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## THEY SAID IT

If one deals with human nature realistically one may find here and there a person who is worthy of respect and occasionally one who is worthy of reverence. Anyone, on the other hand, who puts his faith in the divinity of the average is destined, if we are to trust the records of history, to pass through disillusion to a final despair . . . If the plain people of Jerusalem had registered their will with the aid of the most improved type of ballot box, there is no evidence that they would have preferred Christ to Barabbas. In view of the size of the jury that condemned Socrates, one may affirm confidently that he was the victim of a "great and solemn referendum." On the other hand, the plain people can be shown to have taken a special delight in Nero. But the plain people, it will be replied, has been educated and enlightened. The intelligence tests applied in connection with the selective draft indicate that the average mental age of our male voters is about fourteen. The intelligence testers are, to be sure, under some suspicion as to the quality of their own intelligence. A more convincing proof of the low mentality of our population is found, perhaps, in the fact that the Hearst publications have twenty-five million readers.

Irving Babbitt, *Democracy and Leadership*, 1924.

## WATCHING "POLITICAL IDOL."

In case you haven't noticed, the American system of government it is not working very well anymore. This isn't obvious to everyone yet, but the fact is that over the past half a century or so, it has become increasingly unable to deal effectively with many of the complex problems that are the daily business of the most powerful and influential nation that the world has ever known.

Now we know that this is a highly controversial and questionable claim. We also know that we cannot defend it adequately in a few pages. We would simply note that America's elected officials have proven themselves be incapable of working together in the national interest to find sound solutions to a host of problems that must be addressed if the United States is to continue to enjoy a healthy and secure society in the years ahead.

These problems include, but are by no means limited to the pending Social Security and Medicare trust fund shortfalls, an immigration policy that is sadly out of touch with the needs of the nation and the wishes of its citizens, a failed public education system, and a widening schism among the American people over the best approach for assuring American security in the face of the threat from militant Islam.

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The failure of America's elected officials to address these and other such problems in a manner fitting to a healthy society— and in fact the deliberate determination by many of them to keep these issues unresolved as a means for achieving partisan gains — has become so routine that the American public has come to view it as normal, to buy the ridiculous argument that their government can only be expected to respond to certain problems after they reach a crisis stage.

Now, we are not going to propose remedies for this situation. We will leave that task to President Rodham. Our purpose is two-fold. It is simply to put forth the notion that the type of democracy practiced in America today is unsuited to the task before it in much the same way that absolute monarchy was not up to the demands of 18<sup>th</sup> century Europe, and to use this notion as a platform from which to make some observations that might be worth keeping in mind while watching the two-year long season of “Political Idol,” which opened recently on the national stage.

As with the vastly more popular knockoff, “American Idol,” this show features an assortment of crackpots, flimflammers, and a few individuals who are mildly skilled at entertaining masses of the undiscerning, all of them frantically competing for a glorious form of global celebrity that prior generations of fame seekers could not even imagine and all the while subjecting themselves to the judgment of the canaille, which approaches the task of choosing a winner with the same seriousness that was evidenced by the Paris mob that chose Quasimodo to be King at the “Festival of Fools.”

Our first observation regarding all of this is a response to the charge that by questioning the adequacy of the current American form of government we are casting aspersions on the collective wisdom of the 55 “Framers of the Constitution.” The problem with this contention is that the government that these men hammered out in that steaming hot room in Philadelphia in the summer of 1787 bears little resemblance to the American government of today.

Indeed, it seems likely that the 55 Founders themselves would be horrified at the abject failure of their plans to place some limits on the power of the federal government, and bewildered that their extensive efforts to create a “republic” did little to protect the nation from the pitfalls of mass democracy.

Our second observation deals with the argument that American democracy is working just fine, thank you; that complainants fail to recognize that a certain amount of frustration is central to the democratic process, since this process involves compromise and comprises take time, and, by definition, are not pleasing to everyone. Our response is that while it is true that all democracies share these “frustrating” characteristics, the final proof of the adequacy of any democracy is in the pudding, and by any standard this particular democracy is failing to adequately address the needs of this particular country at this particular time in history.

