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## THEY SAID IT

I'm always sympathetic toward people who have to explain why the market did what it did on any given day. But I am concerned about the impression that somehow the government has a person or idea that will suddenly fix everything. For I am quite certain that such a fix is not in the future. The reason that I am so certain that there is no silver bullet on the way is that no one making decisions about the financial mess we're in has ever seen anything like it before . . .

The fact is that we are still very early in understanding what just happened. And I would argue that we are highly uncertain what to do about it. My fear is that the press will build up the Great Obama as the key to the fix, i.e., the next FDR, which is the only reference point we have, even though his experience is dated and in too many ways different . . . FDR is famously remembered for his, "The only thing we have to fear is fear itself" comment. But in reality, the major thing the country had to fear was a plethora of floundering ideas that confused and froze business decisions. That much hasn't changed.

Greg Smith, Independent Research Provider and former Chief Global Strategist for Prudential Financial, "From the Sidelines,"  
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## SITUATION NORMAL, ALL FOULED UP.

The one thing we know for certain is that Barack Obama does not care one whit what we here at The Political Forum think of him or of his recent cabinet and White House appointments. But, for the record, we must say that his choices, so far, have assuaged some of our worst fears concerning his upcoming presidency.

You see, all of these "worst" fears involved questions about whether, as president, he might step outside the normal circle of liberal comfort and attempt to force numerous radical and highly disruptive changes on the social and economic fabric of the nation.

As we have said before in these pages, this concern was based on several factors. The first was the distaste and even hatred for the folkways and justness of traditional American culture that many of Barack's friends, advisors, associates, and even his spouse have publicly proclaimed over the years. The second was Barack's own apparent empathy and popularity with the nutcases at moveon.org, the Cindy Sheehan crowd, the anti-NAFTA protectionists, the Hollywood loonies, the radical redistributionists, the Jew baiters, the Christian baiters, the white haters, and the blame-America-firsters.

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Naturally, we assumed that, if elected, he would have to throw some raw meat to these folks, who provided him his edge over Hillary. And finally, it seemed possible to us that the economy could get so dicey that a rhetorically gifted, left wing ideologue might be inclined to sell some extremely radical and dangerous proposals to the American people in the midst of the turmoil.

But in light of last week's, high-profile appointments of old Clinton hacks, a bureaucratic wunderkind from the New York Fed, and a Marine general who seemed to favor John McCain in the presidential contest, we are now convinced that the upcoming political fights will be largely indistinguishable from the hackneyed struggles between "the left" and "the right" that have been going on within the United States since the 1960s.

We are not trying to minimize the high stakes involved in these forthcoming battles, or the fact that the American economy and Republican Party are sure to get bloodied beyond recognition before the fight is over. But at least now we feel somewhat assured that the destruction will occur on familiar ground and be wreaked by familiar figures with familiar motives. Barack and Michelle's old friends from the hate-America-first community might wish it differently, but the fact is that Washington is filling up with conventional, liberal, political operatives, who have neither the imagination, nor the stomach, nor, for that matter, the inclination to join in a fight outside of this nation's traditional left/right arena.

Billions of dollars for "jobs," billions for bailouts of ne'er-do-wells, billions for alternative energy sources and infrastructure, billions for education, nationalization of health care, peace in our time, military spending cuts, higher taxes, wealth transfers from "rich" to "poor," green initiatives, payoffs to labor thugs, book-cooking to avoid facing the consequences of trillions of dollars of unfunded and underfunded entitlement programs, high profile displays of useless shuttle diplomacy, rampant corruption at all levels of government, pro-abortion rallies, anti-gun initiatives, Joe Biden, Nancy Pelosi, Harry Reid, Henry Waxman, Jon Corzine, Chuck

Schumer, Robert Reich, Larry Summers, and dozens of deadbeats from Goldman Sachs. Who needs Madame Tussauds' famous Chamber of Horrors when this crowd is in town?

