

Demystifying the rules of the electoral game

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Elections have dominated the democratic world and much of the news flow in 2024. While they typically don't affect markets longer term, the sheer number of elections this year has made them a significant point of interest for investors and has demonstrated significant disparities in electoral systems and representation.

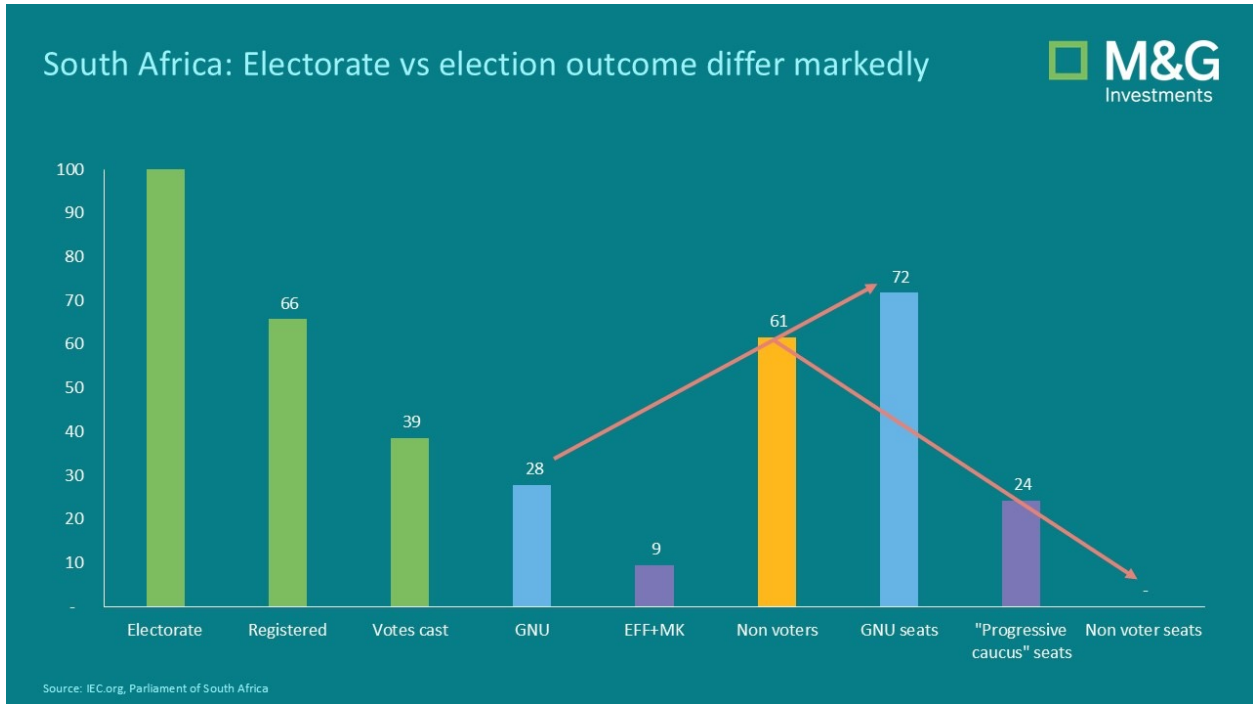
Looking beyond the headlines to understand election outcomes in 2024

Nuances in the electoral systems of different countries and low voter turnout have led to quite different and, in some cases, surprising election results. Exploring the experiences of the UK, France and South Africa, who have already held their 2024 elections, offers context for understanding potential outcomes in the upcoming US election in November.

The UK uses a first-past-the-post system, with voters in each parliamentary constituency selecting one representative. The candidate with the most votes wins the council or constituency, irrespective of getting more or less than 50%. In July, 60% of eligible voters turned up at the polls. Nationally, a third of votes were cast for the ultimately victorious Labour Party. So, despite only getting 20% of the electoral vote, the Labour Party ended up with 63% of the seats in parliament.

In contrast, the Reform UK party received 9% of electoral votes, but gained a majority in very few individual constituencies. Despite a sizeable number of votes, they ended up with less than 1% of the seats. While this system provides clarity and decisiveness, critics do question whether it fully reflects the diverse political landscape of the country.

France employs a blend of direct and proportional representation. Legislative elections occur in two rounds. If a constituency gets no majority in the first, the two leading candidates face off in a second round. In their July election, the National Rally Party of Marine Le Pen won the most votes in the initial round. Left and centrist parties subsequently formed a coalition and, despite not getting the most votes in the first round, ultimately won the French election.



South Africa's proportional representation system, where voters select a party rather than an individual candidate, is simple in comparison. In the May election, the GNU received a strong mandate, gaining 72% of the parliamentary seats. While this has brought optimism to the nation, only 39% of eligible (registered and unregistered) voters went to the polls, highlighting very low participation in the SA democratic process.

Even where there is a seemingly strong mandate from electoral outcomes, we need to keep in mind that the design of a country's electoral system or low voter turnout can lead to outcomes that are not necessarily representative of the majority view.

