

My name is Robin Hanson, and I'm an associate professor of economics at George Mason University, and a research associate at the Future of Humanity Institute of Oxford University. I've been writing about prediction markets since 1988, and was the first to write on their potential for widespread applications. I have since been involved in many related projects, both academic and practical, and have originated key technologies for market-making and combinatorial trading, and have studied many kinds of foul play including price manipulation.

I write to support Kalshi's proposal to list contracts on election outcomes. I have two arguments, regarding the short and the long term. In the short term, these markets offer concrete social benefits, plausibly much larger than any social harms. On the benefit side, prediction markets allow traders to hedge their portfolio risks, and offer a social externality benefit to the world via the information in their prices. These benefits are well known in the relevant academic literature, and not seriously in any doubt. Neither the hedging nor the info is perfect, but clearly improves on the situation where such markets are absent.

On the harm side, there might in theory be losses from people who might make more risky trades than are good for them, or who might sabotage the world to win their bets. (Price manipulation is just not a problem in such markets.) But there are already plenty of ways to make risky trades, so it is hard to believe adding these few ways makes much difference there. And the world already contains many parties with strong stakes in elections, making it hard to see how adding some modest betting stakes would make much difference in their incentives to sabotage.

However, I actually think that short-term gains here are small compared to long-term ones. There are a great many promising big ways in which prediction markets might support needed reforms and institutional innovations. And I have been writing about these for many decades. But legal barriers to their adoption have been an important obstacle to pursuing these changes. So I see big gains to reducing such legal barriers.

As we are unlikely to cut such barriers all at once, we should instead get a lot more practice in allowing more markets, watching their consequences, and fine-tuning our approaches and regulations to adapt to any perceived problems. Allowing more election markets seems a great step in this direction.