

Impressions

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Rushing to Foolishness

One's actions ought to come out of an achieved stillness: not to be mere rushing on."

D. H. Lawrence

"Whither art thou rushing to destruction?"

Virgil

The dinosaur's eloquent lesson is that if some bigness is good, an overabundance of bigness is not necessarily better.

Eric Johnston

In the last few newsletters I have been talking about some of the trends that I see affecting the investment climate in the next decade or so. I would like to diverge off the path a bit to talk about a sub issue which is indicative of the changes and which in fact embodies many of the issues I see for the future-health care.

This issue is very important because by some estimations health care spending is about 17% of GDP and that is a lot of money. It is vital because like the IRS and the Post Office healthcare affects every person in very special ways. It is vital because the fixes being proposed are going to cost a lot of money. It is critical because the outcome of this debate is a game changer for America and if the answer is a government based solution it will be another untouchable program all but immune to serious change or elimination.

I am neither a doctor nor do I play one on television, I have however spent more time that I would like in the care of doctors of all stripes. I am not an expert on health care policy. I do have two superior positions that many involved in the debate do not have- I have read all of HR 3200, all 1,100 pages and it is a mess. Reading the bill is something that most members of congress cannot claim. Second, as a person who has taken human life and who has almost had his taken I have a different perspective on the value of human life.

There are a lot of myths about health care being used in the current debate. The first is a language myth or misdirection. We hear that there are people without health care- this is absolutely not true. No one in the United States be they legal citizen, legal immigrant, criminals or illegal aliens is denied health care. The health care they get may not be delivered by a concierge doctor with more degrees than Fahrenheit working at the Mayo Clinic but if someone breaks their arm they can go to an emergency room and they will be treated. What people are without is a way to shift the cost to someone else. The existence of health care insurance may actually be the true root of the problem. If we want to have a meaningful discussion about health care we need to remove purposeful language deceptions.

The second myth is that life expectancy in countries which have adopted a single payer health care system (Britain, Canada) or have a government sponsored hybrid system (most of Europe) is longer. Life expectancy from Australia to Italy, to Turkey to the United States varies by only about 7 years. Average life expectancy at birth in those nations with advanced health care systems varies between 78 years and 84 years. (<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2102rank.html>) Life expectancy is largely determined by genetics not by health care availability. The second factor is diet. In the Bible it says “and the days of their lives shall be 3 score and ten” (Psalm 90 verse 10) for you MBA’s out there, a score is 20 so that is 70 years. So in 2 millennia we have managed, with all our genius, to improve average life span by 10%. If you owned a stock that only appreciated 10% in 2000 years you would be pretty unhappy. Once childhood diseases were conquered the average life increased dramatically. Once small pox was controlled or eliminated average life increased again but since that time which it has not increased measurably. In the card game of life Mr. Genetics holds most of the aces.

More interesting perhaps is the chance of surviving fatal diseases. In the United States the percentage of women who survive 20 years after breast cancer is 87.6% in Britain 72% and in most of the Euro lands it is about 65% give or take a couple of percent. Male survival from testicular cancer in the US is 55% the highest rate in the rest of the world is 40%.

The third myth and the most pernicious is that there are a large number of people who in the words of the proponents of health care reform “lack health care”. This number is placed usually in the 45 million range. It is wrong. This number seems to have had its being in the debates over Medicare in the 1960’s when the proponents of that system used as justification the number 15% of all senior citizens could not afford health care. At that time 15% of seniors would have been about 7 million people. In the debate over Medicaid (health insurance for the poor) the number of poor people was estimated to be 10-12 million so the government just added the seniors covered by Medicare and it became 17 to 19 million. In the 1990’s there was a debate over health care that derisively has come to be called Hillary care, and the number rose to 35 million. When the debate over the SCHIP program (health insurance for kids) was going on the number was somehow created that 10 million children lacked health care (that was the beginning of the language shift). For the last couple of years the number has held steady at 45 million. It is one of those numbers like the number of new internet connections that just seems to be created and taken as gospel truth. It is totally bunk!

