



The Election: Making Difficult Choices

By John Mauldin | November 6, 2016

Some Thoughts on Election Night Possibilities Washington DC, New York, Lots of Florida, and the Cayman Islands

I have a letter halfway done on economic/investment themes, but I'm putting it aside. For over 16 years I have written each week about what has interested me and what I have thought important. And frankly, what is really on my mind is the same thing that is likely on your mind, and that is Tuesday's election results. So I am going to write a shorter letter on my thoughts on the election, trying to put an economic spin on the political process (since economics is the beat of this letter, not politics) and give you a heads up on what may possibly be the big story on Tuesday night. One congressional district in a state that nobody pays attention to could find itself at the center of American politics. That district's single electoral vote could spell the difference between a razor-thin win and a tie. Seriously. And since I have a special connection with that congressional district, I will offer some thoughts on how it may go.

But first, I want to share with you some of the things I'm going to be thinking about as I walk into the polling booth on Tuesday.

I certainly understand the passion around many of the issues the candidates are talking about: immigration, income inequality, taxes, defense and overseas wars, Supreme Court nominees, healthcare, Social Security and other entitlements, the environment and regulations, and a host of other things. Call it the economist in me, but the overriding thing on my mind as I walk in to vote will be the future of the economy.

Almost all of the issues listed above are dependent on how well our economy does. The economy will dictate whether we can afford to pay the taxes to do all the things we would like to do, whether there are enough jobs for everyone, and whether we'll have the financial and political wherewithal to deal with the debt and entitlements tsunami that is rushing toward us.

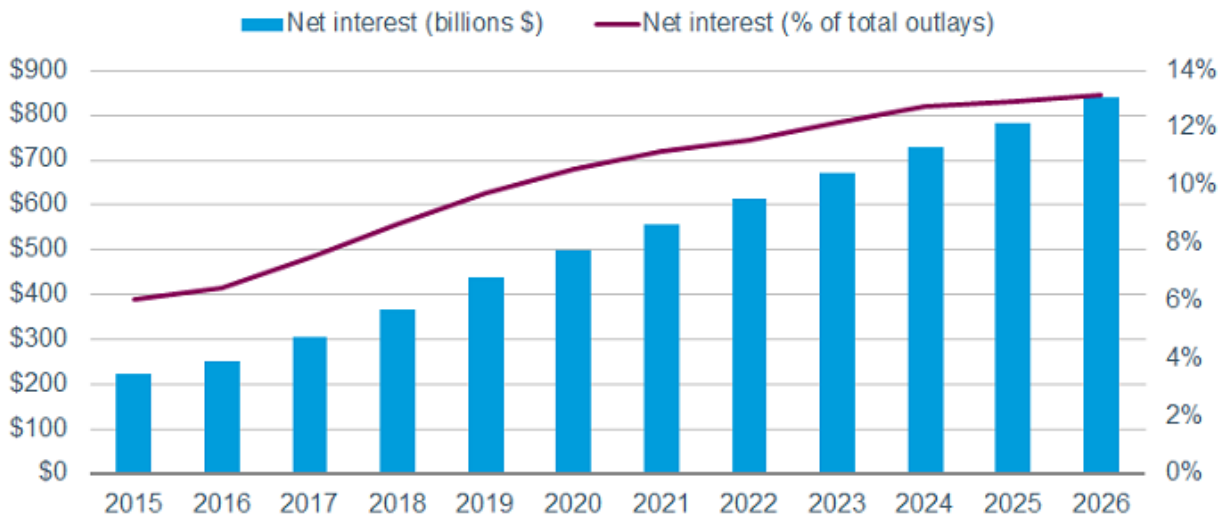
I have been writing about these issues for years, so I am going to simplify discussion of the problems greatly in the next few pages in order to keep the focus on the election. Bear with me...

We now have \$20 trillion of debt on the US books, plus another slightly over \$3 trillion of state and local debt. We have an \$18 trillion economy, which means that our true debt-to-GDP ratio is about 125%. Of course, there are those who would say that much of that debt is money we owe ourselves, in the form of Social Security and highway trust funds, various pension balances, and so on – as if that means the debt does not have to be paid. Anybody who says it doesn't is giving you

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economic bull patties. Social Security is going to have to be paid, whether the money comes from the trust fund or from the actual budget. It is not something we owe to ourselves; it is something we owe to future recipients, no less than we owe our various government debts to pension funds and insurance companies, not to mention the retirement accounts of 100 million people.

