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THEY SAID IT

Seek not to know what must not be reveal'd;
Joys only flow where Fate is most conceal'd.
Too-busy man would find his sorrows more
If future fortunes he should know before.

John Dryden and Sir Robert Howard, *The Indian Queen*,
1664.

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FORECAST 2006: A DANGEROUS, COMPLICATED NEW WORLD ORDER.

I have been in the forecasting business since 1973, when I joined the Washington research office of Alliance One Institutional Services, which came apart a year and a half later in the aftermath of “May Day,” that fateful Thursday morning in 1975 when the Big Board’s commission rates were deregulated. Shortly after that disaster struck, we in the Washington research office, which was formally called The Washington Forum, went *en masse* to Drexel Burnham Lambert. And the rest is history.

During the intervening 32 years, I have made many good forecasts and many bad ones. Naturally, I have also given a great deal of consideration to the process of forecasting, and I thought I would offer a few observations on the subject this week as an introduction to my annual, first-of-the-year look-ahead. As we have done for the past two years, I will do the geopolitical prognostication this week and Steve will handle the domestic outlook next week.

For starters, the way I look at it, there are two different kinds of forecasts. The difference between the two is not precise, but I define them this way. The first, which I will call the step-up-to-the-plate forecast, is the kind that deals with a reasonably specific situation that involves a finite number of variables and the possibility of getting at least some specific information concerning the outcome. An example would be the question of whether the Senate will consent to Judge Alito’s appointment to the Supreme Court. This is basically a yes/no proposition. There are people with whom one can talk who are “in the know,” so to speak, and the system by which the outcome will be decided is well understood and thus somewhat predictable.

The second kind of forecast, which might be described as blue-sky forecasting, involves painting on a much broader canvas. The questions addressed have endless variables and there are no individuals around who have the kind of “inside track” that would be decisive in arriving at a firm conclusion. This is the kind of

situation that Secretary of Defense Don Rumsfeld was describing when he offered the following soliloquy: “As we know, there are known knows; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns -- the ones we don’t know we don’t know.” An example of this type forecasting would be predicting how the dispute with Iran over its nuclear weapons program will be resolved.

Those who deal in the first type of forecast are expected to be accurate most of the time. In the second instance, soothsayer and audience alike know that precision is not possible. The value of the process in this case is not really arriving at a firm conviction as to what will happen. It is to apply some discipline to the examination of the knowns, the known unknowns, and even the unknown unknowns in an attempt to establish a framework from which one can anticipate surprises and assess developments as they unfold.

Over the years, I have learned that many pitfalls await the forecaster other than the known unknowns and unknown unknowns. Among these is the natural tendency to prophesize that which one would like to see happen. This is commonly called “wishful thinking.” A related pitfall is the even more natural tendency to let one’s personal outlook on life affect one’s outlook on the future course of political and geopolitical affairs. The gist of this pitfall is that optimists tend to make upbeat forecasts while doom-and-gloomers see trouble ahead, even though both are dealing with the same facts and circumstances.

And then there is the tendency when forecasting prospective actions by individuals for the forecaster to decide what he or she would do under the circumstances and to assume that that is what the actual actor will do. This is a common mistake of Fed watchers. “If I were Chairman, I’d cut rates a quarter point, and I am a very smart guy and he is a very smart guy, ergo that’s what the Fed will do.”

So, keeping these and other impediments to objective forecasting in mind, I will begin the task, which John Dryden said should not even be attempted and which Jacob Burckhardt once observed is unlikely to be done well by anyone, due to “the confusion of insight by our wishes, hopes and fears; further, our ignorance of everything which we call latent forces, physical or mental, and the incalculable factor of mental contagions, which can suddenly transform the world.”

Prediction No. 1 is that there will be no terrorist incident on American soil in 2006 that is horrendous enough to alter radically the domestic and geopolitical landscape in the way that the attacks of September 11, 2001 did.

With only the year changed, this is a verbatim copy of Prediction Number 1 in each of the last two years, as is the following statement: “that all of the predictions in this issue are predicated on this one being accurate, since a major domestic terrorist incident similar to or more destructive than September 11 would transform the world and in doing so render all forecasts preceding the incident null and void.”