Indeed, one is reminded of a description in Southey's "Letters from England" of a plant in the East Indies that "exhales an odour that is agreeable at a distance, becomes less so as you draw near, and when you are quite close to it is insupportably loathsome."

Thousands of old political warhorses from the liberal establishment are descending on Washington at this very moment to take part in the fun. Many, led by Hillary and Bill, are battle scared veterans of some of the most brutal political wars in this history of the nation. They are far from harmless, but, like Bill and Hillary, they are not radical, left wing ideologues dreaming Marxist dreams of revolution and the creation of a workers' paradise from the ground up. They are preening, political prima donnas who cling to the left-wing chic of their ivy-league school days and to their patronizing disdain for the poor impressionable fools who cling to their guns and their religion.

At the risk of overburdening you, gentle reader, with literary references, we can't help but recall, when envisioning the center ring of this soon-to-open, left wing circus, the following paragraph from Wyndham Lewis' 1937 classic, *The Revenge for Love*.

Margot understood that no bridge existed across which she could pass to commune as an equal with this communist "lady" . . . nor did she wish to very much, because . . . she dreaded and disliked all these false politics, of the sham underdogs (as she felt them to be), politics which made such a lavish use of the poor and the unfortunate, of the "proletariat" – as they called her class – to advertise injustice to the profit of a predatory Party, of sham-underdogs athirst for power: whose doctrine was a universal Sicilian Vespers, and which yet treated the real poor, when they were encountered, with such overweening contempt, and even derision. She could

not fathom the essence of this insolent contradiction: but association with such inhuman sectaries could be of no profit to any pukka underdog what ever, she saw that.

Among the returning luminaries, there is, of course, Bill Richardson, whose most noteworthy achievement during the Clinton years was to try to get Monica Lewinsky a job at the United Nations to keep her from running mouth any more than she already had. And then there's Eric Holder, the "I'm back" guy, grinning like Jack Nicholson in "The Shinning," despite his own pronouncement eight years ago that his political career was probably finished in light of his participation in Bill's shameful pardon of billionaire fugitive Marc Rich, whose wife just happened to be helping to bankroll Hillary's Senate campaign, and who had previously given generously of her husband's money to the Clinton library and of her own time to Bill.

There are, of course, some relatively new faces in the crowd, the most notable of which is Tim Geithner, who was described, with favor and no apparent irony, by the *Washington Post* as being "cut out of the mold of two of his main mentors – Messrs. Rubin and Summers." Our old friend Ed Yardeni was a little less kind, noting that "he [Geithner] --along with Ben Bernanke and Hank Paulson--was part of the Whack-a-Mole Troika that was too reactive, and not sufficiently preemptive in dealing with the credit crisis."

In any case, the excitement among Democrats in town is reaching a fever pitch. Many of these folks believe that they will be participating in the final battle on the American front in the long war between "the left" and "the right" that originated over 200 years ago in late 18<sup>th</sup> century France.

After all, they have a new leader, known by some of them as "the one." He is young, energetic, handsome, articulate, smart, charismatic, a global celebrity of exotic heritage. He describes himself with an air of self-deprecating humor as a "mutt." But he is honored and admired both among the ruling elite of the world and the working classes, who cheered his

election in the streets of Africa, Europe, Asia, and the U.S. of A. He describes himself as a champion of "the poor." But he is trusted and supported by many of the world's wealthiest men from George Soros to Warren Buffett to Bill Gates. Moreover, "the right" is exhausted, lacking both ideas and leadership, beaten to its knees, awaiting the *coup de grace*. In their eyes, victory of "the left" is predestined, or as predestined as religious skeptics can imagine it to be.

And maybe they are correct. There is no question that things are pretty bleak at the moment for "the right." But, unless we're missing something, a total and final victory for "the left" would have to be preceded by some reasonably satisfactory resolution by the Obama crowd of what everyone seems to agree is a crisis of historic magnitude. And in our humble opinion, it would be premature to assume that such a victory is a done deal.