If you look at our national budget, you see that interest on the debt is about \$250 billion for fiscal 2016. The chart below, from the Congressional Budget Office, shows shows those annual interest payments growing to over \$800 billion (that is, more than tripling) in less than 10 years.



That interest is net interest, of course, since they take out the actual interest we pay to the various trust funds, net out the debt held by the Federal Reserve that is rebated, and perform other accounting shenanigans. The Treasury Department says the actual net interest paid in October was \$23 billion, which suggests that interest costs for fiscal 2017 will be north of \$280 billion.

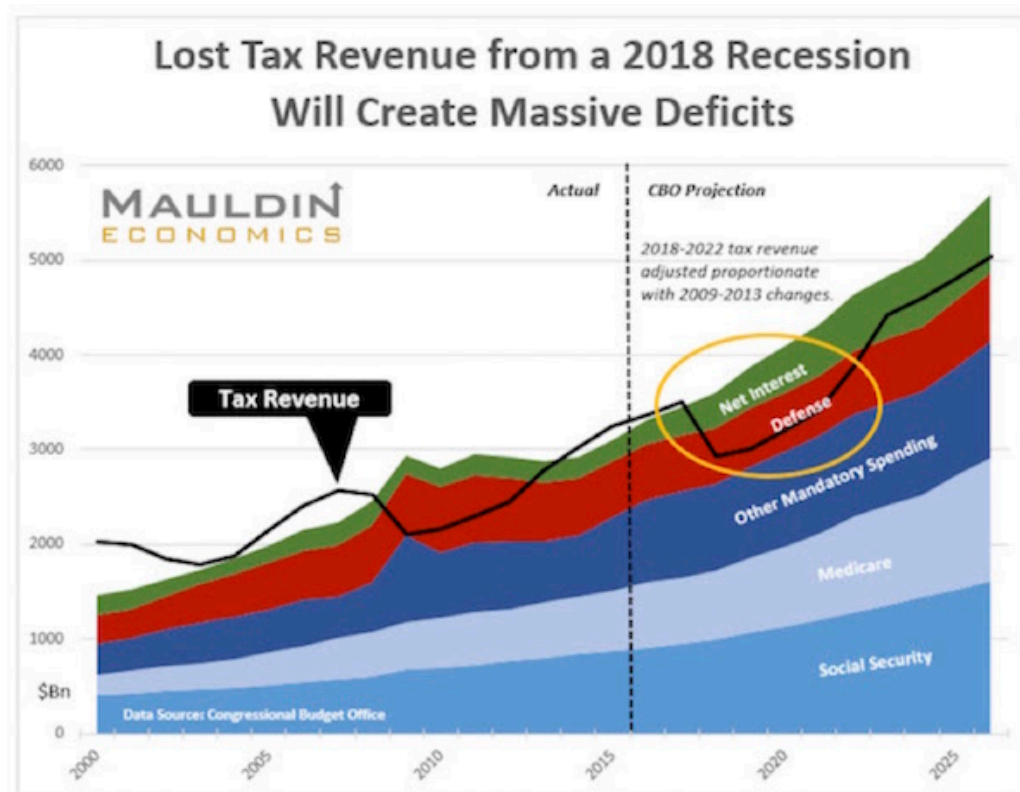
The Treasury Department also shared this interesting factoid on its [website](#): The actual interest expense for 2016 was \$432,649,652,901.12 cents. That's \$432 billion and change, so you can see that almost \$200 billion was netted out to other organizations. But that, too, is money we are eventually going to have to pay and that is accumulating as debt due in the future. As those trust funds are drawn down because increasing numbers of people are retiring, that debt is going to come due, much of it in the next 10 years – thus the inordinate rise of interest paid over the next 10 years in the chart above. The net interest represents about 6% of the budget but about 7% of tax revenues. Actual interest paid represents almost 13% of tax revenues.

Between Social Security and the various health and pension programs (for government employees, the military, etc.) we have unfunded liabilities of at least \$104 trillion. My friends Professor Larry Kotlikoff (of Boston University) and syndicated columnist Scott Burns estimate the unfunded liabilities to be closer to \$220 trillion. So just pick an impossibly large number and go with it, as you like.

