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The Election as Horse Race: Betting and the Election

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Betting is generally associated with sporting events such as horse races or football matches rather than the political process, but the 2007 election campaign was notable for the prominent coverage given to the way in which bookmakers and punters were viewing it. Expert commentary on the national picture and individual constituency contests sometimes drew on trends in the betting markets as an indicator of what was going on – as well as potentially influencing those markets.

For many, following the election via (or directly participating in) the betting markets gave extra interest to the campaign, and in this chapter we will examine the way the markets reacted to campaign developments. Over and beyond the entertainment value supplied by betting possibilities, there is a respectable body of literature that argues that betting markets are actually the most accurate guides to likely election outcomes, outperforming both pundits and opinion polls.[1] As we will see, the record of the markets on this occasion was mixed.

Prediction markets and political betting

Betting on elections has a long history – it was recorded at the time of George Washington's election, for example. There was an organised market for all US presidential elections in the late nineteenth and early twentieth centuries, peaking in 1916 when the volume of money wagered was twice the total amount spent by the parties on their campaigns.[2] Betting on Irish elections, at least in any large-scale way, seems to be a much more recent phenomenon. Although there have been markets on one-off events such as party leadership contests,[3] presidential elections and referendums, the 2002 election was the first at which there was a wide choice of markets. Most bookmakers no doubt emerging, there is in effect a market with a 'negative overround', in which the sum of probabilities is less than 1. In such a situation the market is not conveying clear information about the event it is covering and, in effect, has little predictive value.[20]

Election betting markets in 2007

As with football matches, the number of aspects of elections on which punters may bet has expanded greatly. Because Ireland has a multi-party system, with government formation expected to be a complex business that would get under way in earnest only once the election results were known, the simple choices that might face bettors on a US presidential election – who will win, and by how much? – are not directly applicable.

Most firms offered betting on the composition of the next government. A market on the next Taoiseach was also nearly universal; here, although the two main party leaders dominated the betting, the strong presence of Fianna Fáil's deputy leader Brian Cowen, at around 5–1 or 6–1 in the last fortnight of the campaign,[21] reflected speculation that Ahern might have to stand down if anything else emerged about his personal finances. Most bookmakers allowed betting on party strengths in the Dáil, in the form of bands of seats that the party might win; for Fianna Fáil in the first week of the campaign, for example, the bands were 63 or fewer, 64–67, 68–71, and 72 or more.[22] The odds on the lower bands shortened, and those on the higher bands lengthened, as the campaign progressed and Fianna Fáil support seemed to be slipping. Only SportsSpread (and later Sporting Index) offered spread betting on seat totals, and on voting strength as well.[23]

Markets on which TDs would be elected in individual constituencies were widespread and, after a slow start, all 43 constituencies were covered, making it possible to place a bet on any of the 470 candidates. To set these markets bookmakers sought expert opinion, cultivating a range of contacts within each of the parties – the markets are adjusted during the campaign in response both to the developing judgements of these contacts and to the weight of money for the different options. Markets were also offered on the next Tánaiste. Even this does not exhaust the range of markets available. Paddy Power in particular has always been enterprising at developing publicity-generating markets, and on this occasion it duly offered a book on the televised leaders' debate between Ahern and Kenny: punters could bet on what colour tie each leader might wear (for each man a cravat was a 50–1 outsider) and on which of a list of clichés (for example, 'I didn't interrupt you') would be uttered first. Although a market on which opinion poll would prove closest to the final result was introduced on 14 May, representing an interesting case of interaction between polls and bookmakers, it had disappeared by the next day.