Our third observation is that while this failing is a result of many circumstances, for purposes of this short article, the ones that we would recommend keeping in mind while watching this elongated season of “Political Idol” are as follows:

Number One: The problems facing the United States are becoming increasingly complex due to a variety of factors, most of which are associated with startling advances in technology, science, and communications; huge shifts in demographics both domestically and around the world; the globalization of commerce; the vulnerability of modern, open societies to terrorism; and the increasing availability of weapons of mass destruction to individuals and states.

Number Two: The people of the United States are becoming increasingly stupid, at the same time that the problems facing their society grow increasingly complex and dangerous. This is not, by the way, conjecture on our part, but an observation based on many, many studies beginning with one published by the U.S. Department of Education itself in April 1983, which noted the following.

We report to the American people that while we can take justifiable pride in what our schools and colleges have historically accomplished and contributed to the United States and the well-being of its people, the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation and a people . . . If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war.

Now, as we indicated above, this was written 24 years ago. So, if one assumes that the mediocrity that it bemoans preceded the publication of this report by, say, ten years (which is about right for government work), then it would seem safe to say that the American educational system has been on a downhill spiral for the past 35 years or so, given that there is no evidence that any improvement has been made since 1983 and considerable evidence that it has worsened.

Thus we see regular reports and studies which show that large percentages of the students from the lowest grade up to college level do know who fought in World War II or when it occurred, cannot find their home state on a map, cannot perform simple math problems, have no knowledge of literature beyond references they have heard on television shows, and would have great difficulty composing a short, grammatically correct essay on virtually any topic.

Number Three: America's elected representatives, many of whom are themselves obvious victims of the nation's failed educational system, increasingly rely on polls to help them decide their stand on the issues of the day.

Hence, they ask for guidance on complex issues from a population in which a growing number of individuals have little if any knowledge of history, which they might use to make reasonable judgments about foreign policy matters; little if any knowledge of economics, which they might use to make reasonable

judgments about issues concerning taxes and spending policies; little if any knowledge of the workings of government, which they might use to make reasonable judgments about the proper role of the federal establishment; and little if any acquaintance with the classics, which would supply them insights into human nature which in turn would be useful in determining the consequences of any number of foreign and domestic policy proposals.

Now this could be viewed as a standard case of the blind leading the blind, which we have been told on the highest authority inevitably leads both into the ditch, except that the blind in this instance are more often than not being led by any number of large special interest groups, some good, some bad, and virtually all focused on a specific issue or group of issues rather than on what might be called the national interest. Which leads us to...

Number Four: It would be more likely that a camel would pass through the eye of a needle than it is that the current season of "Political Idol" will produce a winner who would be able to find and implement sound solutions to the host of problems that must be addressed if the United States is to continue to enjoy a healthy and secure society in the years ahead.

For the American system of democracy, as currently constituted, is unlikely to allow the kind of person who would attempt such a feat to raise the resources necessary to even enter the contest, would most certainly not favor such a person to win if he or she did enter, and would likely prevent the individual from acting on his or her intentions if he or she managed to win.

In the end, this season of "Political Idol" will be undeniable entertaining, and much like "American Idol" will finish by selecting someone with the kind of talent that is appealing to a population group that regards the Comedy Channel and MTV as primary sources of news and commentary.

## **BET AGAINST THE GOOD OL' U.S. of A.? ARE YOU NUTS?**

On the one hand, it's hard to fault Fed Chairman Ben Bernanke. After all, when he declared last week that the nation is facing a looming fiscal crisis related to the unchecked growth of entitlement programs, he was just doing his job and following the precedent set for him by his predecessors. More to the point, it is difficult to dispute his declaration that "if early and meaningful action is not taken, the US economy could be seriously weakened, with future generations bearing much of the cost." The math is simple: more retirees + longer life spans + fewer workers = big potential problem.

