

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

So then often and bitterly did Perseus call to mind the words of Demetrius of Phalerum. For he, in his treatise on Fortune, wishing to give men a striking instance of her mutability asks them to remember the times when Alexander overthrew the Persian empire, and speaks as follows: "For if you consider not countless years or many generations, but merely these last fifty years, you will read in them the cruelty of Fortune. I ask you, do you think that fifty years ago either the Persians and the Persian king or the Macedonians and the king of Macedon, if some god had foretold the future to them, would ever have believed that at the time when we live, the very name of the Persians would have perished utterly — the Persians who were masters of almost the whole world — and that the Macedonians, whose name was formerly almost unknown, would now be the lords of it all? But nevertheless this Fortune, who never compacts with life, who always defeats our reckoning by some novel stroke; she who ever demonstrates her power by foiling our expectations, now also, as it seems to me, makes it clear to all men, by endowing the Macedonians with the whole wealth of Persia, that she has but lent them these blessings until she decides to deal differently with them." Polybius, *The Histories*

FORECAST 2003: DOUBLE, DOUBLE, TOIL AND TROUBLE; FIRE BURN AND CAULDRON BUBBLE.

Mark L. Melcher

I wrote my first formal New Year's forecast piece in December 1989, one month after the fall of the Berlin Wall. The title was "The 1990s: Fun And Games In The Post Cold War U.S." My individual predictions weren't particularly prescient, but then again, in my defense, those were pretty heady days, and specific forecasts for the coming year were much more difficult to make than sweepings generalizations.

One thing I did do in that piece was to give President Reagan credit for the Cold War victory, in contrast to the mainstream liberal press, which was bubbling over with admiration for Comrade Gorbachev, who was about to be named "Man of the Year" for 1989 by *Time Magazine*.

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The general public didn't know at the time that one of the great hallmarks of Reagan's presidency would turn out to be the fact that he conceived, developed and implemented a successful strategy to win the Cold War. In fact, the full extent and brilliance of this comprehensive plan wasn't known until many years later when the government declassified the top secret National Security Decision Directives 32, 66, and 75, which provided extensive details of the campaign. (See article entitled "Whither China? A Third Way?" in the April 9, 2002 issue of The Political Forum newsletter.)

But even without the benefit of this knowledge, to those who were paying attention at the time it was clear that President Reagan was the one making history; that Gorby was little more than a poor player who was strutting and fretting his hour upon the world stage, and soon would be heard no more. I put it this way.

Two extraordinary men dominated world economic and political events in the 1980's, and consequently set the stage for the 1990's. They were Ronald Reagan and Mikhail Gorbachev. The media may give more credit to Gorbachev than to Reagan for masterminding and overseeing the beginning of the demise of Soviet communism. But just as Marlene Dietrich noted in the 1932 movie Shanghai Express, "it took more than one man to change my name to Shanghai Lily," it took more than one man to turn the ongoing dry rot of Soviet communism into outright decomposition.

Ronald Reagan established and implemented the West's end game in its 44-year war with Soviet communism. Reagan's critics can argue that he didn't plan it that way. But, whatever his intent, he in fact directed a brilliant strategy to bring the Soviets to terms. It was founded upon enormous U.S. borrowing power and was fought aggressively on two fronts.

Simply stated, Reagan borrowed two trillion dollars, financing both a phenomenal military buildup and an economic expansion the likes of which the free world had not seen since the 1920's. Not only was Gorbachev faced with relentless growth in U.S. defense spending, but he also witnessed a robust rebound from the economic and psychologically devastating malaise of the Carter years. Worse yet, from his perspective, he watched while aggressive U.S. "engine of growth" policies brought unprecedented economic health to Western Europe and Japan, and helped convert former third world entities, such as Korea, Taiwan, Hong Kong and Singapore, into economic powerhouses.

It is true that even without the Reagan expansion and military buildup, communism would have continued to putrefy. But it is doubtful Gorbachev's retrenchment would have been as dramatic if the comparison between Soviet financial and social decay and the West's vigorous and growing strength had not been so stark.

I bring this up as an introduction to this week's annual forecast issue because once again, 20 years later, we are witnessing a U.S. president who is willfully attempting to use America's historically unprecedented military and economic strength as a global moral force against those nations and movements that he considers to be evil. And once again, the mainstream media is openly skeptical of both the president's "fitness" for the job and the stated goal of the job itself.

Time will tell whether Bush's crusade will be as successful as Reagan's in helping to rid the world of a dangerous pestilence, or whether, as Bush's critics charge, it will draw America deeper and deeper into a bottomless quagmire that will sap its moral influence as well as its economic and military strength, while turning its homeland into a Orwellian police state.

