

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

“Al Mansor died in 1002. He was buried in hell.”*

So wrote a monk from Burgos, Spain, which was the capital of Castile in the 11th Century.

“Saddam Hussein died in 2003. He was buried in hell.”

So wrote Mark Melcher and Stephen Soukup, two monkish political writers who were run out of Iowa and Nebraska respectively in the 20th century and ended up in Virginia.

* Al Mansor is a appellative assumed by many Muslim “princes” over the years because it means “The Victorious.” The particular Al Mansor to which this quote refers is not the Al Mansur who founded Bagdad in 764 and who is described in *Chambers Biographical Dictionary* as “the cruel and treacherous khalif Abu-Jafar.” This one is yet another cruel and treacherous Al Mansor, whose real name was Ibn Abi Amir and who terrorized Spain in the latter half of the 10th century, before he was killed by the Christian King Sancho the Great.

SOME CAUTIONARY COMMENTS FROM BURKE ON IRAQ. On July 14, 1789, a crowd of French citizens marched on the Bastille, a grim, medieval fortress that had been viewed by the French people as a symbol of repression and tyranny for many centuries. Like the toppling of the statue of Saddam Hussein last week in Baghdad, the fall of the Bastille was a symbolic gesture. The ancient prison had long since ceased to be used as a large-scale prison and contained only seven inmates, one of whom was a lunatic.

But, like the fall of Saddam’s statue, the symbolism was of great importance. This one event, among many similarly dramatic actions by the French people against the crown during the same period, telegraphed to the world that Paris was no longer under the control of the King of France.

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The enthusiasm of Parisians knew no bounds. An Englishman named Dr. Rigby, who was in the Palais Royal at the time, reported that the “joy was indescribable.” Strangers shook his hand, saying, “We too are free men and there will never more be war between our countries.” And then he witnessed a celebration of a different sort. He reported seeing a large procession of Parisians marching down the street, shouting and rejoicing, while exhibiting the heads of murdered soldiers of the king.

The violence continued while the world rejoiced. The British ambassador in Paris reported that “the greatest revolution that we know anything of has been effected with the loss of very few lives; from this moment we may consider France a free country.” In England itself, Fox praised the revolution in parliament, saying that he “exulted in it from feelings and from principle.” Pitt too announced his support, saying he looked forward to working with a free France, “as one of the most brilliant powers in Europe.” Clubs were established among the British elite to support the revolutionaries.

In the midst of this excitement, one man had both the wisdom to foresee the dangers that would spring from the sudden appearance of freedom in the hands of men who were inexperienced in its use, and the courage to speak out. That man was Edmund Burke.

I offer the following words from Burke not to dampen the enthusiasm for America’s victory in Iraq, or to cast a shadow over the happiness that the Iraqi people feel in response to the fall of Saddam. As I said last week, I have been optimistic about the prospects for both the outcome of the war in Iraq and the post-Saddam aftermath for a very long time. So I am as pleased as anyone could be that Baghdad fell to U.S. forces last Wednesday, less than a month after the U.S. troops entered Iraq. And I was elated when Saddam’s statue was toppled and when many Iraqis happily applauded the presence of the American military on their soil, thanking them for their efforts to free their nation of Saddam.

I think, however, that it is important to keep in mind the following thoughts from Burke when attempting to foresee what may become of Iraq in the wake of Saddam’s downfall, and while listening to the high-blown rhetoric of America’s politicians and pundits about the “love of freedom” that “all men share.”

Less than a month after the fall of the Bastille, in the midst of the aforementioned enthusiasm that swept across London, Burke wrote Lord Charlemont a letter cautioning that:

“Men must have a certain fund of moderation to qualify them for freedom else it becomes noxious to themselves and a perfect nuisance to everybody else.”

Early in the following year, in his famous letter to Chames-Jean-Francois de Pont, Burke expanded upon this concern, writing the following lines, which I believe will be well worth considering in the coming months while watching events unfold in Baghdad.

“The effect of liberty to individuals is, that they may do what they please: We ought to see what it will please them to do, before we risque congratulations, which may be soon turned into complaints. Prudence would dictate this in the case of separate insulated private men; but liberty, when men act in bodies, is power. Considerate people, before

they declare themselves, will observe the use which is made of power; and particularly of so trying a thing as new power in new persons, of whose principles, tempers, and dispositions, they had little or no experience, and in situations where those who appear the most stirring in the scene may possibly not be the real movers.”

