

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

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THEY SAID IT

“I asserted my belief that, one of these days, communities from the provinces would send deputations to the people of Rome requesting that the extortion law and its court should be abolished. For if no such court existed they suppose that each governor would only take away with him enough for himself and his children. At present, on the other hand, with the courts as they are, a governor takes enough for himself and his protectors, and his counsel, and the president of the court, and the judges! In other words there is no end to it. A greedy man's lust for gain they could satisfy, but they cannot afford a guilty man's acquittal. How peculiarly glorious our courts have become, how scintillating is our Order's prestige, when Rome's allies pray that the courts which our ancestors created for their benefit should be struck out of existence!”

Against Verres, Marcus Tullius Cicero

GEORGE AND DICK WILL BE FINE, THANK YOU. Several clients called me last week after the big down-day in the market on Wednesday asking whether I thought President Bush and Vice President Cheney were in any danger of being savaged so badly by the Democrats that fears of a leadership vacuum might become widespread.

Each individual said he personally didn't think that this was a strong possibility, but noted that this was one explanation that some people had been offering for the weakness in the market that day. Each said the precipitating event was a *New York Times* article that morning with a headline stating: “Secretive Group Re-emerges With Advertising Hostile to Bush.”

My answer was that there is zero chance that the Democrats will be able to cripple this administration with charges that President Bush and Vice President Cheney are crooks. In fact, I said, I would bet that even the “secretive” Clinton cronies who ran the ad don't think they can pull that off. They'd like to, of course. But I believe they know that the best they can hope for is to tarnish the Republicans' image a little in advance of the upcoming congressional elections.

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The bottom line on this is that George Bush and Dick Cheney are not crooks. They broke no laws. Had they broken laws you can be sure that the Democrats would have known it going into the presidential election and would have made it known to the public. The Gore campaign had access to all relevant SEC and Justice Department files and they certainly weren't shy about looking at such things. They also had a cadre of private dirt diggers turning over every rock available. And they surely wouldn't have been shy about using whatever they might have found.

Did George and Dick push the ethical envelope? That depends on the definition of "push." Some folks are clearly going to define it tightly and conclude that these guys are shady. And the mainstream press is going to run with this interpretation. That's the way it works.

But in the end, this "sensational news" is what veteran political operative Rich Galen, whose excellent insights can be found at www.mullings.com, calls "The August Story," which he defines as "a story that will sustain journalists, politicians, cable news anchors, talking heads, and – dare we say it – political columnists, through the dog days of August when the Congress is on vacation, the President is out of the city, and France is shut down."

My guess is that come September, if not before, this story will lose its legs. Stories like this one require a steady stream of new "revelations," to keep them alive, and the spinners are already running on what can only be described as old stuff.

It should be noted here that this campaign to smear Bush and Cheney is not without some danger to Democrats. Unless they find a "smoking gun" soon, they risk being viewed by an increasing number of Americans as engaging in a petty and destructive campaign against a popular president, which can only weaken a nation that is in the middle of war against a dangerous enemy and further damage financial markets that are already reeling from the bad news on a number of fronts.

Perhaps more importantly, this effort raises to prominence an issue that is not a particularly strong one for the party that defended Bill Clinton for eight years, and still has a large number of what can only be described as ethically challenged individuals in high places within their own upper ranks. These include, but are not limited to, party Chairman Terry McAuliffe, Senate Majority Leader Tom Daschle (see below), and the party's leading presidential contender Miss Hillary herself.

NANNY CAN'T FIX THIS BOOBOO. It appears that nobody liked President Bush's speech last week on corporate corruption. The financial markets, the target audience of the speech, gave it a thumbs down almost immediately by dropping another 170 points or so. The media gave it a collective yawn. The Democrats blasted it as being too weak. And even the White House itself wasn't enthusiastic about the effort, the apparent problem being that there was no clear consensus among senior administration officials as to what Bush should say, much less what he should do.

The problem Bush faces, as I see it, is that the markets, the politicians, and the American public are simply not used to being confronted with a "financial crisis" that can't be "fixed" quickly and

painlessly by a massive financial bailout from Washington. In recent memory, whenever the “good times” have been threatened by a bunch of crooks and sleazy politicians, whether it be the S&L debacle, BCCI, the meltdown in Mexico, or a host of other smaller financial “crises,” Washington has moved swiftly to paper the problem over with millions, and sometimes billions, of the taxpayers’ money and a plethora of “get out of jail free” cards.

And before you knew it, a few sacrificial lambs were bleeding profusely on an alter marked “someone has to pay for this,” the public was blissfully happy in their ignorance of the fact that they had just had their pockets picked, and the real crooks and shysters, along with their pals in Washington, were laughing all the way to the bank as they added much of the proceeds from the “bailout” money to that which they had already stolen.

