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THEY SAID IT

It is difficult to conceive any situation more painful than that of a great man condemned to watch the lingering agony of an exhausted country, to tend it during the alternate fits of stupefaction and raving which precede its dissolution, and to see the symptoms of vitality disappear one by one, till nothing is left but coldness, darkness, and corruption.

Thomas Babington Macaulay, *Machiavelli*, 1827.

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HALF FULL? WE DOUBT IT.

By nature, we are optimists. We tend, in general, to think that all will work out in the end, whatever that “all” might be. Optimism is, after all, the quintessential American characteristic. From Washington to Jefferson; from Lincoln to Roosevelt; from Kennedy to Reagan, the single universal that has guided this nation since its inception is the belief that things can be better and, with the forces of liberty unleashed, will be better. So let us repeat: we are optimists.

But we’re not idiots.

The markets are rallying. The mood of the country is improving, at least if public opinion polls are to be believed. The dark clouds are lifting and a brighter tomorrow seems all but inevitable. Heck, the President of the United States has time to sit around and giggle at “comedians” when they call political dissenters “traitors” and wish painful death upon them. How could things get any better?

Well . . .

We hate to be the ones to rain on the parade. But despite what people – and markets – may think, the world remains a very unstable and dangerous place. And contrary to what appears to be the general perception and the emerging conventional wisdom, it is actually growing more dangerous and less stable day by day.

For starters, of course, there is Pakistan, about which we wrote three weeks ago. For those of you who have not been digging deeply into the “international” section of your local papers, Pakistan is currently in the midst of a full-blown civil war, with government forces at long last acknowledging that the Taliban never intended

to abide by the cease fire arrangements reached several weeks ago. So the “good guys” – if such a thing currently exists in Pakistan – are now on the offensive, killing the bad guys and trying to keep them away from the capital city, Islamabad, and presumably away from the country’s nukes as well.

But so what? Even a “win” by Pakistani government troops does little to ensure that the country will stabilize. The intelligence services remain conflicted and, to some measure, dedicated to Islamist ends.

Moreover, we hear incessantly about how American militarism and accidental killings of civilians serves only to further radicalize indigenous populations. So why are we to believe that Pakistani troops killing civilians with rather greater abandon is likely to have the opposite effect? All of which is to say that there is no guarantee that the government troops will win or, if they do, whether they can maintain their victory. As *The Wall Street Journal* reported this morning:

Pakistan faces a dual test it has often failed before as soldiers again square off against Taliban militants in the Swat Valley: The country is fighting a counterinsurgency campaign while caring for those displaced by the conflict.

For the past several days, Pakistan’s army and the Taliban have been fighting sporadically along the mountain ridges of Swat after a peace deal collapsed. Pakistani officials say they are determined that the offensive will continue until the military asserts control over the 400-square-mile area.

But even with a fresh infusion of U.S. military technology and training, it is far from clear that the army will do any better this time than last, when it was ground to a halt by the militants and entered a peace that gave control of the valley to the Taliban.

It has been less than three weeks now since our illustrious Secretary of State declared the Taliban insurgency in Pakistan a “mortal threat.” Yet already the Obama administration seems to have decided that arming the Pakistani military – whose tactics, desire, and loyalties remain questionable at best – is the best that the United States can do. As the columnist Tony Blankley noted last week, the Obama administration has already conceded that “we have limited options” in Pakistan, though it strikes us odd that they would think the best of those limited options is to flood the Pakistani military with gadgets and gizmos that may well be used against American troops in the near future.

Perhaps the change in military leadership in the AfPak theater – announced this afternoon – will alter the dynamic. We can hope. But we do so dubiously. Last week, prominent left-wing journalist Bob Dreyfuss wrote that Congressman David Obey, the Chairman of the House Appropriations Committee, is unhappy with the way the Obama team is handling AfPak and has “repeatedly likened Mr. Obama’s approach to President Richard Nixon’s plans for Vietnam in 1969.”