This is a blue-sky prediction if there ever was one. And I am aware that my objectivity probably is affected by two of the above-mentioned pitfalls, namely wishful thinking and natural optimism. Yet, there is undeniable evidence that the government is doing a good job of disrupting the once comfortable world of the cult of murderous, militant Islam. Among other things, this project has been aided by an extensive network of communications surveillance, both domestic and international; aggressive use of the immigration laws against individuals suspected of terrorist ties; dogged efforts to discover and eliminate funding sources for terrorist organizations; a growing network of partnerships with foreign governments of all stripes, both friendly and not-so-friendly; and aggressive military, diplomatic, and economic actions against state sponsors of terrorism and those states that are friendly to the terrorist cause.

Critics maintain that the Bush administration has not done enough, has overstepped its legal authority in some cases, has mishandled the bureaucratic organization of homeland security, has done a bad job of prioritizing the various aspects of the effort, and just plain doesn't know what it is doing. And certainly some criticism is warranted.

But the proof is in the pudding as the saying goes, and the fact is that, despite extensive warnings and realistic concerns about horrors to come from experts in the field, there has not been a repeat of September 11. And as I pointed out last year, terrorism is "unlike active volcanoes and earthquake fault zones, where long periods of inactivity are not necessarily grounds for optimism." A quiescent period in the fight against domestic terrorism does indeed indicate that progress is being made against the threat.

Now, having predicted that the home front in the fight against Islamic terrorists will be reasonably quiet in 2006, I would add that I do not think that the threat of a serious attack on American soil is by any means over. Wars are made up of a series of battles, and this is indeed a war. The bad guys won the first battle on the U.S. home front, just as the Japanese did when they struck Pearl Harbor. The United States won the second battle on the home front, which was a fight to protect itself against an immediate follow-up attack or series of attacks that could have been terribly crippling to the nation's economy.

My guess is that one or more factions of militant Islam will eventually regroup under new leadership with new tactics for a renewed effort to harm Americans on American soil. Somewhere in the world today there are certainly numerous individuals who aspire to the mantle of Osama bin Laden and are working on such a plan. It may involve a massive strike using a chemical, nuclear or biological weapon, or possibly a series of more conventional attacks, perhaps on one important sector of the U.S. economy or geographical area.

A key determinate in the outcome of this battle will be whether the political leadership of the United States continues to take the threat seriously, keeps the nation alert to the dangers it faces, and continues to improve

upon the measures that have been successful to date as well as to add new ones. If this is not done, Americans will be surprised once again and the cycle will repeat itself. And it will continue to repeat over and over again until the politicians and the public catch on to the fact that their country is engaged in a serious war against a dangerous enemy; that victory will require perseverance and a long-term commitment that is widely shared and well understood; and that the "new world order" in which they live is a complicated and dangerous one that requires tactics that are different from those that were used during the Cold War.

Prediction No. 2 is that the hot war in Iraq will have cooled down considerably by this time next year, that the new Iraqi government will have made significant progress in assuming responsibility for governing the nation, and that the problems and complications that have made the war in Iraq so contentious within the United States will be largely replaced by a host of new problems and complications that will ensure that the venture remains expensive, controversial, unresolved as to its value, and a political hot button.

When considering the future of America's foray into Iraq, it is useful to break it into components. The first of these is the military action, which I have always believed would go well. In keeping with my optimism on this aspect of the venture, I believe that by the end of 2006 both the number of U.S. troops in Iraq and the casualty rate among them will be significantly lower than it is today; that the insurgency movement will be greatly weakened; and that the Iraqi military and police forces will be functioning well enough to keep a semblance of order across the nation with minimal help from U.S. forces.

My optimism on this score is based mostly on confidence in the U.S. military. But it also reflects signs that the bad guys are losing support among ordinary Iraqi citizens, who appear to be making the logical choice between the possibility of a modicum of peace and order under a legitimate Iraqi government and the continued bloodshed that is promised by the insurgents.

I believe also that the new government in Iraq will be functioning reasonably well by the end of 2006. It will have the outward trappings of democratic participation. It will have sufficient authority and public confidence to make and enforce laws and to manage those aspects of the infrastructure that are essential to a modern day society, from raising revenues, to running schools, to managing public utilities, to maintaining law and order in the streets, and to conducting international relations.

