their cash tied up for two years awaiting an election.

Davies said it's usually close to the eve of an election that the action picks up. One exception, however, was the 2000 presidential election, when bettors really started getting interested after the polls were closed.

While Bush and Gore fought over hanging chads and court appeals, bettors quickly jumped to their own conclusions. The day after the election, the odds predicted a Bush victory would be 10 times more likely than a Gore win.

Even at those odds, it turned out to be a winning bet.



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