

# 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

“As The Weekly Standard's Jonathan Last points out, in the history of military routs, hardly any have taken less than eight days. The 1983 liberation of tiny Grenada, for example, took 10 days:

Still not convinced? Consider the greatest military collapse of modern times, the infamous French fold at the start of World War II. Germany invaded France on May 10, 1940, didn't get to Paris until June 14, and didn't get a French surrender until June 22.

Even the French--the French!--were able to hold out for 44 days. If Saddam prolongs the fighting for another 5 weeks, all he will be doing is rising to the level of military competence set by France.

So if you're getting impatient, just relax. Go for a walk, catch a movie, pick up a good book, spend some time with the kids. Soon enough the war will be over, and America will have won.”

From March 27, 2003 issue of *The Opinion Journal's* “Best of the Web Today,” by James Taranto.

**WHITHER THE WAR?** Over the past several days, there has been much debate about whether the war against Saddam is going as well as President Bush and his cabinet had hoped and expected. British Marines are bogged down outside of Basra, which many consider a portent of things to come in Baghdad. Supplies are reportedly running short, and supply lines are not yet secure from marauding bands of Saddamite thugs. The “Fedayeen Saddam,” which roughly translated means “killers for Saddam,” are proving to be a more difficult challenge than most experts had expected. And now, American troops are at risk from suicide bombers, the scourge of Arab radicals. In short, despite the progress American and British troops have made, many people are growing worried, and the cakewalk many had expected has not materialized.

So, is the war effort in trouble?

First things first: no one ever said that this was going to be a cakewalk, at least no responsible person ever did. To suggest otherwise is a bald-faced lie. Sure, the President did say just a

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couple of weeks ago that “This war is going to be over in a flash.” But the president in question was Bill Clinton, not George W. Bush. As was the case throughout his tenure as president, Bill demonstrated yet again that he has no grasp whatsoever of matters military. He remains as he has always been, more concerned about clever sound bites than factual assessments.

As far as the people in charge today go, none ever said this would be easy. Not Bush; not Cheney; not Rumsfeld, Powell, or Rice. No one.

Second, from a military, rather than a media perspective, things are hardly going poorly. The following, which was penned on Friday by Victor Davis Hanson, a classics professor at California State University at Fresno and a well-regarded classics and military historian, sums up the real score thus far, as opposed to the 24-hour news-cycle score, rather nicely. Davis wrote:

All these people need to calm down, take a deep breath, and read their history — computing the logistics of fighting 7,000 miles away and considering the hurdles of vast space, unpredictable weather, and enemies without uniforms. And? In just a week, the United States military has surrounded one of history’s most sadistic and nasty regimes. It has overrun 80 percent of the countryside and has daily pulverized the Republican Guard, achieving more in five days than the Iranians did in eight years.

Twenty-four hours a day, thousands of tankers and supply trucks barrel down long, vulnerable supply lines, quickly and efficiently. There is no bridge too far for these long columns. One-hundred percent air superiority is ours. *There is not a single Iraqi airplane in the sky.* Enemy tanks either stay put or are bombed. Kurds and Shiites really will soon start to be heard. Seven oil wells are on fire (with firefighters on the scene) – no oil slicks, no attacks on Israel. Kuwait City is not aflame. “Millions” of refugees fleeing into Syria and Jordan have not materialized. Even Peter Arnett is no longer parroting the Iraqi government claims of ten million starving and has moved on to explain why the Iraqis were equipped with chemical suits – to protect Saddam’s killers from our WMDs!

Few, if any, major bridges in Iraq have been blown; there are no mass uprisings in Saddam’s favor. The Tikrit mafia fights as the SS did in the craters of Berlin, facing as it does – and within weeks – either a mob’s noose, a firing squad, or a dungeon. Through 20,000 air sorties, no jets have been shot down; there is nothing to stop them from flying another 100,000. They fly in sand, in lightning, high, low, day, night, anywhere, anytime. Supplies are pouring in. Saddam’s regime is cut off and its weapons will not be replenished. This is not North Vietnam, with Chinese and Russian ships with daily re-supply in the harbor of Haiphong. British and Americans, with courageous Australians as well, are fighting as a team without even the petty rivalry of a Montgomery and Bradley.

