

Mark L. Melcher Publisher
melcher@thepoliticalforum.com

Stephen R. Soukup Editor
soukup@thepoliticalforum.com

THEY SAID IT

“I am convinced that, in the United States, a program that deals only with the poor will end up being a poor program. There is every evidence that this is true. Ever since the Elizabethan Poor Law of 1601, programs only for the poor have been lousy, no good, poor programs. And a program that is only for the poor—one that has nothing in it for the middle income and the upper income—is, in the long run, a program the American public won't support. This is why I think one must try to find a way to link the interests of all classes in these programs.”

Wilbur J. Cohen, Secretary of Health, Education and Welfare, 1968-1969. Cohen was a staffer of the Committee on Economic Security (CES) that drafted President Roosevelt's social security proposal and immediately after the passage of the Act in 1935, became the first employee of the Social Security Board.

SOCIAL SECURITY: R.I.P.

Regular readers know that I have never been a big believer in President Bush's plan to democratize the Middle East. It isn't that I wouldn't welcome such a thing. It is just that I believe that true democracy requires certain cultural attributes that would appear to be lacking in the people of that region. As Burke once noted in a letter to Lord Charlemont, “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.”

This prejudice of mine hasn't hindered me from supporting the war in Iraq because I have, from the very beginning, always thought that there were sufficient other, more practical reasons for the military effort there, and that the democracy push, should it succeed, would be frosting on the cake. I put it this way in an article entitled “Over The Edge With Condi,” dated August 11, 2003.

I have never thought that this war had anything to do with a Wilsonian-type vision of “making the world safe for democracy,” or of being the “world's policeman.” In fact, I have always believed that to the degree that this kind of language has been used by anyone in the Bush crowd, it was to soften the sharp edges of an aggressive, practical strategy of retribution and threat management that was, at its heart, the antithesis of altruism . . .

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Subscriptions are available by contacting:

The Political Forum LLC 8563 Senedo Road, Mt. Jackson, Virginia 22842
Phone 540.477.9762 Fax 540.477.3359 melcher@thepoliticalforum.com www.thepoliticalforum.com

To put this another way, I believed that the administration's goal in Iraq was to put a pro-American strong man in charge, help him establish an army and a police force that was strong enough to keep him in charge; and get the hell out of there and let "our tyrant" do what he had to do to keep order. I thought that Egypt was a practical prototype. I assumed that the United States would, before it left Iraq, destroy its ability to reconstitute an offensive weapons program featuring WMDs, establish a network of well paid informants throughout the country, and set up some small bases that could be used to help "friendly forces" continue the "war against terror" in neighboring Iran and Syria.

As for the Iraqis, my view was that America's exit from Iraq would leave them better off than they were when Saddam and his lunatic kids ran the show, and give them a chance to reconcile the religious and tribal hatreds that have haunted their nation for decades without U.S. interference, which would just make the process more rancorous.

In the two years since I wrote those words, I have come to the conclusion that President Bush is considerably more naïve than I had suspected, and actually believes that the democratization push is going to work. I hope it does. In the meantime, my bottom line remains the same. I think the war was justified on practical, national security grounds, but if the White House crowd wants to paint it in altruistic colors, so be it.

I bring this up this week because I believe a somewhat similar situation obtains with regard to President Bush's recently announced plan to means test Social Security. He says this proposal is designed to save the program. He offers flowery, altruistic reasons for supporting it. I'm in favor of means testing for entirely different reasons, just as I support the Iraq war for reasons other than those given by the

White House. So if the President needs to employ happy rhetoric and altruistic explanations in order to convince himself, the public, or both that means testing is a good thing, that's fine with me.

If that is confusing, I'll explain.

Personally, I can't figure out why any Republican president, particularly one who calls himself a conservative, would want to spend political capital to save a program that is so blatantly inefficient, poorly designed, economically wasteful, and fiscally damaging as Social Security. Not only does Social Security provide a terrible, almost criminal return on investment for today's participants, but the pay-as-you-go feature begs to be exploited by the big time spenders in Washington.

With nary a blush, Congress provides unfunded IOUs in exchange for real money, which the contributor expects to be held in trust in anticipation of his or her retirement needs. This money is spent immediately upon receipt for purposes that have nothing to do with the future retirement needs of the contributor. Among other damaging things, this program contributes to the profligacy of government, adds to the government's already huge store of unfunded liabilities, damages public confidence in the government, and discourages real savings.

I would not deny that participating in Social Security paid big dividends to a lot of good people for many decades. This is the nature of a well-designed Ponzi scheme. But like all such programs, it contained within it the seeds of its own destruction, and those seeds have sprouted and begun to bear a very bitter fruit.

