

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

"A nation is neither more nor less aggressive because it has a king, or an emperor, or a president, or a committee as its nominal head. The fact that 'the people' does not want war is no security against war; and a 'people' is not a whit more reliable than an individual sovereign. The causes of modern war--and 'war' means here war between peoples on the same level of civilization--lie deep in economic and financial matters . . . All peoples above the barbaric level desire peace--in general; but they should not be allowed to persuade themselves that the desire for peace is enough to ensure it; though intelligent vigilance and independent criticism will help to preserve it."

T.S. Eliot, *The Criterion*, September, 1928.

IT'S TIME TO SEND FOR THE SONS A BITCHES. This is all about applied power. Okay? This is not about diplomacy, or justice, or politics anymore. It is about applied power. There are serious people out there who want to kill tens of thousands of Americans and they have both the will and the means to do it.

Never mind why they hate America, or whether they are justified in their hatred. Historians will decide that. It is time for the diplomats, the politicians, and the arbiters of peace to retire to the sidelines. Their time has past. They failed. Historians will decide if they erred, or if they ever had a chance to avoid war in the first place. Never mind whether the French, the Germans, Sean Penn or Susan Sarandon like it or not. In the near term, they have become as irrelevant as Neville Chamberlain was when he returned from Munich in 1938 and declared that there would be "peace in our time."

Neither Osama bin Laden nor Saddam Hussein has shown any interest in a diplomatic settlement. Among other things, Osama wants the United States to leave the Middle East entirely. His commitment to this cause is based on deeply held religious beliefs. For him, this is

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not negotiable. The United States will not comply with his wishes. Its prosperity is dependent on free access to international markets and resources. For America, this is not negotiable.

Among other things, Saddam Hussein wants to amass enough military power to dominate the Middle East, destroy Israel, and be in a position to win a face down with the United States. He has no intention of giving up the weapons that could make his dreams of power come true. For him, this is not negotiable. The United States cannot allow this to happen. Saddam has demonstrated time and again that he is capable of using weapons of mass destruction against innocent civilians, and no U.S. president can any longer run the risk that he would use them on Americans, or give them to someone who would. For America, his continued possession of such weapons is not negotiable.

These non-negotiable issues will be solved by the use of applied power, or to use a less gentle term, by war. In fact, the war has already begun. If radical Islam ceases its terrorist attacks against Americans it will not be due to the machinations of diplomats, politicians, or supplicants for peace. It will be because America succeeded in capturing and killing enough of the leaders of the movement to disable it. If, by chance, Saddam backs down before a direct military action is launched against him, it will not be due to the “inspections process.” It will be because power was applied, and he flinched.

Immediately after Pearl Harbor, when Franklin Roosevelt plucked the aging Fleet Admiral Ernest King from an obscure pre-retirement position to make him commander of the U.S. fleet, King, who is often cited today as the “greatest naval commander of the 20th century,” was said to have stated, “When the shooting starts they always send for the sons a bitches.”

Well President Bush has done just that. He’s sent for the “sons a bitches,” recognizing, as Bismarck put it, that the great issues of the time “will be decided not by speeches and resolutions of majorities but by iron and blood.”

This is not a philosophical postulation on my part. Nor am I applauding this outcome. This is simply a practical observation. And it is an observation that has profound implications for the world, the United States, and the financial markets.

Wars change things. Just as importantly, wars accelerate changes that are already occurring. And this war will be no exception. The media can chitter about Jacques, Gerhard, Hans, “the French,” “the Germans,” “NATO leaders” and the U.N. Security Council. But they’re wasting their time and yours. The dogs of war have slipped their leashes and the world is about to become a very different place.

The magnitude of the changes that are likely to result from the hot conflicts that lie ahead will depend upon the ease with which America achieves victory. The status quo will be less extensively shaken if the war in Iraq goes quickly, with few casualties, and if efforts to block large-scale terrorist attacks against American targets are successful. But either way, the geopolitical landscape is likely to be significantly different a year from now than it is today, and the financial markets will feel the effects.

Outlining all of the possible changes that lie ahead is beyond the scope of this short article; or any short article, for that matter. I will offer thoughts on some of these in the coming weeks. In the meantime, I thought I would discuss some of the changes that have been underway for quite some time that are being accelerated by the events of recent months.

For starters, it looks to me as though America's demand that the United Nations stand behind its decrees has hastened that organization's descent into complete irrelevancy, a descent that has been going on steadily since the end of the Cold War.

With neither military power nor moral authority, the United Nations has never had any truly meaningful role in world politics, although it served a limited purpose when the world was divided into two large and distinct armed camps, both with pretensions of global leadership and both with nuclear weapons. As recent events have illustrated, in a world divided into multiple antagonistic groups of nations and outlaw organizations, many which do not even have pretensions of civilized behavior and others that are made up solely of murderous religious fanatics, the United Nations can serve little if any purpose whatsoever.