Theoretically, of course, there is a way out of this mess, an ideal concoction of actions and deliberate inactions that would slowly restore life in these United States to some semblance of normalcy. But, in our opinion, the problem that "the left" will face in attempting to mix up such a potion is that most of the necessary ingredients for it are not even in the liberal pharmacopoeia.

We admit that this is not a comforting thought. But, on the plus side, as we said earlier, there doesn't appear to be any inclination among the gathering aerie of liberal Eagles to try anything too awfully radical, beyond destroying the value of the dollar, of course. Indeed, "the one" himself is said to have indicated in recent days that he is no longer certain that this would be a good time to raise taxes on the rich. And for that small hint of a modicum of common sense, we can all be thankful.

In the meantime, we can protect what we have left, après le recent deluge in the market, be thankful we still have it, and sit back and watch with interest a rerun of FDR's approach to the crisis of his day, as noted by Paul Johnson in his classic history *Modern Times*.

At Roosevelt's exciting press conferences, he boasted he played things by ear and compared himself to a quarter-back who "called a new play when he saw how the last one had turned out."

The word "interesting" doesn't even begin to describe what lies ahead.

## UNKNOWN UNKNOWNNS.

In the four decades since the Vietnam War became a major political issue, American voters have elected a Democrat to the office of President only three times: Jimmy Carter in 1976, Bill Clinton in 1992, and Barack Obama three weeks ago. In each of these cases, the Democrat was elected not because of his views on foreign policy, but *in spite of* them. In each case, the immediacy of foreign policy concerns had abated, and the electorate – and the winning candidate – was able to focus almost exclusively on domestic issues.

Carter's election, of course, came after American troops had abandoned Vietnam at Congressional direction. Americans wanted to put that particular "long national nightmare" behind them as well and wanted to focus on cleaning up and cleaning out the entrenched corruption of the Nixon era. Clinton's election also came after a military victory, though of a more ethereal and yet significant nature. George H.W. Bush had presided over the dismantling of the Soviet empire and even of the Soviet Union itself, and the electorate was ready to move beyond all the endless talk about boycotts, Contras, and Pershing missiles, and to focus on "the economy, stupid."

And while one would be hard-pressed to find anyone in the mainstream media who will admit it, the same pattern held for Obama. Let us boldly "postdict" (as opposed to predict) something that can never be disproved: had Iraq been a major issue in the just completed election, Barack Obama would have lost. The reason Obama won (or at least one of the reasons) is the fact that he was able to focus on health care and taxes and domestic spending, and a host of other home-front issues. And the reason he was able

to focus on the domestic agenda is because Iraq had become all but irrelevant. That war is over. And WE won.

The first bit of irony here is that roughly two years ago, when he was the lonely voice crying out in the wilderness urging a change in strategy and tactics in Iraq, John McCain declared that he'd rather lose an election than lose a war. And he did. Because of the McCain-inspired "surge," Iraq was won. And because Iraq was won, foreign policy was pushed off the proverbial front burner and Barack Obama was able to run and win a domestically centered campaign.

The second, and more pertinent bit of irony, is that even presidents who are elected principally, or even exclusively, on the issues of domestic policy can wind up having their terms dominated by international crises and conflicts. Take Carter, for example, who lost his reelection bid in 1980 largely because he had allowed the United States to become the world's doormat with unrelenting fecklessness and displays of weakness. From the fledgling Iranian Mullahcracy to the struggling Soviet autocracy, the rogue nations of the world did as they pleased, and, in response, Carter could do little more than punish his own nation's athletes by refusing to let them attend the Olympic games in Moscow.

One could also take George W. Bush, as another example. In 2000, "W" famously knew little about foreign policy and wanted little to do with it. He wanted to cut taxes and remake the government in line with "compassionate conservatism." Neither he nor the electorate ever expected that he would become a "war president" in a manner not witnessed since at least FDR.