This time that won’t work. This time the great Nanny in Washington can’t fix the booboo with taxpayer money. This time the healing process will have to proceed naturally. This time it is going to take a while. This time there will be some pain. This time some of the real crooks could go to jail. So everyone is throwing a hissy fit. “What do you mean you can’t fix this? What do you mean it is going to ‘take awhile?’ You’re the President. Don’t just stand there, do something! Make it okay. Okay?”

In the long run, I think this is good. As a matter of fact, I think it is terrific. Let this debacle run its course. Let the legal system punish the crooks. Let the financial markets punish the dirty operations and reward the good ones. Let the “buy side” penalize the “sell side” firms that think that the terms “legal” and “ethical” mean the same thing. Let the politicians bicker among themselves about “solutions.” Let what I used to call “blessed gridlock” keep them from doing too much harm to themselves and to the nation. And let the political system decide which party and which politicians are most responsible for the mess.

The outcome won’t be perfect, but in the end, everyone will be better off than they would have been had Bush come up with a “quick fix.” In fact, the system has already begun to cleanse itself. No accounting firm wants to be the next Anderson. No company wants to be the next Enron or WorldCom. No brokerage wants to be the next Merrill Lynch. And no individual wants to be the next Martha Stewart. Washington will change the rules a bit, some for the worse, some for the better, the dust will settle, and we’ll move on to the next problem, which, human nature being what it is, probably won’t look much different than the last one.

In the meantime, Bush missed an opportunity to deliver a message to Wall Street that I think needs to be delivered. He had everyone in one place and he had their attention. He should have taken advantage of the moment. *Carpe diem*, as my mother would say. He should have said:

“I can’t fix this problem. Washington can’t fix this problem. We can help. But we can’t do it alone. You, the people of the financial community, need to do your share. You are the people who place values on companies. You are the people who pass muster on the honesty and integrity of managements. You are the people who peddle the debt and equity of the American business community to the American public. You people need to do a better, more honest job. You need to clean up your act or you won’t have an act to clean up.”

THE REAL PROBLEM. I am reasonable optimistic that public confidence in the honesty of the business community and the integrity of the financial markets will eventually be shored up a little by a combination of increased law enforcement and efforts by the financial community, the latter being driven by that most important of all motives, “enlightened self interest.”

But I think it is important to understand that one of the key underlying causes for what appears to be an increase in corporate corruption is not being addressed, or even spoken of, by anyone that I know of in Washington, the business community, or the financial industry. The “cause” of which I speak is the growing coziness between big government and big business.

If ever a group of people should pay attention to the admonition that if you want to stay out of trouble stay out of the whorehouse, it is the big shots in the business community, who can’t resist the lure of Washington and its slick but sleazy up-for-sale politicians, who draw their inspiration from Joan Blondell’s assurance to Chire Dodd in the 1933 movie “Footlight Parade:” “As long as they’ve got sidewalks, you’ve got a job.”

I have addressed this issue time and again over the past decade, so I won’t dwell on it here. But it is important not to forget it. This is something new on the American scene. I put it this way in an article dated August 20, 2002 that I wrote for Lehman entitled “The Term ‘Corporate America’ May Be Taking On A Whole New Meaning.”

. . . . the very large entities that make up corporate America have become such big winners [in Washington] that the classic conservative concern that a socialist American government would end up running and, in the process, ruining American business is, I believe, becoming passé.

What we are seeing instead is a government that is increasingly influenced by contributions from a business community, which has learned, among other things, that oftentimes a competitive edge can be delivered by “friends in Washington” more easily than it can be gained in the marketplace; that “onerous” regulation can put small competitors out of business more easily and more cheaply than price competition, leaving the field to the big guys who can then easily pass the high regulatory costs along to the consumers; that partnerships with the federal government to manage all sorts of problems, big and small, can be quite lucrative; and that a little help from the feds can provide a smart company with a huge edge in the world marketplace.

In short, the time may be fast approaching when true conservatives worry less about the governmental takeover of American business than they do about the consequences of a “corporatist” state in which the government and big business collude to pursue ends that would significantly lessen competition, promote corruption, and eventually impinge on traditional American freedoms.

In the long run, this mating of interests with Washington is a perilous strategy for American business for a variety of reasons, not the least of which is that it leads to what Europeans today proudly call “the third way,” but which actually is a form of what they used to call “fascism,”

which is characterized by an unholy, chauvinistic alliance between utopian government and greedy, unethical business men and women.

A lesser, but still important argument against the business community's courtship with Washington is that the price tag will continue to increase as the nation's "executives" become more and more hooked on the Washington shortcut to success. Read this from a recent article in the *Washington Post*.