On the other hand, the Chairman's doom-and-gloom shtick is certain to send all the wrong signals to all the wrong people. The Democrats will escalate their constant demands for higher taxes. The Republicans will demand . . . well, who knows what they'll demand. (They're idiots.) The anti-globalization fetishists will demand "fair trade" and tougher immigration laws. The anti-warriors will demand an end to the "costly" and "wasteful" foreign policy of George W. Bush and his neocon henchmen. As is always the case when oracles speak, each listener will supply his or her own interpretation to the words. And the only consistent element of all the interpretations will be a broad consensus that the sky is, indeed, falling; that life in these United States is ever so surely becoming less and less tolerable.

The evidence of imminent collapse cited by the usual collection of Chicken Littles is extensive. The trade deficit is too high. The budget deficit is too high -- despite the inconvenient technicality that it is actually falling. Foreigners own too much of the government debt. Americans save too little and borrow too much. Too many jobs are moving overseas. The income gap is too cavernous. Real wages aren't increasing quickly enough. And so on.

Everywhere there is the presumption of American collapse. "Smart" investors are pouring money into Asia, betting against the United States and against

the dollar. Political scientists and political economists are forecasting "the Chinese century" and an end to American hegemony. A handful of nations are increasing their holdings of Euros and Yen and selling dollars. The Mad Mullahs are denominating their oil in Euros rather than dollars. Some speculate that OPEC may someday do the same. Surely the firmament is collapsing, even as you read this.

Now, far be it from us to downplay the seriousness of the challenges facing the American economy in the medium-to-long-term future. If every Fed chairman for the last quarter century says that there is trouble a'brewin', then who are we to say otherwise?

What strikes us as odd, though, is the causal leap that many pundits, analysts, investors, policy makers, and world leaders appear to be making in light of these projected troubles. Everyone somehow presumes that the mere acknowledgement of fiscal and demographic troubles mandates a bearish position with regard to 21<sup>st</sup> century America. But does it?

Hasn't the United States always had problems? And are its problems worse or even as bad as those facing the rest of the world? The American government engages in policies with which one may disagree, but does that mean that anyone else in the world is fostering policies that are better, that are going to be more efficient at promoting freedom, transparency, and wealth creation? Is it really wise to short the United States? Is it all that smart to place one's economic security in the hands of the Europeans? Or worse yet, the (still) Red Chinese?

Before you answer, consider the following.

Nine years ago, we predicted that the European common currency, the "Euro," would be remembered by historians as a disaster of monumental proportions. Specifically, we wrote:

The Euro, and the mess it represents, is going to be a social, economic and political catastrophe. Indeed, we think it is probable that the adoption of the Euro will be to

21st century Europe, what the killing of the Archduke Ferdinand was to 20th century Europe; i.e., that point in time when history will record that the unraveling began in earnest.

Nothing in the decade since has caused us even for a minute to rethink this assessment. The Euro is a disaster now. And it will be a much larger disaster in the future. Last October, Anatole Kaletsky, a columnist for *The Times* of London, took our metaphor for the Euro debacle and updated it a bit, writing, “The Iraq invasion, disastrous though it has been, may not go down in history as the greatest political blunder of the past decade. That dubious honour will probably belong to an event most people still regard as a triumph: the creation of the euro.” His reasoning included the following:

What we see in Eastern and Southern Europe today are the consequences of the EU’s transformation from a union of democratic countries into a sort of supra-national financial empire in which the most important decisions affecting EU citizens are no longer subject to democratic control.

In Italy the Government is on the brink of collapse because of Signor Prodi’s insistence on implementing tax increases and budget cuts demanded by Joaquín Almunia, the EU Economic Commissioner, under the terms of the Maastricht Treaty. In Hungary, the riots began a month ago because the Prime Minister showed his contempt for democracy by publicly admitting that he had “lied, morning, noon and night” about the tax increases and public spending cuts that he had promised Señor Almunia before a recent election — and after the election was over, he naturally felt that his promises to Brussels were far more important than the ones he had made to Hungarian voters.