I will go into this topic in more detail next week, but 43 million of our citizens live in poverty. Fifty-six million are enrolled in Medicare. Almost 43 million of our citizens receive food stamps. We have lost 5 million manufacturing jobs in the last 16 years. Median income is up just 3% in the last 16 years, while the median new home price has almost doubled. Ninety-four million people are not in the workforce, with 15 million of them actually unemployed (though the official number is only 8 million).

You get the picture. It's not pretty. The US debt rose by \$1.6 trillion last year, almost \$1 trillion more than the budget rose, because of "off balance sheet" debt obligations that somehow mysteriously show up as actual debt on the books but not in the official reporting budget. I would point out that if a public business were to publish its accounting statements in the same manner, the SEC would shut it down, and its management would go to jail. Meanwhile, we just re-elect and reappoint our managers of the US budget. Not quite the same thing...

I have used the following graph several times in the last few months, but it is hard for me to do anything without thinking about what will happen during the next recession. The official deficit will rise to at least \$1.3 trillion, with the off-budget deficit being higher, probably leading to at least \$2 trillion per year being added to the national debt. I admit that is a complete guess because there is nobody making actual predictions from real budget numbers that assume there will be a recession within the next three years. They all assume 2½–3% growth, low interest rates, and a host of other unrealistically optimistic scenarios.



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It is quite conceivable that we could be approaching \$30 trillion in national debt by the time the president is inaugurated in 2021. Make whatever assumption you want to about interest rates, the level of taxable revenues in current models suggests that interest could easily be consuming more than 15–16% of revenues by then. And growing...

That is not a sustainable model.

I have written several letters about the fact that large amounts of debt are a drag on growth. If we continue down the path we are on, we will make it impossible to grow our way out of debt. A large increase in tax revenue to get rid of the debt would also be a drag on growth. We are increasingly refusing to make the difficult choices to deal with the big issues, which means we are being left with the choice between a bad outcome and a very bad outcome. There will be no good choices left.

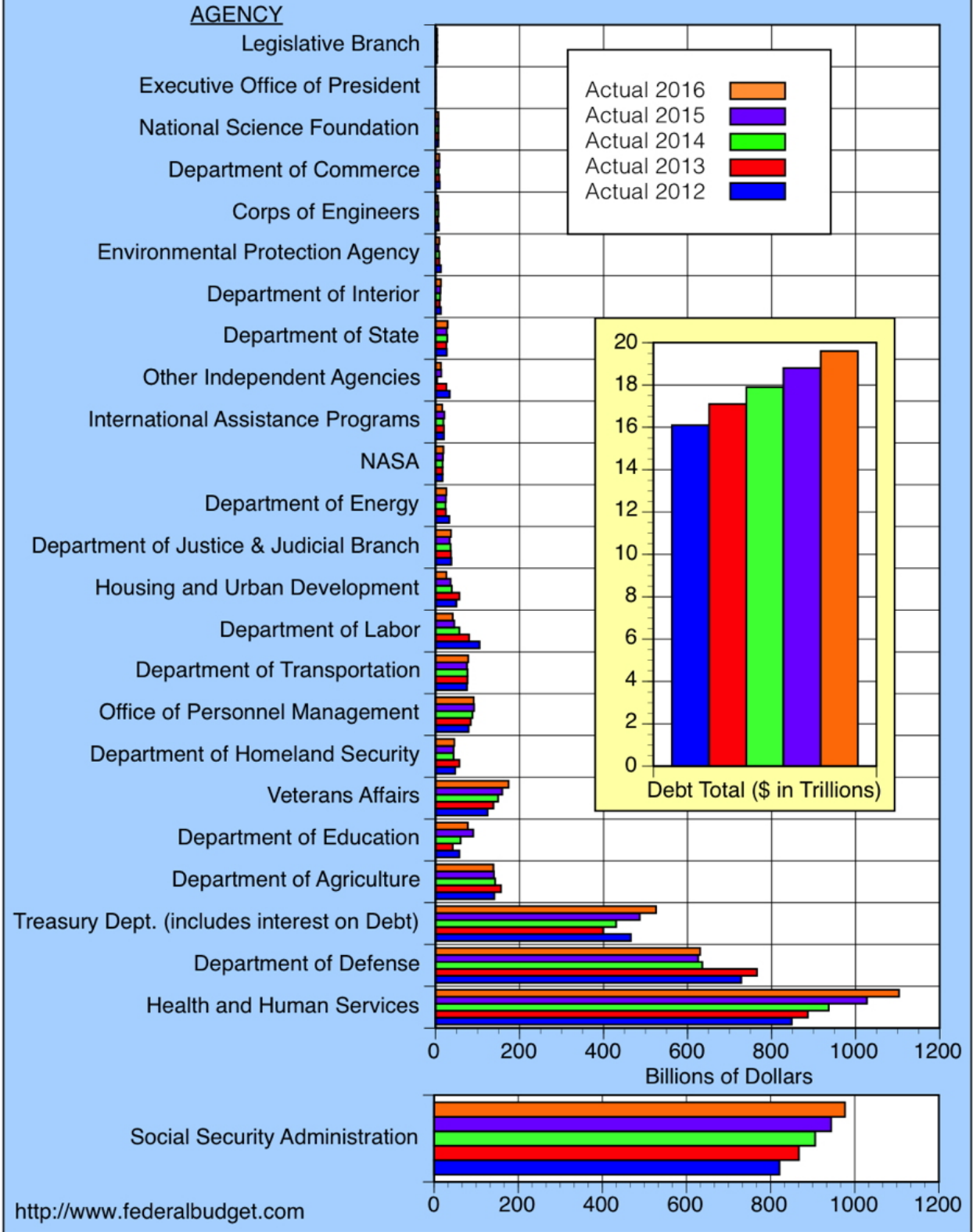
The outcome is likely to be economic deprivation for many of our citizens, depression-level unemployment rates, and an economic upheaval that will roil the markets unlike anything we have experienced. It will make 2008 look like a picnic.

