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THEY SAID IT

Oh, bless the law that veils the Future's face;
For who could smile into a baby's eyes,
Or bear the beauty of the evening skies,
If he could see what cometh on apace?

The ticking of the death-watch would replace
The baby's prattle, for the over-wise;
The breeze's murmur would become the cries
Of stormy petrels where the breakers race.

We live as moves the walker in his sleep,
Who walks because he sees not the abyss
His feet are skirting as he goes his way:

If we could see the morrow from the steep
Of our security, the soul would miss
Its footing, and fall headlong from to-day.

Eugene Lee-Hamilton, *Mimma Bella*, Sonnet VI, 1908.

In this Issue

2007: Filled with Sound and Fury.

2007: FILLED WITH SOUND and FURY.

It's that time of year again, the time when we attempt to divine the future, acknowledging the folly associated with such an enterprise but arguing, nevertheless, that the process itself is worthwhile because it forces one to seriously consider the present in terms of what it may portend. It also provides a useful platform from which to observe and evaluate events as they occur. And finally, it bestows the balm of humility on the forecaster when he has occasion, at a later date, to review his work with a wince and a wry smile. So, without further ado, here goes. We'll offer some predictions on foreign matters this week, and tackle the domestic scene in the next issue.

Prediction No. 1 is that the situation in Iraq will not markedly improve in 2007.

To be more specific, our forecast is that one year from now, large numbers of American troops will still be in Iraq and still be dying there with depressing regularity. President Bush will still be wandering around, like Coleridge's mentally addled ancient mariner who "stoppeth one in three," soliciting advice from friends, enemies, and casual acquaintances on what he should do there. The American public will still be disenchanted with the whole affair. And the political discussion will still focus on how to get out of Iraq rather than on how to emerge victorious, this latter concept no longer being definable, much less achievable.

This is, admittedly, one of the gloomiest first-of-the-year predictions that we have made since the founding of The Political Forum four years ago. But it is difficult to build a case for optimism on Iraq. The fact is that at some point during the past few years, “taking the fight to the enemy,” which should be the primary objective of America’s effort in Iraq, became a secondary goal, replaced by one of the most ambitious and costly social engineering schemes in the history of the world, a sort of extravagant adaptation of European colonialism with all of the attendant, grim trappings of rampant corruption, waste, political opportunism, sleazy native officials, flowery rhetoric, ludicrous experiments in social planning, and a gnawing awareness that someone, somewhere has made an awful mistake.

The whole thing reminds one of Evelyn Waugh’s hilarious 1932 satire, *Black Mischief*, in which Seth, the youthful Emperor of Azania, returns home after completing his education at Oxford, determined to introduce Western ideas into his small, backward African kingdom. “Defeat is impossible. I have been to Europe. I know. We have the Tank . . . Progress must prevail. I have seen the great tattoo of Aldershot, the Paris Exhibition, the Oxford Union. I have read modern books – Shaw, Arlen, Priestley. What do the gossips of the bazaars know of all this? The whole might of Evolution rides behind me; at my stirrups run women’s suffrage, vaccination and vivisection. I am the New Age. I am the Future.”

What fun Waugh could have today with America’s efforts to turn a backward Muslim nation, seething with superstition, ignorance, deep religious hatreds, and tribal rivalries into a civilly peaceful, democratic ally of Christian America in its war against militant Islam, at a time when the entire Islamic world is in the mist of a murderous frenzy, perpetrated by a large, global, millenarian death cult that hates America and all that it represents.

What fun Waugh could have with America’s decision to dedicate its entire military might to social work in Iraq at a time when Iran is building nuclear weapons

with the unambiguous intention of ejecting the United States from the Middle East, destroying Israel, and destabilizing the governments of America’s putative allies in the region, including Saudi Arabia, Jordan, and Egypt. One thinks of the happy little Frenchmen diligently building their Maginot Line during the 1930s, while Hitler was happily preparing for all out war.

Nor would Waugh have missed the irony in America’s decision to entrust the task of preventing Iran from obtaining nuclear weapons to the United Nations, an organization that is not only institutionally antagonistic to U.S. aims in the Middle East, but is easily the most corrupt, poorly led, and demonstrably useless of all of the world’s large international organizations.

Now, we sincerely hope that this prediction will turn out to be wrong, that the situation in Iraq will greatly improve during 2007. But we think it is unlikely that President Bush will take the steps necessary to make this hope a reality. In our opinion, he would have to return to the original concept of “taking the fight to the enemy.” This would mean, among other things, going on the military offensive, wiping out the militias in Iraq, sealing the borders with Iran and Syria and actually crossing them with air strikes and military incursions if necessary, launching large scale military attacks on suspected enemy strongholds within Iraq, and placing heavy emphasis on special operations rather than on conventional forces.