The resulting budget cuts of 7 per cent of GDP over two years would be roughly equivalent in Britain to closing down the

entire NHS. And Hungary, remember, is being forced to do this to comply with the Maastricht treaty, without even being admitted to the eurozone.

To make matters worse, Italy will be tightening its budget at the same time as Germany implements the biggest tax increases in its modern history — also in deference to the Maastricht Treaty, if not under quite such direct compulsion from the EU. These simultaneous fiscal blunders in Italy, Germany and Eastern Europe will almost mean another “lost year” for the euro zone, with economic performance falling far behind America, Britain and Japan. But the long-term consequences could be more far-reaching.

Earlier this month, the Associated Press followed that up with this report from France:

Whatever honeymoon the euro may have enjoyed in France, it’s over.

With elections looming, France is leading a backlash against Europe’s eight-year-old monetary union and the hard currency that has crowned it since Jan. 1, 2002.

Five years after the euro-themed New Year parties, opposition to the currency is hardening in many EU member states.

The French public are also unhappy. Some 52 percent of voters now believe that giving up the franc has been bad for France, according to pollsters TNS Sofres. The survey questioned 1,000 people, suggesting an error margin of plus or minus 3 percentage points.

The European Union’s own survey found that public support for the euro declined over the 12 months to September in nine of the 12 countries that rolled out euro notes and coins in 2002. The 13th member of the euro zone, Slovenia, began using the currency Jan 1.

In Germany, one of the prime movers behind the euro's creation, 58 percent of the population now want their old marks back, a separate poll found.

Now, the truly troubling thing here is that any problems with the euro come *on top of* Europe's more serious issue, namely its death-spiral demographics. For decades, the peoples of Europe (West *and* East) have been reproducing at far lower than replacement levels, indeed, at only two-thirds of replacement (1.4 babies per couple on average vs. the 2.1 needed to stay even). Though this phenomenon is by and large characteristic of all post-industrial societies (and even some industrializing societies like China), it is particularly acute in Europe and poses several significant problems, at least one of which is uniquely European in nature.

The first major problem stemming from Europe's demography, of course, is financial. Europeans don't reproduce enough to staff a growing, bustling economy or, more to the point, to fund their social welfare programs. This is a common Western problem, of course, as evinced by Fed Chairman Bernanke's comments referenced at the top of this piece. But the European concern is far graver, given the rapid decline of the continent's labor pool and the extravagance of its welfare models. There is a reason why taxes are astronomical and economic growth is virtually nonexistent in Europe, namely because the cradle-to-grave welfare systems demand ever greater chunks of the erstwhile productive economy. One may argue whether Europe as a whole is an economic basket case today, but the argument for the future is largely decided. Economically, the European model is unsustainable.

The second problem, which springs from the first, is Europe's changing demographic composition. For much of the second half of the last century, Europeans were forced to compensate for their non-existent native-born workers through massive immigration. Nearly all of these immigrants came from the Eastern Mediterranean, the Middle East, and North Africa. The rest, as they say, is history, history

which the inimitable Mark Steyn tells better than just about anyone, which is why we'll let him do so. The following, which is drawn from Steyn's massively successful tome *America Alone*, published late last year, gives just a flavor of the problems in Europe.

Greece has a fertility rate hovering just below 1.3 births per couple, which is what demographers call the point of "lowest-low" fertility from which no human society has ever recovered. And Greece's fertility is the healthiest in Mediterranean Europe: Italy has a fertility rate of 1.2, Spain 1.1. Insofar as any citizens of the developed world have "big" families these days, it's the anglo democracies: America's fertility rate is 2.1, New Zealand a little below....

