

# 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

“The so-called peace path is not peace and it is not a substitute for jihad and resistance.”

Sheikh Ahmed Yassin, “spiritual leader” of Hamas, a prominent anti-Israeli terrorist organization.

**MELCHER’S ROAD MAP TO PEACE.** The Bush administration’s “road map” to peace in the Middle East is not going to work. It isn’t going to work for the same reason that the Camp David and the Oslo “road maps” didn’t work; that reason being that it fails to address the fact that the land through which the designated road runs is infested with numerous large and murderous organizations that are bent on preventing any traveler from getting past them. This would be like giving Custer a “roadmap” that indicates he might encounter some tough weather on the Montana plains but fails to mention the presence of the Sioux and the Cheyenne.

Oh yes, the Bush roadmap acknowledges a few potholes and possible washouts. But it fails to call attention to the existence of the many large, dangerous, and well-funded organizations that are dedicated to the total destruction of Israel, except in the sense that dragons and sundry sea monsters were included on the periphery of some ancient maps of the world, denoting unknown territory, or “don’t go there.”

I am not certain why the Bush crowd, like all preceding administrations going back to Jimmy Carter’s, cannot grasp the simple concept that peace talks, or roadmaps, or whatever you call them, are unlikely to produce peace if they fail to include the people who are instigating the war. But to help them along in this process I have decided to offer a very rare unpublished outtake from Gibbon’s *History of the Decline and Fall of the Roman Empire*, which I discovered some time ago hidden between the pages of an old Harpers Magazine. I have not had it authenticated, but it appears to me, at least, to be the real thing.

Roman Emperor Flavius Honorius: “We need to have peace talks with this Alaric fellow. He’s becoming a real pain in the butt.”

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Valentinian (Nephew of Honorius): “But, Your Majesty, Alaric is a warrior by trade. He and his Visigoths are unlikely to agree to peace with us under any conditions.”

Inspicious Stupidous (an aid to Honorius): “I have an idea. Let’s have peace talks without the Visigoths.”

Honorius: (aside to Valentinian) “Please arrange to feed Inspicious Stupidous to the lions tomorrow. He’s too dumb to be allowed to breed.”

Now I am not proposing here that Hamas, Al Qaeda, the Islamic Jihad, the Popular Front for the Liberation of Palestine (PFLP), Hezbollah, the Fatah Party, and other murderous groups that have vowed to destroy Israel be included in the “peace talks.” As Valentinian noted about the Visigoths, these folks are warriors by trade. They are, for the most part, not suited for any other work, so it is unlikely that they could be negotiated out of existence. Assaulting the Jewish state and its allies is what they do for a living. Most have no other marketable skills. The structure of their society offers few opportunities for young men, and their educational institutions do not train them to do anything useful, concentrating as they do on what are known as “Islamic Studies.” Peace to these folks means being “out of work.” They want peace about like a Detroit autoworker wants \$8 a gallon gasoline.

What I am suggesting is that all parties interested in peace in the Middle East stop putting on public relations spectaculars and recognize the cold reality that Israel’s enemies are not going to be cajoled, via “negotiations” and “peace talks,” into giving up their goal of destroying the Jewish state. The United States might get some Palestinian schmo to promise to do a lot of things in exchange for various concessions by Israel. But even if he were sincere, he would not be able to deliver on his promises, and he’d almost certainly end up being murdered if he tried.

In the final analysis, it remains as true today as it has been since the founding of the modern state of Israel in 1948, that peace will prevail between Jews and Arabs in the Middle East when and only when one of two circumstances obtain: either Israel is defeated or its enemies are defeated.

With this in mind, it is necessary to recognize that the absolute worst of these two options, from just about any viewpoint, would be the defeat of Israel because such an event would most certainly be accompanied by a nuclear attack by Israel on several Muslim states. This is not a widely discussed probability, but I have never doubted, and don’t believe any thinking person should doubt, that somewhere in Israel there is a button connected to the nuclear option that is labeled, “Last one out, push this.”

