



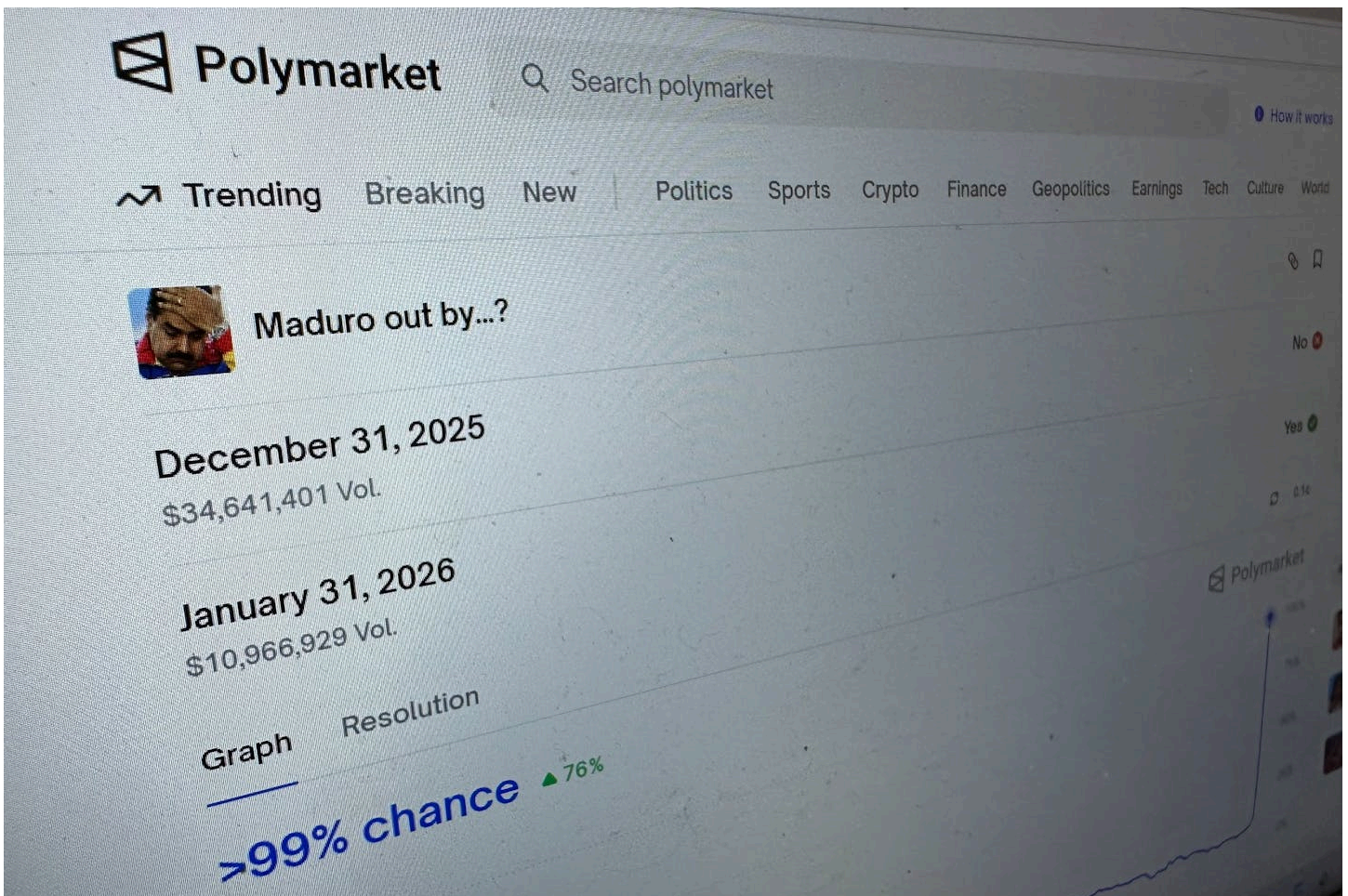
COMMENTARIES

Opinion | Minnesota must gather its wits about prediction markets

In the same way it's been cautious about sports gambling.

By Annette Meeks

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"Prediction markets are a 'wild west' of gambling that is virtually unregulated and that faces numerous legal and ethical challenges," Annette Meeks writes. Above, the Polymarket prediction market website is displayed on a computer screen. (Wyatte Grantham-Philips/The Associated Press)

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Unlike 38 other states, the Minnesota Legislature has studied, debated and ultimately rejected a multitude of proposals to expand gambling to include sports betting.