SOME CAUTIONARY COMMENTS FROM SWIFT ON IRAQ. The Lilliputians were understandably fearful when the giant Gulliver suddenly appeared in their country. But Gulliver proved to be a gentle soul, and they soon came to understand that not only did he mean them no harm, but he also wished to help them.

It was at this point that the “most mighty Emperor” of Lilliput (Golbasto Momaren Evlame Gurdilo Shefin Mullu Ullly Gue, Delight and Terror of the Universe) began to consider whether the great size and strength of his new “friend” might be put to use against Lilliput’s enemies.

It seems that these “little people” labored under two “mighty Evils.” One was internal to Lilliput, and concerned a dispute between the Tramecksans and the Slamecksans over whether high-heeled shoes were more “agreeable” to the nation’s Constitution than low-heeled shoes. I won’t go into the background of this dispute except to note that “the animosities between these two parties run so high, that they will neither eat nor drink, nor talk with each other.”

The second, more pressing “evil” that plagued the Lilliputians concerned an on-going war between their nation and the neighboring Blefuscuans. By all accounts, the citizens of the two countries were much alike in all things except that in one the people broke their eggs on the large end before eating them, and in the other the people broke their eggs on the smaller end.

According to Swift, there had been six rebellions raised on this account, in which one Emperor lost his life, and another his crown. Further, he noted, “it is computed that eleven Thousand persons have, at several times, suffered Death, rather than submit to break their Eggs at the smaller End.” Swift described the dispute as follows.

Many hundred large Volumes have been published upon this Controversy: But the Books of the Big-Endians have been long forbidden, and the whole Party rendered incapable by Law of holding Employments. During the Course of these Troubles, the Emperors of Blefuscu did frequently expostulate by their Ambassadors, accusing us [the Lilliputians] of making a Schism in Religion, by offending against a fundamental Doctrine of our great Prophet Lustrog, in the fifty-fourth Chapter of the Brundrecal, (which is their Alcoran.) This, however, is thought to be a meer Strain upon the Text: For the Words are these; That all true Believers shall break their Eggs at the convenient End: and which is the convenient End, seems, in my humble Opinion, to be left to every Man's Conscience, or at least in the Power of the chief Magistrate to determine. Now the Big-Indian Exiles have found so much Credit in the Emperor of Blefuscu's Court; and so much private Assistance and Encouragement from their Party here at home, that a bloody War hath been carried on between the two Empires for six and thirty Moons with various Success; during which Time we have lost Forty Capital Ships, and a much greater Number of smaller Vessels, together with thirty thousand of our best Seamen and Soldiers; and the Damage received by the Enemy is reckoned to be somewhat greater than ours.

(Editor's note: I am aware that while Swift was a great satirist and had a terrific imagination, he could not come close to dreaming up a conflict as hokey as the one over which Iraqis routinely seek to kill each other, namely whether the son-in-law or the father-in-law of a desert warrior who died 1400 years ago should be considered the man's spiritual successor.)

Anyway, as the story goes, the Lilliput Emperor asked Gulliver to help him defend his nation against a pending attack by the "Big-enders." Gulliver allowed as how he did not feel that it would be morally correct for him, a foreigner, to interfere in a dispute between the parties. But, out of friendship, he said that he would "hazard his life" to defend Lilliput if it were attacked, and in keeping with this pledge he eventually absconded with the entire fleet of Blefuscudians.

Needless to say, this action pleased the Lilliput Emperor very much. But, as Swift notes, now that he had the big guy on his side, "so unmeasurable is the Ambition of princes, that he [the Emperor] seemed to think of nothing less than reducing the whole empire of Blefuscu into a Province, and governing it by a Viceroy; of destroying the Big-endian Exiles, and compelling the People to break the smaller End of their Eggs; by which he would remain sole Monarch of the whole World."

When Gulliver protested that he would not get involved in bringing a free and brave people into slavery, the Emperor quickly forgot that Gulliver was a "friend" who had helped him on many occasions, including most recently by protecting him against a powerful attack by his enemy.