It is worth noting with regard to this option that it would not be exercised by the Israelis out of pique, but with the firm knowledge that a total military defeat of Israel would be followed by the mass slaughter of Israeli civilians by the conquering army. History demonstrates that this is how Islamists celebrate victories in their “holy wars.” And the Israelis know it.

And this leaves the second option, namely the defeat of Israel’s enemies. Now before anyone gets his or her undies in a knot and charges that I am “taking Israel’s side” here, let me point out that by advocating the extermination of those groups that are dedicated to war with Israel, I am

taking the side of peace, which would be as great a boon to the vast majority of Muslims as it would be to the Israelis.

In fact, if it is true, as everyone involved in peace process seems to maintain, that the *vast majority* of Muslims, including the vast majority of the Palestinians themselves, want peace rather than war, then I would argue that any opposition to a plan to rid the world of these terrorists should be taken as *prima facie* evidence that the individuals involved in this opposition are the ones who have “taken sides,” and indeed have taken the side of war. And to those who argue that the defeat of these groups is unattainable, I would offer the following alternative “roadmap to peace.”

For starters, a concerted effort must be made to dramatically alter the risk/reward ratio for participation in one of the Islamist terrorist groups. In other words, the cost of partaking in the nefarious activities of Hamas, Al Qaeda, the PFLP, Hezbollah, et al., or simply being a young rock thrower in the latest Intifada, should be made significantly greater than the reward, as measured by salary and/or the pleasure of being part of such a movement.

This concept is at the heart of Israel’s strategy of singling out and killing members of the leadership of the various terrorist organizations, and punishing the families of homicide bombers. And it was part of the consideration that went into America’s decision to destroy the Taliban and Al Qaeda in Afghanistan and Saddam Hussein’s government in Iraq.

Shortly after September 11, 2001 it can be assumed that dreams of glorious and victorious battles in a “holy war” against Israel and “the West” must have sweetened the nights of many Muslim youth. What fun it would be to be part of such a winning movement, whether murdering thousands of people in New York or Washington; blowing oneself up in a restaurant in Tel Aviv in exchange for a shot at 72 virgins in paradise; strutting around the streets of Baghdad in a neat uniform, with a license to rape and murder; or sitting around a fire outside a well stocked cave in Afghanistan, smoking a little hash, and listening to war stories of the tough, battle-hardened veterans from the conflict with the Soviet Union. It’s natural. Everyone wants to be on a winning team.

But one can hope that seeing many of these veterans and their young acolytes being smoked by F-14s and Bradley Fighting Vehicles, or locked in a cage in Cuba with little hope of ever emerging, has made at least some of the wiser Muslim youth consider different ways to satisfy their antisocial instincts, like maybe going to Duke and becoming a trial lawyer.

In short, if true peace in the Middle East is the goal, then every peace loving nation in the world, including France, Germany, Russia and the so-called “moderate” Arab states should agree to participate in a concerted, unified, worldwide effort to make membership in an Islamic terrorists organization a decidedly unattractive option for a young man or woman; the choice of a loser. And, once again, this should not be seen as “choosing Israel’s side,” but as choosing the side of peace by neutralizing those groups that are dedicated to conflict.

But this is just one part of my alternative “road map to peace,” and a small part at that. The most important element has to do with drying up the funding of these organizations. There is an old cliché which maintains that armies march on their stomachs. The Islamic armies of terror, of

which I speak, march on money, large amounts of money, which comes to them from a diverse range of sources, including the governments of Saudi Arabia, Syria and Iran, wealthy individuals within these and other Muslim countries, and vast numbers of individual Muslims who work outside the Middle East and contribute to a wide range of so-called Islamic “charities,” which in turn funnel their money directly to terrorist causes.

The United States has, since September 11, made a concerted effort to follow this money trail, disrupt it when possible, and expose it to the light of day, when disruption is impossible. But its efforts have hardly scratched the surface of the vast networks of funding that are available to these groups. Much more needs to be done, most especially by other nations that desire peace in the Middle East. Funding or helping to fund these groups needs to be viewed as a terrorist action, and the nation or individual involved needs to be forcefully discouraged from continuing to do it. And this, most emphatically, includes Saudi Arabia.