Recently, a new form of mobile sports betting boldly announced its arrival in Minnesota with an audacious advertising budget designed to attract gamblers. These new-to-Minnesota websites are commonly known as “prediction markets.”

What is a prediction market? Such markets originally emerged as a way for gamblers to wager on such ignoble occurrences as predicting deaths of famous individuals, or if/when the Federal Reserve will cut interest rates. Recently, they gamified the ongoing tragedy of a missing elderly mother in Arizona.

You’ve likely not heard of these two dominant platforms – the privately owned Kalshi and Polymarket. They’ve operated in a gambling “no man’s land” that now includes sports gambling mega-websites Draft Kings and Fan Duel, who saw the action these two prediction market websites racked up and joined the foray by partnering with their competitors to offer sports predictions in non-legal states like ours.

Why does this matter? In Minnesota it should concern all of us – prediction markets are a “wild west” of gambling that is virtually unregulated and that faces numerous legal and ethical challenges. Significantly, both gambling platforms have faced serious allegations of impropriety in nearly two dozen states that have launched lawsuits to curtail the wagering happening on these platforms.

It’s easy to see why Kalshi entered the sports betting industry – it’s reportedly “a market worth an estimated \$18 billion.” These prediction market platforms are loosely regulated by the Commodity Futures Trading Commission, an obscure and small quasi-independent federal agency formed in 1974. Its original mission included monitoring derivatives markets and commodity futures exchanges.

The CFTC had quietly operated in the regulatory backfield until the 2008 financial crisis. Many in Washington believed that the CFTC played a significant role in allowing that financial and housing crisis to occur due to the high risk associated with both markets that received little or no oversight by the CFTC – the agency charged with providing that surveillance.

Now we have prediction market platforms like Kalshi that reportedly took in \$500 million in “Super Bowl contracts.” In addition to that total, bettors on the website were able to place wagers on “first song” performed at halftime (\$113.5 million), traditional “prop bets” (\$66 million) and even the pre-kickoff “snapshot” (\$325 million). Indeed, it is

estimated that 90% of all activity on the Kalshi website is sports-related, yet those federal, state and tribal agencies who customarily provide consumer protection to gamblers are absent.

It's important to note that there are many significant harms associated with prediction markets and the lack of appropriate state oversight. For example, by calling themselves "prediction markets" rather than "sports gambling," these websites evade gambling age limits – most states require gamblers to be 21 and older. This is significant because, as the National Council on Problem Gambling has written, kids who begin gambling before age 18 have a "higher likelihood of developing a gambling problem." Indeed, the National Institutes of Health points out that gambling at a young age is extremely concerning since the younger brain "has a poor understanding of statistical probability" that can lead to myriad problems associated with gambling addiction.

Furthermore, unlike state-sponsored gambling (for example, the lottery, tribal casinos and other legal and regulated forms of gambling currently allowed in Minnesota), prediction markets are unregulated and pay zero in state taxes and regulatory fees. Yet prediction market gambling is currently happening in Minnesota, and the state and counties will be left to handle the social pathologies in its aftermath.

Finally, it's important to understand that every country in the world considers prediction markets to be a form of gambling *except* the United States. And indeed, many states' attorneys general are waking up to the potential for fraud, underage gamblers and the potential for insider trading that these prediction markets create; they have filed lawsuits to curtail their activities. At last glance, 19 federal lawsuits were pending regarding these high-dollar platforms that literally challenge the definition of what gambling is.

So while Congress, the courts and various states wrestle with an emerging form of a rocket-fueled internet-based sports gambling platforms, Minnesota should join them to put the brakes on prediction markets. There can be little doubt that these gambling websites are designed to skirt traditional state gambling regulations while hiding behind twisted wording that says placing wagers on the outcome of the Super Bowl, including so-called "parlays, prop bets" and other typical types of sports betting, aren't bets.

Nearly 100 years ago, labor leader Emil Mazey famously said that "when I see a bird that quacks like a duck, walks like a duck, has feathers and webbed feet and associates with ducks – I'm certainly going to assume that he *is* a duck." Regardless of what they call prediction markets, they don't pass the duck test: They are a form of gambling and must stop operating in Minnesota until they receive legislative approval. And while lots of people are predicting this major expansion of gambling is the future, I wouldn't bet on it.

Annette Meeks is CEO of the Freedom Foundation of Minnesota.



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