Because that debt has to be paid in one form or another. If we print it (and that is one of the bad choices), there will be significant consequences. If we choose to increase the proportion of GDP that is taken by taxes, we will slow growth and job creation.

Look, I get that we have to figure out the whole healthcare thing, and the solution is going to be expensive. We have to live up to our commitment to our veterans. We have to provide a safety net for those in true need. We are going to have to make changes in the way this country is run and in the processes by which we allocate resources, and those changes are going to make just about everybody in the country uncomfortable.

The longer we wait to make those choices, the more difficult they become. Look at the chart below. It shows the amount of money spent in the various departments of government. Entitlements, defense, and interest are the big line items. While cutting some of the other items might help, the only real solution is to deal with defense and entitlement spending and somehow figure out how to bring down the debt and interest expense. Everything else is tinkering at the margins.

How Congress Spends Your Money



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So when I walk into that polling booth next Tuesday, I'll be thinking that we have to make some very difficult choices in the next four years. And I'll be wondering who can step up to the plate and deliver those choices. And this is where I'll heave a big sigh. Because both parties have increasingly entrenched themselves around political mantras that do not allow for compromise and constructive choices.

Bluntly, we are going to have to raise the amount of money we take from the economy in the form of taxes *and* we are going to have to reduce the amount of entitlements and welfare that we pay. It is not a choice of either/or. It has to be both/and, and that means compromise – and I just don't quite see how that happens.

My friend Rod Martin (an uber-conservative Republican insider) wrote me a note earlier today with the following thoughtful comment:

A vote is not an endorsement. An endorsement is an endorsement. A vote is a choice between two possible outcomes. Refusing to vote is refusing to choose, but it is itself a choice, to be irresponsible without actually avoiding responsibility.

I don't have to like my choices. I frequently don't, in voting or in other things. I do have to choose the outcome least likely to harm – or at least likely to do the least harm – to those for whom I'm responsible.

My concern – and it is very real for me – is that no matter whom I choose, we will find ourselves in the same place in four years, with leadership that refuses to face the realities of basic economics. Except that by then we will have endured another recession, unemployment will be unacceptably high, and the economy will be recovering even more slowly than it has this time.

One presidential candidate has an almost 100% certainty of appointing the same sort of people to the Federal Reserve, who will give us more of the same medicine they have prescribed so far. I have no idea what the other candidate will do, other than that he has chosen a few economic advisors who will counsel him to do some things differently. Bluntly, many of those on his economic advisory team, while certainly brilliant and thoughtful businessmen, do not really understand the importance of those Federal Reserve appointees, nor do they understand the true consequences of monetary policy.

All that said, which candidate for president will be more likely to make the difficult political choices and compromises, with the very real prospect of thereby becoming a one-term president (since any significant compromise will anger their base)?

