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THE END OF THE BEGUINE

ARTIE SHAW
1910-2004

Artie Shaw was a uniquely intelligent and gifted artist to whom the crowd-pleasing aspects of his celebrity counted for little. His own words, in commenting on his work, provide a fitting epitaph – "I could never understand why people wanted to dance to my music. I made it good enough to listen to." And so he did; and better than anyone else, then or since.

IN THIS ISSUE

We present two very different topics that our government will most likely have to confront at some point in the not too distant future.

The first deals with the actual amount of money that our nation may be called upon to pay as the result of commitments made over past years which now far surpass our officially stated and recognized debt.

Not all the consequences of our present position can be identified, or even imagined, but those that are apparent will reveal the gravity of our current condition.

You will probably find the actual numbers startling in themselves, but far more incredible are the attitudes within our government that have permitted, and even encouraged, their growth, and have concealed and belittled the massive threat that they pose to our society.

The second subject has to do with the new order emerging in Iraq and the Kurds' position there. In viewing the latter we suggest a situation that we think has a real possibility of developing from the current political chaos. The longer the present uncertainties and conflicts endure, the more we think that the ultimate future of the mid-east will continue to take shape in a way our government did not anticipate.

NEXT ISSUE

Our feature subject will explore what is probably the most appalling instance of institutional betrayal that has come to our attention. Its source is one of our cabinet-level departments of government that has subjected a specific group of citizens to unfair, illegal and fraudulent financial practices for well over a century.

INTRODUCTION

In our issue #6 – (October '04; "Neither A Lender Nor a Debtor Be", page 13) we commented on what we saw as the growing peril of debt within our society and cited the wide growth of corporate, personal, state, local and federal obligations. The more we delved into our country's debt mechanism (i.e., how it is created, expanded and treated within our government), the more fascinated and alarmed we became. The results of our research left no doubt that we should explore this subject in a feature article.

UNCHARTED TERRITORY

The great age of exploration by sailing ships took place in a brief period of fifty years that embraced the last years of the 15th and the early part of the 16th centuries.

Maps of this period invariably are sketchy with detailed information provided only for the coastlines and the navigable rivers reachable by boat. Mountains visible to the old world explorers were mostly indicated symbolically by a series of inverted Vs. The rest, the great interior landmass, was often designated as "uncharted territory".

Five hundred years later, America's debt status can be mapped in the same way. We claim to be informed and devote our attention to the fringe while ignoring the "uncharted territory" of the enormous debt that we have created and accumulated since the Great Depression.

In referring to our debt we have to make an important distinction between two types. The first is generally referred to as the "national debt" for which there is a limit specified by the Congress. It reflects our formal borrowing recorded by legislation or contract, including treaties, and recognized by our budgetary and taxing processes. This figure is generally acknowledged by all governmental bodies, bureaus and branches and presently amounts to just over $8 trillion, having recently been raised to that level by Congress and the Bush administration following the '04 elections.

The second type of debt has been referred to by various names such as unfunded obligations, generational transfers, off-the-book debt, and other similarly less specific terms. The confusion as to how to accurately label this debt stems from the fact that it has been largely ignored by government, press and public alike. It consists of all present and future, actual and potential, obligations of any kind or amount undertaken by our government. This figure is substantially greater than our publicly stated national debt. We shall refer to it as "true debt".

SCALE: OFF THE CHART

A map is of little value unless it bears some notation of its scale which permits us to translate its territorial miles or acres into the document before us. Scale provides us with a way of converting one size into another. In doing so our senses and our minds can comprehend information that would otherwise remain beyond their reach.

To understand the scale of our country's debt we must first try to define and familiarize our minds with its basic unit of measurement which is a trillion dollars. A trillion is a thousand times a billion, or a million times a million. How do we relate with any real degree of comprehension to these numbers? Quite simply, we don't. For instance, as the 12-digit calculator on your desk can display no numbers higher than hundreds of billions, our true debt lies beyond its reach.

> "But we have absolutely no real concept of a trillion cars, homes or acres."

Our physical senses of sight, sound and touch enable us to make images of size and shape and changes therein. We put our hand around a golf ball and know it is smaller than a tennis or bowling ball. We can hear a limited number of sounds, such as the ticking of a clock, or the ringing of a telephone or a house security alarm and know that a time frame has been created. We can view and visualize the space required to park 10 cars, build 50 houses or create a school campus. But we have absolutely no real concept of a trillion cars, houses or acres.

A trillion is a term usually used to describe the measurements of vast inter-planetary distances. It fits there; and is non-threatening. But the same cannot honestly be said of our debt, even by those who have created it. This is not a Republican/Democrat issue. It is a national issue caused by the actions, or lack thereof, of both parties' elected representatives over the last three quarters of a century. Specifically, we refer to the 535 members of Congress and the presidents and vice-presidents that have held office during this period.

