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THEY SAID IT

What a field day for the heat,
A thousand people in the street,
singing songs,
and they're carrying signs,
mostly say "hurray for our side."

It's time we stop, hey, what's that sound,
Everybody look what's going down.

Buffalo Springfield, "For What It's Worth," 1967.

In this Issue

The Greatest Political Story
Ever Told?

The Gathering Storm.

THE GREATEST POLITICAL STORY EVER TOLD?

One of the most fascinating personal stories in the annals of the Tea Party movement is that involving a woman named Maureen Tucker, a grandmother from southern Georgia, who was captured on film by a local news crew at a Tea Party in Tifton last April 15th. Ms. Tucker told the reporter she was tired of the taxes, the spending and "the way this country is being led toward Socialism."

Later, after she became the topic of nationwide discussion, Ms. Tucker was interviewed (via email) by the *Riverfront Times*, excerpts of which were collected recently by *Newsweek* blogger Mickey Kaus:

No country can provide all things for all citizens. There comes a point where it just isn't possible, and it's proven to be a failure everywhere it's been tried. I am not oblivious to the plight of the poor, but I don't see any reason/sense to the idea that everyone has to have everything, especially when the economy is so bad. I see that philosophy as merely a ploy to control.

My family was damn poor when I was growing up on Long Island. There were no food stamps, no Medicaid, no welfare. If you were poor, you were poor. You didn't have a TV, you didn't have five pairs of shoes, you didn't have Levi's, you didn't have a phone; you ate Spam, hot dogs and spaghetti. We all survived! I am not against food stamps, welfare or Medicaid, if only they would oversee these programs properly!

I am also against the government taking over the student loan program, car companies, bailouts and the White House taking control of the census (what the hell is that all about?); [about] any First Lady telling (I know, I know, "suggesting to") us what to eat, the mayor of New

York City declaring “no salt” (screw you, pall), the mayor/city commissioners of Anytown, U.S.A. declaring you can’t fly a flag, can’t say the Pledge of Allegiance and can’t sing the National Anthem. I’m against a President dismissing any and all who dare to disagree; the water being turned off in (central) California, at [an] area where they’ve turned off the water because they want to save a one-inch fish – turning that huge area of farming land into another dustbowl – the insipid start of food supply control methinks! The government deciding what kind of lightbulbs we can use (all you “think green” people, three objections to this b.s.: 1) Those bulbs give off the light of a candle; 2) They’re very expensive; 3) They have mercury in them - how the hell are we supposed to dispose of them?).

I am against the government now thinking about bailing out unions. The unions made the contracts which include insane pensions; the U.S. government didn’t . . .

This is a nice rant, which we enjoyed very much. But what makes it fascinating is the fact that the grandmother in question, Maureen Tucker, is better known as Moe Tucker, and she was, in her youth, the drummer for the Velvet Underground. For those of you who don’t know or don’t remember, the Velvet Underground was a proto-punk band in the 1960s; a transgressive rock band best known for the song “Heroin,” for palling around with the artist Andy Warhol, and for its lead-singer Lou Reed, who later went on to score the biggest hit of his solo career with a song about transvestite hookers (“Walk on the Wild Side”).

Tucker is fascinating, in our estimation, not just because of her evolution from counter-culture icon to Tea Party hero, from radical musician to concerned

grandmother, but also – and perhaps more so – because that evolution is emblematic of the evolution of the Baby Boom generation as a whole.

When looking at the Tea Party movement and trying to determine what the long-term impact of that movement might be, perhaps the most critical factor, in our estimation, is the fact that the Tea Party is, in many ways, the latest mass movement to be driven by Baby Boomer preferences. The Boomers, obviously *were* the counter-culture in the late ‘60s and early ‘70s. They drove the anti-war movement. They drove the Democratic Party to the radical left. They drove the sexual revolution.