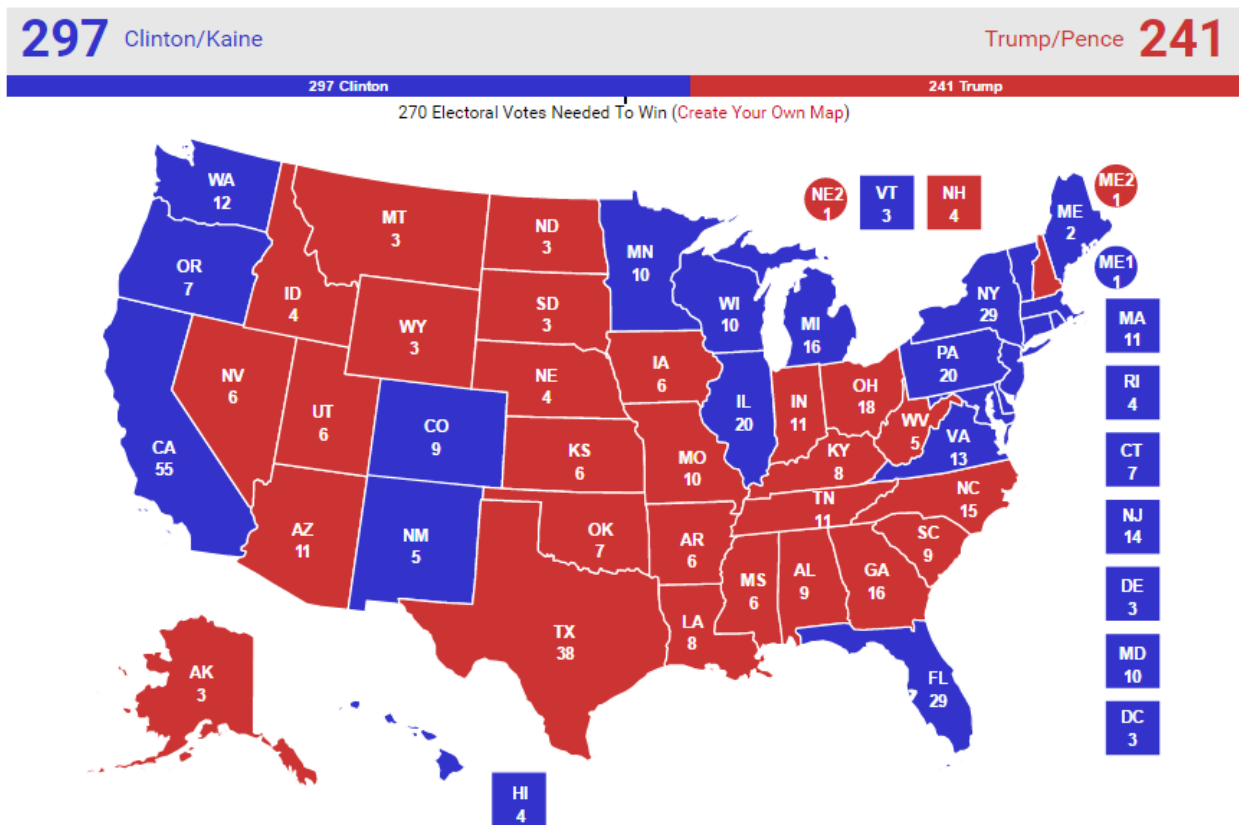
So there you have it. I have probably said at least a few things that raised the hackles on the back of your neck, but I thought I had better say them.

And now, let me offer some observations on the election next Tuesday.

Some Thoughts on Election Night Possibilities

A month ago I thought Trump had only a small chance of winning. Then there was the *Hollywood Reporter* nonsense, and you just roll your eyes. Then all the Clinton revelations started coming out, and piling on top of them was the amazingly interesting and odd reopening of the FBI investigation by Director Comey... which as of this evening has been de-opened. Again. Comey now says the bureau's review of the latest batch of emails turned up nothing to change their previous conclusions. Score one point for the Clinton side – but who knows what may come out tomorrow or even on Tuesday?

Now, it certainly appears from the crowd sizes at rallies that Trump's supporters are far more enthusiastic than Clinton's. Will that be enough to overcome the Clinton ground game, which from all appearances is much better organized? That is why we have to wait until Tuesday night. Could it really come down to Florida again? That is what the Real Clear Politics no-tossups electoral count tells us today.



