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## POLITICAL EXCHANGE

## Clinton's Win Doesn't Move Political Markets

By DAVID ROTHSCHILD and JUSTIN WOLFERS  
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Who won last night's Democratic primary in Pennsylvania? Talking heads are debating whether Sen. Hillary Clinton's 54½ to 45½-point victory is a big enough margin to turn the tide. While Sen. Barack Obama has championed his ongoing lead in delegates, Sen. Clinton has claimed momentum is on her side. But was last night's result a game-changer?

Political prediction markets, including [this market run by The Wall Street Journal](#)<sup>1</sup>, provide a useful way of figuring out how the electoral math has changed. The answer: It hasn't. The Pennsylvania primary is best called a draw.



Associated Press

Sen. Clinton has [long been expected to win in Pennsylvania](#)<sup>2</sup>, and her nine-point victory is the sort of margin one might expect from a candidate rated by markets to be a nine-in-10 chance to win that primary. Viewed through this lens, it is not surprising that the Pennsylvania results barely altered expectations about the future of the two Democratic candidates.

Indeed, turning to the more important question of [who will eventually become the Democratic nominee](#)<sup>3</sup>, last night's loss left Sen. Obama's chances virtually unchanged at 82%. Sen. Clinton remains a 16 chance to win the nomination. Markets still believe there remains a slight chance of a floor fight at the convention yielding a compromise candidate, and the only viable candidate appears to be former Vice President Gore.

But the real winner from the six week Pennsylvania primary campaign was the Republican Party. On the eve of the last major primaries, in Ohio and Texas, prediction markets rated the chances of the eventual Democratic nominee prevailing in the November general election [to be 64%](#)<sup>4</sup>. The Democrats' chances have now fallen to 60%, with the Republicans now [a 39% chance](#)<sup>5</sup>.

Another way to view the current campaign is as a three-horse race for the White House. Sen. Obama remains the favorite at [48%](#)<sup>6</sup>, with Sen. John McCain rated [a 39% chance](#)<sup>7</sup>, and Sen. Clinton [the 12% outsider](#)<sup>8</sup>.

More interestingly, over the past six weeks, both Sens. Obama and Clinton have lost ground in this race, while Sen. McCain has gained at their expense. This is all the more striking given that it has been a very quiet period for Sen. McCain. Indeed, Sen. McCain's campaign has garnered very little press coverage, beyond reports of his disappointing fundraising performance. Moreover, high voter turnout in recent Democratic primaries (including Pennsylvania) suggests that Sen. McCain will face an opponent advantaged by an energized base.

The fact that Sen. McCain's stocks rose even despite a mediocre few weeks on the campaign trail provides some empirical support for the description by a Democratic Party official of Sen. Clinton having exercised "the Tonya Harding option"—the idea that her path to the gold medal is to destroy her leading competitor (and nominal teammate) Sen. Obama. But it is also a strategy [that largely backfired](#)<sup>9</sup>, as Sen. Clinton's chances of securing the Democratic nomination have declined from a high of nearly 29% following her victory in the Ohio and Texas primaries, to their current level of 16%. Thus, even after accounting for Sen. Clinton's victory in Pennsylvania, the past six weeks have in fact been an even worse period for Sen. Clinton than Sen. Obama. And Sen. Clinton's decline in political prediction markets has occurred despite weeks of intense public scrutiny of Sen. Obama, and particularly his links to Jeremiah Wright, or his feelings about "bitter" voters. The real upside for Sen. Clinton is that she still remains a viable alternate candidate, if there are any missteps by Sen. Obama in coming weeks.

Expect a bruising fight ahead, as the two candidates are expected to trade victories over the remaining weeks of the campaign, with Sen. Clinton the current betting favorite in Indiana, West Virginia and Kentucky, while Sen. Obama is predicted to win in North Carolina, Oregon and Montana.

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Tonya Harding, it will be recalled, could only manage eighth place in the Olympics, while the victim of her attack, Nancy Kerrigan, managed to win the silver medal. Movements in political prediction markets during the long Pennsylvania primary campaign suggest that this episode in ice skating history may well provide a salutary lesson for Democrats.

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