For a variety of reasons, we don’t expect him to do this. One element in this conclusion of ours lies in the curious conversation that appears to be going on between the Bush White House and the Pentagon over whether to send more troops to Iraq, a so-called “surge force” of 20,000 to 30,000 combat personnel. Here we have a widely publicized report by a blue-ribbon panel established to review the situation in Iraq. The formal recommendations of this group generate a firestorm of controversy, but no one in the White House or among the President’s critics appears to disagree with the claim, clearly stated at the opening of the report, that “the situation in Iraq is grave and deteriorating.”

Now, it would seem to the average person that increasing the number of combat troops would be a reasonable option for a nation that is involved in a “grave and deteriorating” military situation that is so important that withdrawal is not a viable option. And indeed, the White House tepidly put forth this idea for public discussion. Yet, the generals in charge of this war, whom one would think would welcome the news that additional help may be on the way, given that they are involved in a “grave and deteriorating” military situation, greet the proposal with even less enthusiasm than the White House demonstrated when putting it on the table. Why, we ask? And General Casey, the commander of forces in Iraq, responds by saying that he isn’t sure what he would do with reinforcements, stating that “additional troops have to be for a purpose.”

A purpose? The general can’t figure out what purpose more troops would serve? At the risk of being presumptuous, we would offer the thought that one purpose might be to help relieve the “grave and deteriorating” military situation by intimidating and killing some of those who are responsible for this sad state of affairs, in which the largest, most expensive, best equipped, best trained army that the world has ever seen is being kicked around by a rag-tag band of thugs, who are openly aided by neighboring dictators who carry on their support for the insurgency in Iraq with little or no fear of the largest, most expensive, best equipped, best trained army that the world has ever seen.

Perhaps if neither the generals nor the President can figure out what to do with additional troops in Iraq, the American public could send them the same message that President Lincoln once sent to General McClellan, whom the President felt was reluctant to engage the enemy: “If you’re not using the Army, may I borrow it for a while.”

In any case, we look for the White House to “stay the course” under the cover of rhetorical claims of a new “way forward.” As such, we look for another year much like 2006, with little to show for the costs in lives and treasure.

Prediction No. 2 is that by this time next year the Middle East will be a powder keg, just waiting for someone to light the fuse.

This prediction is a partial copout. We could just as easily forecast that the keg will blow up in 2007, but then we would have to predict the circumstances surrounding the explosion, and we aren’t ready for that. I say *partial* copout because the region is *probably* more likely to explode in 2008 than 2007. In any case, the problems in the Middle East are going to worsen this year, approaching, if not actually reaching a crisis of extraordinary proportions.

To be specific, we expect that the Iranians will proceed *post haste* with their plans to develop nuclear weapons, confident that President Bush will do nothing to prevent them from doing so, despite his protestations to the contrary; firm in their belief that Russia and China will assure that the U.N. sanctions will continue to be largely symbolic; and bolstered by the knowledge that Comrade Putin will continue to provide material and technical help for the project.

Putin’s assistance to Iran is reminiscent of the collaboration between post-World War I Germany and post-revolutionary Bolshevik Russia, which Paul Johnson described as the fraternization of gangsters. Under a secret section of the 1922 Treaty of Rapallo, the Leninist regime allowed Weimar Germany to manufacture weapons of war in Russia in direct violation of the 1919 Treaty of Versailles. One wonders if Putin’s actions won’t eventually produce the same horrific results for the Russian people, given the Iranian Mullah’s sympathy for the Muslim rebels who live in southern Russia, all of which calls to mind Puck’s famous observation, “Lord, what fools these mortals be.”

Not surprisingly, Iran’s progress toward the acquisition of nuclear weapons will prompt Israel to ready its plans to protect itself from annihilation, plans that will certainly include the probability of preemptive action against Iran and the possibility of using its own nuclear weapons, if necessary, to assure the continued existence of the Jewish state. Israel is not likely to launch a preemptive strike against Iran unless it feels

that the threat is imminent. However, the threshold for such an action could be significantly lowered by a growing concern in Israel that President Bush is all whistle and no steam when it comes to a face-off with Iran.

This may be the second most gloomy first-of-the-year prediction that we have made since the founding of The Political Forum four years ago. But it is difficult to build a case for optimism on the Middle East. The fact is that all of the forces that once provided a shaky but nevertheless real stability to the region are rapidly eroding.

Foremost among these was the firm knowledge among Israel's enemies that they could not hope to destroy the Jewish state and that any attempt to do so would be met with a devastating and costly defeat. While Israel is still strong enough to hold its enemies at bay, its recent painful experience in Lebanon raised questions about the margin of its military superiority and, not incidentally, about its stomach for a fight, a combination that is akin to a caribou developing a limp in the presence of a pack of wolves.

The guarantee that the United States will back Israel militarily if the need arises has also played a part in maintaining the peace between Israel and its neighbors. And while this guarantee still stands, its effectiveness as a deterrent has waned in the face of America's poor showing in Iraq, the perception that it is overextended there, and President Bush's apparent fear of confronting Iran.