My optimism on this score is based primarily on the understanding that a great many important and influential people in Iraq have a great deal to gain from making some form of “democratic” government work. I made this point in last year’s forecast piece and in several other articles preceding it. The idea is as follows.

Iraq is not some small, poor, backward nation with few resources and little future. It is sitting on vast oil wealth right smack in the middle of arguably the most strategically important region of the world. As such, life for the leaders of the party that ends up running this nation will be pretty great. With the full backing of the United States, they will quickly become big players on the international stage and at the same time become fabulously wealthy. They will be able to steal millions upon millions of dollars through both corrupt and legitimate oil deals and an endless array of schemes to skim more millions off the top of American and U.N. reconstruction funds. They will be able to travel to New York, Washington, and all the major cities of the world and be fêted by government and business leaders at each stop. They will eventually become big swinging honchos at OPEC. They will have their own private security details that travel with them wherever they go. They will build a formidable national army and a police force, and in the meantime be protected by the most powerful military in the world, which will hunt down and kill the enemies of their regime at their behest. All they need to achieve and maintain this is the continued support of the United States, which can be had by maintaining a semblance of democratic government and social civility. So, will they try hard to do this? You bet!

But, of course, nothing is ever so simple. And therein lies the origin of that part of my forecast which holds that the problems and complications that have made the war in Iraq so contentious within the United States to date will be largely replaced by a host of new problems and complications that will ensure that the venture will, this time next year, still be expensive, controversial, unresolved as to its value, and a political hot button.

You see, this new “democracy” in Iraq is going to be corrupt, thuggish, only “democratic” in the very broadest sense of the word, and only marginally “friendly” toward the United States. It may eventually become what Bush has promised the American people it will become. But to get there it will have to progress through several iterations of decidedly less attractive governance and that will take many years.

Expecting that some exemplary form of democratic government will emerge fully developed from the mire that is Iraq today is much like expecting the kind of evolutionary expeditiousness that would cause a pterodactyl egg to produce a chicken. It isn’t going to happen. The Middle East isn’t anymore ready for a democracy of the kind that most Americans would recognize as such than the Jurassic and Cretaceous periods were ready for a domesticated yard bird.

One can only hope that Americans will be happy with what does emerge in Iraq as the offspring of decades of tyranny. Expectations will have much to do with this. And the Bush administration has not helped the cause with its soaring rhetoric about turning Iraq into a showcase for the spread of democracy worldwide. Better that they had told Americans that the immediate goal was not to create a chicken but a somewhat more docile and friendly pterodactyl that is capable of surviving in the complicated and dangerous “new world order” that is emerging in the opening days of the 21st century, because that is, in my opinion, the best that can be expected.

Prediction No. 3 is that Iran is going to force a dangerous show down with the United States over its “right” to have a nuclear weapon.

As I mentioned above, I have made a good many bad forecasts during my 32 years in this business and without question one of the worst in recent times occurred a year and half ago when I predicted that soon after George Bush's reelection he would begin to bring significant pressure on Iran, up to and including air strikes along the border with Iraq if necessary, in order to awaken the mullahs to the fact that they need to stop their nuclear weapons program and stop aiding the insurgency in Iraq. My reasoning was as follows:

I simply cannot imagine that President Bush will spend his second term sitting on his hands watching as Iran and North Korea build nuclear weapons. And I cannot help but assume that if he finds that he cannot prevent these two states from becoming nuclear powers with non-military measures, then he will, to paraphrase his own words, militarily "confront the threats before they fully materialize."

Nor can I imagine that Bush will sit back and watch quietly as Iran aggressively supports the insurgency in Iraq, thus threatening what is certainly the most important foreign policy initiative of his first term and what is likely to be the historical centerpiece of his entire presidency. I think that a better bet is that he will move and move hard against Iran following his reelection.

Needless to say, I was wrong. This was an example of the kind of mistake I outlined above, in which one decides what he or she would do under the circumstances and then predicts that the actual actor will do just that.