"Both parties have experienced a dramatic increase in donations from Fortune 500 companies, which traditionally hedge their bets by giving to Democrats and Republicans alike. Between 1995 and 2002 businesses accounted for nearly 90 percent of the massive unregulated "soft money" contributions both parties received, according to the Center for Responsible Politics. Corporate soft money contributions nearly doubled between the 1996 and 2000 congressional elections, rising from \$209 million to \$383 million.

And while Republicans received more business money than Democrats did, the giving was not entirely lopsided. Six firms at the heart of the current corporate scandals -- Adelphia Communications Corp., Arthur Andersen, Enron Corp, Global Crossing, Qwest Communications International, and WorldCom Inc -- gave \$7.7 million in soft money to Republicans and \$5.2 million to Democrats over the past decade, according to the watchdog group Democracy 21."

And what, pray tell, did the consumer of the goods produced by the companies who paid this tab get for all this money other than a distortion of the competitive marketplace and the fruits of corruption?

The situation reminded me of Cicero's well-known argument before a court of Roman senators against Gaius Verres, the corrupt governor of Sicily. As cited above in "They Said It," Cicero argued that the people of Sicily would be better off without Rome's "extortion court" protecting them, because the presence of the court just added a whole new group of people that the corrupt governors would have to pay off with the money they stole from the Sicilians.

A LITTLE ADVICE FROM MACHIAVELLI. I have watched the debate over whether President Bush should keep Harvey Pitt as head of the SEC with a great deal of interest. For what it is worth, I think Pitt should be kept on. I think we need someone who is tough and I think he will be tough if for no other reason than the fact that he will be under intense scrutiny by people who fear that he won't be tough. I think we also need someone who knows the industry he is regulating well enough to know how far he can go without doing serious damage to the economy and the financial markets. Pitt qualifies on this count.

But that is not why I have been watching the Pitt battle closely. I have been watching it for two other reasons. One is that the outcome will tell a lot about Bush's character. The rap on him is that he is intensely loyal to people who are loyal to him. Pitt, while no great friend of Bush's, has been loyal. This won't be the first time Bush will have to face such a decision, so it will be interesting to see how he handles this one.

The second reason is because I think whoever gets the job will have his hands full of problems, and the decisions he makes could have a tremendous impact on the health of the economy. So it is interesting to watch how Pitt handles himself under the present pressure because he will, if kept on in the job, face a lot more in the future.

Between them, Bush and his SEC chairman will have to figure out how to be very tough on one of the President's key constituencies, while at the same time not losing its support. Needless to say, this could be tricky. So, because I like President Bush, I have decided to offer him a bit of advice, not from me but from a guy named Niccolo Machiavelli, who wrote a little book of advise for his Prince, one Lorenzo de' Medici a long time ago. While I'd advise Bush to stop short of having his SEC chairman "cut into two pieces" when his work is done, overall I think he might pay attention to Machiavelli's formula.

Once the duke [Cesare Borgia] had taken over Romagna, he found it had been commanded by impotent lords, who had been readier to despoil their subjects than to correct them, and had given their subjects matter for disunion, not for union. Since that province was quite full of robberies, quarrels, and every other kinds of insolence, he judged it necessary to give it good government, if he wanted to reduce it to peace and obedience to a kingly arm. So he put there Messer Remirro de Orco, a cruel and ready man, to whom he gave the fullest power. In a short time Remirro reduced it to peace and unity, with the very greatest reputation for himself. Then the duke judged that such excessive authority was not necessary because he feared that it might become hateful; and he set up a civil court in the middle of the province, with a most excellent president, where each city had its advocate. And because he knew that past rigors had generated some hatred for Remirro, to purge the spirits of that people and to gain them entirely to himself, he wished to show that if any cruelty had been committed, this had not come from him but from the harsh nature of his minister. And having seized this opportunity, he had him placed one morning in the piazza at Cesena in two pieces, with a piece of wood and a bloody knife beside him. The ferocity of this spectacle left the people at once satisfied and stupefied.

Just a thought, mind you.

NEWSMAX.COM: DASCHLEGATE OFFERS WHITE HOUSE

TEMPTING TARGET. As most readers know, I am a fan of www.newsmax.com. I don't make a habit of reprinting stories from there verbatim because I know a lot of you also check this site out regularly. But I mentioned in a prior piece that Tom Daschle may be somewhat ethically challenged himself. And as I tried to defend that point, I found that I couldn't say it better than my friend Chris Ruddy, who runs Newsmax. So I'll let him tell the story. (To save space, I've joined a few paragraphs together.)

Now that top Senate Democrat Tom Daschle has called on President Bush to release the full Securities and Exchange Commission case file into the investigation of Bush's 1990 sale of Harken Energy stock, the White House's search for an effective response has undoubtedly begun. They won't have to look far.

