Secretary of the Commission
Office of the Secretariat
U.S. Commodity Futures Trading Commission
Three Lafayette Centre 1155 21st Street, N.W. Washington, D.C. 20581

Dear Chairman and Commissioners of the Commodity Futures Trading Commission:

I am writing in support of the Commodity Futures Trading Commission approving Kalshi's proposal for electoral prediction markets.

I serve as a strategic advisor to entrepreneurs, policymakers, investors, and philanthropists who are working on a wide range of issues in regulated sectors such as education, workforce training, climate technologies, and telecommunications. I am also a non-resident senior fellow at the American Enterprise Institute and previously served as a White House domestic policy advisor for President Bush and as Deputy Policy Director for the Secretary of Commerce.

Many of the organizations I work with develop multi-year policy agendas that seek to advance reforms to address pressing societal challenges. This often involves assessing the political environment and forecasting emerging political trends that might necessitate a change in strategy, grantmaking, or coalition building. I frequently use prediction markets, when they are available, to complement other sources of information to help inform these decisions and strategies.

Predictions markets provide valuable forecasting.

Political prediction markets provide valuable forecasting data that contributes to a better understanding of current events and possible future outcomes. An electoral prediction market does not replace other methods of forecasting or analyzing information; it rather adds an important tool to help make better informed decisions.

Prediction markets are similar in many respects to other markets. The price of a stock, bond, or a commodity future is in a sense a forecast of the value of an unknown future, be it the value of a commodity, the expected revenues of a business, or the business outcome resulting from an acquisition. The forecasts represented by these prices provide information that drives decisions in a variety of sectors. Farmers, for example, routinely use futures markets to make decisions about which crops to plant. Political prediction markets can do the same for those who are navigating a constantly evolving political landscape in order to manage risk and maximize their impact.

Prediction markets offer several benefits.[1] First, the market mechanism allows for near real-time incorporation of new information. In contrast, other tools, such as public polling, only offer a snapshot in time and can lag in reflecting the shifts in public sentiment as situations change.

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[1] Erik Snowberg, Justin Wolfers, and Eric Zitzewitz, "Prediction Markets for Economic Forecasting," (National Bureau of Economic Research, July 13, 2012), https://www.nber.org/papers/w18222.

Second, the market mechanism creates a financial incentive for individuals to express what they *believe* will happen, not what they *hope* will happen or even necessarily want to have happen. This too is better than relying on many of the alternatives. For example, political analysts can provide insight but may have incentives to generate support for a particular position or outcome. Or social pressure sometimes leads individuals to share what they believe is the "right" opinion even if it differs from their private views. Recent research has found that across all demographics, every subgroup had multiple issues with a double-digit gap between public and private opinion.[2] One consequence is that individuals may publicly misrepresent their own private views in public polling or focus groups.

Finally, participants may not individually have all the needed information, but the market mechanism creates an incentive to reveal what they know, which is then pooled to produce the best estimate or forecast.

Political election markets have practical applications.

We need a clearer regulatory roadmap that would allow for more, not fewer, prediction markets to contribute to our understanding of emerging events and outcomes.

For example, prediction markets could play a greater role in our pandemic response. A 2005 prediction market correctly predicted the then-current level of seasonal flu activity 71 percent of the time nearly two weeks ahead of clinical data.[3] Such a market would have been invaluable to inform our nation's pandemic response and indeed could still be valuable information given the uncertainty of future waves and variants. Steven Phillips, a medical epidemiologist and the vice president for science and strategy for the Covid Collaborative suggests that "applying a detached prediction market lens approach may produce provocative — and perhaps more accurate — pandemic forecasts than pure evidence-driven approaches."[4]

There are numerous public benefits to the information provided in election prediction markets including helping organizations forecast the political landscape in order to make better strategic decisions. This is true not only for businesses and trade associations, but also philanthropies and non-profits in heavily regulated sectors that need to navigate dynamic policy and political environments.

Election markets also provide important information that entrepreneurs and investors can use when assessing the regulatory and political risk associated with new business ventures. Reducing even a little uncertainty can be the difference in unlocking the capital to support

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[2] "Populace Insights: Private Opinion in America" (Populace), https://populace.org/research.
[3] Philip Polgreen et al., "Use of Prediction Markets to Forecast Infectious Disease Activity" (Clinical Infectious Diseases, January 15, 2007), https://academic.oup.com/cid/article/44/2/272/330878.
[4] Steven Phillips, "Prediction Markets and the Future of Covid-19" (Stat, September 2, 2022), https://www.statnews.com/2022/09/02/prediction-markets-and-the-future-of-covid-19/.

entrepreneurs tackling climate change, improving student education outcomes, or expanding access to healthcare.

Benefits outweigh the risks.

Kalshi's proposal does not pose a risk to the integrity of the U.S. election system. Election trading is a normal procedure in other established, strong democracies like the U.K., Australia, and Ireland. PredictIt and other tests in the United States have proven fruitful for researchers and the public. The valuable insights provided through a regulated election market far outweigh any of the potential risks.

Election markets in particular have proven to be a powerful tool for forecasting elections and are typically more accurate, timely, and complete than alternative methods such as polling. They would provide significant benefits to voters, the media, philanthropies, non-profits, investors, and private business. Approving Kalshi's submission would be a step in the right direction for the Commission and promotes the public interest.

Sincerely,

John Bailey