Almost everyone agrees that there are about 12 million people in the United States who are illegally here or in the words of the current political correctness are undocumented residents. I suspect that

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number is a bit low but it seems to be sort of a generally accepted number. They of course are not reflected in the Census numbers but will be in 2010. They will not be allowed to vote but their numbers will be used for congressional representation. This could give California 9 more seats. We have to assume that most of them do not have health care insurance. Most of these people are working for cash and/or do not have social security numbers that are required for health insurance coverage or if they do the numbers are fake. Since they are not here legally they should not be considered as part of the population without coverage. 49 million is now 37 million

A second tranche are those between 18 and 25 living separately from their parents. This number requires some extraction but it looks to be about 4 million. They do have not health insurance, or any other risk sharing because in their minds there is no risk to share. They rarely go to doctors and the \$200 per month they would spend on insurance is beer or drug money. I call these the invulnerable. It is unlikely they will purchase health care unless they have an employer sponsored program or they get older. 37 million is now 32 million

At this point we have reduced the uncovered by 16 million about one third of the scare number. Of the remaining 29 million there are a few who will never buy health insurance because they do not want any sort of record kept of themselves, then there are those who at any one time may be out of work and uncovered until they find new work with an employer sponsored program. The estimates I have seen put that number at 8 million and change. Now we are at 23 million.

The final group is those who make enough money to afford health care coverage but refuse to purchase coverage. There can be a lot of reasons for this but many realize that if they pay cash for service they get a substantial discount. I have produced below a benefit statement from my health insurance provider and highlighted the provider's charges and the adjustments. If you paid this doctor cash, this is what you would have paid. In this case the doctor has agreed to accept a 25.5% discount on their posted rates if you have insurance. You can get the same price if you pay cash. If you had the cash why would you pay full price when you can get it for 25.5% discount. On Wall Street those who overpay for assets are called growth stock investors.

Service/ product description	Dates you received service/product (m/d/y to m/d/y)	Charges billed by provider	Provider's fee adjustments (*)
PREVENTIVE CARE	07/16/09 07/16/09	179.00	43.06 PSS
MEDICAL CARE	07/16/09 07/16/09	43.00	9.42 PSS
LABORATORY	07/16/09 07/16/09	6.00	2.86 PSS
IMMUNIZATION	07/16/09 07/16/09	66.00	24.67 PSS
IMMUNIZATION	07/16/09 07/16/09	34.00	3.78 PSS
Totals		\$328.00	\$83.79

What HR 3200 is proposing is a government run health insurance program. The first thing we need to understand is that such a program will ration health care access. Not because it wants to but because it is insurance, it must limit its coverage. No insurance program of any kind can accept all risks with unlimited amount of payments. Life companies all have exclusions for high risk activities, wars and suicide. Property causality companies do not accept very building. To some extent then, all insurance is rationed by price, the type of risk, exclusions or by ability to be accepted. Some will cry that this is only because insurance companies are profit seeking operations and that if they did not seek the evil profit they would not need to exclude anyone. This is a wonderful sound bite for the Oprah show but it is far from reality.

The reason for rationing is twofold. First, to pay out benefits there must be capital. Capital can only come from investment capital, profit, or investment returns. There are no other ways. Just because a government health care program gets its capital from taxes rather than from profit does not change the basic fact that capital must be present to pay benefits. There is not enough money in the world to give every person unlimited access to health expense reimbursement. So the only question is when and under what terms the rationing will occur.