As already mentioned, the market was quite sizeable by Irish standards. As well as the €1 million or more bet with Paddy Power, Celtic took over of the possible options (in other words, the voters' ability to identify the government options on offer and choose between them) was very low, and that while voters could choose a party they could not choose a government. Proportional electoral systems frequently score low on this criterion, whereas under non-PR systems, or in presidential elections, the voters usually know that they have a choice between two alternative administrations.[29] In 2007 the market confirms that the voters could not tell what was likely to happen. This was a particular problem for Labour voters who wanted Fianna Fáil to be ejected from government since, despite the party's repeatedly stated aversion to a coalition with Fianna Fáil, a Labour voter could not be sure whether or not their party would, as in 1993, go into coalition with that party having roundly criticised it during the campaign. Much the same uncertainty was felt by Green voters, while Fianna Fáil voters could not be certain whether their party, if it remained in government, would do so with the right in the form of the PDs or the left in the shape of Labour or the Greens or even Sinn Féin.[30] The table also illustrates the strong position of Fianna Fáil, which was seen by the market on election day as having a 78 per cent chance of being in government after the election, compared with 47 per cent for Labour, 43 per cent for the Greens, 27 per cent for Fine Gael, 26 for the PDs, and 7 per cent for Sinn Féin. The strategic weakness of Fine Gael, in relation to its size, within the Irish party system is highlighted by the market: the party is not strong enough to form the core of a non-Fianna Fáil government but is too strong to be a conceivable partner for Fianna Fáil (see chapter 12 for fuller discussion).

Table 9.1 Expected composition of next government, election day

	Odds	*Implied probability*
FF + Labour	9–4	0.21
FG + Labour + Greens	10–3	0.16
FF + Greens	10–3	0.16
FF + PDs	10–3	0.16
FF + PDs + Greens	8–1	0.08
FF + SF	9–1	0.07
FG + Labour	14–1	0.05
FF + FG	16–1	0.04
FF alone	20–1	0.03
FF + Labour + Greens	25–1	0.03
FG + Labour + PDs	40–1	0.02
Total		1.00

Note: The terms and conditions made it clear that parties had to have cabinet positions to count as part of the government. For the calculation of 'implied probabilities', see note 28.

Source: www.paddypower.com, 24 May 2007.

In 2007 the law of one price did operate, more or less, for the larger markets such as the next Taoiseach or the next government, but the market did not deliver consistent information in other areas such as the number of seats parties would win, where arbitrage opportunities sometimes appeared (for example, during the first week of the campaign on Labour's seat total). In the betting on individual constituencies different firms, not surprisingly, usually had much the same set of candidates as favourites to take seats, but there were sometimes significant divergences. In Donegal South-West in particular the two most high-profile bookmakers, Paddy Power and Celtic, took a very different view of the likely outcome. Both agreed that Fianna Fáil would take two seats, but while Paddy Power regarded Dinny McGinley (FG) as strong favourite to take the other seat, quoting him at 1–3, Celtic rated him a 2–1 chance and instead saw the Sinn Féin candidate as being 1–8 to take a seat.[36] A clear arbitrage opportunity existed here, with bettors needing to put down only 91 units to be certain of receiving 100 back whatever the outcome. In short, in these markets the law of one price did not fully operate, which was a boon for punters looking to cherrypick the odds but a problem for those hoping that the betting market would provide an unambiguous pointer as to what would happen.

The market as a predictor

How accurate were the betting markets? The largest market, as we have seen, was that on the next Taoiseach, and by election day this was pointing strongly to Bertie Ahern. Ahern and Kenny had been virtually neck and neck until the last few days of the campaign, but following the TNS mrbi poll findings released on 21 May showing a jump in support for Fianna Fáil, money poured in for Ahern, pushing him in the space of a few days from 5–4 second favourite to 1–4 favourite. Once the final seat totals for the parties were known, it was apparent that there was indeed very little chance of anyone other than Ahern becoming Taoiseach, so the market can claim this as a success.