My guess is that the U.N. will stay in existence. But as Dorothy's "all powerful wizard" discovered when she pulled back the curtain on him, the illusion of importance dissipates rapidly once it is revealed for all to see that the levers are connected to nothing but noise makers.

NATO has probably had it also. Like the U.N., it will linger as a gathering place for diplomats and over-the-hill military brass to trade gossip. But a military alliance needs a common enemy that is recognized as such by all members. It also requires an unquestioned commitment by each member to shed blood and treasure for the protection of all the others. NATO has neither of these, and hasn't since the fall of the Berlin Wall. All that the current flap over Iraq has done is to hasten its exposure as just another now-meaningless artifact of the Cold War.

Then, of course, there is the European Union. I have always thought that it was just a matter of time before some event would occur that would reveal the terminal nature of this grand experiment in what Marx used to scornfully refer to as "socialism from above." And now that event has occurred.

The European Union will, of course, not be destroyed by the little internal dispute over Turkey that developed within the community as a sideshow to the quarrel between the United States and the German-French-Belgium axis over what to do about Iraq. But this dispute has exposed many of those ancient suspicions and hatreds, some of which date back to the death of Charlemagne, that have routinely destroyed stronger European alliances than the one that is enshrined today in the dismal bureaucratic bowels of Brussels.

The tradeoff between freedom and the deadly soporific sweetness of socialism may be a happy one for the citizens of Germany, France, Belgium and a few of the other countries that make up what Don Rumsfeld referred to recently as "old Europe." No longer having either the energy or the will to reproduce themselves, they can thus concentrate exclusively on their current sensate and material needs without regard to the well being of future generations.

But for the citizens of the “new Europe,” trading one group of socialist bureaucrats for another with the same “bright dead alien eyes,” as Chesterton put it, has turned out to be a bitter pill, especially when they now realize that one side effect of that pill is an unwillingness to stand up to the same kind of murderous tyrants from whose grip they had just escaped.

The European Union is not, like the U.N. and NATO, a direct relic of the Cold War. But its antiquated socialist economic system is a result of over a 150 years of compromises with an endless parade of communists, socialists and anarchists, beginning with such larger-than-life men as Gracchus Babeuf, Louis Blanc, Mikhail Bakunin, and Karl Marx and ending with their mealy successors of today, which include the aforementioned socialist leaders Jacques and Gerhard. Never mind that the economic ideas to which these paper shufflers pay allegiance have been publicly discredited from Moscow to Beijing, they still march their countries on to an ignominious economic fate that is as certain as that of their long gone idols.

The EU will survive for now, of course. But the sores and wounds that were recently opened will fester and sting, and promote the formation of secret alliances within the alliance, which will prompt the outbreak of the kind of destructive fevers that have always been endemic to European politics, and that will eventually smother all hope for the prosperity and global prestige that was the alleged purpose of the union’s formation.

Finally we come to America, which has been, since the fall of the Berlin Wall, carefully attempting to determine how to manage its role as the world’s sole remaining super power, a position that anyone with an understanding of history and human nature realizes is fraught with both external and internal dangers.

No one disagrees that America’s leaders should guard against letting this newly acquired, historically extraordinary, global supremacy turn the nation into an international bully, which pursues an openly imperialistic policy marked by hubristic “nation building” and the formation of alliances that force unwilling countries into America’s cultural, economic and military sphere, whether they like it or not.

But the devil, as they say, is in the details. And President Bush was grappling with the question of what would be the proper mix between an aggressive policy of promoting American ideals worldwide and a much more humble role of helping when asked and setting a good example when September 11, 2001 came along, followed by a series of smaller attacks against American interests around the world, and threats of even greater atrocities to come.

These circumstances tilted the equation drastically in favor of those who advocate the more assertive posture. And there is little question that the events of the past month or so have accelerated the already rising influence of this camp.

That some nations should unite in jealous opposition to America’s newly achieved global power should come as no surprise. Nor should anyone be shocked that some of these nations would attack America’s status with the only kind of weapons that are appropriate for fighting a vastly superior power.

But having said this, no one should then be surprised that these actions should invoke a harsh response from a nation that is newly freed from the presence of a competing super power, which for a half a century acted as a constant check on America's freedom to do as it chose in the field of international affairs.

In the immediate future, I think the debate is over. I think the President is going to act aggressively and unilaterally when he considers it to be necessary, and answer charges that the United States is playing the part of a bully with the assertion that it has no choice, given the nature of the threat against it.

I worry that it will be a difficult task for any future president to move back up this road to a more humble role in the world, when and if it ever becomes safe to do so. But that's another story for another time. In the meantime, President Bush has, as I said earlier, sent for the warriors. And the world is about to change dramatically.