A decade and a half later, when they’d grown up (or at least most of them), the Boomers began driving the economy and the financial sector, the push toward lower taxes, greater economic liberty, and perhaps most notably, mass involvement in the equities markets. As our old colleagues at Prudential, Greg Smith and Ed Yardeni both noted during the 1980s, the Baby Boomers entry into economic maturity and their participation in the equities markets constituted “the greatest financial story ever told.”

And now, it seems, the Boomers are at it again. According to recent poll data from *The New York Times* and CBS, nearly half of all Tea Party members are Baby Boomers. And though we were a little surprised when we read this, we really shouldn’t have been. After all, it only makes sense. What the Baby Boomers want, they get. That’s the nature of being the largest generational cohort in American history (prior to the Millennium generation, which is far more diverse and far less cohesive).

Four decades ago, the Boomers wanted an end to the Vietnam War and to the established cultural order. And they got it. Three decades ago, they wanted houses with cheap financing, trips to Disney World, and relaxed-fit jeans. And they got it. Today, they want to make damn sure there is enough money in the government kitty to pay for the Medicare and the Social Security they have coming.

The only real question now is whether they will get what they want this time, as they always have in the past.

Not surprisingly, polls tell us that members of the Tea Party movement want a smaller and less intrusive government. And they also want Social Security and Medicare protected. This has been the source of much amusement among Tea Party critics on the left and the allegedly “moderate” right, who mock the Partiers for their contradictions. David Frum, a former speechwriter for George W Bush and current self-appointed guardian of all that is holy and sacred in moderate conservatism, provides a classic example:

As Republicans and conservatives have scrambled to rally the support of the Tea Party movement, many have failed to take notice of some of the important inconsistencies implicit in the Tea Party message. A recent New York Times/CBS poll reveals some interesting information about the movement and its fundamental “principles.”

According to this poll, 91% of Tea Partiers want a smaller government with fewer services. Despite this hostility to big government, 62% of Tea Partiers believe that Social Security, Medicare, and Medicaid are worth the cost (apparently no one bothered to tell them that Social Security and Medicare are evil Godless socialist programs).

Like the rest of the political class, Frum thinks that the silly Tea Partiers are quaintly stupid, unable to recognize that “government” and “entitlements” go hand in hand and cannot be distinguished from one another. He thinks that the Boomers want government cut, but still want to keep their stuff. What he doesn’t understand, of course, is that “their stuff” is distinguishable in moral and economic terms from “all stuff” and this is what makes this seeming contradiction work.

Let us explain.

When it comes to Social Security and Medicare, the Boomers are the generation that has done the most to prop them up and the only generation to have paid into both programs throughout all of their working lives, from high school through retirement. And they made these payments based on the not unreasonable assumption that the government would keep its side of the contract. And now it’s time for the government to do so.

And while their assumption is not unreasonable, it is, by and large unfeasible, for two reasons. First, the government continues to spend money like crazy, thereby threatening the stability of the denomination in which these obligations are to be paid. And second, the structure of these entitlement plans is such that there simply aren’t enough workers to pay for the Boomers’ benefits without substantially altering the equation.

How all of this translates into specific demands of the Tea Party movement is, apparently, both obvious and confusing, all at the same time. The response to the first challenge – that of unreasonable and bloated spending is easy enough and is understood by even the most dense observers, including the aforementioned Mr. Frum. *STOP SPENDING!* The Boomers want the ridiculous and non essential spending to stop. Enough with the stimulus bills. Enough with the new health care entitlements. Enough with all the garbage that the government spends its Chinese banker’s money on. Just stop.

The response to the second challenge is a little more difficult and confusing, in that it hasn’t really been articulated. Nevertheless, it will, we believe, be just as obvious in retrospect: *REFROM ENTITLEMENTS!*

If the current structure of the Social Security and Medicare programs make them unsustainable, then the structure of those plans must be changed. And we expect that this is precisely what the Baby Boomers/ Tea Party will demand.