Turns out that Daschle and his wife, Linda, have their own sealed case files to worry about: records left over from the 1995 Senate Ethics Committee investigation into the alleged cover-up of the Democrat power couple's role in the deaths of three South Dakota Forest Service physicians who perished in a 1994 air crash. The death plane was a charter aircraft operated by a close Daschle friend. The top Senate Democrat reportedly leaned on regulators to go soft on safety inspections for the charter company before the fatal crash.

Predictably, the Clinton Justice Department and the Senate Ethics Committee didn't do much with wrongful death and cover-up charges alleged by the doctors' widows - despite a blockbuster "60 Minutes" exposé in which the women expressly blamed Daschle for the deaths. Heightening the Daschlegate intrigue, a Federal Aviation Administration office manager said she was ordered by superiors to destroy documents relevant to the fatal crash to protect Linda Daschle, who was then second in command at the agency.

The Forest Service physicians were killed when a plane operated by B&L Aviation crashed in Minot, N.D., on Feb. 24, 1994. B&L was owned by longtime Daschle crony Murl Bellew, who, before the crash, had asked his senator friend to help when the Forest Service found numerous safety violations with his aircraft.

According to the *New York Times*, the senator then began "a two-year effort to strip the U.S. Forest Service of authority to inspect air charter companies." What's more, it appears Daschle tried to cover up his attempt to undermine the Forest Service. In a Feb. 5, 1995, report, the *Times* revealed:

"[Daschle] initially said that he never pressed the Forest Service to get its inspectors to relax their inspections on B&L. But in November, a senior Daschle aide said that he had, with the senator's knowledge, intervened directly with the Forest Service inspectors who had warned that B&L was unsafe."

More evidence that the senator's denial was untrue emerged when documents turned up showing that Daschle had personally leaned on the Washington supervisors of the inspectors who had given Mr. Bellew's airline an unsafe rating.

The *Times* explained: "Two FAA inspectors who spoke on condition of anonymity said in recent interviews that the Senator helped Mr. Bellew when he flunked a safety check in 1987." After Daschle intervened, one agency official was "called on the carpet to explain what happened," one of FAA sources said.

Then there's the account of Cathy Jones, an FAA office manager in Rapid City, S.D. Jones told investigators that she was ordered to destroy documents relevant to the case because they "contained information with the possible appearance of improper intervention by Senator Daschle on behalf of the FAA." The documents in question, Jones said, "would make the FAA look bad" because of Mrs. Daschle's top job with the agency.

On Nov. 30, 1995, the Senate Ethics Committee dismissed the complaint of the doctors' widows, issuing the following terse statement: "The Senate Ethics Committee dismissed a complaint of possible improper conduct made against Sen. Tom Daschle regarding contacts made on behalf of the South Dakota aviation industry. The committee has

concluded that contacts and actions by Sen. Daschle and his staff were routine and proper constituent services."

Of course, as with all Senate Ethics Committee probes, the Daschlegate case files were sealed. Now that the top Senate Democrat has demanded the release of SEC investigative case files gathered during the 1991 probe into President Bush's Harken Energy stock sale, will the Bush White House return the favor and ask for the release of the Ethics Committee's Daschlegate files?

END NOTES: Poem's Author: Two people e-mailed me Friday to ask the name of the author of the poem I quoted in my note attached to the article I sent out that afternoon. The poem, "The Garden," was written by English schoolmaster T. E. Brown (1830-1897): native of the Isle of Man; educated at Christchurch, Oxford; early intellectual force behind Clifton College; mentor to poet W.E. Henley. Henley is author of the well-known poem "Invictus," -- "Out of the night that covers me, Black as the Pit from pole to pole, I thank whatever gods may be For my unconquerable soul" By the way, the word "wot" in that poem ("God wot") is the first and third person singular present tense of the verb "to wit," which means "to know."

McCain's Folly: If Senator John McCain isn't the most intellectually addled dope in Congress he is surely in competition for the prize. Now he is arguing that the recently passed campaign finance reform law requires the Federal Elections Commission to, in the words of FEC's Commissioner Bradley Smith, "regulate the Internet." The following exchange came during an interview on Fox New Channel's "Special Report" with Tony Snow.

Mr. Snow: "How do they want to regulate the Internet?"

Mr. Bradley: "Well, they want us to treat it like another campaign resource and limit the amounts that can be spent on it and who can spend money . . . They want to regulate e-mail communications."

Mr. Snow: "Wait, wait. How do you do That?"

Mr. Smith: "What they want to do is regulate e-mail communications [from political parties and various 501C and nonprofit groups]. If they go to more than 500 people, they would have to be paid for with certain amounts of hard money and subject to reporting requirements of the act, and all the other panoply of things that go on under the Federal Elections Campaign act, which is a very complex act." If they sent out 500 e-mails at a particular time close to an election. Now, we've rejected that approach

Morons all, God wot!

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