Focus on the upcoming US election

The US electoral system is unique and complex, combining a first-past-the-post and an Electoral College system. Every four years, the Electoral College is formed, made up of electors from each state, to vote for the President and Vice President.

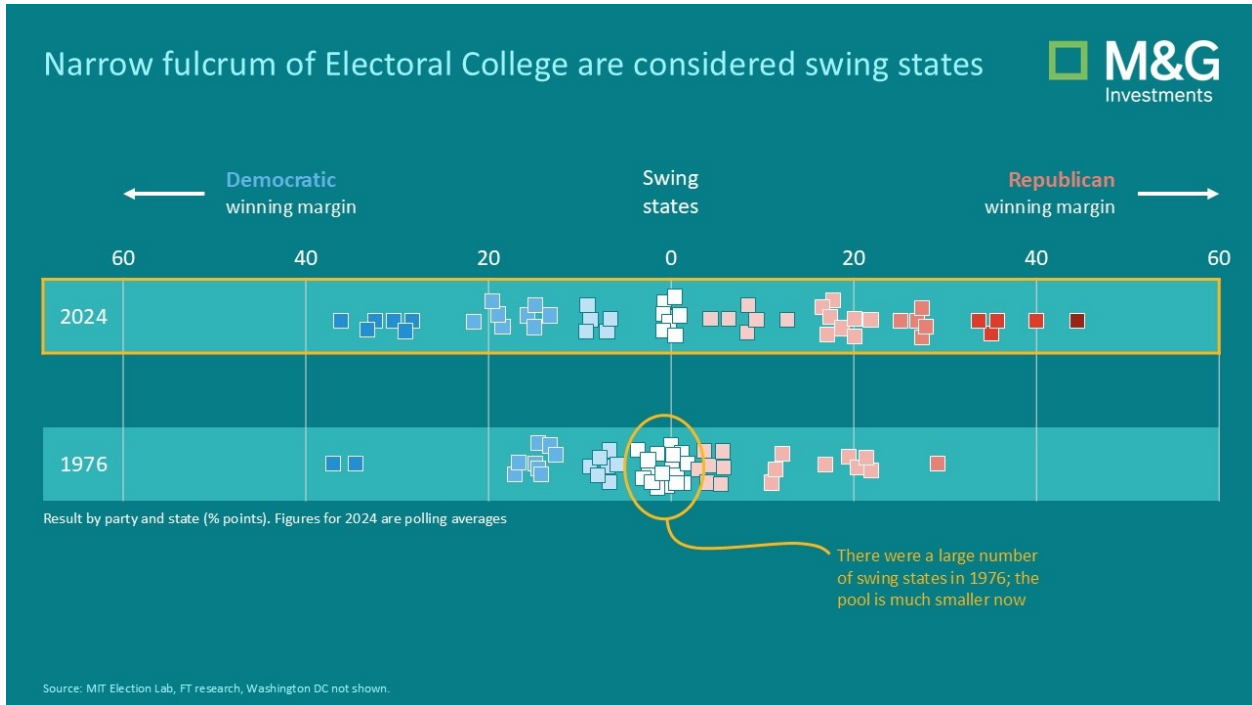
For context, the US Congress is made up of the Senate and the House of Representatives. Each state's number of electoral votes equal its number of Senators (two) plus its number of Representatives, the latter being dependent on population size. The popular vote on 5 November will lead to the selection of electors, who then meet and vote for the President and Vice President in December. A majority of 270 or more electoral votes (out of a total of 538) is required to win the election.

As such, the candidate who secures a majority of the popular vote doesn't necessarily win the presidency, as we saw in 2000 and 2016. The merits of this winner-takes-all system, with representation not proportional to population, is often debated. Critics object that it's unequal as citizens in states with smaller populations have more voting power than those in larger states given the distribution of electors. Supporters argue that it requires presidential candidates to have broad appeal across the country to win.

Note that the House and the Senate is also up for grabs in the election. Whether it's a clean sweep or a divided legislature is important. The latter outcome could result in more noise and animosity in the political system, and policy gridlock.

Swing states are the main determinants of the election outcome

The electoral college system encourages candidates to focus their campaign efforts on courting voters in swing states, where polling shows no clear favourite. The seven swing states of Arizona, Georgia, Michigan, Pennsylvania, Wisconsin, North Carolina and Nevada were won by a margin of 3% or less in 2020. The group of swing states has become smaller over time (see chart), and, with campaign efforts mainly focused on these, a large majority of US voters are largely ignored by candidates.



Looking beyond the US election

Regardless of the election outcome, the US faces significant challenges in an interconnected world. From both the global and South African perspective, how the winning candidate tackles the massive US deficit and approaches the uncertain, fraught global environment will be key. Neither party seems to have a clear plan on the deficit nor given us greater or lesser confidence that the world will be geopolitically different post the election. One area of seeming consensus amongst US politicians is the US's strategic competition with China, which is likely to continue and drive shifts toward a future multipolar world.

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