There are other lesser elements to my “roadmap to peace” that I won’t go into at this time, but the idea is the same: destroy the terrorist warmongers and peace will come. In fact, destroy them and the Bush roadmap might actually work. The Israelis might feel comfortable granting concessions that it finds impossible to make today while surrounded by murderous enemies. Some well-meaning Palestinian leader might be able to make promises that he can actually keep without being murdered by radical Islamists.

In the meantime, don’t look for peace in the Middle East any time soon, no matter what the politicians say. Too many well financed and well positioned terrorist groups don’t want peace, and they are calling the shots right now. And they will continue to do so until they are silenced, which won’t happen until the world unites to silence them, which could take many years.

**FADE to GRAY (Part II).** Without question, the greatest prize in presidential electoral politics is California. With 54 Electoral College votes, California is roughly 63% more valuable than the second most important state, New York, which carries a paltry (by comparison, at least) 33 votes. Together with New York, California is so important, that no president, prior to George W. Bush, had ever been elected without carrying one of the two. They are the “bellwethers,” if you will, and today California is, by far, the more important of the two.

Unfortunately, for Republicans, California has, over the last several election cycles, voted heavily Democratic. The state tilts so much to the left that there was more than a little debate among advisors to George W. about whether the candidate should even bother to campaign in the state in 2000, given that it would be a complete waste of time and money, and would preclude him from spending both on more competitive states, like, say, Florida. In the end, Bush did make some effort in California, and he still got crushed, by 12% (and that’s with many of the most liberal erstwhile Gore voters voting for Nader).

So here’s my prediction: Bush will win California in 2004, and this alone will negate expectations, voiced by Karl Rove among others, that the race will be close.

I base my expectations for California not on Bush’s overall general popularity or his (and his party’s) outreach to the ever-increasing segment of the California electorate that is Hispanic,

though both will help considerably. No, the key to California can, I believe be summed up in three words, “Gray Davis” and “taxes.”

Now, I want to confess upfront that I (Steve) have been wrong about California, Gray Davis, and elections in the past. Last summer, while I was still at Lehman Brothers, I made the counterintuitive prediction that Davis would lose his re-election bid to political novice Bill Simon. As now, taxes were then at the heart of my reasoning.

When the piece in which I made my prediction was published (June 3, 2002) Davis had just proposed raising state taxes \$1.8 billion to help close California’s overwhelming budget deficit, despite having promised (ala George H.W. Bush) not to do so. This, I suggested, was a mistake, for while the Golden State is overwhelmingly Democratic these days, it is also the home of the tax revolt (the start of which, incidentally will celebrate its 25 year anniversary next month). I thought Davis was misreading California voters, ignoring the state’s history at his own electoral peril. I put it this way:

Despite its well-earned reputation for radical liberalism that occasionally borders on the “wacky,” California is, in fact, often on the cutting edge of political trends, many of which are very very “conservative.” Over the past several years, California has been in the vanguard of a number of initiatives later embraced by conservatives throughout the country. For example, Proposition 209 (Prohibition Against Discrimination or Preferential Treatment by State and Other Public Entities), passed by Californians in 1996, formed the foundation of the conservative push to end Affirmative Action, and Proposition 227 (English Language in Public Schools) was passed in 1998 and spurred conservative efforts to end bilingual education in a number other states.

Most important of all was Proposition 13, which was passed nearly a quarter of a century ago and which changed the very face of American politics. In June 1978, Californians overwhelmingly passed Proposition 13 (65%–35%), which cut the state’s notoriously high property tax by 30% and placed severe limitations on those who would raise taxes in the future, including a requirement that all new tax hikes be passed by a supermajority (two-thirds) of the legislature. It is difficult, we think, to overstate the impact of this singular act on American politics, particularly conservative American politics. It was an epic event that sparked a nationwide tax revolt.