Our media talks of Saddam’s thugs and terrorists as if they were some sort of Iraqi SAS. Meanwhile, the real thing – scary American, British, and Australian Special Forces – is causing havoc to Saddam’s rear guard. In short, for all the tragedy of fragging, Iraqi atrocities, misdirected cruise missiles, and the usual cowardly antics inherent to our enemy’s way of war, the real story is not being reported: A phenomenal march against

overwhelming logistical, material, and geographical odds in under seven days has reached and surrounded Saddam Hussein's capital.

Now, all of this is not to say that there are not problems. For the Bush administration, though, those problems are likely political, not military. America will win the war, and will win it decisively. The Bush administration may, however, lose the domestic public relations battle over it. We have long believed that if this war went very well for President Bush, then his future would be virtually guaranteed, economic issues notwithstanding. If it appears to go less than perfectly, though, he may have some trouble, and heads will likely roll.

Already the media and political opportunists are looking for scapegoats. And much to conservatives' chagrin, the most likely early contender for that slot is Defense Secretary Donald Rumsfeld. Rumsfeld is, it is nearly universally acknowledged, not well liked within the Pentagon. He is a tough old bird who wants things done his way. And while much of the rest of the world (ourselves included) admire that about him, it is clear that he has rubbed many of those in uniform the wrong way. And there has been no hesitation whatsoever from military sources, both active and retired, both named and "unidentified," to lay early problems in the Iraq campaign at the Secretary's feet.

Just this weekend, for example, *The New Yorker* ran a story citing brave "anonymous" sources as saying that Rumsfeld ignored advice from military brass and may thus have compromised the mission and our soldiers' safety. A *Reuters* summary of *The New Yorker* piece put it thusly:

Defense Secretary Donald Rumsfeld repeatedly rejected advice from Pentagon planners that substantially more troops and armor would be needed to fight a war in Iraq, *New Yorker Magazine* reported.

In an article for its April 7 edition, which goes on sale Monday, the weekly said Rumsfeld insisted at least six times in the run-up to the conflict that the proposed number of ground troops be sharply reduced and got his way.

"He thought he knew better. He was the decision-maker at every turn," the article quoted an unidentified senior Pentagon planner as saying. "This is the mess Rummy put himself in because he didn't want a heavy footprint on the ground."

It also said Rumsfeld had overruled advice from war commander Gen. Tommy Franks to delay the invasion until troops denied access through Turkey could be brought in by another route and miscalculated the level of Iraqi resistance.

Now, we note for the record that this piece cites only anonymous sources and was authored by Seymour Hersh, who stands alone among "journalists" for his anti-Bush (and, some would argue, anti-American) political bent. But Hersh has hardly been alone in finding fault with Rumsfeld. Ralph Peters, a former military officer and one of the most insightful and level headed commentators on the war, wrote in his March 26 *New York Post* piece:

Despite the warnings - even the pleading - of his generals, Defense Secretary Donald Rumsfeld refused to send as many heavy ground forces to the Gulf as our military

planners requested. In many ways an admirable and inspiring leader, Rumsfeld let himself be persuaded by a gang of civilian theorists and by mercenary defense contractors that airpower could win this war and that ground forces would just go in to tidy things up.

So the generals did not get the extra armored divisions they wanted to provide maximum punch on the battlefield and as insurance should unexpected difficulties emerge. Now we have no significant ground reserves in the theater of war, we lack adequate combat units to fully protect our supply lines - and the weary troops at the front must continue the fight by themselves.