We don’t know exactly what Obey means, and certainly we tire of Vietnam analogy. We will note, however, that one difference between Vietnam and Afghanistan is that when Vietnam was given away by Congressional fecklessness, only those Vietnamese who liked the United States followed its soldiers home. That most certainly will not be the case if Afghanistan is similarly abandoned.

If that’s not enough to keep you up at nights, there’s more, only it involves different nukes and a different potential hotspot, one that will be on the agenda (and presumably the front pages) next week, when Israeli Prime Minister Binyamin Netanyahu visits the White House to discuss his nation’s security and the Obama administration’s efforts to aid and protect its purported ally. All of the usual public niceties will, we presume, be on display during the visit. But we strongly suspect that there will be much tension behind closed doors.

There are reports, for example, that the Obama administration will break 40 years of precedent at the meetings by pressuring the Netanyahu government to join the Non-Proliferation Treaty and thereby disclose Israel's nuclear weapons and expose them to international scrutiny. Add to that the fact that it now appears likely that Israel will, in the words of *Reuters*, "inform not ask U.S. before hitting Iran" and it is clear that there will be much for the Obama and Netanyahu to discuss.

Netanyahu may also want to ask President Obama what he should make of the following, which was published last week by *The Jerusalem Post*:

Israeli TV stations had reported Monday night that [White House Chief of Staff Rahm] Emanuel had actually linked the two matters, saying that the efforts to stop Iran hinged on peace talks with the Palestinians. The remarks were reportedly made in a closed-door meeting previous day with 300 major AIPAC donors on Sunday.

If Emanuel did, in fact, make such comments, then all bets are off with regard to Israel and its own efforts to stop the Iranians. "Going rogue," as Instapundit's Glenn Reynolds puts it, might be Israel's only option, given the general intransigence of the Palestinians and their Arab brethren.

We can only hope that the *Post's* report (and the TV reports on which it was based) is false. And there is some reason to believe so. As *Commentary's* Jennifer Rubin wrote, "in this case a source with knowledge of the meeting says that 'what he said was that seeming to make progress by having negotiations will make it easier to build a regional coalition to stop Iran. There was no notion or mention of conditionality or hinging [Palestinian talks to Iran].'" While that is comforting, it doesn't diminish the fact that the initial report at least seemed plausible, given how the Obama administration has thus far treated Israel and, especially, the question of Iranian nukes.

As for the other half of the equation, the "Palestinian question," there will be much for Obama and Netanyahu to discuss. Over the weekend, King Abdullah of Jordan gave an interview to *The Times* of London and in it made some fairly bold statements that anyone with any sense might interpret as threats. To wit:

"All eyes will be looking to Washington," he [Abdullah] said. "If there are no clear signals and no clear directives to all of us, there will be a feeling that this is just another American Government that is going to let us all down."

If Israel procrastinated on a two-state solution, or if there was no clear American vision on what should happen this year, the "tremendous credibility" that Mr Obama had built up in the Arab world would evaporate overnight.

And if peace negotiations were delayed, there would be another conflict between Arabs or Muslims and Israel in the next 12-18 months, with implications far beyond the Middle East.

"If the call is in May that this is not the right time or we are not interested, then the world is going to be sucked into another conflict in the Middle East," the King said . . .

Emphasising again the urgency now felt by all Arab governments of making the most of Mr. Obama's commitment to a settlement, he said this was a final opportunity. "I think we're going to have to do a lot of shuttle diplomacy, get people to a table in the next couple of months to get a solution." The alternative was bleak – war, death and destruction.

Just so we're all clear on this, Abdullah is considered one of the "moderates" in the region. His pledge of "war, death and destruction" should not be taken lightly. Unfortunately for his people – and for the rest of the Arabs – when Arab leaders talk like this and act to back it up, it's usually the Arab people who end up suffering the "death and destruction." One can hope that the "moderate" King was being hyperbolic intentionally, exaggerating the frustration for effect. But one would be foolish to bank on that hope.