In the meantime, there is little question that the conflicts that lie ahead in this engagement between good and evil portend a bubbling cauldron of toil and trouble for at least the next decade. This makes it difficult to accurately forecast specific, near-term events. But I find that the exercise is useful once a year because it forces me to consider the many permutations and combinations of outcomes and to make real choices between and among them, which in turn provides a framework from which to analyze actual events as they unfold.

So, keeping in mind the opening observation by Polybius concerning Fortune's tendency to foil expectations, here goes.

Prediction No. 1 is that Saddam Hussein will die at the hands of the American military in 2003, and Iraq will get new leadership. In case you don't remember, and there is no reason that you should, I opened last year's forecast article with this same prediction, only I said then that these happy events would occur in 2002 instead of 2003.

While I was wrong on the timing, I will stick with the thrust of the forecast that Saddam has had it. And I will stick by several points I made in support of the prediction. They were as follows.

Yes, there will be a great deal of posturing, hand wringing, and anti-American verbiage when the action starts, from all over the Middle East, from some coalition partners in Europe, and from China and Russia. But, I believe, that many of those who complain the loudest, including many Muslim states, will be privately hoping that the action will be a success. And the nations that count will be there, firmly on the side of the United States, as they always are. Among these, of course, are Great Britain, Turkey, and Israel.

But, as with Afghanistan, success will hush all but the noisiest of the critics, and this action will indeed be successful. In fact, a corollary to this prediction is that the campaign against Iraq will be easier, take less time, and cause fewer geopolitical problems than the pundits will proclaim when the assault begins.

In my opinion, sticking with the prediction that the military action against Iraq will be successful carries a low risk. I summed up my views on this topic in the September 3 issue of this newsletter, in an article entitled "An Optimistic View Of The Coming War With Iraq,"

"The United States is good at war. It has the best equipment, intelligence, officers, and soldiers in the world, and, when engaged, its armies can be ruthless. I think it is also safe to say that the Iraqi military will prove, once again, to be a joke"

The bigger question now is, "What happens when it is over?" Or, as Plato put it in his classic attempt to reduce all questions of politics to one sentence, "Who shall rule?" My prediction is that the process of determining an answer to this question will go reasonably well also.

It has become routine lately for some member of Congress to knit his or her brow and gravely offer the opinion that the Bush administration needs to begin planning for the aftermath of the war, as though no one in the White House had thought of this yet. My guess is that this planning process has been under way for quite some time, and while it probably doesn't include any members of Congress, it almost certainly has involved extensive talks with officials from such nations as Russia, France, Israel, Egypt, Jordan, Saudi Arabia, and Turkey.

As I put it in the above-cited September 3 article, "I don't pretend to know what the Bush administration is saying to these and other countries, but my guess is that the talk is all about dividing up the spoils." And the spoils are, to put it mildly, large. Large, as in proven reserves of 112 billion barrels of oil, second in the world only to Saudi Arabia's 262 billion.

It is in the interests of the United States to see that enough of this oil is pumped to finance the rebuilding of post-war Iraq without the help of U.S. taxpayers. It is in the interests of Russia and Saudi Arabia that sales of Iraqi oil are small enough to keep world oil prices at reasonably high levels. It is in the interests of Russia and France to see that their long-term on-going business links with Iraq are maintained. And it is in the interests of Iraq's Arab neighbors that the new government be internationally recognized and strong enough to keep order. And it is in the interests of all of the parties involved that all of these interests are honored. And so they will be, under the leadership of an Iraqi government run by formerly exiled Iraqis who are amenable to each of these interests.

I am not suggesting that all will be sweetness and light within Iraq in the aftermath of Saddam's fall. That's what the "toil and trouble" in the headline is all about. But I think the world will be a safer place when Saddam's stashes of biological and chemical weapons have been destroyed, along with his nuclear weapons capability.

I also think the Iraqi people will be healthier and happier when the wealth of their nation is spent on their needs rather than on the feverish dreams of a murderous megalomaniac. And I think the entire Middle East regions will have a better chance of achieving some sort of stability.

Prediction No. 2 is that that weird little dude that runs North Korea will, sometime in 2003, be forcibly returned to the obscurity he so richly deserves. For several years while I was with Prudential, the editorial dictum governing my annual forecast piece was that the article had to include one "out-of-left-field" prediction, identified as such. I always enjoyed this challenge. So this year, this prediction relating to North Korea will satisfy that requirement.

I won't venture to guess how little what's-his-name will fall, or be neutered, as the case may be. I just think that he's rapidly becoming a nuisance to his enemies and a burden to his friends, and that someone, somewhere, somehow will sweep the little psycho from the world stage sometime this year.

In my opinion, he picked a very bad time to beard Bush. Given the extensive and intense "twenty-four/seven" international deal making that is going on right now, in anticipation of the Iraqi war, mostly involving the promise of future favors and considerations by the United States to such nations as China, Russia, Israel, Turkey, France, England, and probably even Germany, it is a much easier matter for Bush to put North Korea's future in play than it would be under less intense circumstances. We'll see.