A campaign like this should be a matter of teamwork, with new players going in to relieve those who need a breather. But we went to war with nobody on the bench. Make no mistake: Our soldiers and Marines will pull this one off. Count on it. But, in this single respect, the civilian leadership in the Pentagon let our troops down. We had the forces, we had the time, and Secretary Rumsfeld refused to send them.

Hopefully, any mistakes Secretary Rumsfeld or anyone else might have made will, in the end, not matter. America is winning, and winning decisively, though sometimes it might be easy to forget that. The media has a job to do, and that job is to keep viewers watching and readers reading. Sensational stories do that best, though they do not always reflect reality as it is unfolding in the Iraqi theater. There may be repercussions for the “delay” in victory, but they will almost certainly not be military, merely political.

**WELCOME BACK TO THE REAL WORLD.** Shortly after President’s Bush’s demand, in the wake of the September 11 attacks, that all of the nations of the world “choose sides,” I wrote a piece entitled “Mass Murder Makes Strange Bedfellows” in which I expressed optimism that the overwhelming majority would choose the side of America, “including most of those in the Islamic world, as well as Russia and China.”

This prediction was predicated not on the sentimental belief that everyone loves the United States. It was based instead on the theory that the leaders of most nations would follow the path of “enlightened self interest,” deciding that, whether they liked America or not, the economic health of their nation, as well as their own political future, was dependent upon an economically healthy United States. The last thing any of them needed, I reasoned, was for the ports of New York, New Orleans, Los Angeles, and San Francisco to be closed for an extended period of time by the threat of terrorist attacks, or for U.S. airlines to stop flying altogether.

This theory of mine was fine for the moment. One by one most of the nations of the world signed up on America’s side in the “war against terrorism.” But it was situational. When presented with the option of choosing between the world’s economic power house, the *sine qua non* of global growth, and a religious wacko living in a cave somewhere in Afghanistan, the choice was not that difficult for most nations.

But then it became apparent that these Islamic terrorists were not capable of bringing the U.S. economy to its knees; that American consumers would continue to consume, American investors would continue to invest, and American businesses would continue to expand internationally.

And then President Bush pushed the envelope a bit on the “choose sides” demand, declaring that being on “America’s side” in the “war against terror” didn’t just mean helping in the fight against radical Islamic terrorists organizations. It meant being supportive of a “regime change” in Iraq as well, even if that meant war.

Suddenly all sorts of new considerations entered into the determination of the definition of “enlightened self interest.” Suddenly, choosing America’s side, to the exclusion of all other sides, didn’t make sense to some nations. Most importantly, the leaders of France, Germany and Russia began to question the attractiveness of living in a world without their friend Saddam Hussein running the oil rich Iraq. And other leaders wondered whether a strong American presence in a post-Saddam Iraq would be desirable.

Suddenly America was thrust back into the real world; a world where few problems are so simple that they can be viewed through a spectrum that contains only two colors, black and white; a world where problems come in many colors: multiple hues of white, including ashen and dirty; endless varieties of black, including pitch and grayish; red for France’s bloody “bright cap of liberty,” from which communism, socialism and eventually fascism emerged; and “bright green” for the Islamic paradise, where martyrs go to hook up with up their dark eyed virgins.

The surprising thing about this sudden change was that many Americans were surprised by it. Not just the public, but the news hounds, the talking heads, the geopolitical gurus all expressed surprise and chagrin that not only had our “friends” the French, the Germans and the Russians suddenly come out against our plan for regime change in Iraq, but they had also been violating the sanctions imposed against Iraq by the U.N. “Such treachery!” And immediately there fell from their eyes as it had been scales.

Welcome back to the real world America! A former KGB thug turns out to be a duplicitous liar. The Germans are having trouble with ethical issues. A corrupt French socialist politician can’t be trusted. Big whoopee, as the kids used to say. Or perhaps more appropriately, “Mon dieu!”

This is the world in which we live. This is the real world. This is the world of the 21<sup>st</sup> century. And it will be the world of the 22<sup>nd</sup> century if there is a world then. Most importantly, this is the world in which the financial markets are going to operate for a long time. It is a world of treachery and danger and uncertainty. As the Clinton crowd used to say to conservatives when we complained that they were establishing a government filled with sharpies, shysters and crooks, “Get used to it.”