In his recently finished and soon-to-be-released White House memoir, George W. Bush calls his inability to reform Social Security the single greatest failure of his presidency. We agree. And more to the point, we suspect that the preponderance of Tea Party participants would likely agree too. Or, at the very least, they'd rate the Social Security failure a close second behind his excessive discretionary spending. Whatever the case, we suspect that Bush will not be the last president to try to reform entitlements, though he may be the last to fail.

The key to entitlement reform, from the Boomers' perspective, will be protecting what they are already due from the government, given what they contributed. What this means, then, is that any reforms will have to exempt anyone age, say, 55 or older, thereby protecting the bulk of the Boomers and allowing the so-called "Generation Jones" – Boomers born after 1954 – to make adjustments in the decade or more before they retire.

In pursuit of these reforms, we suspect that subsequent generations – Generation X and the Millennials – will prove surprisingly receptive to change. After all, when you have nothing substantive to look forward to, even a "reformed" future is a better alternative. Most X-ers and Millennials understand, at least viscerally, that the current system is unsustainable. And we doubt seriously if they'd be hard to convince about the probity of reform, particularly if the Boomers are on board as well.

All things considered, we think that the Tea Part activists have a real chance to make a real difference in American domestic politics – just as they once did in American foreign policy, American culture, and the financial world. We know that we have, over the course of many years, been critical of the liberal Boomers and their incessant preening and posturing. And those critiques still hold. But the majority of the Boomers aren't liberal activist types anymore. They're people who had to leave the university behind and grow up, get jobs, raise their families, and pay their bills. And now all they want is for the government to stop being so damned stupid and honor its promises.

Now, frankly we'd be happy to see all of Moe Tucker's anti-big-government, anti-environmental whacko, anti-statist agenda enacted. But, Moe is, as she has always been, a Boomer visionary, a little ahead of and beyond most of her contemporaries. Maybe they'll catch up to her. But if they don't, we'll settle for what the rest of them want right now: smaller government and reformed entitlements.

Take a walk on that wild side, baby.

THE GATHERING STORM.

If our calculations are correct, sometime during the middle of 2012 all hell is going to break loose in the heat and the swampiness of the DC summer. We're not exactly sure, at this point, what "all hell" will look like, but we do know it will be ugly.

What are we talking about, exactly? Well, war.

We put it this way in the May 3rd edition of this newsletter:

Gird your loins, ladies and gentlemen, and beat the drums of war. It is coming. As surely as the sun rises in the east and Bill Clinton digs interns, war is coming. And as war always is, it will be ugly and destructive. And when it's over, everything will have changed.

This won't be a war against a foreign aggressor or an existential and nebulous attacker. It will be a war within the states, a civil war. And like the previous civil war, it will pit brother against brother and father against son. The hostilities will rage for years and will destroy families, friendships, and maybe even governments

Like nearly all wars throughout history, this one will be about resources and their scarcity. As the resources run out, competition for them will increase. And

as competition increases, hostilities will commence. Truth be told, they've already begun.

The proximate cause of this war – or wars, really – will be the inability of government to sustain itself in its current bloated condition. The fact of the matter is that government at all levels in this country has grown too large too fast and will simply be unable to maintain its massive girth. At current levels of taxation, there simply are not enough resources available to maintain the bloat that plagues the federal and especially the state and local governments. Something is going to have to give.

Now, as we noted back in May, this war is already underway. But, for the most part, it is what the U.S. Army describes as a “low-intensity conflict,” and which it defines as follows:

A political-military confrontation between contending states or groups below conventional war and above the routine, peaceful competition among states. It frequently involves protracted struggles of competing principles and ideologies.

As we said earlier, we expect the protraction of this low-intensity struggle to continue until the summer of 2012, at which point we expect the nature of the conflict to change dramatically and the stakes to escalate accordingly.