In the meantime, American policy toward North Korea will be, as Bush has put it, to deal with it as a “diplomatic problem” rather than a military one, which is a diplomatic way of saying that he hopes to arrange exactly what I am predicting.

Predictions No. 3 and 4 are seemingly contradictory. Number 3 is that the United States will make great strides, both domestically and internationally, in its war against militant Islamic terrorism in 2003. Number 4 is that the horrors of terrorism will once again strike the American homeland in 2003.

I hope with all my heart that I am wrong about prediction four, but I fear I won't be. Last year, my second prediction was that “there will be no terrorist incident in the U.S. in 2002 of the magnitude of the September 11 attack.” At that time, the military operation in Afghanistan had severely crippled al Qaeda and, it was assumed, had probably succeeded in killing Osama bin Laden. My thought was that, under the circumstances, his organization would not be able to plan and implement another large-scale terrorist mission like September 11 in the near future.

I don't know if there ever really was a post-September 11 comfort period as I suggested. But if there was, I think it is safe to assume that it is now over. I have no inside knowledge of this, of course, but everyone I know who is involved in the counter-terrorism business is convinced that it is just a matter of time before another big one occurs.

In addition, I think the intensity with which the government is working to prevent such an incident is evidence that the likelihood is strong that some major attempts will be made. And as an IRA terrorist is said to have once told the British, “You have to be lucky all the time, we only have to be lucky once.”

I would not venture to predict the nature of the attack, or attacks. As has been so often noted, targets are plentiful in a free and open society such as ours. I would say though that whatever occurs it will not be severe enough to bring this great nation to its knees, but will only serve to strengthen the resolve of the American people to fight the scourge.

And this brings us to prediction 3, which is that by the end of the year the United States, and much of the rest of the world for that matter, will be safer from militant Islam than it is today. As numerous news articles attest, U.S. efforts to track down, surveil, capture or kill al Qaeda and other radical Islamic terrorists are beginning to yield positive results, not just in the United States, but very significantly, throughout the world. Considerable success has also been achieved in identifying and cutting off sources of terrorist funding. And stepped up domestic measures to protect citizens and other likely domestic targets of terrorism are falling into place.

As the Israeli's have found, absolute safety from committed terrorists is not achievable. But considerable progress was made in 2002 and I expect even more gains in 2003.

Prediction No. 5 is that 2003 will be another difficult and frustrating year for Democrats. Being the party out of power during wartime is never a happy experience, and this is especially true when being “out of power” includes being in the minority in both the House and the Senate.

This circumstance could be made better for Democrats if the party had at least one charismatic individual who was recognized by the public and party regulars as a sort of titular leader;

someone who could informally fill the role that the British formally call the “leader of the loyal opposition.”

But the Democrats have no such person. They have a failed Senate Minority Leader, Tom Daschle; a wacky, radical leftist House Minority leader, Nancy Pelosi; a corrupt and politically inept party chairman, Terry McAuliffe; a handful of presidential wannabes, none of whom command any serious national respect; and the Clinton clan, led by Bill and Hillary, to constantly remind the public of the Democratic Party’s sleazy recent past.

In my opinion, if the Democrats were smart, they would approach the delicate task of dealing with a highly popular president during wartime by being friendly and cooperative. They would choose a few issues on which to take civil public exception; give the President a little rope with which to hang himself, if he is so inclined; and basically lie low and wait for him to make a mistake. Then, and only then, pounce.

To put this another way, the Democrats would be wise, I think, to adopt the strategy of a successful weed in a garden. Grow close to a pretty flower and try very hard to look like it. This would not only be good politics, but good for the nation as well.

But this isn’t likely to happen. In fact, that slick but vapid trial lawyer from North Carolina, who would be president, provided a glimpse into the Democratic Party’s more likely strategy when he announced brightly last week that he was unimpressed by the popularity of President Bush’s actions; that, in fact, he would “present a very stark contrast to President Bush and a very different option for the American people.” I didn’t hear it, but I’m told he also made some impromptu remarks later about Tiger Woods’ stance being too wide.

In the end, the Democratic strategy will be to play the race card and the class card over and over and over again all year, like some sort of surreal, never-ending monte game played with two cards from a Tarot deck. The party’s left wing supporters will love it, but ordinary Americans will pay little attention, since the diffuse message will be coming from a group of largely unimportant individuals, all sounding like inferior versions of Al Sharpton. In the meantime, the Bush administration will run the country.

