

The Political Forum

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

Mark L. Melcher
President
melcher@thepoliticalforum.com

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THEY SAID IT

“If anyone has such a plan [to put the economy in order], let him at once be smothered. It is the disorder of the finances that puts the King in our power.”

Guy-Jean Target, lawyer and one of the leading instigators of the French revolution.

WHITHER THE TAX BILL? The big financial news last week was the formal unveiling by the Bush administration of its proposed \$670 billion tax cut, and the subsequent debate in the media about whether it had any chance at all of becoming law. By the end of the week, the consensus opinion on Wall Street appeared to be that while the plan was economically sound, it wouldn't make it through Congress without being watered down significantly by Democrats.

I agree with this consensus. As I said last week in my annual forecast piece, I believe that Democrats plan to make the debate over tax cuts the central focus of their race-and-class-baiting political attack on the Bush administration this year. And this means that their willingness to compromise in order to get the issue off the table is going to be limited.

Adding to this reluctance will be the fact that the Democrats, mimicking the sentiments of their Jacobin predecessor, Guy-Jean Target (as noted above), are not going to be anxious to do anything that might have a chance of helping to boost either economic growth or consumer confidence in advance of the 2004 president election, when they hope to be able to hammer Bush for presiding over a weak economy.

Much will depend on economic performance this year. If the economy is very bad, Democrats will have no choice but to join Republicans in a public effort to do something to stimulate growth, although they will do their best to keep these efforts small enough to be of little help. On the other hand, as I said last week, if the economy performs reasonably well, there is a very good chance that no tax bill will pass this year.

Subscriptions to The Political Forum are available by contacting:
The Political Forum
8563 Senedo Rd., Mt. Jackson, Virginia 22842
Tel 540-477-9762, Fax 540-477-3359, Email melcher@thepoliticalforum.com,
or visit us at www.thepoliticalforum.com

In any case, even if Congress were to pass a tax bill, the Bush proposal to eliminate taxes on dividends almost certainly won't be part of it. It is, I think, too complicated a proposal to pass the first time that it is seriously considered by Congress. And more to the point, it is too complicated to pass during the final weeks of Congress, which is when the tax bill, if there is to be one this year, will be cobbled together in a conference for a last minute, quicky vote before everyone goes home for Christmas.

It is worth noting here, that it isn't just the Democrats who plan to play politics with the tax bill. In fact, I think it is safe to say that political considerations played a central role in Bush's decision to put forth a much larger tax cut than most people had expected, and to aim the benefits at what has come to be known as the investor class.

Like spreading honey out in front of a bear, the opportunity to launch a good old-fashioned race and class baiting attack is more than the Democrats can resist. And I think Bush feels that this would be a perfect battle ground for him and for the GOP in the opening years of the 21st century, when widespread prosperity and racial harmony has made these issues passé to a vast majority of Americans of all colors. In addition, I think he feels that his record on these issues is not just defensible but laudable.

This feeling on the part of Bush that the Democrats could be on treacherous ground if he could bait them into focusing their campaign on race and class issues is, I think, also evident in his decision to resubmit the nomination of Charles Pickering to an appellate court position, as well as in his apparent decision to allow the Justice Department to oppose the University of Michigan's radical affirmative action program in an upcoming Supreme Court case.

WHITHER THE WAR IN IRAQ? I am a little surprised that I am writing a piece on this question this week, having decided a long time ago, with virtually everyone else, that the war would begin sometime in early February.

But last week, Hans Blix announced that he hadn't yet found a "smoking gun," Tony Blair went wobbly on Bush, the Turks started getting cold feet, and the talking heads began to speculate in unison on whether Bush would have to postpone plans to invade Iraq or completely abandon the idea. And suddenly I am getting questions about something I thought had already been settled.

My answer is that I don't think Bush has changed his mind about going to war with Iraq in the near future. I think the bombing will begin no later than the end of February, and probably much earlier. I think that sometime in the not too distant future the Bush crowd will give Blix some highly damaging information about Saddam's weapons plans that Saddam won't be able to refute, and the pre-war confrontation-mode will begin.

I believe this because I can't believe that Bush would be moving such large numbers of troops and logistical support into place if an attack were not inevitable. He could be bluffing, I know. But he didn't look like he was when he was at Fort Hood a little over a week ago trying to hold back tears as he stood among the troops while they sang "The Army Goes Rolling Along."

WHITHER THE MESS IN NORTH KOREA? When considering the latest "crisis" in North Korea, amidst the breathless observations by pundits of all stripes that the Bush administration "has no good options" available to it, I believe it is imperative to keep the following in mind.

