My name is Sebastian Strauss and I am a senior analyst in the Offica of the President at Eurasia Group, specializing in global macro and geopolitical research. I believe that the contract before the commission–an event contract that pays out on the basis of Congressional control–will help the public interest by providing a valuable data point for researchers, policymakers and other key decision-makers. Concerns that that market constitutes gaming or might harm the integrity of the electoral process are overstated and should not be a barrier to acceptance.

Public interest

As a global macro analyst myself, I am aware of just how valuable prediction market data can be to researchers. The core problem in conducting regressions regarding the impact of elections on various variables is that financial markets are already pricing in some probability that a given party/candidate is going to win. For example, suppose futures on the S&P 500 shoot up 1% in the exact moments after a decisive state is called for a party , giving them control of the Senate. Is it fair to say that such a party's election increased the value of the S&P 500 by 1%? Certainly not. Among other factors, there already was a nonzero probability that they would win already baked into the price. If that implicit probability was 75%, then the effect size would be ~4% (since a 25 percentage point change in the probability of the party winning, all else equal, caused a 1% change, a 100 percentage point change would cause a ~4% change). If that implicit probability was 25%, then the effect size would be ~1.33% (1/0.75). But without a prediction market, that prior probability is unknowable! As a result, it's impossible to conduct such an analysis. That's why many past analyses have relied on small-scaled prediction markets like the Iowa Electronic Market or PredictIt, or relied on extreme outlier events like Jim Jeffords switching parties and giving control of the Senate to the opposite party. But those markets are small-scale and, in the case of PredictIt, soon to be no longer operating. That's why it's crucially important that the CFTC permit these prediction markets to operate legally in the United States: it gives us the ability to understand the intersection between politics and economic outcomes, and in the long-run better informs our understanding of the world.

Policymakers also benefit from this datapoint. Understanding both the current state of the race but also understanding how the probabilities evolve in response to key events can help them to supplement the information that issue polls provide and truly understand what the public wants and desires. The previous comment letter from President Obama's chair of the Council of Economic Advisers Jason Furman illustrates this principle nicely, by noting that they used prediction markets in the White House.

Hedging & Gaming

The CFTC has submitted several questions for public consideration surrounding the question of gaming. In particular, they have asked "How often must a contract be used for hedging or what

percentage of market participants or open interest must represent hedging use?" in a series of questions about the probability that the contract will be used for hedging.

The premise of this question is flawed. There is no test or standard for how often a contract needs to be used for hedging, nor should there be. As the Commission well knows, many contracts (famously, oil futures) have daily market volumes over 10x more than what is actually produced in a day. This ratio remains roughly true for metals, agricultural crops, and more. Yet these contracts are clearly permissible. The simple truth is that the presence of non-hedgers (uncharitably called "speculatory") does not make a market gaming, and indeed can be quite positive. Speculators provide liquidity to hedgers, and they assume the risk that hedgers are trying to offload. Moreover, they are essential to providing the rapidly-updating data points to the public to improve policy and business decision-making. Moreover, it is impossible for the Commission to know in advance what share will be hedging, and any guess they will make is likely to be inaccurate. Proving that a customer will hedge is impossible prior to the contract being listed (though if one reads the previous comment letters, it is clear that the demand to hedge is real and not just hypothetical). In other words, the answer to the share question is entirely orthogonal to the question of whether these contracts should proceed.

Election integrity

Another batch of questions relates to the impact of these markets on election integrity. There are several reasons why the CFTC should not be concerned in this regard. First, these markets are very common overseas, particularly in liberal democracies such as the United Kingdom. There is no history there of outcome manipulation, nor of a perception of a loss of election integrity. Second, manipulating the ultimate outcome would be highly expensive, if not impossible. Considering the vast sums of money spent each cycle on elections, it seems highly implausible that someone able to trade up to $25,000 would be able to succeed. After all, many companies have *billions of dollars* at stake and our electoral system is able to prevent any manipulation risks stemming from that. Third, the fact that the market regards the sum of over 400 elections suggests that it makes little sense for any individual to switch their vote over the position they are taking, as it has near zero chance to influence the final outcome.

The CFTC raises many reasonable concerns, but ultimately none of them undermine the case to legalize election prediction markets. The Commission should recognize the clear public interest in allowing them to be listed.