P.S. I am not even going to try to predict which of the Democratic pack of presidential hopefuls will finish 2003 the strongest. Picking a winner out of that sorry lot would be like handicapping a \$100 claiming race run on a muddy track outside a glue factory in Pierre, South Dakota. “Who do you like in the second, Zeke?” “I dunno, Booger, the five horse ain’t bleeding outa her nose no more, maybe I’ll bet on her.”

Prediction No. 6 is that 2003 will be another good year for Bush and for the GOP. It goes without saying that this forecast is highly dependent on my other predictions being reasonably accurate. And I should note here that my definition of “good year” has little if anything to do with passing a tax bill.

It would be nice, of course, if Bush were to get a tax cut through Congress this year. But I think there is a good chance that he won’t. Unless the international situation turns very sour, the legislative agenda is going to be the field on which the Democrats wage their political wars, and one of the major battles is going to be over the tax bill. As a result, I doubt that there will be much chance for a compromise. To put it another way, politics will trump economics, which

makes sense in that the economic benefits of a \$600 billion tax cut over a ten-year period in a \$10 trillion-plus economy are minimal anyway.

In fact, I think the congressional year will be marked by gridlock, which isn't a bad thing, given the alternative of passing a host of costly new programs. And speaking of costly, I should say here that I have zero confidence that Congress will exercise any meaningful restraint over federal spending this year. As I have said many times in these pages, today's Republican legislators do not take a back seat to Democrats when it comes to being big-time spenders, and the White House has no serious interest in smaller government.

Thus, when I say that Bush and the GOP will have another good year, I am merely talking about political popularity. And with that in mind, I should add that I think Bush's popularity would survive a major terrorist attack, should one occur.

This would be politically tricky, of course, since he would be open to charges that he failed in his primary post-September 11 responsibility to adequately protect the nation against future terrorist attacks. But I think the public is well aware that it is beyond the capability of government to provide complete safety from terrorism. And I think it would be a dicey proposition for the Democrats to attack Bush on this front in the immediate aftermath of another tragic terrorist event.

Prediction number 7 is that relations between Israel and its neighbors will, at the end of 2003, be more stable than they have been in decades. Just as prediction one was the same as last's year with 2002 changed to 2003, this year's prediction seven is the same as last year's except that, once again, 2002 has been changed to 2003.

Part of the problem with last year's prediction seven was that it was predicated on my belief that Bush would take on Saddam in 2002 instead 2003. If he does it this year, as I think he will, then prediction seven is worth another try with basically the same supporting arguments, which went as follows.

This is not to say that there will be peace between Israel and its enemies. What I believe instead is that there will be an absence of war based on a grudging appreciation on the part of the Palestinians and other Arab nations that they cannot drive Israel out of existence and that the cost of continuing to try is prohibitive both in lives and economic growth.

I know this is an extremely optimistic prediction in light of what is happening in the region today. But I believe, as I have said many times in previous articles, that the key to stable Arab-Israeli relations is not endless peace talks that end with American pressure on Israel to grant concessions, which weakens Israel militarily and results in political turmoil which weakens it politically.

I think "W" may be the first American president to fully grasp the concept that, while formal peace between Israel and its neighbors may be an impossible dream, open hostilities can be avoided by helping to promote an Israel that is strong enough to discourage open aggression against it by its enemies.

Prediction number 8 is that by the end of 2003 President Bush will have significantly broadened his "axis of evil" definition to encompass what he will describe as a growing

nexus of interests between international terrorist networks, giant transnational criminal enterprises, and a host of left-wing politicians and political movements in Latin America.

This move will be supported by a wealth of evidence that not only are the various Islamic terrorist movements around the world creating formal and informal links between and among themselves, but that the criminal enterprises they run to help fund their activities are forming strong links to a growing number of powerful global crime networks that are involved in such activities as the drug trade, money laundering, financial fraud, computer-based theft, counterfeiting, and trafficking in humans.

This will cause an outcry from civil libertarians, who will accuse Bush of attempting to create a vast police state by applying the new anti-terrorism legal powers, which were granted to him in the wake of September 11, to all activities that he deems suspicious in nature.

But the real uproar will come when Bush presents evidence that these vast terrorist/criminal enterprises have formed friendly alliances with narco criminals throughout Latin America, as well as with several of the region's radical left-wing politicians, such as Venezuela's President Hugo Chavez.

Chavez, a chum of Fidel Castro, has many "friends in high places" in Washington, including such influential left-wing Democratic Congressmen as Barney Frank (Mass.), Dennis Kucinich (Ohio), John Conyers (Mich.), as well as Senator Chris Dodd (Conn.), and they are going to squeal like stuck pigs when Bush implicates their murderous little buddy in such activities.

And with that I think I will end this year's forecast issue. I could continue with some thoughts on Europe, China and Russia, as I did last year. But I will save these for future issues of the newsletter, where I can explore them in greater depth. Have a Happy New Year everyone.

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