The genesis of this world can be found in a story about a lady, a garden, an apple and a snake. But the more immediate roots of the disorder can be traced to the end of the Cold War, when the free nations of the world became free of a murderous common enemy that had bound them together in a variety of mutual defense pacts and “friendship” treaties.

Slowly but ever so surely in the years following the fall of the Berlin Wall, nations around the world began questioning not only the usefulness of the many organizations that were spawned by the Cold War, including NATO and the United Nations, but, more importantly, many also began questioning the value, or more accurately, the necessity of “friendship” with the United States.

Not surprisingly, France was the first nation to publicly acknowledge that it no longer felt the need to feign kinship with America, since it no longer needed America's protection from the Soviet Union, or the Germans, for that matter. I say "not surprisingly" because it was, after all, Charles de Gaulle who first put the French attitude toward friendship with other nations in perspective when he proclaimed that "Nations don't have friends, they have interests."

Not surprisingly, Germany joined the French in depreciating the value of American "friendship." I say "not surprisingly" because it was, after all, a German, one August Ludwig von Rochau, who introduced the term "realpolitik" into the vocabulary of international affairs, exactly 150 years ago. And it was another German, Heinrich von Treitschke, who, fascinated by von Rochau's 1853 essay, *Grundzüge der Realpolitik*, set the tone for modern German politics by positing the notion that moral law only applied to individuals; that for the state no moral law existed but that of maintaining its existence and developing its potentialities.

And not surprisingly, Russia's newly found "friendship" with America proved to be somewhat less than enduring. I say "not surprisingly" because Russia has never been what any sane person would call a "friend" of the United States. Putin and Bush discovered some common interests. Good for them. And I have no doubt that America and Russia will find common interests in the future. Possibly more than either finds with "old Europe." But this relationship, if there is one, won't be based on "friendship." It will be based on common interests.

This is not to say that antagonism toward the United States will be a hallmark of the future. America's economic importance will assure that it will continue to have "friends" and "interests" abroad, most probably including France, Germany and Russia. But the fact is that America has, for the time being at least, lost one trump card that it used to play with great skill, that card being the fact that it had the military power to protect those nations that pledged their fealty to the American view of the world.

As I said earlier, this makes it a tougher, more treacherous game. But America still has a strong hand to play. In fact, I would argue that it still has the strongest hand at the table. Without question, though, the game has become a lot more interesting. Get used to it.

**BLAIR VS. CHIRAC?** Last week, we wrote that America is not likely to follow up the war with Iraq with some grand rethinking of its global alliances, or with a petulant campaign to punish those nations like France, Germany, Russia, and Turkey that did not support the war effort. Our purpose was not to say that America's geopolitical relations would return to the *status quo ante*, but simply to point out that, for a variety of reasons, mostly economic, the world will not look, on the surface at least, dramatically different when the war is over.

We certainly did not mean to say that nothing will change. The world is, in fact, changing already in some very important ways, and, over the next several years, alliances will surely falter and loyalties will shift. Iraq is, as we wrote last week, not the catalyst for this shift. It is a symptom of it. As the previous piece noted, the world's powers are struggling to redefine themselves in the Post-Cold War era, and the much-ballyhooed New World Order is slowly but surely emerging.

Right now, the European Union appears to be the arena in which many of the important changes will take place. Though the U.N. and NATO are, as we wrote last week, likely to remain intact, the future of the EU is far more interesting and far more uncertain.

The two great players in the struggle for the EU's future are, naturally, Jacques Chirac and Tony Blair. While many observers (us included) had expected that the recent unpleasant experience with France, Germany and the rest of the "coalition of the unwilling" would have soured Blair once and for all on the idea of greater British integration into the EU, others, many with better insight on Anglo-European issues than we have, have suggested that exactly the opposite is likely. Rather than disengage from the anti-Atlanticist forces in the EU, Blair is, according to those who know his thoughts on the issue best, more likely to stand and fight them, hoping to wrestle control of Euro-ideology from the Franco-German bloc.