If this map really holds, except that Florida goes for Trump, he wins. Florida has 29 electoral votes, and that would give him the win by 270 to 268. Two whole electoral votes – hardly a landslide, but a win. A few days ago Florida was a red state, but then a few days ago it flipped back to Clinton. My Florida friends (and there are many) tell me the race is close, but they think

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there is enough hidden Trump support that just does not want to talk about it to make the state a true tossup. It's all about the "ground game" and who gets voters to the polls. My friends also tell me (as does every article I read) that there will be no hanging chads in Florida this year. There is now a very clear and precise voting process.

But what almost no one is talking about is that for Trump to get to 270 electoral votes, he has to carry Maine's 2nd congressional district, which has exactly one electoral vote. Maine is one of just two states that apportion electoral votes by congressional district and not by the total state count. The state has four total votes. Two go to the statewide winner, and one each goes to the winner in the two congressional districts. District 1 along the coast is firmly Democratic. And up until either yesterday, District 2 had been in the Clinton tally, too. But as you can see on the map above (in the upper circle beside Maine), "ME2" is now red, potentially giving Trump the one vote he needs for a win.

The most recent poll shows Clinton with a two-point advantage, but when averaged with another poll, it has Trump with a plurality of 0.5%. And that's with Gary Johnson getting 7% and Jill Stein getting 2.5%. In addition, 6% to 9% of voters haven't made up their minds or else don't want to tell the polling companies how (or if) they plan to vote. If you look at the polls since early September, they are all over the place, from Trump up big to Clinton with a solid majority.

The Democratic candidate for president has won in Maine CD 2 in every presidential race since 1992. The district had a Democratic congressman from 1995 up until 2014, when the Republican candidate, small businessman Bruce Poloquin, was able to win the district with 47% of the vote because an independent candidate took enough votes to keep the Democrat from winning. I have met Bruce several times. He shows up at Camp Kotok, the annual August economics and fishing gathering. There are enough fishing guides at the event that it is one of the larger gathering of voters in that district. The *Maine Sun Journal* reports more than \$14 million being spent so far in this race. That is a lot of money for a congressional race in a district with only a few good-sized cities and not much TV.

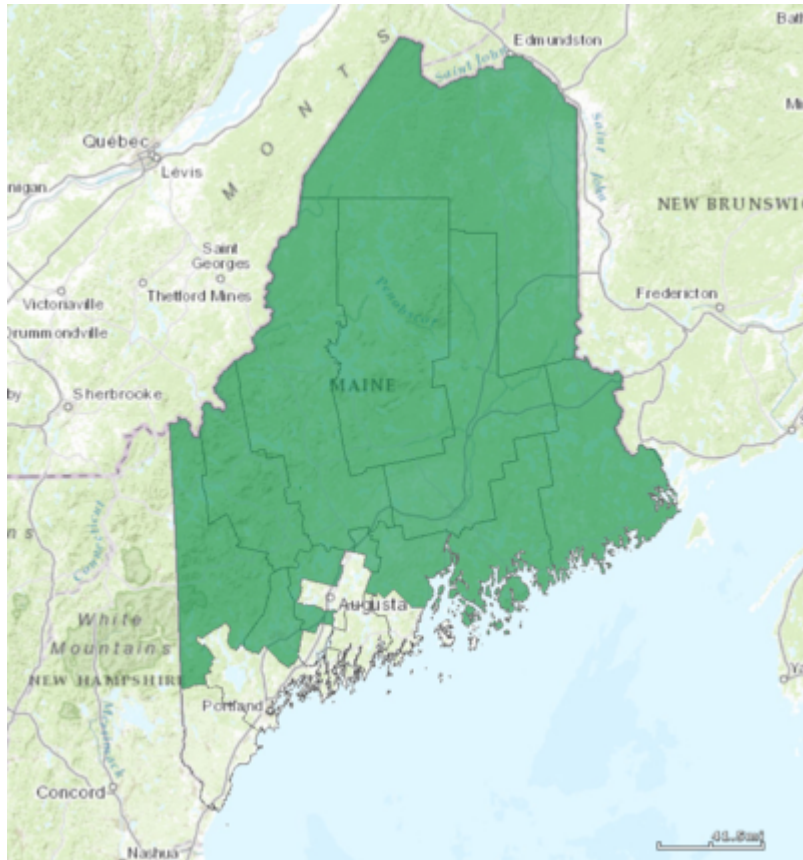
While Bruce may be the incumbent, he is on the endangered species list. He is running against a very popular and well-known Democrat, and there is no official independent candidate this year. The Democrat, Emily Cain, a former state senator from the region, is well-funded and has raised at least as much money as Poloquin. Spending on this race has shattered previous records, as both parties recognize the significance of this one little district. Seventy-five members of Congress have dipped into their own funds to support the candidates. Additional money has come in from party-affiliated organizations and outside PACs.