This brings me to one of my big issues with this bill and the current thought in health care. The United States at one point was the leader in a pseudo science called eugenics. Eugenics is the systematic improvement of a species either by increasing the prevalence of desirable characteristics (positive eugenics) or decrease the frequency of undesirable factors (negative eugenics). HR 3200 is full of new age eugenic formulae. It proposes that Medicare enrollees be counseled at regular intervals on options to end their lives. There are also exclusions in the bill relating to treatment of special needs persons however there is no "death board" as Sara Palin has stated. This and the unlimited funding for abortion is eugenics of the worst sort. It is deeply discriminatory against women, who live longer, and the poor and those unhealthy for no reason of their own. It does however provide for unlimited substance abuse coverage so you can drug yourself for years and get your care paid.

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There is the argument that the real problem with health care in the United States is not lack of insurance but too much insurance. In Dan Ariely's book Predictably Irrational, (www.predictablyirrational.com/) there is a discussion of an experiment which involved consistently greater separation between an act and the payoff. The result was that the greater the distance the greater the temptation to cheat. If there is a separation from the store of value there is also less concern for honesty. If a person has insurance that is so comprehensive that it covers virtually all their needs and which the person does not seemingly pay for, it is very easy to fall into the trap of not caring what something costs.

The existence of comprehensive health insurance largely paid for by employers has created a demand on the system and in reality a transfer of insurance company capital to the medical profession. When people do not have to pay for the care themselves they lose sight of the value of the service. That which is free or perceived to be free gets used more. The transfer of money and the ability to have every health concern treated lavishly creates what we in the investment business call a bid. As the demand represented by the bid increases, more and more product should be created to fill the demand. However, the AMA which is basically the doctor's union controls the number of doctors and their ability to advertise prices. Without an increasing supply prices rise. The determination of coverage of treatments is thrust to the insurance companies. The trial lawyers have their part in this with their endless lawsuits on the most absurd pretense which raises malpractice insurance rates. So we already have existing rationing and controlled supply so we are going to get higher prices, but no one cares because they do not think they are paying for it!

We have just finished a credit crisis in which low cost money and the ability to transfer risk caused unsustainable increases in house prices. Eventually prices and the ability to borrow ended and the market collapsed. The real story was that in every case of an asset bubble the demand fed on itself and drove prices up. How is the extension of unlimited health care benefits to all any different than the extension of mortgage money to people who had no idea of what they were doing? What you will get is what they have in England- doctor's offices as a sort of medical Starbucks. Got nothing to do? Go and sit in a doctor's office for a few hours and get a pill for a made up illness. There are a great number of people who are hypochondriacs and abuse the current system, what will stop them from abusing the governmental option? As that begins to happen there will be no choice but to cut benefits, raise costs or both.

Finally, it needs to be said clearly again and again, this push to national health care is only marginally about health care it is really and mostly a cynical and awesome power grab. If this plan or some equally noxious national plan is emplaced, every election afterward will be about healthcare and its benefits. As the various political parties seek to gain a majority they will not dare cut benefits the only question will be who will increase them to the right groups. Health care will be another electric third rail of politics. This is the reason the plan states that healthcare will be available to "all residents of the United States". Eventually, illegal aliens will be granted citizenship and will vote, whoever gives them health care coverage will get their votes. The evidence for a power grab is the speed at which this is being enacted and the wailing that there is opposition. The way the leaders are dealing with those in opposition reminds me of Ayn Rand's statement that it is easier to destroy a man than his ideas.

If you are a "progressive" and you take exception to that last paragraph, I have three arguments for you to refute. First is the history of Social Security, Medicare and Medicaid. They are all messes and they currently threaten to bankrupt us. They have been under the total control of Congress since the beginning and they are administered in the same way as what is proposed for the new health plan. What makes anyone think a group of elected officials and their appointees are going to have any more guts to resist the expansion of benefits now than they have had in the past? Second, is if this plan is so good for all of us and for the country why are the current politically favored groups like the unions and community organizing groups exempt? Third, I was always taught that a leader never expects those led to do anything the leader would not do. Why are Congress and the Executive Branch exempt from the plan? Isn't it supposed to be universal? These "leaders" are about to pass a bill they have not read what kind of leadership is that?

Good Luck,

Dennis Gibb