

Winner takes all

Want to know who'll win the coming Federal election? The odds are the bookies will be able to tell you, write **Justin Wolfers** and **Andrew Leigh**.

FOR the first time in months, there seems to be real uncertainty over the mood of the electorate. Should Kim Beazley start measuring curtains for The Lodge? Or will John Howard add to his 1996 and 1998 successes to make it a hat-trick?

Many punters like to predict an election outcome, but there are several schools of thought on how it's done.

Pollsters argue that they can measure the "pulse" of the electorate more accurately than ever before. Economists contend that the business cycle is actually a better way of predicting when governments will be ousted. And the bookies, who make a living out of prediction, think they have a pretty good idea.

Yet when we apply each of these three models to the 2001 poll, they yield surprisingly different results.

The most common way of picking an election winner is the polls. Every two weeks, the big polling firms ask about 700 Australians: "If a Federal election were held tomorrow, which party would you vote for?"

Since the 1998 election, Howard has trailed Beazley on the two-party preferred poll – with the gap widening to as much as 26 per cent. Now the Tampa incident and the American terrorist crisis have put Howard into the lead. But it's hard to believe that these two incidents will continue to support the Coalition through to the election.

Even if polls during the election campaign suggest that one party is cruising to victory, should we trust them?

Through most of the 1993 campaign, polls suggested that John Hewson was likely to defeat Paul Keating, yet Labor not only won but also increased its majority.

In 1999, all the major polls predicted Jeff Kennett would defeat Steve Bracks in Victoria, but to everyone's surprise – including Bracks's – the polls were wrong.

There are two reasons why polls might err. Winning an overall majority of the electorate does not guarantee victory. In the 1998 Federal election, Labor won more votes than the Coalition. But unfortunately for Beazley, winning some seats by large margins doesn't help if your party ends up losing a whole host of seats by small margins. So a poll that

simply measures the electorate as a whole may end up incorrectly predicting the result. The other reason is a little more tricky. Some researchers believe that merely asking people for their opinion is flawed because respondents need not put their money where their mouth is. Psychologists argue that when asked to choose between candidates, we often are expressing a preference – at a time of national crisis, it is easy to see why we might express a preference for stability.

So what about the economists? The second theory of predicting elections starts from a simple maxim: historically, the people most likely to lose their jobs in a period of rising unemployment are the Prime Minister and Treasurer.

Those who study the effect of economic cycles on elections explain this in two ways. On one hand, when voters learn that the Government is not a particularly adept economic manager, they bring in new talent. On the other hand, perhaps the game is about retribution: when voters believe that economic opportunities have been squandered, they exact revenge at the polls.

Whichever theory holds, politicians have a strong incentive to manage the economy well.

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The state of the Australian economy doesn't seem to augur well for Howard's job prospects. Although unemployment fell throughout last year, it has risen in the past six months, and election studies have typically found that voters have short memories. And it doesn't matter that much of the present slowdown is part of a global recession – our own research has shown that voters don't distinguish between a downturn caused by poor economic management and one caused by these external factors.

No doubt Howard will be hoping that economic indicators matter less today than they once did, while Beazley will be on the side of the traditionalists. If Howard squeaks home, researchers will need to start explaining why electoral

fortunes are not as tightly linked with the hip-pocket nerve as they once were.

Under Northern Territory law, bookies are allowed to take bets on elections. Their accuracy is based on the assumption that when we are asked to put our money where our mouth is, it is likely that we think long and hard about all dimensions of the Government's performance.

Centrebet says Beazley has been a solid favourite all year. At one point Beazley was posted at odds of 7-2 on – shorter odds than Phar Lap in the 1930 Melbourne Cup. Even at those skinny odds, Centrebet's sportsbook manager, Gerard Daffy, found that "most bets have been for Labor", with one Victorian punter putting \$50,000 on Beazley.

Indeed, betting market fluctuations over the past two years tell a more nuanced story than either the polling results or the economic indicators.

This election appears to have been John Howard's to lose. The Liberal Party opened a strong odds-on favourite, but its odds have drifted out significantly since. While Howard's polling numbers slid south some time ago, the punters only really reacted in the wake of the West Australian and Queensland elections. This slide has coincided with ongoing concern about the GST and the deterioration in the economic outlook.

After the Tampa incident, however, the punters reacted before the polls, and Howard has been all the rage, attracting two bets of \$10,000 amid other large wagers. In a remarkably even contest, Centrebet is now offering a return of \$1.75 for every dollar wagered on Beazley, and \$1.95 for Howard supporters. This suggests that Labor rates about a 55 per cent chance of winning the election.

Daffy rates the betting markets as the most accurate barometer of the electorate, and he reads them as pointing squarely in the direction of Labor, which has been "backed for bundles".

But before you rush to place your bet, it is worth noting that in 1993, Hewson lost as a short-priced favourite.

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