Steve Moore, former Director of Fiscal Policy Studies at the Cato Institute and current President of the Club for Growth (and one of the “economists of record” in the free-market/conservative movement), once called Proposition 13 the point at which the “modern-day conservative movement in America began” and “a political earthquake whose jolt was felt not just in Sacramento but all across the nation.”

Proposition 13 set the stage for the election of conservative icon (and Californian) Ronald Reagan two years later and served as the prelude to Reagan’s historic income tax cuts in 1981. Subsequent tax cuts in 1986, 1997, and 2001 all owe their passage to the ideological forces loosed on American politics by California’s Proposition 13.

But Davis pulled a fast one on me and on the residents of California. I don't want to imply that Davis took my advice on the tax issue, but somebody in his campaign had the same reaction to his tax hike proposal as did I. When Davis signed the final budget last year, the tax increase was nowhere to be found, replaced instead by mild spending cuts and massive borrowing. Gray Davis kept his tax pledge and won his re-election bid, though by a rather narrow margin given the inexperience of his opponent.

Fast-forward a few months.

California's state budget deficit is now at somewhere between \$31 and \$35 billion and, according to *The Wall Street Journal*, is growing by \$21 million a day and will require at least \$10 billion in new borrowing this summer "just to pay off short term debts and meet cash flow."

And Davis, now "safely" (more about that in a second) re-elected, has asked for more than \$8 billion in tax increases on his already tax-burdened constituents. It is no wonder that Davis is the subject of a long-shot, though nevertheless real, recall effort. It is also no wonder that he holds the lowest approval ratings of any California governor in better than half-a-century (in the low-to-mid 20% range). According to the *Journal*, a recent Field Poll showed that "only 9% of voters have much confidence in Mr. Davis's abilities to fix things. *Nine Percent.*" [emphasis in the original]

By postponing his massive tax hike until after the election, the Governor avoided electoral disaster. But he cannot put off the consequences forever. All of this will, I am certain, have electoral repercussions. And since Davis himself cannot run again in '06, as he is term limited, someone else will have to pay for his misfeasance. Our guess is that it will be John Kerry (or whoever the Democrats wish to sacrifice to Bush) and perhaps Democratic Senator Barbara Boxer, once thought to be invincible, who pick up Gray's tab.

According to the same Field Poll cited above, if the election were held today, not only would Bush carry the state, but Boxer would, quite possibly lose her seat to former Governor Pete Wilson, with whom she is virtually tied. Calling that a sudden and dramatic reversal for the Democratic Party in California is a pretty spectacular understatement.

But what Davis has proposed doing to Californians is pretty dramatic too, as is the contrast the state's voters will see between their own chief executive and the President of the United States: one a dull, unctuous tax-hiker, the other a charismatic, sincere tax cutter.

If I were on the Kerry team, I'd be praying that California's recall effort succeeds and that Gray Davis is nowhere near the state house in Sacramento next summer. To have to campaign with that man, as the Democratic nominee will almost certainly have to do, if he is to tap California's vast fund-raising networks, could well be the equivalent of political suicide. At the very least, I'd ask the Governor not to stand next to the Senator, so as to avoid the opportunity for someone to photograph them together. And I'd almost rather my guy put on a goofy-looking hat and pose for pictures with his head popping out of a tank.

After Gray Davis won re-election last fall, I took a fair amount of criticism for thinking that he could be beaten by a neophyte like Simon. But in my defense, Davis changed the game by

delaying his tax hike and still only squeaked out a narrow victory. The Democratic presidential nominee will not, we believe, be so lucky. Bush will win California. And given that he will also win Texas and Florida, that'll be almost half the battle – literally.

**DEAR SENATOR BYRD.** When West Virginia Senator Robert Byrd severely criticized President Bush on the floor of the Senate for visiting the troops on the deck of an aircraft carrier, most conservatives rushed to defend Bush by calling attention to Democratic presidents who had done similar things, including Bill Clinton.