The politicians in Washington declare that this is not the case, that the program won't actually be bankrupt for several decades. But the fact is that a 30-year-old individual who is forced to pay 12.4% percent of his actual gross pay into this "retirement" plan is not just making a poor investment, he or she is

being defrauded, big time. Let any employer set up a mandatory retirement plan for someone that age with an identical “investment” program and identical payout prospects and find out how long it takes for Eliot Spitzer to come knocking on the door.

Now, I have no doubt that Social Security was designed and implemented with the best of intentions. But it was doomed from the beginning because it ultimately relied on the collective wisdom and integrity of politicians to keep the program viable.

A disinterested financial organization might have been able to do this. For two reasons, a large committee of politicians could not. The first of these was explained in a book that was published in 1895, some 40 years before Roosevelt signed the Social Security law, but which was still reasonably well known in academic circles at the time. It was entitled *The Crowd*, by Gustave le Bon, and noted the following:

The decisions affecting matters of general interest come to by an assembly of men of distinction, but specialists in different walks of life, are not sensibly superior to the decision that would be adopted by a gathering of imbeciles. The truth is, they can only bring to bear in common on the work in hand those mediocre qualities which are the birthright of every average individual. In crowds it is stupidity and not mother-wit that is accumulated. It is not all the world, as is so often repeated, that has more wit than Voltaire, but assuredly Voltaire that has more wit than all the world, if by “all the world” crowds are to be understood.

The second reason that Congress could not keep the Social Security program viable over an extended period of time is that Social Security is, by its very nature, a potent political tool, and this assured that it would be manipulated according to the short term needs of politicians rather than the long term interests of the public.

In any case, while it took a half-century, the U.S. Congress eventually succeeded in destroying the program by failing to make the adjustments that were necessary in the face of the nation’s changing demographic profile. Now it is probably too late.

Were I a Republican president, I would be in favor of letting it die a natural death over an extended period of time. I would make a point of informing the public that the program is in serious trouble, and I would tell younger Americans to act accordingly. I would ask Congress to help them in this endeavor by expanding the limits on 401Ks, IRAs and other such retirement plans.

I would tell the Democrats that if they wished to save this extremely flawed program, of which they are so proud, they should offer appropriate legislation and then lead the effort to convince the public that it could be saved without doing violence to good judgment and equitable taxation. I would not, as President Bush has done, go hopping around the country like some sort of deranged wombat offering a confusing mishmash of alternative resuscitation methods, which would lead people to believe that I had something to do with the illness and was willing to take responsibility for providing a cure.

Until last week, I had not even considered that there might be method in Bush’s madness, that he might be deliberately setting the stage for the program’s demise by offering a means testing option that would, if Democrats fall for it, destroy the Social Security system and promote private savings even more quickly than benign neglect.

Why? Because means testing would slowly but ever so surely turn the Social Security system into a welfare program, and welfare programs are tolerated but not enthusiastically supported by middle class Americans and middle class politicians. One can see evidence of this in the way that Congress happily passed a totally unaffordable program to provide prescription drugs to largely middle class Medicare beneficiaries and yet has never adequately funded the Medicaid program, which is designed to provide minimal health care to the poorest Americans.

Roosevelt understood that means testing would doom Social Security, which is why he insisted that everyone should be treated equally under the program, rich and poor alike, and that it would be funded by a payroll tax specifically earmarked for the purpose. This way, no one could charge that it was all about wealth redistribution, and no one need feel embarrassed about collecting benefits, since every American was paying in and taking out under the same rules.

If President Bush succeeds in altering this equity arrangement via a means testing mechanism, he will, I believe, have effectively set the Social Security program on a path toward oblivion. It will take a while, but Americans will slowly figure out that the program is biased in favor of people who have no private savings, which will lead to waning support for the program among those who save. Eventually, it will be seen as yet another program for transferring wealth from the middle class to “the poor,” and will lose its status as being politically untouchable. At that point, demands for better tax incentives for private savings will expand at the expense of support for Social Security.

Now, I have no idea whether President Bush understands this. I suspect that he doesn't. My guess is that he sincerely thinks means testing is a wonderful way to save what he considers to be an important program. But as I indicated earlier, his motive makes no difference to me. It's the result that counts. And the result of means testing will be to significantly weaken long-term public support for Social Security and strengthen support for private savings, especially among the nation's young people. And what could be better than that? Go George!

THE RE-START OF SOMETHING BIG?

In last week's newsletter, I noted that the “Oracle of Omaha” Warren Buffett reportedly holds a \$1.2 billion stake in Chinese energy giant PetroChina, a stake that makes him the company's third largest shareholder. PetroChina, you may recall, is the subsidiary of China National Petroleum about which Mark and I wrote a handful of articles beginning just over five years ago, as it was preparing for its initial offering. In a March, 2000 piece, the first in a series, we noted that the company's offering could be “the start of something big,” as it represented an array of new challenges for investors operating in the era of rampant globalization.