In any case, the fact of the matter is that the appearance of a lull or post-victory pause in global affairs does not necessarily translate into real global stability. Bill Clinton did indeed enjoy a "holiday from history." But his presidency – or, more accurately, the decade in which his presidency took place – was very rare and not duplicable. Most presidents end up being "foreign policy presidents" whether they like it

or not. *And Barack Obama will be no different.* Despite his wishes and, apparently, those of the electorate, Obama will ultimately be judged on his management of foreign affairs and international crises, in large part because these crises will all but certainly be intense and because his management of them will crucially affect not merely the United States, but the entire global community for many years to come.

In a February 2002 press briefing, then-Secretary of Defense Donald Rumsfeld made a statement about foreign policy that has been mocked and derided ever since. Among other things, the remark won Rumsfeld the 2003 “Foot in Mouth” award from the Plain English Campaign. We’ve never quite understood the derision. Indeed, we have always regarded Rumsfeld’s comment as an inspired explanation of the processes that inform strategic thinking, or as the columnist Mark Steyn called it, “a brilliant distillation of a quite complex matter.” What Secretary Rumsfeld said was this:

There are known knowns. There are things we know that we know. There are known unknowns. That is to say, there are things that we now know we don’t know. But there are also unknown unknowns. There are things we do not know we don’t know.

The incoming Obama administration knows, for instance, that Afghanistan is a mess, virtually the opposite of Iraq. It knows that it will need to shore up that nation’s defenses and move troops in from Iraq, in order to conduct a change in tactics similar to that which produced victory in Mesopotamia. It also knows that it has the right man for the job, General David Petraeus, in the right position to do the job, as Commander of the U.S. Central Command.

The Obama folks also know that Iran is moving inexorably toward nuclear-power status and will all but certainly possess a nuclear weapon in time for the re-election campaign of 2012. They also know that there is one nation in the world with both the guts and the historical record to take whatever measures necessary

to change that calculus. And they know further that if and when such action is taken, the United States will have to choose a side and that the wrong choice could result in several million deaths.

All of this is to say that even if one looks at only the “known knowns,” the world is a pretty scary place. Afghanistan and Iran may not be generating many headlines right now, but they will be – and soon.

Given this, we’ve actually been generally pleased with the early appointments that the President-elect has made. Hillary Clinton may not turn out to be the best Secretary of State the country has ever had, but it’s hard to imagine how she could be any worse than the two who served her husband, or even, for that matter, the two who have served George W. Bush. She’s a tough old bird, and frankly we kind of like the idea of our friends and enemies, particularly those in the Muslim world, having to deal with yet another powerful, strong-willed woman. Besides, she can and likely will do far less harm at State than she would do in the Senate.

An even bigger and more pleasant surprise is Obama’s purported National Security Advisor-designate, retired Marine General (and onetime Commandant of the Marines and Supreme Commander of NATO) James Johnson. Johnson is a hawk. He wanted to win in Iraq and wants badly to win in Afghanistan. Moreover, he appeared on the campaign trail with John McCain, thereby suggesting that partisanship and ideology will hardly constitute his draw for the incoming administration.

All things considered, then, given the “known knowns,” President-elect Obama has defied both his right-wing naysayers and his leftist supporters, apparently settling on a foreign policy team that is both hawkish and experienced. This is a good thing. And more to the point, it’s a heartening one.

Unfortunately, as Donald Rumsfeld noted, the known knowns are the least of our worries. Once we get into the known unknowns and the unknown unknowns, things get quite dicey. Moreover, in such situations, all

the best advisors in the world won't help, and it's the president himself whose judgment and temperament will matter most. And needless to say, on this count, we are a little less sanguine.

What, we wonder, will President Obama do with and about Russia? His first crack at dealing with the resurgent and reinvigorated bear, in the wake of Russia's invasion of Georgia, was a disaster. He hemmed and hawed. He vacillated and danced. He issued weak statements filled with nonsensical platitudes. And then he issued contrary statements, in an attempt to keep up with his campaign opponent. Had he actually been president at the time, the world would have received mixed messages, though Russia herself would have received a single message quite clearly, namely that this guy doesn't have the foggiest idea what he's doing and we are thus free to do whatever we want.