I now know that I cannot base a forecast on the assumption that President Bush will act as I would act. But I am a slow learner, so this week I have decided to focus my attention on President Mahmoud Ahmadinejad, the fanatical wack-job who runs Iran and who apparently believes that the time is

approaching when the great war with the evil ones will take place, and that victory will pave the way for the triumphant return of a mystical, medieval Imam, who has been hiding in a well for the past 1,000 years or so waiting for just such a moment to reappear and usher in an era of peace and justice for Shi'ite's.

Surely, I believe, it is reasonable for me to decide what I would do if I were this nutcase and then forecast that he will do the same. I mean, how can I go wrong? After all, if I were he, I would be doing exactly as he has been doing. I would pretend to be seriously considering each offer made to me by the United States and its intermediaries as an inducement to get me to stop building a nuclear weapon. I would consider this "buying time," and I would use the time I was buying to build a bomb before my adversaries became tired of my flimflaming them. And when I got the bomb I'd tell them all to go to hell and then I'd show them how a nutcase who believes God is on his side plays the game of mutually assured destruction. I'd send everyone a picture of Slim Pickens riding the bomb down toward Moscow and tell them to think about it.

And therein is my explanation for prediction number three, which is that this nut in the dirty shirt with the unpronounceable name, and who happens to be the President of Iran, is going to spark a military confrontation with the United States and Israel in 2006 that is going to make the Cuban missile crisis look like a day at the beach.

The temptation is to predict how this confrontation will come out. But that would be stacking a shaky prediction on top of a shaky prediction, which is a bit much even for me. My first hope and expectation is that I am wrong about this. My second is that if I am not, it will all turn out fine anyway. But then I am an optimist by nature. No matter how it turns out, it will demonstrate that the new world order in which we all live is a complicated and dangerous one that requires tactics that are different from those that were used during the Cold War.

Prediction No. 4 is that sometime in 2006 someone is going ask the question, “Who lost Latin America?”

Not very long ago many experts were optimistically declaring that Latin America was finally getting its act together; that a long history of backward, thuggish governments, corrupt economies, and unjust social systems were giving way to real democracy, free market capitalism, and healthy social reforms.

Now, as they say in New Jersey, feeergeet it! A weird mixture of socialism, fascism, and something being referred to as ethno-nationalism is sweeping across the region from Mexico to Chile and many stops in between, including Nicaragua, Panama, Venezuela, Peru, Bolivia, and Uruguay. Like a mutating virus, it changes slightly at every stop, but the sickness, corruption, economic stagnation, and social decay that accompany it are the same everywhere.

During the Cold War this trend would have been viewed as highly alarming and would probably have prompted covert military actions to stop its spread. The fear would have been that it would lead to the establishment of military outposts from which the Soviet Union could have threatened the United States in time of war.

Today this trend is being viewed in Washington as a curiosity. There is no fear. But it will lead, among other things, to increased corruption of commerce within the hemisphere; an increase in the traffic of illegal drugs and other contraband as corrupt, anti-American governments join forces in these enterprises; the proliferation of illegal immigrants into the United States; and a subsequent rise in anti-immigrant feelings within the United States.

Prediction No. 5 is that American relations with Europe will continue to improve in 2006, enough so that President Bush can begin to expect a modicum of support and cooperation with American efforts in Iraq, with his coming confrontation with Iran, and with the overall “war on terror.”

My last prediction last year was that American relations with Europe would “begin to improve somewhat early in 2005” and be almost “back to normal” by the end of the year. This turned out to be a good one. I think this one will too.

The key reason for my optimism is that with Gerhard Schroeder having been replaced by the much more pro-American Chancellor Angela Merkel, and Jacques Chirac having been badly discredited in France, within the EU, and on the world stage, cooler heads in Europe can finally make the common sense decision to reestablish closer cooperation with the United States.

I am not saying here that relations between America and Europe will be peaches and cream. But the collapse of Jacques Chirac’s vision of a new world order in which France is the titular leader of a European Union aligned with China and Russia in an effort to act as a counterweight to American influence in the world is a very good sign indeed. And we can use all the good signs we can get. For, as I said, earlier, the actual new world order, as opposed to Jacques’ fantasy vision, is a dangerous and complicated one and is likely to stay that way for a very long time.

So, with all that said, Steve and I want to wish all of you a wonderful and prosperous New Year and thank you for your friendship and support during 2005. God bless.

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