As I say, this isn't a projection: it's happening now. There's no need to extrapolate, and if you do it gets a little freaky, but, just for fun, here goes: by 2050, 60 per cent of Italians will have no brothers, no sisters, no cousins, no aunts, no uncles. The big Italian family, with papa pouring the vino and mama spooning out the pasta down an endless table of grandparents and nieces and nephews, will be gone, no more, dead as the dinosaurs. As Noel Coward once remarked in another context, "Funiculi, funicula, funic yourself." By mid-century, Italians will have no choice in the matter....

Europe, like Japan, has catastrophic birth rates and a swollen pampered elderly class determined to live in defiance of economic reality. But the difference is that on the Continent the successor population is already in place and the only question is how bloody the transfer of real estate will be....

On the Continent and elsewhere in the West, native populations are aging and fading and being supplanted remorselessly by a young Muslim demographic. Time for the obligatory "of courses": of course, not all Muslims are

terrorists -- though enough are hot for jihad to provide an impressive support network of mosques from Vienna to Stockholm to Toronto to Seattle. Of course, not all Muslims support terrorists -- though enough of them share their basic objectives (the wish to live under Islamic law in Europe and North America) to function wittingly or otherwise as the “good cop” end of an Islamic good cop/bad cop routine. But, at the very minimum, this fast-moving demographic transformation provides a huge comfort zone for the jihad to move around in. And in a more profound way it rationalizes what would otherwise be the nuttiness of the terrorists’ demands. An IRA man blows up a pub in defiance of democratic reality -- because he knows that at the ballot box the Ulster Loyalists win the elections and the Irish Republicans lose. When a European jihadist blows something up, that’s not in defiance of democratic reality but merely a portent of democratic reality to come. He’s jumping the gun, but in every respect things are moving his way....

In a few years, as millions of Muslim teenagers are entering their voting booths, some European countries will not be living formally under sharia, but -- as much as parts of Nigeria, they will have reached an accommodation with their radicalized Islamic compatriots, who like many intolerant types are expert at exploiting the “tolerance” of pluralist societies. In other Continental countries, things are likely to play out in more traditional fashion, though without a significantly different ending. Wherever one’s sympathies lie on Islam’s multiple battle fronts the fact is the jihad has held out a long time against very tough enemies. If you’re not shy about taking on the Israelis and Russians, why wouldn’t you fancy your chances against the Belgians and Spaniards?

One may argue that Steyn is unduly sensationalistic in his depiction of Europe’s coming collapse (though we wouldn’t), but one can’t argue with the basic

facts in play. Europe is in the midst of a serious and deepening demographic crisis. Whether this crisis ends as horrifically as Steyn predicts or not, Europe’s future – short-term, medium-term, and long-term – will most assuredly be characterized by severe sociological and economic instability.

Of course, sociological and economic instability are likely to be the name of the game throughout much of the world over the next quarter century. The Europeans may take solace today in the fact that Russia is stockpiling Euro reserves, at the expense of the dollar, and that Iran is selling oil denominated in Euros, also at the expense of the dollar. But such conditions are unlikely to persist indefinitely. Indeed, given the precariousness of both the Russian and Iranian regimes and the likely volatility in both nations in the near-to-medium term, we’d be surprised if those conditions persist much longer at all.

Let’s start with Russia. We have made no secret over the last year of our belief that the Russian government under the direction of former KGB officer Vladimir Putin has re-emerged as one of the most dangerous regimes on earth. Possessing nuclear weapons, vast amounts of oil and natural gas, scientific and strategic know-how, yet lacking even the rudiments of civil and moral culture, the Putin regime is, in many ways more dangerous than its Soviet predecessor. Russia is collapsing upon itself, yet it still possesses the wherewithal to destroy great chunks of the world, or to help others to destroy them. And it apparently has no compunction about doing so.