This amount of spending and attention on the district means that the outcome in [Maine CD 2](#) (as it will be called on election night on all the networks if it becomes important) is truly unpredictable.

If Maine CD 2, with its one electoral vote, flips back to Clinton and Trump wins Florida, then we could end up in an Electoral College tie. That would send the decision to the House of

Representatives. Wouldn't that be fun? Be still my heart...

I have been going to the heart of Maine's second congressional district for 10 years. That's Grand Lake Stream, where the annual fishing camp is held every summer. The district itself is enormous – the largest congressional district east of the Mississippi – though much of it is “Moose Country,” sparsely populated. It is one of the poorest regions in the nation. Here is a map of the district.



CD 2 comprises nearly 80% of the state's total land area, and 72% of it is rural. It is almost 96% Caucasian. There is 10% unemployment and a college graduate composition of about 20%. The median family income is 20% lower than the US average.

I have written about my Maine experiences a few times. This district is quintessential small-town America, not unlike the town of Bridgeport, Texas, where I grew up. I recognize these people, even though they don't have Texas accents.

Much of the political commentary for the last year or so has centered on the angst of the American middle class and its attempt to stand up to the elites of both political parties. We ended up with the Trump and Sanders phenomena. The nation has, for the first time in its history, begun to develop a sense of class warfare. A few weeks ago I commented on and linked to an article that showed that mobility among income classes in the United States has dropped dramatically in the last 15 years. A significant percentage of Americans now feel they are watching a party from outside and have

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not been invited to join in. They are venting their frustration at political rallies and in the voting booth.

Maine CD 2 is the quintessential battleground of frustrated America. The paper mills and other industries have been closing down, and the solid union jobs are not so slowly going away. It's a hard-knock life for many of the residents. When you go out in a fishing boat with a few economists and financial industry types, those guides listen. You become friends after a few days, and they begin to ask very pointed questions, trying to figure out how our conversations about national and global issues affect their lives. Honestly – and you have to be honest with someone who becomes your friend over the years – I cannot tell them that things are going to get any better for a while. In their eyes, of course, I am one of the elites they are frustrated with. I have an easy job, traveling around the world and writing, reading, and talking to people.

A Maine guide's life is tough. You are up early in the morning and still up late at night when you have a client. During bear and moose season, you are going up backcountry and hauling serious weight, in not very hospitable conditions. And you're doing it for a lot less money than the majority of my readers would think about making for a day. I wish I could get my lawyers and accountants and other professionals I use to lower their *hourly* rates down to the *day* rates of our guides.

And when you go into town and you talk to people, you hear about one hardship after another. So I think it's fitting that this one small district has the potential to determine the future of our country. This is the America I grew up in. I readily admit that it's not the America I live in, but it fits the image that many of us hold in our minds when we think of America. Not the beat of the city, but the pulse of the country.

I will vote on Tuesday, not out of unbridled enthusiasm, but because I think voting is a sacred duty. I will make my choices based on what I think is the best for the future of my country, focusing on our economic problems, which are larger than any of the other problems facing us, in my opinion.

We all perform our own calculus on how to vote, but I urge you to actually vote. It is our communal responsibility.

Let me repeat what my friend Rod Martin said to me earlier today:

A vote is not an endorsement. An endorsement is an endorsement. A vote is a choice between two possible outcomes. Refusing to vote is refusing to choose, but it is itself a choice, to be irresponsible without actually avoiding responsibility.

I don't have to like my choices. I frequently don't, in voting or in other things. I do have to choose the outcome least likely to harm – or at least likely to do the least harm – to those for whom I'm responsible.