You see, the summer of 2012 will mark the beginning of the end of the 2012 presidential campaign. The parties will hold their conventions at that time and pick their candidates. These candidates will make grandiose speeches and lay out their platforms. And among the most important and most contentious issues in these platforms will be those dealing with spending priorities.

The nation's fiscal balance sheet will, all but certainly, look even worse than it does now, and the effects of the Fed's spigot-wide-open monetary policy will likely start to be felt as well. All of which is to say that spending priorities will be critical and illuminating, since resources will be even more limited, particularly given the prospects of economic and interest-rate inflation.

Over the weekend, Greg Ip, the U.S. economics editor of the *Economist*, noted in the *Washington Post* that election years tend to promote economic and financial crises because public attention during these periods is high and this increases the likelihood that politicians will make stupid and dishonest economic decisions. We are not entirely convinced by Ip's argument, though we'll concede that his charge is both interesting and not at all surprising, given the prevalence of stupid and/or dishonest politicians. But whatever the case, it is indisputable that election years tend to stimulate economic and financial strife, as politicians, who are vying for votes in a system that overvalues political clout, pick winners and losers based on electoral considerations. And against this backdrop, and in the face of scarcity, the normal election-year strife is all but certain to be exponentially exacerbated.

The second reason we expect this war to go high intensity in the summer of 2012 is based on a careful reading of history. You see, the Archduke Franz Ferdinand was assassinated in June 1914, and World War I began in earnest a month later. Roughly two-and-a-half years after the fighting commenced (32 months, to be exact), Europe's war finally spilled over to the United States, and American doughboys set about destroying the Kaiser's army.

Similarly, on September 1, 1939, German tanks started rolling into Poland, prompting the French and the British to declare war on Hitler, thus officially beginning the Second World War. Again, roughly two-and-a-half years later (27 months, in this case) Europe's war spilled over into the United States, prompting FDR and the Congress to declare war on the Axis powers.

With only two data points, it's hard to call something a definitive "pattern," but clearly there's some precedent: Europe breaks down, devolves into war; the war escalates and turns bloody; and then, roughly, two-and-a-half years later, the United States is dragged in as well.

Which brings us to May 2, 2010, the date on which the Eurozone nations and the International Monetary Fund agreed to a package of loans designed to avert default by Greece and the inevitable collapse of the European Monetary Union. Those loans were, naturally, preconditioned on fiscal austerity measures, which the Greek government undertook, and which sparked riots, protests, and the onset of violence; in other words, the commencement of war, at least as we have defined it here.

Now, whatever you may think of our analogy – and it is admittedly tongue-in-cheek – the fact of the matter is that the type of war in which we expect the United States to be compelled to engage has already begun in Europe. The hostilities began in May in Greece. But they have not stayed confined to Greece or the rest of the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) and have indeed spilled over to the more "stable" nations of the EU. And right on cue, we expect these hostilities to spill over to the United States in just under two-and-a-half years.

In the meantime, we are witnessing the escalation stage. And escalate it has. Consider, for example, that to which France has been witness over the last week or more. From the *Associated Press*:

Workers opposed to a higher retirement age blocked roads to airports around France on Wednesday, leaving passengers in Paris dragging suitcases on foot along an emergency breakdown lane.

Outside the capital, hooded youths smashed store windows amid clouds of tear gas. Riot police in black body armor forced striking workers away from

blocked fuel depots in western France, restoring gasoline to areas where pumps were dry after weeks of protests over the government proposal raising the age from 60 to 62. Riot officers in the Paris suburb of Nanterre and the southeastern city of Lyon sprayed tear gas but appeared unable to stop the violence.

Despite France's tolerance for a long tradition of strikes and protest, official patience appeared to be waning after weeks of actions that have snarled traffic, canceled flights and dwindling gasoline supplies and, now, rising urban violence. (sic)

Protesters waving red union flags and reflective vests temporarily blocked the main road leading to one of two terminals at Orly Airport on Wednesday. The ADP airport authority warned on its website of "serious difficulties expected in access to airports and air traffic."