Meanwhile, the Iranians continue to move along their way toward developing nuclear weapons capabilities; Hugo Chavez continues to expropriate more and more of Venezuela's erstwhile private oil infrastructure; Vladimir Putin and his puppet Dmitry Medvedev maintain their insistence on reliving Soviet greatness and on threatening the West, particularly over its relations with Georgia; the Chinese continue their military build-up; and, just for fun, the Australians have also joined in the Asian-Pacific military build-up game, apparently in preparation for the day when American power will recede and the Aussies will have to defend themselves alone, in what is increasingly a troubled neighborhood.

All things considered, then, no one should get too terribly comfortable with the current state of foreign affairs. And we note as well that all of this comes at a time when the President of the United States is embroiled in what appears to be a war with his intelligence apparatus.

George W. Bush spent most of his presidency fighting against a CIA that had gone to war with him, and he suffered badly for it. And so, we would argue, did the country. Now, it appears that the CIA is equally willing to go to war with Obama, who has alienated more than a handful of career analysts and officials with his decision to use the CIA in his political fight against the Bush administration and its "enhanced interrogation techniques."

The leaks last week about Speaker of the House Nancy Pelosi and what she was told about the interrogations and when serve as pretty solid evidence

that many in the CIA are uncomfortable with the new administration's tactics and are more than willing to fight back. They are not willing, it would appear, to take the fall for this "torture" business, at least not alone. Given Obama's naiveté and inexperience in foreign affairs, this hardly strikes us as a promising development.

And speaking of not-promising developments, we need to move along from the potential disasters in foreign affairs to those lurking in the domestic realm.

As most of you know, domestic conditions are just as unstable and potentially dangerous as are foreign conditions, which is another reason why we have such a difficult time putting on our optimistic smiles.

President Obama may think he's done a mighty fine thing in negotiating Chrysler's bankruptcy and that he will do just as well when he negotiates GM's impending filing. But except for a handful of big shots in the UAW, we can't imagine anyone who is terribly thrilled by what has transpired. Leave aside, for the moment, the thuggish bullying of Chrysler's bondholders and what that says about this administration's respect for the rule of law. What may be more important and more immediately relevant is what this will do to the veins of capital needed to keep this economy from further tanking.

The *Wall Street Journal* this morning quoted an unnamed Obama administration team member as saying that none of the secured creditors' problems are particularly relevant, since "You don't need banks and bondholders to make cars . . ." Dear Lord. Are these people really that ignorant – or, more accurately, stupid? To paraphrase tax law professor Stephen Bainbridge, do these people really not know that it's the investors – banks and bondholders, among others – who put the "capital" in "capitalism"? Really? Contract law professor Dale Oesterle concluded that they don't:

When the government got tough it did so by threatening to bring nasty public pressure on the creditors. Creditors

that were already on the government dole with TARP money caved immediately; hedge funds held out a bit longer - took incredible public heat - and eventually caved as well. The hedge funds, by the way, are the players the government needs to get into its public/private partnership program and its TALF program for either to succeed. So the government ended up ripping players it needs to play in the future for the success of its programs.

Beautiful. Just beautiful.

Equally beautiful and just as relevant to financing and bonds, this morning, the Obama administration raised its projection for the 2009 budget deficit to \$1.8 trillion, FOUR TIMES the previous record, set just last year. Naturally, according to the Obama team, all of this is George Bush's fault. But even members of the mainstream press, who would do almost anything for the President, have had to call bullsh*t on this one.

For starters, federal tax receipts are tanking (down 28% in March) and that can be attributed, in part, to tax policies proposed by the administration and taxpayers' conscious reactions to those proposals. More to the point, the deficit was projected at \$1.2 trillion just this past January, which is to say that it's increased by 50% since. The Heritage Foundation's Brian Reidl comments:

The White House raised the 2009 budget deficit projection to a staggering \$1.8 trillion today. For context, it took President Bush more than seven years to accumulate \$1.8 trillion in debt. It also means that 45 cents of every dollar Washington spends this year will be borrowed.