We were never comfortable with this defense. If what Bush did was wrong, then the fact that others have done it also doesn't make it right. Indeed, this is the nauseating defense that was, and still is, most often used by Democrats to try to justify Bill Clinton's unethical behavior.

So I was pleased last week to get an e-mail with the following letter to Senator Robert Byrd from a retired U.S. Navy Commander, who offers the kind of defense of Bush's action that makes sense to us. Sometimes, e-mails such as this are not authentic. We think this one is, but we can't say for certain. But even if it is not, it makes a point that we think is worth passing on.

Dear Senator Byrd:

As a retired Naval Officer, with two Gulf carrier deployments under my belt, I find your criticism of President Bush's visit to the Lincoln offensive in the extreme! This is the first time that the Commander-in-Chief took time out of his busy wartime schedule to pay a visit to thank those who served in the line of fire, in a way that was both dramatic and meaningful to those on the carrier. Perhaps if LBJ got off his fat ass to do something similar, our troops' morale in Vietnam might not have been so low.

As a Naval officer, I am extremely sensitive to styles of leadership. That is, after all, our stock in trade. And it was not lost on me that the President spent about thirty seconds shaking hands with the Admiral, CO, and CAG (If you don't know these abbreviations just look them up in your Funk & Wagnalls!).

He then spent the next forty-five minutes putting himself at the disposal of the people who make that ship work, the yellow shirts, the green shirts, the purple shirts, the chiefs, the sailors.

If you don't know the significance of those colored shirts, look it up in your Blue Jacket's Manual. Not dressed out in formal uniform (I understand at Bush's request), but in their greasy, smelly, sweaty working uniforms . . . working a flight deck is hot, hard work. And yet he, in his flight suit, put himself at their disposal, this was their moment for 19- or 20- something year-old kids a few years out of high school, to get a picture of themselves with the President of the United States, his arm draped around their shoulder.

That is a moment that those kids never dreamed would ever happen to them, maybe not even when they knew he was coming aboard. Surely, he would see the brass, not the troops. But it was the troops to whom he gave his time . . . and it was the most natural

moment in the world. You might have thought it was a family reunion, and in a way, it was . . . Bush is one of them, the common man, and while he is still the most powerful man on the planet right now, he hasn't lost his touch for them.

Was it a political moment? What moment of a president's life is NOT a political moment? Was it grandstanding, to come in to an OK pass to a 4 wire, a bit high in close, correcting, left of centerline? Well, hell, he didn't fly the approach anyway, though I understand from the pilots who flew him that he did a pretty good job at formation flying, tucked in close for a lead change.

You can always tell a fighter pilot, you just can't tell him very much. And apparently after thirty years, it all comes back, with a little coaching, I am sure.

Frankly, I would have liked to see him come aboard in an FA-18, but the Secret Service vetoed that, and Bush accepted their judgment . . . again, a mark of a good leader.

If you had spent some time in the service, instead of the Klan, you might understand the significance of that moment to all the men and women aboard the Lincoln, and indeed to all the men and women in the service who shared that moment vicariously. But you chose the bedsheet instead of the uniform, and so you don't. I am half-tempted to move to West Virginia just so I could vote against you in your next election.

Lewis F. McIntyre CDR, USN (Ret)

**SEND THEM A MESSAGE:** We have no way of knowing whether the ballots have been sent out yet for the *Institutional Investor Magazine's* annual Equity Research competition. But we assume that if they haven't, they will be soon, and we would like to ask you to consider voting for "The Political Forum" in the Washington Research category.

For all practical purposes, we have been on the sidelines in this annual competition since we were fired by Prudential Securities in late 2000 because, as the firm told the regulatory authorities specifically about Mark, our "work product exhibited difference in philosophy from that of firm management."

So aside from helping us to gain a little free publicity, and giving our egos a boost, a vote on our behalf would also send a message to "firm managements" everywhere, but most particularly to the management of Prudential, that there are still a few institutional investors out there who subscribe to a conservative philosophy. Thanks in advance. Mark and Steve

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THE POLITICAL FORUM

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