The protests tangled traffic to the airport and some passengers walked hundreds of meters (yards) along an emergency lane to get there, dragging suitcases behind them. In one terminal, screens showed that 10 of 52 flights Wednesday afternoon were canceled.

At Charles de Gaulle airport north of Paris, the nation's biggest, protesters sang the French national anthem before pushing through a police barricade.

French student and labor leaders are again calling for strikes and protests this week. And according to another AP story, the costs are beginning to escalate:

France's massive strikes are costing the national economy up to euro400 million (\$557 million) each day, the French

finance minister said Monday as workers continued to block trash incinerators to protest a plan to raise the retirement age to 62.

Rotting piles of garbage – now at nearly 9,000 tons – are becoming a health hazard in the Mediterranean city of Marseille, which has been hit hard on land and at sea. Striking dockers at France's largest port are intermittently blocking ships trying to unload fuel there.

And it's not France alone. Consider as well that last week, British Prime Minister David Cameron and his Chancellor of the Exchequer George Osborne announced Great Britain's own austerity package, including the elimination of some 500,000 government jobs. As the BBC reported:

Chancellor George Osborne has unveiled the biggest UK spending cuts for decades, with welfare, councils and police budgets all hit.

The pension age will rise sooner than expected, some incapacity benefits will be time limited and other money clawed back through changes to tax credits and housing benefit. A new bank levy will also be brought in – with full details due on Thursday . . . Up to 500,000 public sector jobs could go by 2014-15 as a result of the cuts programme, according to the Office for Budgetary Responsibility.

Mr Osborne has not set out in detail where the jobs will go but he admitted there will be some redundancies in the public sector, which he said were unavoidable when the country had run out of money.

Government departments facing major cuts to their budgets include the Home Office, on 6%, including a 20% cut in government funding for police over four years, the Foreign Office, facing 24% cuts, and the Cabinet Office, which will see its budget slashed by 35%.

The justice department is facing cuts of 6%, with 3,000 fewer prison places over four years.

As the *Washington Post's* Anne Applebaum noted, the British have responded to these proposed cuts in typical British fashion; stiff upper-lip and all that. This, she said, contrasts dramatically with the French, who have also responded in typically French fashion, running around hysterically and screeching at the tops of their lungs. This is not to say, though, that the differences between the French and the British suggest that the “war” over austerity has been avoided in Britain. It has not. And will not be. Inherent in Applebaum's case is the fact that the British and the French *always* respond differently to war, with the Brits accepting it calmly and fighting bravely and the French . . . well . . . being French. But the Brits will have their war as well, only without the hysteria of their continental neighbors.

It is worth noting as well, we believe, that the comments made last week by German Chancellor Angela Merkel strike us as part and parcel of this war. Merkel, as you may know, declared the “multicultural” German state an utter failure and indicated that immigrants to Germany should expect to assimilate more thoroughly into the nation's culture and heritage.

The Chancellor's comments on multiculturalism and immigrants came on the heels of comments made in August by Thilo Sarrazin of the German central bank, who declared that “no immigrant group other than Muslims is so strongly connected with claims on the welfare state and crime.”

All of which is to say, we suppose, that while the Brits are the Brits and the French are the French, the Germans remain the Germans.

As we noted back in May, we can't say for certain how the war will play out in this country, but we suspect that it will be ugly. And any Republican who dares propose the type of cuts Cameron has proposed in Britain will certainly find out quickly just what the word "ugly" can mean in American politics. It will also play a critical role in the 2012 presidential race. As we concluded back in May:

Eventually, the bill will come due. And then, there will be a great and gory fight to make sure that someone else has to pay it.

We can't say this enough: A war is coming, brothers and sisters. And when it is fully engaged, it will be a mess.

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