Specifically, we noted that the PetroChina offering presented a case study in the newest applications of social investing, i.e., social investing with a national security twist. The offering was, we wrote, “being aggressively opposed by an unlikely coalition of conservative foreign policy experts, organized labor, the Christian right, and the ‘human rights’ left.” We also reported that despite not yet having a road show, the offering had been publicly rejected “by the likes of CalPERS, CREF, the New York City Employees Retirement System, Kansas Public Employees Retirement System, the Employees Retirement System of Texas, to name just a few.”

The problem with PetroChina, we noted at the time, was that the company was considered by many organizations and individuals to be a “global bad actor.” Roger Robinson, Chairman of the William J. Casey Institute and a man who had made it his business to follow such bad actors and their movements in American financial markets, argued persuasively that such companies not only raised funds for potentially hostile governments and for purposes which shareholders would undoubtedly oppose, but often did so, as in PetroChina's case, by doing business in parts of the world where American businesses are forbidden to operate by American law. As we wrote in a July 2000 follow-up, the primary specific problem with PetroChina was its connections to the terrorist-sponsoring government in Sudan, “which also routinely practices slavery and genocide.”

As we reported, Robinson argued that investors should be leery of such global bad actors not simply because their investments supported the heinous activities of heinous men, but because there could be potential fiduciary concerns if the companies in question ever became the target of divestiture movements such as those that swamped a number of companies that were heavily invested in South Africa during the 1980s anti-Apartheid demonstrations on American college campuses. Doing business with a “bad actor”, Robinson argued, opened investors up to a whole new set of potential fiduciary headaches.

Fast forward five years. Early last month (on April 4, to be exact), Harvard University announced that it was divesting itself of roughly \$4 million in PetroChina stock because of the company’s role in funding the Sudanese government and its perpetration of genocide against the minority non-Muslims in Sudan’s Darfur region. Carlos Ramos-Mrosovsky wrote the following on this subject in a piece for *National Review Online*:

PetroChina alone has invested billions in the country, building a major refinery and pipeline. Money from these projects allows the Sudanese government to buy tanks, helicopters, and artillery — often from China — to use against its own people. Sudanese government forces frequently use roads and airstrips installed by foreign companies in their attacks on civilian targets. The regime also helps its friends: Islamist militias have reportedly been used to clear people from land slated for oil development.

For the record, I should note that Harvard is not, as one might assume, a knee-jerk, bleeding-heart institution willing to use investments to try to further any cause that it believes cries out for “social justice.” Indeed, Harvard never fully divested from South Africa, and, according to a statement released by Harvard’s Advisory Committee on Shareholder Responsibility, “the university maintains a strong presumption against divesting itself of securities for reasons unrelated to investment purposes and against using divestment as a political tool or a ‘weapon against injustice.’”

Nevertheless, the situation in Sudan was so “egregious” that the university had to act. As Harvard President Lawrence Summers put it:

Divestment is not a step that Harvard takes lightly, but I believe there is a compelling case for action in these special circumstances, in light of the terrible situation still unfolding in Darfur and the leading role played by PetroChina’s parent company in the Sudanese oil industry, which is so important to the Sudanese regime.

Not surprisingly, it appears that Harvard may not be the only institution to shed this “global bad actor.” According to the *Boston Globe*, Harvard’s actions were but the first victory in a “growing national campaign for divestment from Sudan.” And as Ramos-Mrosovsky reported, similar campaigns against PetroChina are underway at “other schools, including Yale, Williams, NYU, Boston College, U. Penn, Swarthmore, and Stanford.”

Unlike Harvard, Mr. Buffett appears untroubled by the uses to which PetroChina puts his investment capital. This is business after all. And like most energy companies, his PetroChina stock has been very strong over the past year.

The stock has dropped about 8% of its value since Harvard’s announcement less than a month ago, although given the decline of the market overall, has probably not done too badly, relatively speaking. But it will be interesting to see how the stock does over the next several months if the divestment advocates are correct and other institutions follow Harvard’s lead. Perhaps this could, at long last, be the start of something big that we discussed over five years ago. If it is, then the China backers like Mr. Buffett will have a whole new set of problems.

THE SUPER-DUPER POWER.

For years now I've wondered why any nation would be foolish enough to contemplate doing anything that would bring itself into military conflict with the United States. The term "superpower" does not even begin to capture the advantage the American military has in terms of weaponry and other tools at its disposal to destroy its battlefield opponents. Even the term "hyperpower," which is generally applied to the United States by its soft adversaries such as France, seems woefully inadequate. The American military's supremacy is largely unprecedented in the history of the world.