EARTH'S HOLOCAUST. I watched with interest as the anti-war demonstrators in Europe and America made their views known last week via a series of marches and speeches. I decided that a great many of the protesters were just ill informed ninnyes, and that most of the rest were consciously pursuing an agenda on behalf of America's enemies. In total, it seems unlikely to me that this movement will have an important influence on near-term events.

For the life of me I can't figure out how people from "the left," as I assume most of these individuals are, could possibly object to any effort that would rid Iraq of a ruler like Saddam, given that his track record is anathema to everything these protesters purport to believe. Or to put it another way, helping to preserve the anthrax and mustard gas supplies of a murderous dictator, would appear to be an unlikely "cause" for people who claim to be humanitarians. But then, what do I know?

Anyway, watching the festivities and listening to some of the more radical spokespersons reminded me of a great old short story entitled *Earth's Holocaust*, which was written by Nathaniel Hawthorne and included in his wonderful collection of stories published under the title *Mosses from an Old Manse*.

So I went to the book shelves, drug it out, blew the dust off, read it, and decided that nothing I could write in these pages would make for better reading at this particular time than the 157-year-old wisdom of a man described in *Benet's Readers's Encyclopedia* as "one of the greatest writers of fiction in the English language." So I thought I'd offer some passages from that work.

The action in *Earth's Holocaust* takes place at a giant bonfire at which all the weapons in the world are being destroyed, along with all of the related paraphernalia of military pageantry, "the whole world's stock of spirituous liquors," and "everything rich and racy -- all the spice of life," from "bundles of perfumed letters and enamored sonnets" to the playthings of children.

It was now rumored among the spectators that all the weapons and munitions of war were to be thrown into the bonfire with the exception of the world's stock of gunpowder, which as the safest mode of disposing of it, had already been drown in the sea . . . great guns, whose thunder had long been the voice of battle, -- the artillery of

the Armada, the battering trains of Marlborough, and the adverse cannon of Napoleon and Wellington, -- were trundled into the midst of the fire. . . . It was wonderful to behold how these terrible instruments of slaughter melted away like playthings of wax. Then the armies of the earth wheeled around the mighty furnace, with their military music playing triumphant marches, and flung in their muskets and swords. The standard bearers, likewise, cast one look upward at their banners, all tattered with shot holes and inscribed with the names of victorious fields; and, giving them a last flourish on the breeze, they lowered them into the flame, which snatched them upward in its rush towards the clouds. This ceremony being over, the world was left without a single weapon in its hands, except possibly a few old king's arms and rusty swords and other trophies of the revolution in some of our state armories. And now the drums were beaten and the trumpets brayed all together, as a prelude to the proclamation of universal and eternal peace and the announcement that glory was no longer to be won by blood, but that it would henceforth be the contention of the human race to work out the greatest mutual good, and that beneficence, in the future annals of the earth, would claim the praise of valor. The blessed tidings were accordingly promulgated, and caused infinite rejoicings among those who had stood aghast at the horror and absurdity of war.

But I saw a grim smile pass over the seared visage of a stately old commander, --by his warworn figure and rich military dress he might have been one of Napoleon's famous marshals, --who, with the rest of the world's soldiery, had just flung away the sword that had been familiar to his right hand for a half a century.

"Ay! ay!" grumbled he. "Let them proclaim what they please; but, in the end, we shall find that all this foolery has only made more work for the armorers and cannon founders."

"Why, sir," exclaimed I, in astonishment, "do you imagine that the human race will ever so far return on the steps of its past madness as to weld another sword or cast another cannon?"

""There will be no need," observed, with a sneer, one who neither felt benevolence nor had faith in it. "When Cain wished to slay his brother, he was at no loss for a weapon."

"We shall see," replied the veteran commander. "If I am mistaken, so much the better; but in my opinion, without pretending to philosophize about the matter, the necessity of war lies far deeper than these honest gentlemen suppose. What! Is there a field for all the petty disputes of individuals? And shall there be no great law court for the settlement of national difficulties? The battlefield is the only court where such suits can be tried."

"You forget, general," rejoined I, "that, in this advanced stage of civilization, Reason and Philanthropy combined will constitute just such a tribunal as is requisite."

"Ah, I had forgotten that, indeed!" said the old warrior, as he limped away.

A LETTER HOME. The following, I am told in the e-mail message that brought it to my attention, is an actual letter from home from a marine with the multinational force in Bosnia. Please read it to the end. It is great.

Dear Dad,

A funny thing happened to me yesterday at Camp Bondsteel (Bosnia): A French army officer walked up to me in the PX, and told me he thought we (Americans) were a bunch of cowboys and were going to provoke a war in Iraq.