According to the CIA's *World Fact Book*, North Korea's GDP is approximately \$21.8 billion and declining annually. To put this in perspective, Bill Gates, all by himself, is worth something like three or four times this. This puts North Korea's per capita income at about \$1,000. Agriculture accounts for 30% of North Korea's GDP, and occupies the efforts of 36% of its work force. Yet the country doesn't produce enough food to feed its people.

North Korea has just over 6 million males of military age, defined as being between 15 and 49, of whom 3.6 million are "fit for military service." Some 1 million of these men actually serve in the military, which has an annual budget of just over \$5 billion. The United States spends \$300 billion or so annually on its military. The CIA says the following about North Korea.

"North Korea, one of the world's most centrally planned and isolated economies, faces desperate economic conditions. Industrial capital stock is nearly beyond repair as a result of years of under investment and spare parts shortages. Industrial and power output have declined in parallel. Despite a good harvest in 2001, the nation faces its eighth year of food shortages because of a lack of arable land; collective farming; weather-related problems, including major drought in 2000; and chronic shortages of fertilizer and fuel. Massive international food aid deliveries have allowed the regime to escape mass starvation since 1995-96, but the population remains vulnerable to prolonged malnutrition and deteriorating living conditions."

In short, North Korea is a tragic little nation, which could indeed cause a great deal of trouble, but which isn't without vulnerabilities, not the least of which is the fact that if it were to be completely destroyed, no nation, no large and influential multinational company, or no wealthy important individual would lose much of value.

Lest the importance of this circumstance be lost, it should be noted that Saddam Hussein would probably have been dead long ago if he weren't sitting on the world's second largest proven reserves of oil, if a boatload of important multinational oil companies didn't have large investments there, and if he didn't owe Russia and France a great deal of money.

When viewed from this perspective, North Korea's situation is, I believe, a little like the hilarious exchange between the hapless Corporal Popinjay and Major Metcalf in Joseph Heller's *Catch 22*.

"Popinjay, is your father a millionaire, or a member of the Senate?"

"No sir."

"Then you're up shit creek, Popinjay, without a paddle. He's not a general or a high ranking member of the administration, is he?"

"No sir."

"That's good. What does your father do?"

"He's dead sir."

"That's *very* good. You really are up the creek Popinjay."

Now I know I am probably one of only a handful people in the entire world who does not think that the little putz that runs Korea does not have President Bush by the short hairs. But I am impressed by the fact that Bush's own concern appears to be so limited that he has allowed the situation to be handled so far by Bill Richardson, a political hack from the Clinton days, whose only notable contribution to that glorious period was to have helped create the mess in Korea in the first place, and to have tried to find Monica Lewinski a job at the United Nations, in order to keep her from running her mouth, so to speak.

I don't pretend to know how President Bush will handle North Korea, but I don't think he is "without good options." My guess is that the option he will choose is to do nothing for a while. Or to put this option another way, "let the United Nations handle it."

This would allow South Korea time to think about how to reconcile the recent anti-Americanism that is sweeping that nation with the realization that it, not the United States, would be a primary target of North Korea's nuclear blackmail, should America decide to sit on its hands.

It would also allow China to consider what it might do when Japan announces that it has no choice but to develop its own nuclear weapons as a counter to North Korea's, and when China's access to global capital begins to suffer due to investor fears about China's commitment to world peace and about massive regional uncertainty.

In the meantime, a short period of silence on Bush's part would allow the Pentagon to begin the process of developing contingency plans for dealing with North Korea under Bush's previously announced policy of preemption, should it come to that.

For some further thoughts on North Korea, read the next article.

WHITHER THE AXIS OF EVIL? The entire time I was writing my annual forecast piece that I published last week, I kept wanting to extend the time frame beyond 2003. But, to quote Dick Nixon, I knew "that would be wrong." But this week, like Prometheus unbound, I am free to augur as I choose, and I choose to address several of last week's forecasts within the context of a somewhat longer time frame.

For starters, as I said last week, I think that little weirdo who runs North Korea will be effectively neutered sometime in 2003. What I did not say is that within a somewhat longer time frame, I believe that the entire concept of small, hyper-aggressive "axis of evil" states" will go the way of the Barbary Coast pirates. There simply isn't going to be any room on the world stage for tiny, underdeveloped nations to use a handful of big weapons to gain a larger say in world affairs than they would command without such weapons.

This is not a utopian forecast, by the way. I am not saying that all the little bullies are going to go away and leave the world safe for democracy. I just think that the yapping dogs like Iraq, North Korea, Iran, and other aspirants to their status as rogue states are going to find that there is no primary role for them in the kind of big power, big state politics that is going to occupy the world in the first half of the 21st century.