For whatever reason, likely a combination of shared history, shared culture, and shared skepticism of command-and-control economics, Tony Blair has decided that Great Britain's future will be better if it maintains strong ties with the United States. Likewise, since Britain is part of Europe, he believes that Europe too will be better off if it preserves the unique trans-Atlantic relationship that has characterized the last 90 years of foreign relations. There are, he believes, benefits that alliance with the United States can provide to all of Europe aside from those it provided during the Cold War.

As we noted above, though, not everyone has come (or will come) to the same conclusion. Jacques Chirac and Gerhard Schroeder, to name two, appear to have decided that in the New World Order their lots are better cast with each other, rather than with the United States. It is no coincidence, we note, that, unlike England, the French and Germans do not share a common culture, or a common history with America. Even more importantly, they do not share America's distrust of socialism. Indeed, the historical and societal ties that bind the Brits and Americans, namely free enterprise, individual liberty, and democratic governance, have generally not been part of the continental experience.

As I noted in a piece that I (Steve) wrote on the New World Order for Lehman Brothers earlier this year, the United States and Europe have numerous and substantive differences, differences that explain in part their leaders' contradictory choices. I put it this way:

On a whole host of issues, from Iraq to the greater war on terrorism and support for Israel, from global warming to genetically modified foods (GMOs), from Robert Mugabe to agricultural trade and subsidies, the United States (and in many cases Great Britain) and the Eurozone countries (led by France and Germany) find themselves not only on opposite sides but also with nothing in common at all. Whatever the reason, the French and Germans (and the Belgians, the Dutch, and a handful of other EU countries) find themselves moving in a completely different direction than is the United States . . .

"The West" as a coherent civilization is disintegrating. And while it is far too early to say where any lines of demarcation in the new world order will be drawn, if the current battle lines are any indication, the key will be language, the English language. On one side of the line will almost certainly be the United States, Great Britain, Australia, and

perhaps Canada, which would be forced to choose between its common English heritage and its continental European sensibilities.

On the other side will be France, Germany, and much of the rest, but not all, of the Eurozone countries. Despite the obvious geographical predicament, the (relatively) newly liberated, burgeoning capitalist nations of eastern Europe will presumably side with the United States and her allies. Defense Secretary Donald Rumsfeld's much-maligned "old Europe" comment did indeed serve a purpose beyond antagonizing the objects of his derision—namely, to reassure the Czechs, Poles, Hungarians, Romanians, et al. that we value their friendship and support.

According to John O'Sullivan, editor-in-chief of United Press International, it is apparently this last group, those former Soviet satellites, that has convinced Blair that the Franco-German axis can be overcome and that the EU can be remade. "Blair's ace," OSullivan recently noted, "is the admission of the pro-American East European nations into the EU. He calculates that their votes would give Britain the leadership of a pro-American EU well into the foreseeable future. And on paper he is not wrong."

Of course, the problem with this strategy is that it presumes that France and Germany will do nothing to counter Blair's "ace." And clearly, if the last several weeks have taught us anything, it is that for Jacques Chirac and his toady Gerhard Schroeder there is almost nothing that is unacceptable when it comes to thwarting American objectives. O'Sullivan suggests that Chirac and company could go so far as to veto ultimate admission to the Union of any nations of Eastern Europe that would aid the British cause. They could, he writes, "order Blair's new allies out of the saloon and back into the cold."

Chirac demonstrated several weeks ago that he is hardly above such an attack if he believes that the newly admitted could threaten French dominance of the EU. His overt threat that Eastern European supporters of the United States would be better off "shutting up," was an example of lengths to which he will go to quell potential EU dissent. Fortunately, the nations of Eastern Europe did not capitulate in the face of Chirac's bluster.