To make a long story short, Gulliver soon learned that the Emperor planned to drug him and then blind him while he slept. This, he was told, was regarded as an "act of mercy" by the emperor, as a reward for having helped the Lilliputians at one time, and because "the loss of your eyes would be no impediment to your bodily strength, by which you might still be useful to his majesty. "

Now Gulliver could have, of course, killed the entire lot of them. But he had signed an agreement with the Lilliputians in which he pledged not to harm them, and he felt that he had a moral obligation to honor this agreement. So he fled to Blefuscu, from whence he arranged to leave both sides to their petty arguments. With the help of the Blefuscudians, he constructed a ship and sailed off to new adventures, having learned that both moral and physical dangers face an outsized power that involves itself in the petty arguments of a strange people in a far off land.

SOME THOUGHTS ON CHINA AS SARS PROCEEDS. Mark and I have long believed and have often written that those who advocate heavy investment in China are playing with fire. Yes, the Chinese economy, with its massive work force, low-cost production, and rapid economic growth, would appear to be a solid investment. And yes, the socialism of the ruling regime has been replaced by something vaguely resembling free enterprise. And yes, there is a good chance that there is an opportunity to make money in China.

All of that notwithstanding, it is, we believe, important to keep in mind that the current regime there is (and I'll put this as delicately as I can) made up of a corrupt bunch of murderous thugs who would lie, cheat, steal, and kill if it suited their purposes. (Actually, they *do* lie, cheat, steal, and kill to suit their purposes.)

Anyway, I point this out, not because I gain any pleasure from it, or because I want to make an argument about the moral superiority of “the America way,” as compared to “the way” of the criminals who run China, although I would aver that such arguments could be made quite easily. I point it out because the behavior of the Chinese regime has some very real, very serious, and not so nice implications for the people of China, for the people of the world, and for investors.

In last Friday’s “From the Archive” piece, “Some Thoughts on Capitalism as the Asian Meltdown Proceeds,” Mark noted that many of the so-called “capitalist” economies of Asia are distortions of real capitalism, since their rampant corruption and “cronyism” render the wonders of the free market ineffectual. Yet, as bad as things are in most of Asia, the circumstances in China are far worse. In addition to your average, run-of-the-mill corruption, the Chinese economy is plagued by official corruption on a massive scale. Everything the Chinese government says, particularly regarding economic health, must be taken with a very large grain of salt.

All too often the corruption of the Chinese regime is hidden from view, dealing with facts and figures that are far too esoteric to be proven definitively false. For example, most observers believe that the Chinese unemployment rate is far higher than official figures, though the repressiveness and secrecy of the regime prevent an accurate count from being done. Likewise, economic growth data are generally presumed to be falsified; almost no one with any sense takes at face value the Chinese claims that their economy continues to grow at 8% annually, year after year. Of course, given the regime, there really is no way to prove that.

All of this notwithstanding, American investors and investment companies continue to pour money into China hand-over-fist, apparently believing that the wholesale corruption of the Chinese regime will never affect their bottom lines. Or to put this another way, despite the fact that a handful of accounting misdeeds and shenanigans by a very few companies in this nation nearly brought the markets crashing down last summer, some investors apparently believe that much grander and more serious corruption on the part of Chinese companies, state-run enterprises, and the regime itself will simply have no large-scale negative consequences.

Color us skeptical.

Indeed, over the last several weeks we have seen the unfolding of a drama that not only threatens the health and safety of individuals in China and throughout the world, but also threatens global financial markets as well. Moreover, it is a drama in which the Chinese regime, and specifically the duplicity and callousness of the Chinese regime, plays a significant role. And unlike the economic and demographic lies noted above, in this case the lies of the regime are quantifiable and demonstrable.

I am, of course, referring to SARS (Severe Acute Respiratory Syndrome), the mysterious disease that appeared in China last November and which, in large part because of the negligence and treachery of the Chinese regime, has since spread throughout the world, threatening to destroy the already rickety travel industry and, according to some economists, to push the global economy back over the brink into global recession.