Like Europe, Russia is facing a demographic nightmare. And as with Europe, Mark Steyn has summarized this nightmare more succinctly than just about anyone. To wit:

What’s left of the Soviet Union has hit the apocalyptic jackpot: the Middle East has Islamists, Africa has Aids and North Korea has nukes, but only Russia has the lot – a disease-riddled Slav population and a fast growing Muslim population jostling atop a colossal nuclear arsenal . . .

There are ten million people in Moscow. Do you know how many of them are Muslim? Two and a half million. Or about a quarter of the population. The ethnic Russians are older; the Muslims are younger. The ethnic Russians are already in net population decline; the Muslim population in the country has increased by 40% in the last 15 years. Seven out of ten Russian pregnancies (according to some surveys) are aborted; in some Muslim communities, the fertility rate is ten babies per woman. Russian men have record rates of heart disease, liver disease, drug addiction and Aids; Muslims are the only guys in the country who aren't face down in the vodka.

Faced with these trends, most experts extrapolate: it's generally accepted that by mid-century the Russian Federation will be majority Muslim. But you don't really need to extrapolate when the future's already checking in at reception. *The Toronto Star* (which is Canada's biggest-selling newspaper and impeccably liberal) recently noted that by 2015 Muslims will make up a majority of Russia's army.

It is generally believed that Russia's saving grace is its immense reserves of both oil and natural gas. But even here, there are problems. For starters, Comrade Putin has, over the last couple of years, actively and aggressively renationalized his nation's energy-producing industries and has used gas deliveries to Europe as an instrument of foreign policy.

In a recent piece for *Reason* magazine, Ronald Bailey noted that the seizure of private holdings and the manipulation of production and delivery, coupled with sizeable underinvestment (which is unlikely to improve, given the Russian government's contempt for property rights), have left Russia's energy future in serious doubt. Bailey cited a recent Congressional Research Service report that noted, "Russia's ability to maintain and expand its capacity to produce and export energy faces difficulties. Russia's oil and gas fields are aging. Modern western technology has not been fully implemented."

Late last year, Alan Riley, a teacher of private law at London's City University and an associate research fellow at the Center for European Policy Studies, addressed many of the same concerns in a piece for the European *Wall Street Journal*. He wrote:

At first sight the prospect of a significant supply shortage appears improbable. After all, Russia has 47 trillion cubic meters of proven gas reserves. On closer examination, including research by former Russian Deputy Energy Minister Vladimir Milov and the International Energy Agency (IEA), it is clear that Russian gas production is marked by two salient features. First, reliance on three old, declining, Soviet-era supergiant gas fields in the Nadym Pur Taz (NPT) region and the Zapolyarnoye field, a Soviet legacy project. Second, the lack of investment in opening up new major gas fields.

When challenged on this issue, Gazprom responds that it spends \$11 billion annually on infrastructure, just as the IEA recommends. The trouble is that it's making the wrong sort of investments. Gazprom is not investing in new gas wells, pipelines and compressor stations, but in export infrastructure such as the North European Pipeline to Germany and the acquisition of foreign downstream energy assets. Taken together, the declining old fields and the lack of investment in new ones create a potentially major supply problem.

Mr. Milov, who now heads the Institute for Energy Policy in Moscow, estimates that by 2010 the deficit between Gazprom's supply and expected demand could be 126 billion cubic meters (bcm).

Russia is hardly alone in facing an energy export deficit. Indeed, Russia's problems are minor compared to those facing the Islamic Republic of Iran. The Iranians may be selling oil denominated in Euros today, but there is a reasonable chance they won't be selling any oil, *in any denomination* tomorrow.



Late last month, the National Academy of Sciences published a report written by Roger Stern, a professor of Geography and Environmental Engineering at Johns Hopkins University, detailing Iran's energy woes. The following, which is from a London *Daily Telegraph* summary of the report, provides the basics of Stern's research and conclusions:

Iran's oil exports are plummeting at 10pc a year on lack of investment and could be exhausted within a decade, depriving the world economy of its second-biggest source of crude supplies.