The same can apparently not be said of Turkey, which is perhaps the most desperate applicant to the EU, both because it most urgently needs some sort of economic boon and because it has been rebuffed so callously by the EU's principals in the past.

According to Michael Ledeen, who was a consultant to both the State Department and the National Security Council under President Reagan, and who is currently a resident scholar at the American Enterprise Institute, a threat by France and Germany is precisely the reason why Turkey refused to allow American troops to launch an invasion of Iraq from Turkish bases, thus trashing the original invasion plan and putting American lives at risk. In a *New York Post* piece published last week, Ledeen broke a story that, if true, is the most important and the least covered story concerning the Iraq venture to date. He wrote:

Everybody knows that Turkey did not permit America to stage operations from Turkish bases, but hardly anybody realizes that, contrary to the conventional wisdom, the vote

was not an Islamic protest against the American-led coalition, but an act of anti-American intimidation by France and Germany.

Debunking the conventional wisdom, Ledeen continued:

Primary blame for the defeat of the measure [to permit an American invasion from bases in Turkey] lies with the opposition – the secular, Kemalist parties that have governed the country since Ataturk.

Contrary to expectations, the opposition, responding to orders from party leaders, voted unanimously against the government's position.

The leaders insisted on a disciplined “no” vote because of pressure – some would call it blackmail – from France and Germany.

The French and German governments informed the Turkish opposition parties that if they voted to help the Coalition war effort, Turkey would be locked out of Europe for a generation. As one Turkish leader put it, “there were no promises, only threats.”

A final problem with Blair's purported plan to wrest control of the EU from those who wish to challenge the United States is the EU itself. Mark and I have, since long before the launch of the Euro, argued that greater EU integration and the adoption of a common currency will be a disaster. I believe the exact line was, “The Euro will be to twenty-first century Europe what the assassination of Archduke Franz Ferdinand was to twentieth century Europe, the point at which it all fell apart.”

The staggering weight of socialist bureaucratic decay, both in the individual nations that comprise the Union and within the EU itself, is enough to turn even good ideas bad (and the euro was not a good idea from the start). The final flaw in Blair's apparent strategy to wrest control of the union from the anti-Americans is that the bureaucratic Leviathan that is the European Union would almost certainly crush the fledgling free market economies of Eastern Europe once they'd been absorbed.

O'Sullivan put it this way: “The legal rules, political structures and bureaucratic elites,” all stack the cards in Chirac's favor and “the institutional set-up of the EU . . . would give Paris and the Brussels bureaucracy the economic and legal powers to whip the Poles, Czechs, Hungarians, and other Mitteleuropeans into the anti-American Euro-federalist camp over time.” In such a case, the Brits would be in the minority again.

The hope, then, is that Blair can simply be dissuaded from integrating Great Britain further into the EU. Certainly a vote to enter the Eurozone would fail today (as it would likely have done even before this current spate of French belligerence), thus preventing the ultimate assimilation.

Moreover, a good number of journalists and other observers who are thoroughly familiar with the Anglo-American relationship (O'Sullivan cites “Anne Applebaum of the *Washington Post*, Irwin Stelzer of both *The Weekly Standard* and the London *Sunday Times*, and the historian Paul Johnson”) have suggested that regardless of Blair's stated or apparent intentions, the decision to

take the American side in the Iraq conflict and, indeed, to fight alongside American troops, was a *de facto* decision to assert independence from continental Europe.

Jacques Chirac himself has certainly done his part to ensure that Blair will be unsuccessful in any attempt to integrate Britain more fully into Europe, both offending Blair (and Foreign Secretary Jack Straw) personally and giving great and repeated offense to the British public, which unsurprisingly enough, dislikes and distrusts the French anyway.

Dominique de Villepin, the French foreign minister tried his hand at the game as well, refusing even to say that he hopes the Anglo-American coalition defeats the armies of Saddam Hussein. When asked who he hoped would win the war, he replied, "I'm not going to answer," a response that, according to the London *Telegraph*, left senior British officials "stunned."