Some of this, of course, was on display in Afghanistan and Iraq. Though much of the startling efficiency of the American troops has been lost in the bickering about the justness of the respective wars, the political calculations involved in the post-war occupations, and the billions of dollars that each cost, the fact is that what American airmen, soldiers, and Marines did in those two nations is remarkable. Recall that before both wars – Afghanistan in particular – all that the "experts" would say is that many had tried to invade before, but none had done so successfully. They warned of quagmires, "Afghan Winters," the vaunted Republican Guards, and the Saddam Fedayeen (remember them?). But as the incomparable Mark Steyn would say, the dreaded Afghan winter is now some 40-plus months overdue.

In other words, the so-called experts were all wrong, and both Kabul and Baghdad were toppled with relative ease in a few weeks, while American forces suffered fewer than 1,000 casualties *in both offensive operations combined*. One may argue, of course, about the military's effectiveness in battling the guerilla insurgencies in the respective post-war periods, but there can be little question that in the actual regime-on-regime combat, the American soldiers' military advantage was overwhelming to say the least.

As evident as American military supremacy was in Afghanistan and Iraq, it was likely even more so in the air wars over Bosnia and Kosovo. Indeed, it is nearly universally acknowledged that one of the factors most

responsible for engendering the current spate of anti-American sentiment among the French elites and the French government's related desire to develop a European military force independent of NATO, is the shock and horror that many of that nation's military leaders felt at how woefully inadequate their armed forces appeared as they fought side-by-side with the Americans in these two conflicts. It is not entirely unfair to suggest that, with the exception of the Brits, the European services in the Balkans resembled the rag-tag, post-Soviet armed forces fielded by tin-pot dictator Slobodan Milosevic much more than they did U.S. forces.

I mention all of this today because over the weekend we were shown once again that the American military often has at its disposal "weapons" that its adversaries have never even imagined. In this case, the "adversary" in question is not really an enemy, but a foolish woman who managed to put herself, her military escorts, and a handful of American soldiers in an extremely dangerous position, then tried to pin her foolishness on the Americans, and, in the process, managed to severely damage the relationship between the United States and her home country, Italy, which had heretofore been one of the America's few western European allies in the war in Iraq.

You may recall that two months ago, the Italian journalist, Giuliana Sgrene, a self-described communist and America-hater, was freed from the Iraqi terrorists who were holding her, but was then fired upon by U.S. troops as her car approached an armed checkpoint. While Americans maintained that Sgrene's car never slowed down as it neared the checkpoint, but continued traveling at 60 miles per hour or better, Sgrene countered that her car did indeed slow to about 30 mph, and that American soldiers acted with wanton disregard for human life in "attacking" her car out of spite for her anti-American "journalism." In any case, her Italian military escort Nicola Calipari was killed, and the American and Italian governments have been at odds over the matter ever since.

If you read anything about this case in your papers this week, you will undoubtedly read that American investigators issued their final report on the incident over the weekend, clearing U.S. soldiers of any wrongdoing. You may also read that Italian officials are upset by this report and still believe that there is more to the story than the Americans are willing to admit. What you are not likely to read is that there may well be evidence available to American military investigators that Sgrena never even contemplated when she told her tale. According to a wire story, CBS News reported the following:

A US satellite reportedly recorded a checkpoint shooting in Iraq last month, enabling investigators to reconstruct how fast a car carrying a top Italian intelligence official and a freed hostage was traveling when US troops opened fire. The report, which aired Thursday on CBS News, said US investigators concluded from the recording that the car was traveling at a speed of more than 60 miles (96 km) per hour.

Giuliana Sgrena has said the car was traveling at a normal speed of about 30 miles an hour when the soldiers opened fire, wounding her and killing Nicola Calipari, the Italian agent who had just secured her release from a month's captivity. US soldiers

said at the time of the March 4 incident that the car approached at a high rate of speed and that they fired only after it failed to respond to hand signals, flashing bright lights and warning shots . . .

CBS, citing Pentagon officials, said the satellite recording enabled investigators to reconstruct the event without having to rely on the eyewitness accounts.

Now, it is important to note that thus far only CBS News has reported on the satellite evidence and that some who have seen the unredacted version of the final American report on the incident claim that the word "satellite" appears nowhere in the document.

That said, it is a fact that such evidence *could* exist. And it is quite likely that such evidence *does* exist. Whether or not it conclusively proves the American case is another story. Regardless, all of this serves as yet another reminder that in a battlefield setting, the American military has many tools at its disposal, so many that even something as seemingly unremarkable as a car accident can be viewed and analyzed by investigators thousands of miles away. This is a warning that any would-be adversaries should consider as they ponder the possibility of engaging American troops. North Korea in particular comes to mind.

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