As I said earlier, I think North Korea will, in the not too distant future, be reduced to the obscurity it so richly deserves

I think Saddam Hussein will be ousted in Iraq. And no matter what happens in the wake of his defeat, that nation will no longer be able to command world, or even regional attention by threatening the use of biological, chemical or nuclear weapons.

As for Iran, I think it is just a matter of time before the Iranians themselves get tired of rule by the mad mullahs and collectively do something about it.

As I said, I am not predicting world peace here. I am simply saying that the global competition for geographical hegemony, military power, international prestige, capital, access to consumer markets, and other such temporal treasures will be between large nations, such as the United States, Russia, China, and to some lesser degree India and Europe.

Smaller nations will be involved in this great game as friends and surrogates of one big country or another, but not, in my opinion, as major players with ambitious agendas of their own, that are based solely on military threats.

Not only do the big players have dreams of power, prestige and global reach, but they also suffer from severe nightmares of demographically-driven societal meltdowns, debilitating shortages of capital and natural resources, environmental catastrophes, and paranoiac fears of military destruction at the hands of their enemies as well as their friends.

For any hope of the dreams overcoming the nightmares planning is key and surprises are anathema. None of the major players could look favorably upon the prospect of Iraq attacking Israel with biological or chemical weapons, or of North Korea's Kim Loony Toon threatening a nuclear war in Asia.

The stakes are simply too high for the big players to have their game plans significantly altered or interrupted by pushy, mentally unbalanced third world dictators, a group of wacky, grasping Muslim mullahs, or a nest of seedy terrorists living in a cave somewhere or in a filthy apartment in the slums of Paris. As pawns in the great game, small nations will continue to be useful. As major players in their own right, attempting to be in a position to blackmail the entire world, they become dangerous nuisances.

Which brings me to the war against militant Islam. Last week, I predicted that 2003 would be a year in which the United States would suffer additional blows from terrorists, but still make notable strides in keeping the nation and its citizens safe from them.

Taking a longer-term look at the problem, it is pretty clear that Islamic terrorism will be a highly destructive global scourge for a long time to come, something akin to AIDS. This conclusion follows naturally from my belief that the principal export of the Islamic nations of the world will continue to be angry young men, since most of these societies are not structurally designed for either economic or social success in the materialistic, 21st century world of open societies, religious tolerance, advanced technology, intense global competition, and female emancipation.

Eventually, however, militant Islam will, I believe, go the way of the small "axis of evil" state. In fact, in my opinion, President Bush sealed the fate of militant Islam when he declared his doctrine of preemption, because this assures that the movement will never again gain a permanent, relatively safe, geographical home base from which to operate. And this means that

it has virtually no chance of developing into a truly significant player in the 21st century beyond that of a large, international criminal enterprise that is doomed to be hunted out of existence.

In the end, I think militant Islam will fail miserably in its self-proclaimed short-term goals of ridding the Middle East of the Jewish state and of Western cultural influences, as well as its long-term ambition of forcing all of the world to live under sharia justice.

If anything, the movement's terrorist tactics have strengthened and solidified U.S. support for Israel's existence, made a permanent American military presence in the Middle East a virtual certainty, and raised doubts in nations throughout the world about how willing they should be to welcome Muslims colonizers into their societies.

This is not to say that the United States will escape unscathed from the fanaticism of militant Islam. Besides the expenditures of billions of dollars and the loss of thousands of lives, the war against this pestilence will, before it is over, also cost Americans a significant share of the freedoms that their founding fathers had bequeathed to them when the nation was formed.

I have made this melancholy point over and over again in these pages since I first began in early 1996 to write seriously about the problems that terrorism poses for American society. In a piece dated April 1996 entitled "The Threat From Within," I discussed at some length this trade off between liberty and safety, and I predicted then that many of the measures that Congress had determined were too intrusive to include in the counter-terrorism bill it had just passed would "eventually become law, along with a host of other measures that will appear to civil libertarians to be even more Draconian."

I said that I expect this to happen "because I have come to believe that the primary threat to the United States in the 21st century, just as communism and fascism were during the 20th century, will be criminal and terrorist groups operating within our own borders."

The great test will come when the war against militant Islam has been won. At that time, the twin questions will be whether the federal government establishment is willing to relinquish some of the more intrusive police state powers it was granted during the dark days of the threat, and probably more importantly, whether the American public is smart and alert enough to demand that the government do so.

If the answer to both of these questions is the wrong one, then Osama bin Laden will have achieved a great victory against his enemy, the United States of America.

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