And all of that said, it is not even clear that that particular Frenchman has been the European most responsible for souring the Brits on the idea of greater integration. That honor almost certainly belongs to Javier Solana, the EU's High Representative for Common Foreign and Security Policy, who suggested last week that problems such as the EU is currently experiencing could be solved by replacing the individual nation representatives to the U.N. with an EU representative, who would speak for the entire Union.

The outcome of this new Great Game in Europe will depend to some degree on the outcome of the war in Iraq. If it goes badly, Blair will be lucky to maintain his political clout in England. He certainly won't be able to rival Chirac on the continent. On the other hand, there is little question that, in the end, the United States and Britain will prevail against Saddam, and then Chirac will have to deal with whatever it was that troubled him so much about a Saddam-free Iraq that he openly defied the United States to prevent it.

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## From The Sidelines

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### War Rally or Oil Fall

The world markets of all kinds reacted to the start of the war. The U.S. dollar rallied as did the stock market while bonds, oil and gold declined. I thought we would have a powerful rally, but I wasn't sure it would be enough to put us positive for the year. It was powerful, and briefly it did put the stock market up for the year. This past week's sell off was blamed on the war looking more difficult, but the sell off coincided with the sharp rise in oil prices again.

The story of oil isn't simple or just related to Iraq and how the war is or isn't going. Venezuela is still an issue as the government struggles to return production to levels before the strike. Nigeria is experiencing disruptions in the Niger Delta producing region, as Itsekiri battle their Ijawas resulting in extensive oil shipment delays from the eighth largest oil exporter. A cold winter has left inventories low and the Iraq war is expected to keep American tourists home this summer. The result is higher expectations of continued strong demand against low inventories and curtailed production for a variety of reasons. Since a \$1 change in oil prices means something like \$15B of energy product, the cost or reduced cost can add up in a hurry. While the war in Iraq doesn't directly have much to do with the other issues affecting oil prices, it probably is a lightning rod for a lot of traders.

The war has virtually every news organization covering it minute by minute with many experts commentating on all aspects of the outcome. Little I can add. But I have come across several articles about the Ba'ath party that may be helpful. First some history.

The founders were two Syrian schoolteachers, interestingly, who had been students at the Sorbonne. One of the two, Michel Aflaq, would later promote Saddam to be a regional leader in the party. The other founder was Salah al-Din Bitar, from a Sunni Muslim family, but the Ba'athist was not a Muslim party but an Arab party with the name meaning the rebirth of the Arab nation. The party attracted a lot of supporters throughout the Arab world but got its fame as the United Arab Republic when Egypt and Syria combined politically from 1958 to 1961. Infighting prevented it from surviving, but the party took hold in Iraq in 1963. They didn't last long but in an uprising in 1968 it returned to power for good.

With this brief background, let's look at Iraq today and what it means to the war. First, Saddam is an Arab and like all dictators only uses religion when it is convenient. His support is that he is the Arab fighting against the non-Arab. However, history shows that support only lasts as long as you are perceived as a winner. Even Osama is losing popularity. Saddam wants to be remembered as a hero.

What this does mean is there is little likelihood he will leave to settle in to the south of France. He has to stick it out, otherwise he can't be the Arab world's hero. He becomes just the latest disappointment. He is not alone in the top echelons of the Ba'ath party in Iraq of being between a rock and a hard place. Since these people have no place to go they probably will be very desperate folks near the end and capable of anything. The last days of their rule could be very nasty.

Emotionally, this could create a difficult time for the financial markets. Economically, it could limit consumer and business spending. Consumer spending has been flat the past two months with energy bills soaking up most of any spending increases. No one should expect the consumer to reaccelerate spending while the news is filled with war updates. Without consumer spending accelerating it is very unlikely that business spending will either.

While energy prices will also be stuck around the high 20's with all of the issues I mentioned before still unresolved, that is down from the spikes up to \$40/bbl.