Even if one overlooks the longstanding public health problems associated with the continued economic and sanitary backwardness of the Chinese province of Guangdong (in which SARS, like many virulent strains of influenza and other communicable diseases, had its birth), the Chinese government played a significant role both in spreading the disease and in impeding research into its causes and possible cures. The Chinese government was slow to recognize the problem, was blatantly dishonest about the number of cases and potential speed of the disease's spread, and was obstreperous to those researchers seeking to identify and isolate the virus.

Last week, Dr. David Heymann, executive director of communicable diseases for the World Health Organization, declared that if the Chinese government had been open and honest and had implemented basic measures to control the disease when it first appeared in November, "the disease may never have spread."

Two weeks ago, *The Wall Street Journal* published an editorial suggesting that perhaps the best way to handle the crisis would be to quarantine China and Hong Kong, the epicenter of the disease. (In fact, that was the title of the piece, "Quarantine China.") The *Journal's* indictment of the Chinese regime is, indeed, compelling. The editors wrote:

There's still a lot of mystery about this disease, which originated in southern China and has no known cure. But there's no mystery about why it is spreading world-wide. This is the price of China's initial cover-up.

It's clear that China was grossly negligent in refusing to sound the alarm about the disease, actively suppressing information from its own citizens and not bothering to ask for outside help in identifying it. Even today it refuses to give the World Health Organization full access to the information it needs.

Now health officials outside China are researching the virus on their own and trying to stop the spread. But individual travelers continue to carry the disease from China. For example, a 29-year-old Singaporean woman returned to the island state last week after being infected on a business trip to Hong Kong and Beijing. These new carriers threaten to negate the best efforts of the world's doctors.

And, it appears that the duplicity of the Chinese regime has not yet reached an end. Two weeks ago, the Chinese government "pledged to be more cooperative," but that too was a lie.

According to *Time* magazine's Asia bureau, as of early last week, the Chinese regime was still lying to the world about SARS. The magazine reported that "a doctor and party member," indeed, "a physician at Beijing's Chinese People's Liberation Army General Hospital (No. 301)," (in short, one who would know best) had contacted them and confirmed that the Chinese government was continuing to deceive the world about the prevalence of SARS.

According to *Time*, on April 3, the Chinese Minister of Health Zhang Wenkang "announced to the press that China's capital had seen just 12 cases of SARS of whom three had died." On April 8, the official *China Daily* "put the number of SARS infections in Beijing at 19 with four dead."

But, the magazine noted, it had received a signed statement from Dr. Jiang Yanyoung, who told a different story, namely that the government was grossly underreporting the number of SARS cases and deaths. *Time* reported:

After watching Zhang Wenkang's televised press statement last week, Jiang says he spoke to doctors and nurses at three Beijing military hospitals who expressed surprise and anger at the Minister's statement. As of today, Jiang says doctors at Beijing's No. 309 PLA Hospital told him they are treating 60 SARS patients and that seven patients have died of SARS. A duty officer at the No. 309 hospital reached for comment tonight said he "wasn't clear about this matter" and refused to provide information about SARS patients at the hospital.

Moreover, *Time* reported that doctors in the Chinese capital (including Dr. Jiang) had been briefed about the disease in early March, but had been told to shut their mouths about it for fear that any honest discussion of SARS could screw up the National People's Congress. Dr. Jiang told *Time* that the doctors were warned "not to publicize what they'd learned lest it interfere with the annual meeting of China's rubber-stamp legislative body." The magazine also noted that this last allegation "has been confirmed by another physician at a Beijing-area hospital."

Now, it is, I suppose, reasonable to ask what all of this has to do with investments in China. Well, nothing - and everything. First, as I noted above, in this case the Chinese regime's deceit will have serious economic repercussions for much of the global economy. Though it may or may not prove to be the proverbial straw that breaks the camel's back, begetting the second dip of the much-discussed and dreaded double-dip, it has already affected specific economic pockets in a dramatic way.

Heaven forbid, for example, that you have business that would take you to Hong Kong, Singapore, mainland China, or Toronto (Canada - for crying out loud!). Certainly, the already struggling airlines are taking a SARS-related hit; and late last week even Disney announced that concern over SARS could very well affect its bottom line in the very near future. As *Reuters* put it: "Fear of SARS, the pneumonia-like illness sweeping Asia, could deliver another blow to already slumping visits to Walt Disney World, No. 1 theme park operator Walt Disney Co. told securities regulators."