President Obama continues to distance himself from this "inherited" budget deficit. But the day he was inaugurated, the 2009 deficit was forecast at \$1.2

trillion — meaning \$600 billion has already been added during his four-month presidency (an amount that, by itself, would exceed all 2001-07 annual budget deficits). And should the president really be allowed to distance himself from the \$1.2 trillion "inherited" portion of the deficit, given that as a senator he supported nearly all policies and bailouts that created it?

Is anyone surprised, given this, that last week's Treasury auction was "terrible"? We weren't, though we were troubled, to put it mildly. If the economy is, indeed, recovering, then this would suggest that it may not do so for long. Higher interest rates and unforgiving inflation would likely dampen everyone's spirits.

Also last week, Fannie Mae announced its 1st quarter earnings, posting a \$23 billion loss and asking the federal government for \$19 billion more in support. And it doesn't see any likelihood that things will get better any time soon. Bloomberg explains:

Fannie Mae, operating under a federal conservatorship, asked the U.S. Treasury for a \$19 billion capital investment and raised the possibility that its long-term survival may be dependent on continued government funding.

Fannie Mae, which took \$15.2 billion in aid on March 31, cited the "unprecedented" housing market slump and government-mandated programs that are creating "conflicts in strategic and day-to-day decision making," according to company filings today with the Securities and Exchange Commission.

The first-quarter net loss widened to \$23.2 billion, or \$4.09 a share, pushing Fannie Mae's net worth below zero for the second time

Want more on federal mortgage disasters? You sure? Fine. Here's the *Wall Street Journal*, also last week:

Everyone knows how loose mortgage underwriting led to the go-go days of multitrillion-dollar subprime lending. What isn't well known is that a parallel subprime market has emerged over the past year – all made possible by the Federal Housing Administration. This also won't end happily for taxpayers or the housing market.

Last year banks issued \$180 billion of new mortgages insured by the FHA, which means they carry a 100% taxpayer guarantee. Many of these have the same characteristics as subprime loans: low downpayment requirements, high-risk borrowers, and in many cases shady mortgage originators. FHA now insures nearly one of every three new mortgages, up from 2% in 2006.

The financial results so far are not as dire as those created by the subprime frenzy of 2004-2007, but taxpayer losses are mounting on its \$562 billion portfolio. According to Mortgage Bankers Association data, more than one in eight FHA loans is now delinquent -- nearly triple the rate on conventional, nonsubprime loan portfolios. Another 7.5% of recent FHA loans are in "serious delinquency," which means at least three months overdue.

All of this, taken together, suggests that while recovery is a nice thought and some economic numbers have been downright positive, we're hardly out of the woods yet. And even when we get there, the trouble will not soon abate. Chances are that we are less likely to be able to predict the economic future than many of you on our reading lists. Still, the intersection of policy and economics is, right now, rich in potential dangers, some of which most people in this country

have never contemplated. In closing, we'll add one more, which is technically less economic than demographic, but still portends near-term trouble.

Last week, *The Washington Post's* David Ignatius noted the following:

People have accused the baby boomers of being whiners almost since we were born. But just wait until we get to retirement age and discover that we don't have nearly enough money to take care of our "golden years." That's going to be the ultimate generational bummer.

I've been gathering some data about what I'll call, with the usual boomer understatement, the "retirement crisis." My mentors have been Eugene Ludwig, the head of the consulting firm Promontory Financial Group, and his colleague Michael Foot. The numbers show a genuinely frightening gap between what people have saved for retirement and what they will need. And many of these studies don't take into account last year's stock market crash, which will make the problem worse . . .

How bad are baby boomers at financial planning? Extremely bad, according to Annamaria Lusardi and Olivia Mitchell of the National Bureau of Economic Research. They found that more than one-quarter of boomer households thought "hardly at all" about retirement and that financial literacy among boomers was "alarmingly low." Half could not do a simple math calculation (divide \$2 million by five) and fewer than 20 percent could calculate compound interest. The NBER researchers also found that, as of 2004, the typical boomer household was holding nearly half its wealth in the form of housing equity. Uh-oh . . .