Now, we don't know for sure what will happen with Russia over the next four years, hence its "known unknown" status. But we can speculate. Given that Putin and Medvedev invaded tiny Georgia when oil prices were still over \$100/barrel and the economy of their beloved motherland was still reasonably sound, we can imagine that they may have even grander distractions in store as oil continues to crater, in the expectation that their beleaguered citizens are likely to grow ever more restless as the economy weakens. Russia, more than just about any other nation in the world, has always regarded its foreign policy as an extension of its domestic politics. When times are tough, the ruling clique engages in foreign adventurism, thus stirring up patriotic sentiment and distracting the naysayers. And there's no reason to expect that the KGB thugs who run the joint nowadays will vary from that pattern.

Of course, Russia may well end up being the least of President Obama's worries. There are plenty of other known unknowns, and any one of them could throw a major wrench into the Hope and Change Machine. One of our personal favorites is China.

Now, we know that China remains the darling of the multi-polar activists, as well as of many investment bankers. Indeed, just the other day, it was revealed that the National Intelligence Council (the collected "wisdom" of the intelligence community) believes that China's rise will play a key part in the United States' decline over the next century. Additionally, Zachary Karabell, the president of River Twice Research, wrote in the *Wall Street Journal* that "every crisis creates opportunities – or at least so goes the old Chinese saying. This time is no exception, and China will emerge victorious."

Maybe. But we doubt it.

Longtime readers know that we believe that China is a disaster waiting to happen, a cesspool of murderous thugs and corrupt bullies. And, moreover, regular readers know that we tend to buy into Ted Robert Gurr's theory of Perceived Relative Deprivation, which postulates that great civil unrest and even revolution and "regime change" are most often the result of a population's expectations no longer being compatible with reality. Finally, anyone who knows anything about China will almost certainly know that expectations have been rising quickly, in concert with a slowing of the global growth that has given wings to these expectations.

Nouriel "Dr. Doom" Roubini, among others has predicted that a "hard landing" in China is not only possible but likely. And while China may, in fact, avert outright recession, this "hard landing" is not dependent on actual contraction, but on *relative* contraction, as per Gurr. Slower growth, from 10% to 6%, for example, would be a disaster for China and for its ruling elites. And we're not the only ones who think so. Consider the following, published last week by the left-leaning *New Republic*:

Normally, the Pearl River Delta, a manufacturing hub in southern China, whirs with the sound of commerce. Alongside massive new highways, clusters of factories churn out toys, electronics, and other consumer

products for the world; in Pearl River cities like Guangzhou, nouveau riche businesspeople cut deals at swank hotels.

But in recent months, the Delta has started to seem more like Allentown, circa 1980s. As the global financial crisis hits Western consumers' wallets, orders for the Delta's products have dried up. And angry factory workers, many owed back pay, have taken to the streets. In one recent incident, some 300 suppliers and creditors "descended on the River Dragon complex [a factory where the owners vanished] looting warehouses in the hopes of salvaging something." As *USA Today* reported.

This unrest is likely to spiral. As the Chinese economy sours for the first time in years, the government this week announced a \$586 billion stimulus package. But in some ways, much more is at stake: While, in the U.S., a financial failure would simply mean another dent in George W. Bush's reputation, in China it could mean the breakdown of the entire political order . . .

Exports constitute nearly 40 percent of China's GDP – far too high a figure. (By comparison, in the U.S., exports account for about 10 percent of GDP most years.) And the global financial slowdown is already taking a terrible toll. Some 10,000 factories in southern China's Pearl River Delta area had closed by the summer of 2008. Gordon Chang, a leading China analyst, estimates that 20,000 more will shutter by the end of this year. In the third quarter of 2008, Beijing also reported its fifth consecutive quarterly drop in growth, and several private research firms expect a sharper slowdown next year. Additionally, unemployment is skyrocketing; in

Wenzhou, one of the main exporting cities, about 20 percent of workers have lost their jobs, Reuters recently reported.

