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Gas and Interest Rates: The Issues That Matter

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Forget immigration, global warning, Donald Rumsfeld and abortion rights.

The hot issues of today will quickly fade away if the current surge in gasoline prices and home-mortgage rates continues unabated. And all indications are that both the price of gas and the cost of borrowing are moving in one direction only: north.

In fact, the 2008 Presidential election will hinge on what I call the “electability index”—a blend of gas prices and home-mortgage rates—not any policy or piece of federal legislation.

If the electability index equals or exceeds 12, there will be a massive change in the White House and Congress. Simply put, if gas prices are at \$4 a gallon and a 30-year fixed-rate mortgage costs more than 8 percent, the electability index will be at 12, the threshold for tossing all incumbents overboard.

The number 12 has rarely been understood as a factor in political life, but it is a central force in our culture. There were 12 apostles in the New Testament, 12 tribes of the children of Israel, 12 gates to Jerusalem, 12 months in a year and 12 astrological signs in the zodiac.

Two years from now, Americans won't care about the war in Iraq and or even the flow of immigrants into the United States; in fact, not even the capture of Osama bin Laden himself will influence the 2008 elections if Americans cannot afford their American way of life. What matters to them is whether they can pay for their homes and drive to their jobs without a stress attack.

It's time for the Democrats and the Republicans to recognize that American voters will have a nervous breakdown if they're struggling to meet their mortgage payments and fill their gas tanks. Americans love nothing more than their cars and homes.

In fact, the latest car models increasingly resemble homes: with full-motion video, leather seats that recline into chaise lounges, electrical outlets for refrigerators and computers and sound systems that exceed anything designed for a living room.

As for actual homes today, they're not shelters in the traditional sense: They include everything except the living and dining rooms. Even the Thanksgiving meal is now a buffet in the "family media room" so that everyone can watch football on a 60-inch plasma display while playing videogames on their P.D.A.'s.

The Bush years have been great for homeowners: On Election Day 2000, a 15-year fixed-rate mortgage was 7.58 percent and a one-year adjustable mortgage was 7.25 percent. Four years later, when Mr. Bush defeated John Kerry, home-mortgage rates had declined substantially, making home ownership and even mega-mansions more affordable. A 15-year fixed-rate mortgage was 5.2 percent in November 2004, a decrease of 30 percent in mortgage costs. And a one-year variable-rate mortgage was 4.18 percent in 2004, a decline of more than 40 percent in just four years.

The campaign of 2004 was not about Iraq or the war on terror, although that's what Karl Rove made Mr. Kerry believe. It was about creating a "feel-good" climate by bringing housing costs down so low that people felt great buying homes they couldn't really afford.

The popularity of mortgages based on variable interest rates, often covering only the interest and paying off no principal, was the real reason Mr. Bush won those tight races in the Western battleground states of Colorado, New Mexico, Nevada and Arizona. And Mr. Bush's unexpectedly strong showing in Florida in 2004 wasn't due to hanging chads but to the growth in Florida's housing market.

There has been a 16 percent increase in the 15-year fixed mortgage since November 2004, and a 34 percent increase in the one-year adjustable-rate mortgage since 2004. The new Federal Reserve chairman has the political know-how and scholarly record to be a Princeton professor, but he lacks the political seasoning of former Fed chairman Alan Greenspan, who got the electability index just right for Mr. Bush. Alan Greenspan, not Karl Rove, was Bush's brain in 2004.

As we prepare for the summer of 2006, gas prices are 90 percent higher than they were in the fall of 2000. And mortgage rates are above 6 percent, well on their way to 8 percent. Housing costs are going up in all those states where Presidential elections are determined: Florida, Ohio, Wisconsin, Arizona, New Mexico, Iowa and Colorado.

If the electability index reaches 12 by the spring of 2008, the candidate who best understands what makes America tick—home ownership and three cars in the driveway—will win.

Americans want a President who can improve their lives, not the lives of Iraqis.