As my pension mentor Foot says: “This is a time bomb that has been building for years.”

Ugh.

Like we said at the top of this piece, we’d like to be optimistic. We really would. But given all that we’ve discussed here, we find it difficult. Staggeringly so.

THE GOOD GUYS.

It used to be so easy. A half century or so ago, when America was in its prime, strong and proud and filled with the belief that it had a good and honest role to play on the world stage. There were good guys and bad guys in those days. We were the good guys. We referred to ourselves and our allies as “the free world.” We believed that all men are created equal, that they are endowed by their Creator with certain unalienable rights, which include but are not limited to life, liberty and the pursuit of happiness.

We believed that governments are established for the purpose of securing these rights and derive their power to perform this function from the consent of the governed. We recognized that we weren’t perfect, but we also understood that by trying our best to live up to the standards that the founding fathers of this great nation set for us, we were, as Lincoln put it, “the last best hope of earth.”

The bad guys in those days were called “commies” or “reds.” To make things simple, they openly vowed to destroy “the good guys” and their cockamamie notions concerning such things as freedom of speech, freedom of religion, the sanctity of human life, and private property. Moreover, they had the courtesy to quarantine themselves behind an “iron curtain,” so the good guys weren’t constantly exposed to their rude habits and their bad hygiene at malls, restaurants, laundromats, and in taxi cabs.

There was, of course, considerable intercourse between the two sides. But, it was, for the most part, conducted under a fairly strict protocol. Not surprisingly, each side had folks within its population

and its ruling establishment that found things to like about the other side’s system. In “the free world” these folks were known as “useful idiots” or “liberals.” And they were free to go about their business. In the “commie” world they were known either as “threats to the public order” or lunatics. And they were killed, jailed, or put in an insane asylum.

Metaphorically, the whole exercise could be viewed as a high stakes checkers game: knotty, when played at very high levels of competition, but straightforward enough for observers to understand the action and critique the players. In fact, the day-to-day parries and thrusts in this conflict followed an informal, but widely understood and accepted playbook, which included a few simple understandings, the most important of which was the highly sobering knowledge that if one side attempted to annihilate the other with nuclear weapons, the other side would retaliate in kind. This was called “mutually assured destruction,” or MAD, and both sides respected the dire consequences of triggering this mechanism.

Most importantly, the game had a well recognized *raison d’être* or rationale, if you will. The bad guys sought to expand their territorial and ideological influence beyond their self-established “iron curtain.” And the good guys tried to “contain” them. Of course, we use the term “game” here metaphorically, since it was not a “game” at all, but a deadly serious encounter between powerful and determined adversaries. Moreover, it involved the very real and constant threat of a confrontation that could possibly have ended civilization as we knew it.

For this reason, while there were endless debates among the good guys over the means by which to win the battle with the bad guys, virtually everyone agreed that victory was essential. More importantly, they generally agreed on the definition victory, namely that it would be achieved when “the free world” could live in peace, without the constant threat of aggressive from the “bad guys.”

There was an ever present residual awareness that in order to achieve this victory, the standing governments of the bad guys would have to be replaced with a

new model. The hope was that this new model would resemble those of “the free world,” in that it would recognize the right of citizens to life, liberty and the pursuit of happiness, etc. But this hope was not considered essential to victory. Peace and security were the simple, but nonnegotiable goals

Needless to say, things are much more complicated today. So different in fact that the good guys can no longer agree among themselves over the most basic of all issues, i.e., who is and who is not a bad guy.

Are Russia and China, the most deadly of the former bad guys, still bad guys? Don't know? Well, how about Iran? It is building a nuclear weapon and its president has publicly stated that it plans to someday wipe Israel off the face of the map. Israel is one of America's closest allies in the Middle East, and the only democracy in the region. Russia and China are actively engaged in helping Iran to build a nuclear weapon. Does this make them bad guys?