And finally, like it or not, Saddam Hussein's Iraq was a key stabilizing element in the region, acting as an effective counter weight to the power of the Shi'ite state of Iran. This is not to say that it was wrong to invade Iraq and depose Saddam. He was, after all, a dangerous adversary of the United States and likely to become more so as the war against militant Islam continued.

But President Bush's failure to make any effort whatsoever to assume Saddam's role as a check on Iranian military power has removed another stabilizing factor in the region. Iason Athanasiadis put it this

way in a December 13 article in the *Washington Times*: "The invasion of Iraq demolished the regional security architecture that prevailed in the 1980s and removed Iraqi strongman Saddam Hussein, whom Persian Gulf Arabs viewed as the cork protecting a staunchly Sunni-dominated region from the spread of Iranian Shi'ite influence."

It is possible that this instability and the resultant threat of a regional war in the Middle East, conceivably involving nuclear weapons, will force the individual players to alter their behavior and, in doing so, relieve some of the tension that is building. But we think this is unlikely to happen in 2007, which is why we look for another year much like 2006 in which the sound and the fury grow louder and more intense.

Prediction No. 3 is that 2007 will witness a significant, positive milestone in the "war on terror," namely the final destruction of Al Qaeda as a global organization capable of financing, directing, and implementing simultaneous, large scale terrorist attacks around the world.

This is not to say that the scourge of Islamic terrorism will go away, or that there will be no major terrorist incident on American soil in 2007. It is simply to note that the threat of Islamic terrorism is slowly but surely becoming localized, and that effective, world-wide counter-terrorism efforts have made it extremely difficult if not impossible to maintain a large, globally involved, centralized command center communicating with terrorist cells worldwide, and led by a "terrorist master mind" who spends his days plotting new attacks and sending forth squads of trained killers to wreck havoc on Western targets in the manner of Osama bin Laden's 9/11 attacks on the United States.

It has been hardly noticed by the mainstream media, but 2006 was the first year since the 9/11 attacks that no major terrorist incident occurred in the West. This is, of course, a tribute to a variety of factors, including the strengthening of anti-terrorism laws worldwide, greatly increased global cooperation between intelligence and law enforcement agencies, remarkable advances in technology, and a massive commitment of resources to the task.

But it is also a positive consequence of President Bush's decision to destroy Osama bin Laden's home base in Afghanistan and to "take the fight to the enemy" in Iraq, which, among other things, had the salutary effect of redirecting Al Qaeda's efforts to the battle for Iraq and away from planning and implementing terrorist attacks on U.S. soil.

We believe that Osama bin Laden will die in 2007, or it will be learned that he died in 2006; that the organization's titular leader Ayman al-Zawahiri will be killed or captured, and that "Al-Qaeda in Iraq" will wither in importance and resources as the war there drags on throughout 2007. Our basis for this prediction is that while the various terrorist organizations and cells around the world find themselves increasingly forced to rely on their own local resources, the counter-terrorism movement is globalizing, making it harder and harder for terrorist leaders to find safe places in the world to hide and still go about their nefarious business. In addition, the religious strife within the Muslim world between Sunnis and Shi'ites is likely to create opportunities for the counter-terrorism community to gain information from the competing groups.

This will, by no means, end the "war on terror," but it will, we think, make the extremely expensive, highly complicated, large-scale attacks such as those that occurred on 9/11 less likely. And this would be welcome news.

Prediction No. 4 is that the practical consequences of the huge changes in the national demographic profiles of the nations of the world will become highly important elements in economic and investment decision-making in 2007.

After many years of being viewed by economists and investors as interesting but of largely theoretical importance – something that someday is going to make a difference – someday has arrived, and the demographic bogey-man is about to march into the center ring with myriad surprises up his sleeve.

We have been writing about the potential political and market effects of demographics for the better part of a decade now. And perhaps the most insightful and entertaining, if notably depressing, non-fiction work published last year was Mark Steyn's *America Alone*, the basic premise of which is that global demographic trends have, by and large, isolated the United States, making it the world's last, best hope to preserve "the West" and to defeat the Islamist threat.

But without question the most compelling reason for our current interest in demographics is the fact that we read the weekly investment newsletter "From the Sidelines," written by our friend and former colleague at Prudential Securities, Greg Smith. For the past two years, Greg has been integrating the demographic problems facing Europe, Russia, China, Japan, and other nations, both developed and underdeveloped, into his economic and investment analysis.

Beside the impact that such factors are having, or soon will have on buying habits, savings rates, unemployment rates, growth rates, and interest rates, Greg has discussed the difficult investment decisions facing the governments of these nations, most of which have badly under-funded retirement programs at a time when their work force is shrinking.

In short, demographics is going to be big in 2007. We'll be talking about it here at The Political Forum. You might also want to contact Greg at M97Smith@verizon.net.

So, with all that said, we want to wish you all a wonderful and prosperous New Year and thank you for your friendship and support during 2006.

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