More to the point, though, one has to wonder why anyone would believe that the Chinese regime (which, we note, still has an incredibly large stake in most commercial ventures in that nation) would lie about SARS, but not economic and fiscal matters. Indeed, Dr. Jiang's letter indicates that one of the reasons that the regime has been lying about SARS is to avoid political embarrassment. Clearly, the same motivation exists, probably in far greater quantity, when it comes to reporting economic information.

It's not that we think investment in China is entirely foolhardy. Obviously, there is money to be made there. But we do believe that perhaps American investors tend to glaze over the obvious risks involved in investing in China, namely that the regime is a corrupt bunch of murderous thugs who, as I said earlier, would lie, cheat, steal, and kill if it suited their purposes. The regime in Beijing may no longer be "Communist" in the traditional sense of the word, but it still has a long way to go before it can be a trustworthy partner in global commerce.

BILL AND KIM: BIRDS OF A FEATHER. Last week, I noted that President Bush's strategy regarding North Korea and its weird little dictator Kim What's-His-Name appeared to be working or, at the very least, had a far better chance of working than most of the administration's critics would concede.

I implied, but didn't say directly, that the biggest problem that the Bush plan faces is that the man in charge over there often appears not to view things rationally. Or, to put this another way, he appears to have been spending a lot of time working with glue. And this can, of course, present significant problems. It's tough enough to make things work when both parties are lucid. It's that much more difficult when one of them is not.

Now, one can hardly argue with the Bush team's attempt to "decapitate" Saddam at the onset of the Iraq war. Any chance to kill the snake and end the war before it even began was well worth it. That said, the effect of that strike on Kim Ding Dong was apparently profound and, quite honestly, a bit unsettling.

Until recently, the little fella had not been seen in public for seven weeks, apparently fearing that he too would become the target of such a strike. Indeed, he even missed the biannual convention of the "Supreme People's Assembly," which is apparently a big deal. And even his recent "appearance," which ended his sequestration, seemed a bit sketchy, as the state run media reported, with no picture, that "Dear Leader" had ventured out to visit a medical college.

The point here is that the little goofball is not only unstable, but apparently believes that the United States is gunning for him next (Axis of Evil, and all that). So what we have here is a frightened nut, armed to the teeth, which is hardly a comforting combination. Add Bill Clinton to this mix, who, if not crazy, is certainly vain, reckless, and weird in his own way, and the potential for ugliness increases geometrically. Which is just what happened.

Last week, our friend Chris Ruddy reported on his web site www.newsmax.com, that old Bill recently gave a speech in Florida in which he not only continued to break with convention by overtly criticizing his successor, but also added fuel to the already overheated imagination of the little nutbag in North Korea. According to Newsmax:

Ex-President Bill Clinton's attacks on his successor reached a new low last week when he told a University of Florida audience that President Bush was planning to invade North Korea.

Though Clinton's address was widely covered in the mainstream press, only the university's campus publication "The Oracle" noted that he "criticized the Bush administration for looking for multinational support in a possible North Korean invasion."

So let's see if we've got this straight: Kimmy has nuclear weapons and has already threatened to use them against us *and to use them preemptively if he believes he's in danger*; the guy is not only certifiable, but does, in fact, appear to be growing more and more afraid that we do intend to do him harm; the former President of the United States then gets up in a public forum and

essentially confirms Kim's worst fears, telling his audience that war-monger George Bush intends to take on North Korea next.

Great.

Now, we don't mean to be alarmists, but this guy's family has a history of starting wars over mistaken impressions. Indeed, most historians agree that one of the most significant immediate causes of the Korean War was a stupid comment on the part of then-Secretary of State Dean Acheson, who, in January 1950 released a list of countries that, he said, were within the United States' "defense perimeter;" countries that America would defend in the event of an invasion by a communist country. South Korea was not on the list, which Big Kim took to mean that the United States would not defend that nation against an attack by North Korea. And all hell broke loose, five months later.

One can only hope that Little Kim doesn't take Bill any more seriously than most Americans do, or certainly not as seriously as his father, Big Kim, took Dean Acheson.

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