How about Israel? Is it a bad guy or a good guy? Some of America's best friends and allies in Europe and no small number of Americans themselves seem to think it is a bad guy, arguing that Israel threatens peace in the Middle East simply by being there. Indeed, one could be forgiven for suspecting that the President of the United States believes this.

Surely, we can all agree that people who fly airplanes into tall buildings in New York are enemies. Right? Well, no. Some Americans believe the United States brought it on itself, deserved it. One of these is the Reverend Jeremiah Wright, a dear friend and spiritual mentor of the President of the United States, “like an uncle.” Indeed, he presided over the marriage of the President and his wife, baptized their two daughters, and is credited by the President for the title of his book *The Audacity of Hope*.

“God damn America,” Obama's friend said from the pulpit not too long ago, and then added his opinion that the United States had brought the 9/11 attacks, that killed over 3,000 people, on itself.

Of course, Barack has said he doesn't see eye to eye with his dear friend on this matter. Indeed, he has said repeatedly that he loves this country, that he truly and deeply adores the United States and the opportunities it has presented him.

And you know what? We believe him. It is hardly our desire to question his patriotism or his self-expressed affection for the country. We may question the means by which he expresses this affection, but we don't doubt it for second.

Regrettably, such concessions – on his part and ours – don't resolve the conundrum. There is still no definitive guide as to who represents the good and who the opposite. Even though he loves this country, one can reasonably question whether the President thinks it is necessarily good. After all, he did feel obligated to tour the world in his first 100 days in office apologizing for America's past sins, real and imagined, scourging himself and his country before thugs, dictators, and ne're-do-wells alike. Forgive, if you will, our confusion as to what this says about the President and his beliefs about good and evil.

Not that we necessarily blame him or, for that matter, think that he is alone. Like his Democratic predecessor, Bill Clinton, Barack Obama is hardly the cause of any confusion; he is merely a symptom of it or, more accurately, a reflection of it. At the top of this piece we noted that a half century ago, delineating good from bad was easy. But in that same half century, the philosophical fashions that underpin the ideology of the political left have worked desperately to foment and to exacerbate moral confusion.

None of this should come as any surprise to long-time readers, who have heard us bleat about this endlessly. Post-modernism destroyed the very concepts of right and wrong, insisting that such terms are expressions of power, of oppression, and of circumstances. Emotivism, in turn, filled the void left when the traditional moral structures were destroyed, providing a new set of moral guides based on the individual's whim and his personal predilections, or as Alasdair MacIntyre described it: “the doctrine that all evaluative

judgments and more specifically all moral judgments are nothing but expressions of preference, expressions of attitude or feeling, insofar as they are moral or evaluative in character....”

And so Obama – and indeed the left in general – sees that which he likes as “good” and that which he doesn’t as bad or evil. But beyond his personal preferences, there is no guide. Last month, the columnist Charles Krauthammer took the president to task for his European apology tour. “Our president,” he wrote, “came [to Europe] bearing a basketful of mea culpas. With varying degrees of directness or obliqueness, Obama indicted his own people for arrogance, for dismissiveness and derisiveness, for genocide, for torture, for Hiroshima, for Guantanamo and for insufficient respect for the Muslim world.” In this, Obama was purely a creature of the left and of the philosophical pottage that informs its ideology.

America, in other words, is good when it agrees with the president. Not so great when it does otherwise. What could be simpler, yet more terrifyingly confusing.

How are we, the citizens of Obama’s America to react to the capriciousness of good and evil? More to the point, how are our purported allies to react? They may guess at the President’s intentions. But they cannot know for certain where his whims will lead him. The moral of our story then? The current confusion on display should, if nothing else, serve as a warning to the “good guys” of yesteryear that they are soon to be on their own. These include, but are not limited to, Great Britain, Europe, Israel, and all of those wonderful and brave people who fought and died and are still fighting and dying for freedom from the inside totalitarian regimes all over the world, strengthened by the knowledge that the United States of America was on their side.

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