A report by the US National Academy of Sciences said rickety infrastructure dating back to the era of the Shah had crippled output, while local fuel use was rising at 6pc a year. "Their domestic demand is growing at the highest rate of any country in the world," said Prof Roger Stern, an Iran expert at Johns Hopkins University, Baltimore. "They need to invest \$2.5bn (£1.28bn) a year just to stand still and they're not doing it because it's politically easier to spend the money on social welfare and the army than to wait four to six years for a return on investment," he said. "They've been running down the industry like this for 20 years."

Prof Stern said Teheran faces impending disaster since it relies on oil revenues for 70pc of its budget.

All of this comes as Iran's economy continues down its own death-spiral, driven by rocketing inflation and unemployment and the drop in the price of oil. Reuters reported last week that:

Iran's inflation rate was 14.7 percent in the year to Nov. 21, down from the 15.1 percent reported for the 12 months to Oct. 22 but still higher than the same period a year before, the central bank reported. The bank reported an inflation rate of 11.1 percent in the year to Nov. 21, 2005.

Economists say the government's spending policies, aimed at spreading Iran's petrodollars more fairly, are fuelling inflation – which has been edging higher in recent months. This is the first time in the Iranian year that began in March, 2006 when the inflation rate over 12 months has dipped from the previous month's figure. But the Central Bank of Iran said in its monthly report on its Web site ([www.cbi.ir](http://www.cbi.ir)) that the average rise in consumer prices in urban areas still climbed to 11.5 percent in the year to Nov. 21 from 11.2 percent in the 12 months to Oct. 22.

Economists say the general index for 12 months reflects inflation better than the average rate but they say that official figures in general tend to underestimate what the Iranian public has to pay for goods in shops and bazaars.

With regard to this final point about "official figures" underestimating the real problems, Reuters is too kind. It is quite likely that the "official figures" bear no honest relationship to reality. Indeed, blogger Jim Hoft notes that "The government puts unemployment at 10 per cent but economists say it could be as high as 30 per cent. The government also says inflation is 11 per cent, but experts estimate it at 30 per cent!"

Now, we could go on like this for pages. But we suspect that you get the point. Unfortunately, we have yet to discuss the other half of the globe, that part which includes such would-be challengers to American hegemony as Venezuela, Japan, and China. Perhaps we'll cover those in another issue of this newsletter (though China, in particular, we've covered more than once before).

For now, it should suffice to say that Venezuela combines the worst of Russia and Iran. In the face of President Hugo Chavez's aggressive renationalization (read: "theft") of energy assets, Venezuela's oil production is down, foreign investment is nonexistent, and the economy is wilting.

Japan has the same basic demographic worry as Europe. Its population is aging rapidly, more rapidly than any other on earth. Fortunately, Japan does not have the “successor population” problem Europe does.

As for China, well, what can we say about China? In his first-of-the-year preview/review piece, columnist James Lileks noted the following: “Nothing happened in China, as far as we could tell. Isn’t that peculiar? One billion-plus people, and nothing seems to happen.” That’s not technically true, of course. A great deal happens in China every year, most of it bad. It’s just that the repressive government, in combination with some feckless technology companies and a handful of heavily invested Westerners, manages to keep most of it relatively quiet. And so it appears that “nothing seems to happen.”

In due time, though, the People’s Republic – with its own demographic nightmares, its state-sponsored repression, corruption, economic illiteracy, and moral

and ethical wantonness – will be unable to hide its problems. When that happens, we doubt that it will seem quite as attractive an investment locale as it does today.

And that, we guess, is the moral of the story. We won’t pretend that the United States is without worry. Indeed, it has quite a few of them, on an absolute basis. But on a relative basis, those problems don’t seem quite so daunting.

If you are so inclined, you can take Fed Chairman Bernanke’s warning last week as a sign that the United States is headed for trouble. But if you interpret that warning as just cause to move your bet from the good ol’ U.S. of A. to another venue, you might want to demand a big odds differential.

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