As growth slows, the banking sector could be hit, and the stock markets, driven by retail investors who know little about markets, could fall even farther; already, the Shanghai stock market has dropped from 6,000 points to just over 1800 in the past year. (A drop of that size on Wall Street would put the U.S. in a second Great Depression.) With the state still holding major stakes in financial institutions, too, no one has any real idea of the scope of Chinese banks' non-performing loans, though most estimates believe the country has some \$1 trillion in bad loans.

As the economy turns sour, protest is rising. Many young Chinese have never even lived through an economic downturn. In the Pearl River Delta, months of layoffs are sparking street protests by blue-collar workers fearing they'll never see back pay owed to them and creditors furious at factory owners who shut their doors and vanish. These demonstrations are turning violent, and ultimately could provoke a violent response, since Chinese factory owners increasingly hire thugs to hit back at demonstrators. Overall, demonstrations are spreading, according to Radio Free Asia, which closely follows the Pearl River Delta. Though China has in recent years weathered thousands of protests, they tended to be clustered in poor, rural areas, not the prosperous Delta or other middle-class regions of the country.

Even worse for the regime, the economic downturn is hitting Chinese home prices and urban jobs, too. Those urban middle classes, the key base of support

for Beijing, now find their only asset, their first home, is collapsing in value, while their sons and daughters cannot find jobs right out of college. In several major cities, home prices have dropped by more than 50 percent in just the past year. Perhaps unsurprisingly, urban middle class protests over land prices and land evictions are rising in cities like Shanghai too. "These types of protests, with urban people, this is what the government is really worried about," one longtime real estate expert told me in Shanghai. "These are bankers, doctors, professors, people with real clout."

For the first time since 1989, Beijing seems scared.

Now, we don't know if we'd go as far as this piece's author does and predict the potential overthrow of the Chinese government. But we certainly wouldn't rule it out either. In fact, regime change strikes us as a far more realistic scenario than the one that postulates that China will "emerge victorious." Whatever happens, though, China will be an issue for Obama. If it becomes a greater rival, he will have to do something. And if the ChiCom Thugocracy falls, he'll likewise have to do something.

The latter scenario might be intriguing, if we could be certain that the kleptocracy there would be replaced by an independence movement similar to that which swept through the former Soviet bloc when that regime fell. But we are not certain of that. In fact, we would actually expect something notably less convivial to emerge in China. Of course, even if we are wrong and the Chinese Communist regime gives way to freedom fighters, the very same Clinton hacks who "lost" Russia during the '90s would be in charge in Washington, meaning that there would be a reasonable chance that

they would "lose" China too. Either way, color us skeptical about the Obama administration's ability to deal with this "known unknown."

As for the unknown unknowns, they are, by definition, impossible to predict. What that means, in turn, is that the Obama administration is far more likely to be caught off guard by them than by other developments. And as the likely Secretary of State-designate herself noted repeatedly throughout this past Spring, there will be no time for on the job training, meaning that the president will have to go with his gut, his instincts.

And that makes us uncomfortable.

Thus far, President-elect Obama has demonstrated that he can be a very poised and very thoughtful administrator, choosing smart, well qualified aides and advisers. And we feel more confident now than we did three weeks ago that he will therefore get a great many of the challenges facing this country right.

But that doesn't mean that we trust his instincts or his judgment. We've seen where those instinct have led him in the past, and in many cases those destinations were objectionable, to say the least.

We can only hope that there will be far fewer unknown unknowns and known unknowns than known knows. And we can pray that the unknown unknowns will be handled adroitly. But as the aforementioned Mark Steyn once noted, "To 'hope' and 'pray' that a President Obama would defy his slim record, his long consistent past and his own Congressional majority is to put your faith in 'change' no one can believe in."

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