There have been more than a few times in my life when I have not pulled the Republican ticket,

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even when I was on the executive committee of the Republican Party of Texas. That will come as a surprise to many of my readers. I wonder what the presidential race would look like today if my old friend Harry Browne, who was the Libertarian Party presidential nominee in 1996 and 2000, were running today.

Gods, I miss Harry. He was such a source of wisdom and encouragement. I truly believe that if Harry were running today, he would be pulling above 15% and would have been on the stage at the debates, where he would have killed it. He was wicked in a debate, which I found out to my personal chagrin at a public event that will go unremarked.

But Gary Johnson and Jill Stein? Seriously? That is the best you can do? Which, of course, is the same question that many people are asking about the candidates for the two major political parties. And the rest of the world is asking that question of us, too.

I guess I would just note to the rest of the world that there is a serious level of frustration that is showing up everywhere. The Italian police recently used tear gas on crowds that were apparently rioting in Florence, Italy. We are nearing the climax of what Neil Howe calls the Fourth Turning, a historical period of chaos. We seem to do live through one of these in the European/American world every 80 years or so.

To sum up, I have no idea how the voting will go on Tuesday. This is the first time I've had to say that in almost 40 years. I have always had a pretty good sense of how it would turn out from looking at polls and commentary, but for the last 12 months I have consistently been confounded. But then, in my defense, could anyone write a more fantastical script than the one we have seen play out in the last two months?

And yet there is more riding on the outcome than we can all imagine. The problem is that the real elephant in the room, the growing national debt, is being all but ignored, as no one wants to admit what will have to be done in order to deal with it. It is the most unpleasant of political circumstances. Let us hope and pray that something can be done about it next year, before the next campaigns kick off. If not, God help this country.

Washington DC, New York, Lots of Florida, and the Cayman Islands

There is not all that much travel in the works for me between now and the middle of January, which is good, as I have a lot of writing to do. I need to get to DC sometime in the middle of November for several meetings and to New York towards the first part of December. Then I have two conferences in Florida in January, and in the middle of February I have to be in the Cayman Islands – oh shucks. There will be lots of friends and fun in each of these locations, so life is generally going to be pretty good.

I think nearly everyone in this country, perhaps with the exception of a few highly paid political consultants, is ready for the election to be over. Slightly more than half of us will wake up Wednesday morning with the person we voted for as our new president, but my bet is that more

than half of us will not be happy about the future, no matter who wins. The uncertainties we face are truly daunting.

And that leads me to recommend that you read what I think is a rather brilliant and thought-provoking commentary in this weekend's *Wall Street Journal*. It's called "[How to Get Beyond Our Tribal Politics](#)."

On Wednesday, we are all going to have to figure out how to work together and get on with our lives. The authors of the above essay point out that our biological heritage is to split into tribes. Democracy requires that we must move beyond tribal culture into a more cooperative society. I would like to see something like this essay as required reading in every school and passed out to people on their way out of the voting booth. Just saying...

I am going to hit the send button here. You have a great week. Go vote and make it a point to do a few normal things. Go to a movie. See some friends. Read a book. I took Shane to an Adele concert last week. It was me, 57 other guys, and 18,000 screaming women, who insisted on singing along with almost every song at the top of their lungs. Off-key. Thank God the sound system nearly drowned them out, as Adele does have an unbelievably beautiful voice. When Adele asked how many of the men would admit that they really did not want to be there, there were at least 20 honest ones. I was not one of them, but I might admit that my phone was keeping track of World Series game 7.

But the concert was quintessential America. I realized after a while that it was not unlike the concerts of my youth, where I too knew the words to all the songs, and they were part of my life. They moved me. Back then, I was one of the people who sang along, and hopefully not all that off-key. And at the end of the day, no matter what the politics of those 18,000 people were, there was a shared experience that brought us together. For a much larger audience, there was perhaps the greatest game 7 in World Series history. We need to remember that to a truly great extent, we are one large tribe. We are all in this together...

If you are in the Dallas area next Tuesday night and do not otherwise have plans, drop on by the apartment, where Shane and I will be holding an election night watch party from 7 until ??? I have no idea whether it will be an early night or a late night, but it will be interesting. We will have on hand a few adult beverages, soft drinks, and chips and salsa, and you can bring anything else you like. Just RSVP to my executive assistant, Mary Haddad, at Mary@2000wave.com.

Your ready for Wednesday morning analyst,



John Mauldin

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