He said if such a thing happens, we wouldn't be able to count on the support of France. I told him that it didn't surprise me. Since we had come to France's rescue in World War I, World War II, Vietnam, and the Cold War, their ingratitude and jealousy was due to surface (again) at some point in the near future anyway. I also told him that is why France is a third-rate military power with a socialist economy and a bunch of pansies for soldiers.

Additionally I told him that America, being a nation of deeds and action, not words, would do whatever it had to do, and France's support, if it ever came, was only for show anyway. Just like in all NATO exercises, the US would shoulder 85% of the burden, and provide 85% of the support, as evidenced by the fact that this French officer was shopping in the American PX, and not the other way around.

He began to get belligerent at that point, and I told him if he would like to, I would meet him outside in front of the Burger King and whip his ass in front of the entire Multi-National Brigade East, thus demonstrating that even the smallest American had more fight in him than the average Frenchman.

With friends like these, who needs enemies?

Dad, tell Mom I love her.

Your loving daughter

Mary Beth Johnson
Lt. Col., USMC

THE POLITICAL FORUM

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WHAT FOLLOWS IS VOLUME NO. 1, ISSUE NO. 1, OF MY OLD BOSS, COLLEAGUE, AND GOOD FRIEND GREG SMITH'S NEW NEWSLETTER "FROM THE SIDELINES," DELIVERED EXCLUSIVELY BY THE POLITICAL FORUM. YOU CAN CONTACT GREG AT, m97smith@bellatlantic.net.

From The Sidelines

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So where have I been?

Watching, reading and meeting with friends who are employed. I've enjoyed not traveling so much and I don't miss the hours of meetings. However, I have continued to be very active in reading, analyzing and following the issues in the investment business.

So what do I think? Well a lot. I finished 2001 thinking that we would enjoy a post 9/11 rally because the consensus was that 9/11 was a one off event and once we kicked butt in Afghanistan we'd be back in the good times again.

Regular readers will remember it was likely, in my opinion, that 2002 would be a tough year. The individual had experienced risk and was unlikely to supply gobs of cash to equity mutual funds. It was becoming clear that the equity and debt raising machines of Wall Street had allowed capital spending on technology gear to exceed the actual needs of many companies, not just the dot coms. With tech in the doldrums investors would need to find other places to go.

I had also written that stocks reflected elevated valuations not only because inflation and interest rates had fallen, but because expected growth rates had risen to levels which at least cyclically couldn't be sustained. The correlation of stock multiples to long term growth rate expectations is much better than stock multiples to interest rates. I concluded there had to be a correction in long term growth expectations. So, stocks could either mark time, letting earnings catch up or the stock market could go down. Enter the scandals which indicated that we didn't even know what earnings had been, other than in some cases, a lot lower than we thought. The scandals and the lack of a capital spending recovery made a bad situation worse. While I'm on the subject of capital spending, tech or otherwise, companies never start spending on longer term needs until demand picks up, the balance sheet is repaired, and capacity utilization indicates that it is necessary. We aren't anywhere near there. It isn't just Iraq.

Okay, so now what. Well let's start with Iraq. We do need to get the confrontation with Iraq behind us, and I believe we could have a big rally assuming it goes as well as last time or in the Afghanistan war. But this isn't 1991 and it isn't like the attack on Pearl Harbor.

This is the early part of a war with radical Islam. The leaders of radical Islam will continue to get support from Saudi Arabia, and as the IRA agent told the English, "You have to be lucky every time, we only have to be lucky once." This war with radical Islam maybe is more analogous to the cold war of the 50's when the threat of a nuclear attack was an every day reality in a lot of people's minds. It did affect confidence in the future and as I suggested earlier that affects stock multiples.

Assuming we get past Iraq successfully, we will also run into another issue. Latin America didn't succeed with capitalism. Argentina didn't take the U.S. model and become the example for the rest of the region. Now, the region is going to move to some other model which may include a race or class component as the native people try to gain political power and reallocate wealth. We are now seeing an example of this in Venezuela. The end result could be longer lasting energy issues even if the Middle East quiets down. While these events would be good for domestic energy suppliers, again they are not good for visibility and multiples.

There are plenty of other issues. China is becoming the manufacturing base for the world and what it means to the U.S., Europe (especially to Germany) and Japan. The amazing changing demographic profile of the world and what that means to future growth. Why the U.S. might see a service sector slowdown and what it means to teen retailers and a whole lot more.

I also expect that Wall Street reconfiguration will impact valuations over the next few years but that too is another story for another time.

Meanwhile, the post Iraq rally should give us a fighting chance to have a better year than last, but I'm still not sure that means actually making money. I'm still worried about valuations being too high even though there has been a lot of correction. So that means we have to be very careful about what we pay for any stock. And don't forget dividends. A wise man once told me that if you build a portfolio with a higher than average dividend yield you don't have to be a better than average stock picker to have a better than average portfolio. Good advice these days.