Some spending that was going to heating bills and gas bills should shift back to other things. This summer if Americans do stay domestic for their vacations, it would help restaurant chains and maybe even the domestic hotel chains.

However, it is hard to see a major market advance while the news is dominated by war headlines. It is encouraging to see the breadth of the stock market improving in days that the Dow has finished lower, having modestly more stocks up than down. Outside of major disappointments in the war, it suggests to me that the downside is also modest. It is also encouraging that the weekly data on mutual fund flows for equity funds is mildly positive after \$11B of outflows in February according to the Investment Company Institute. Normally, seasonal contributions would make March a positive month for money flows,

But the past few years have not followed the normal pattern as stock market losses caused investors to become more cautious even in their long-term investment strategies. With all of the reasons to be uncertain, it is encouraging to see money creeping back into equities. This is something worth watching.

So what is an investor to do?

Especially a long-only investor while all this uncertainty is around us? The road ahead should eventually become more clear but there should be some things that form the trends of the next several years.

- ✍ The consumer has been aided by low interest rates in many ways; housing refinancing, lower cost loans or leases for cars and other consumer goods. It is hard to see how these types of consumer purchases will get much stimulus to accelerate growth although sales could stay at high levels.
- ✍ The world may be less stable but globalization of production and increasingly even high pay service jobs are continuing and expanding. This means the job market should be slow to recover. This trend may even affect some past country winners as the competition for jobs gets hotter. Europe, Japan, and the U.S. are obvious places but even places like Mexico may have more competition, particularly from Asia.
- ✍ Business spending may accelerate but it may not be that the acceleration happens in the developed countries. The expansion of capacity when it happens may be mainly outside the developed world.

- ✍ The cost of security by government, business and consumers may be permanently elevated increasing the cost of doing business and lowering margins.
- ✍ The demographic trends are negative for growth for almost all countries because of aging and in some cases shrinking populations.

With these ideas in mind, my thought is that the best companies, i.e., low cost producers, strong market share, fatter margins, best balance sheets should be the ones best able to succeed in such a competitive environment. Generally these companies are not unrecognized in terms of their valuations. But, if inflation remains low because of all this competition, interest rates will stay low and valuations are not at risk in my opinion although they may not have any room to expand either. Unless, the world investor community decides that the world I describe is the one that they see also, and then there would be only a select few of these companies in the world. Most investors around the world would then want to own them and that would produce a nifty fifty kind of valuation market with the chosen few selling at high valuations and the rest selling on some basis of value such as dividend, asset value or private equity value.

What could go wrong? Well several things. For one, they have to deliver and that may get harder to do. It may be that investors decide that the real problem is that growth is slowing for everyone, and while that is a problem for the competition it is also a problem for the good guys and their stock valuations. While I think you would

still be doing better than the other competitors in your space, you probably would be losing money with dignity, as we us to say.

will be very high. But I believe it will be clear before the year is out.

Now, if you can use a long-short strategy, you simply make the best of breed company your long and short the worst company or the one with the most to lose from a continuing difficult competitive environment. The company that has the leveraged balanced sheet, the less efficient cost structure and so on. You do that industry by industry and you're done. Well not exactly.

Some things can go wrong here too. The big risk of this strategy is that the world suddenly comes out of its shell because the world economy really has been held back by war uncertainty. Even the appearance that the world is a stronger economy place would cause investors to look for the fastest horses period. What are they? The companies with the most revenue leverage, which often are the ones with thin margins compared to their competition, leverage balance sheets, and operating leverage.

So you see there are a lot of reasons to be uncertain, but I believe the consensus will ultimately settle on a world of modest growth, low inflation and a place for the relatively few great companies in a lot of portfolios. The rest will have to attract attention by providing investors with value. Can you say dividends? Or can you say convertible stocks or bonds?

The best way to position for the longer term is to use the rallies against the trend to get in position for the long term. This won't be easy because the volatility