Regarding the composition of the next government – which entails predicting both how the seats will be distributed among the parties and then what deals will be done among those parties – the market, to be blunt, got it wrong. The eventual outcome, Fianna Fáil plus the Greens plus the PDs,[37] was introduced as an option in January 2007 and remained in the 10–1 to 14–1 band up until the day before voting, when it shortened to 9–1. On election day it was 8–1, which made it fifth favourite. Once the distribution of seats was known it shortened only a little further, to 13–2, before dramatically becoming favourite at 1–5 once serious discussions between Fianna Fáil and the Greens got going on 3 June (see chapter 12 for these). Even then, it bounced back out to 2–1 on 11 June, when those talks seemed to have faltered, with the incumbent FF–PD coalition now favourite at 2–5. Those who had backed any of the five options that had dominated the market

5. In this capacity he contributed an account of his campaign to an earlier book in this series: 'On the campaign trail', pp. 48–52 in Michael Gallagher and Richard Sinnott (eds), *How Ireland Voted 1989* (Galway: PSAI Press, 1990).
6. The Foresight site is at www.ideosphere.com, while the 'Long Bets Foundation' has a site (www.longbets.org) which is described as 'an arena for competitive, accountable predictions', and as 'a way to foster better long-term thinking'. On prediction markets generally, see Georgios Tziralis and Ilias Tatsiopoulos, 'Prediction markets: an extended literature review', *Journal of Prediction Markets* 1:1 (2007), pp. 75–91; Justin Wolfers and Eric Zitzewitz, 'Prediction markets in theory and practice', in Lawrence E. Blume and Steven N. Durlauf (eds), *New Palgrave Dictionary of Economics*, 2nd edn (London: Palgrave Macmillan, forthcoming 2008).
7. Geoffrey Clark, *Betting on Lives: The Culture of Life Insurance in England 1695–1775* (Manchester: Manchester University Press, 1999).
8. Rhode and Strumpf, 'Historical presidential betting markets', p. 129. Generally, see S. G. Kou and Michael E. Sobel, 'Forecasting the vote: a theoretical comparison of election markets and public opinion polls', *Political Analysis* 12:3 (2004), pp. 277–95.
9. See www.biz.uiowa.edu for information on the history of the IEM and for current markets. Also Ray C. Fair, *Interpreting the Predictive Uncertainty of Presidential Elections*, Discussion paper 1579 (New Haven, CT: Cowles Foundation for Research in Economics, Yale University, 2006). Even critics of the IEM acknowledge this, while claiming that, properly interpreted, the polls can be the basis of a more accurate forecast than that provided by the markets. See Robert S. Erikson and Christopher Wlezien, 'Are political markets really superior to polls as election predictors?', *Public Opinion Quarterly*, forthcoming.
10. Martin Rosenbaum, 'Betting and the 1997 British general election', *Politics* 19:1 (1999), pp. 9–14, at p. 13; Leighton Vaughan Williams, 'The betting markets', *Significance* 2:2 (2005), pp. 50–3.
11. Peter Bohm and Joakim Sonnegard, 'Political stock markets and unreliable polls', *Scandinavian Journal of Economics* 101:2 (1999), pp. 205–22.
12. Justin Wolfers and Andrew Leigh, *Three Tools for Forecasting Federal Elections: lessons from 2001*, Research paper 1723 (Stanford CA: Graduate School of Business, Stanford University, 2001); Andrew Leigh and Justin Wolfers, *Competing Approaches to Forecasting Elections: Economic Models, Opinion Polling and Prediction Markets*, Discussion Paper 502 (Canberra: Centre for Economic Policy Research, Australian National University, 2005).
13. According to Ivan Yates, 'normally FF supporters are the heaviest betters'. Ivan Yates, 'Election bookie', *Sunday Tribune*, 6 May 2007.
14. For example, in 2002 Mary Harney placed a bet that the PDs would win eight seats, more than all pundits predicted – and the PDs ensured that photographers were on hand to record the event and to witness her collecting her winnings after the election. See Michael Gallagher, Michael Marsh and Paul Mitchell (eds), *How Ireland Voted 2002* (Basingstoke: Palgrave Macmillan, 2003), p. xxix. The link between bookmakers' shops and campaigning featured even more prominently in media images of the 2007 campaign – see the photo section at the front of book, and front cover.
15. Mike Smithson, *The Political Punter: How to Make Money Betting on Politics* (Petersfield, Hampshire: Harriman House, 2007), pp. 106–8, 130.
16. See the appendix to this chapter for an explanation of the odds.