



## **Why Who Wins the 2008 Election Doesn't Matter**

By David J. Gibson, MD and Jennifer Shaw Gibson

HERE IS A RADICAL if not subversive concept concerning elections in today's hyper-partisan environment: Elections are not about winning. They are about gaining the permission of the electorate to govern.

It should not be a surprise that voter turnout is lower in the U.S. than in other industrialized country - the most expensive campaigns are generally the most negative and depress voter interest. Wedge issues by definition cannot accommodate compromise and therefore have no place in public political dialogue. They serve only the interests of demagogues on both sides of these issues.

What substantive issues are being avoided by politicians in this election cycle? The following are but a few we should be discussing:

### **U.S. has lost control of its financial future**

America has become a developed debtor country. As Niall Ferguson, the professor of history at Harvard University, noted recently in an op/ed column in the *LA Times*, the problem for America is that its electorate now thinks the world owes them a living.

As we are witnessing in this political season, politicians pander to this assumption by making a series of more or less incompatible promises: that expenditure on healthcare and education will always go up; that direct taxation will never go up; and that the assets against which voters borrow will never go down. The only way to fulfill these promises is to pump out ever more printed paper - bank notes, bills, bonds, stocks and the rest. The emerging exporter countries buy these. The net result for America is a creeping transfer of financial ownership to foreign investors.

This process of acquiring liquidity through the sale of paper to foreign investors is about to enter a doomsday scenario. China has stockpiled £700billion worth of foreign currency, and has only to decide to slow its accumulation of dollars to weaken or destroy America's economy. We are now hearing clear warnings from China that it will be switching away from dollars into higher valued currencies such as the Euro in the future. Such a move will likely precipitate a liquidity crisis that will crush America's economy.

It matters not how many troops, missiles, bombers or aircraft carriers America's military possesses. At the point of divestment by foreign exporting investors, our economy will implode without a shot being fired. This is the clear and present danger we now face and the reality our children are inheriting.

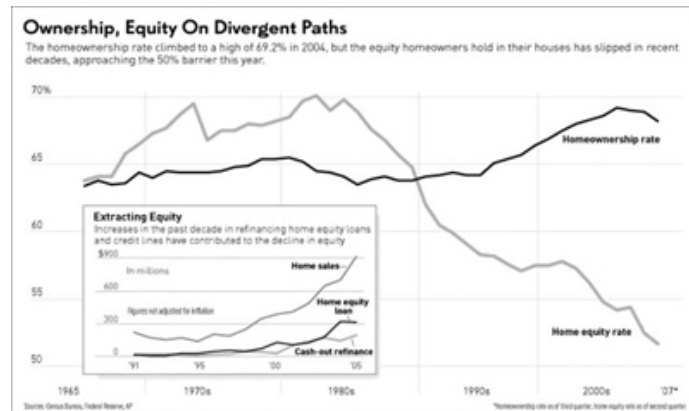
### **Our consumer-based economy is not sustainable**

For the past generation, America's economy is consumer-based. Consumer spending, not saving and investing, has sustained our economic prosperity. Unfortunately, this consumer-based economy is not sustainable.

According to the 2007 Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI), about 60 percent of people age 45 and older have less than \$100,000 in retirement savings (about 40 percent of the those 45 and older have managed

to save less than \$25,000). In fact, of all the workers surveyed, more than one-third has less than \$10,000 in savings. Despite the apparent lack of adequate savings, roughly 70 percent of all EBRI survey respondents say they are somewhat or very confident of having a comfortable retirement.

One fundamental investment that individuals in middle years and older have traditionally held in their portfolio has been equity in their home. The graph below, taken from *Investor's Business Daily*, demonstrates that while homeownership rate climbed to a high of 69.2 percent in 2004, the equity homeowners hold in their houses slipped in recent decades, approaching the 50 percent barrier this year.



For the past decade and a half, homeowners have been extracting equity from their homes in the form of second trust deed financing to support their consumerist life style.

All of this sets up the economy for the perfect storm that will occur during the next administration's time in office. The trust funds for both Social Security and Medicare have been eradicated with over \$4 trillion in borrowing to pay for prolific spending by the federal government. Most individuals retiring over the next 20-years have little if any savings. No one in public life is warning the country of the crisis that is now unfolding.

### **Health care will not be reformed in the next four years**

The largest industry in America cannot be fundamentally restructured without the consent of the electorate and the tax payers (the two are not synonymous). Thus far, the political debate has centered on the current system's shortcomings. As a result, health care reform is at the top of the 2008 election agenda. Near-universal coverage is being promised by most serious presidential contenders.

There are at least three problems with the current health care reform debate. The first involves the lack of candor concerning what reforming the system will require. National polling consistently demonstrates that reform proposals that threaten - or which can be made to appear to threaten - the plans that insured Americans (who are taxpayers and tend to vote more reliably than the preponderant non-tax paying uninsured) currently have will likely face a backlash similar to the Clinton debacle of 1993. This reality has doomed Schwarzenegger's "year of health care reform" in California.

Secondly, the debate has been superficial. Changing the structure of the underwriting system for health care is easy. Restructuring the cost per unit of service and the number of units of service delivered is the hard part of the reform process. In reality, how the underwriting system is structured is of little consequence - no underwriting system can support the current inflationary trend in health care.

Finally, the government cannot fund universal coverage. In fact, the cost of existing health care entitlements has bankrupted government at all levels, from the local school board to the federal.

At the national level, the magnitude of the unfunded health care retirement liability for government employees is just coming into focus. Recent estimates by various benefits consulting firms of the total amount of public sector unfunded retiree health care obligations have exceeded \$1 trillion. To put this in perspective, according to the Federal Reserve Board, the total amount of outstanding municipal securities in the United States as a whole at the end of the first quarter of 2007 was \$2.5 trillion.

All of the above does not include the economic tsunami that both Medicare and Medicaid now represent. Medicare Part A expenditures alone are expected to grow 85 percent to \$385 billion, and the projected annual shortfall between tax revenue and spending will grow to nearly \$45 billion in 2016. The Medicare Trustees this year estimated that filling this shortfall in Medicare will require an income tax increase of 22.7 percent by 2030.

### **A failed political paradigm**

Since the passage of the 16th Amendment to the Constitution in 1913, the paradigm for the successful politician has been essentially unchanged. Once elected, politicians use tax payer money to purchase goodwill of the electorate, to ensure longevity in office.

Most of this spending has been financed through borrowing by government at all levels. With the ability to borrow now limited and the magnitude of the already-promised entitlement funding overwhelming, we face the reality of a perfect storm in public policy. Future politicians will of necessity be taking prized goodies away from their constituents. They will need to increase tax rates to near confiscatory levels, decrease spending by reneging on prior entitlement commitments, or a combination of both.

The new politician will look much like Tom McClintock here in California, a policy wonk who understands the precarious future facing public financing of government. America has no experience with this type of politician. How does a politician get elected by taking away programs and increasing tax rates simultaneously? Clearly, no current candidate from either party has any grasp of the imminent problems facing the country.

The current outrageously expensive political season is not about governing, it is about winning.

The result: It does not matter who wins. Inconsequential social issues that should not be part of the public debate will be influenced but the winner will have neither the political capital nor the mandate from the electorate to govern in these perilous times.

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