BACKGROUND

In our October '04 issue we reported that the national debt in November '03 had reached $6.9 trillion. By Oct. 14 '04 it had reached its then authorized ceiling of $7.38 trillion, but, with a presidential election less than 3 weeks away, temporary bookkeeping measures were contrived to run the government, and the political embarrassment of raising the debt limit while campaigning on fiscal responsibility was avoided.

Shortly after the election the Bush administration sought, and Congress authorized, an increase in the national debt of $690 billion to $8.07 trillion[1] to cover necessary spending through 9/30/05 when the fiscal year ends. After that, additional borrowing will be necessary.

Bear in mind that these figures relating to our national debt are ones that are publicly released and officially recognized. It would be comforting to be able to make an equation that states:

Release + Recognition = Reality.

But any such equation would be far

from the truth.

Our government's financial process is a relatively simple one. Citizens are taxed at rates set by the government and funds are collected, held and then distributed to pay for the services and goods needed to run the government and fund its constitutional duties. In some cases these expenditures benefit the general public; in far too many other instances they serve narrower interests.

But the key point is that the government is a conduit, a simple pass-through, which depends upon citizens' taxes to pay for its expenses. This has not always been true, as prior to the initiation of the income tax in 1913 most government revenues derived from tariffs.

With the advent of Keynesian economics early in the last century, and our acceptance of deficit financing as a means of both economic growth and social transformation, government has operated on the theory that budgetary deficits are due to temporary imbalances that will be corrected and eliminated by economic growth accompanied by higher tax revenues most of which come from personal income taxes.

Like a lot of theories, especially economic ones, it may be more convenient than convincing. In twenty-first century America it is seen to contain some notable flaws. The first is that the public has to continue to passively play the role of the "goose that lays the golden egg" as deficits increase and cause ever larger borrowing.

The second is that mounting interest on the debt and our growing support of special interests must be continually sold to both foreign and domestic investors.

It is the third flaw, however, that is most curious, for it derives directly from the financial actions of the American consumer. More specifically, we refer to his/her borrowing patterns.

Consumer debt has risen from $.04 trillion in 1980 to just over $2 trillion today[2] according to Federal Reserve figures which include credit card and car loans, but not mortgages. Such a steep and persistent rise in a major economic sector could not occur without making waves that are reflected elsewhere.

It is not surprising, then, to find that in the same period non-business bankruptcy filings increased from 300,000 to 1.6 million[3] (an almost identical percentage rise of 400% to consumer debt's 433%). And over the last twelve years the American public's savings rate has drifted persistently lower from just under 8% of disposable personal income to about 2%, a loss of 300%.[3]

Over the last three years, when interest rates were reduced to nominal levels, the number of mortgage refinancings escalated sharply, and yet still our consumer debt grew. This suggests that proceeds from mortgage refinancings may have been applied to reduce credit card balances which were then increased by further purchases/borrowings.

This "disappearing act", much like water in the desert, is completely consistent with our low national savings rate and could serve as a cautionary tale.

Recently developed by the financial services industry, and combining some of the characteristics of mortgages and credit cards, are home-equity loans and lines of credit. They are, of course, designed to enable the consumer to borrow more money, more easily.

> "Never underestimate the popularity of easy money."

Like other debt forms they have become part of a growth industry, increasing in volume by 35% last year to $431 billion[4]. Not surprisingly, the average size of a new home-equity line rose over the last three years from $57,000 to $78,000.[5] Never underestimate the popularity of easy money.

Now we must shift our focus and ask a rather obvious question which seems to be beyond governmental logic. American taxpayers (consumers) are carrying a debt load of $2 trillion. Our government is functioning on the theory that it can fund itself, without any significant reduction in its spending, by further borrowing (i.e., increasing the national debt). Would it not be a sensible credit assumption that, if you have already borrowed $8 trillion from a source burdened by an additional $2 trillion debt, further loans would entail greater risk for both parties?

Note, also, that the current administration expects the nation's economy, the largest part of which is generated by consumer spending, to grow its way out of our budget deficits. It is extremely difficult to see how this can occur unless our lack of savings and consumer debt patterns of recent years are reversed.

SCOPE

One of the hindrances to dealing with our true debt problem is that we have no clear definition of its size except that we know it is immense. However, using various unrelated sources, we can begin to establish a reasonable estimate. These sources, while different, share a strong interest and concern and are engaged with the matter on a regular basis.

Let's use the national debt limit established by Congress last fall as our baseline. It stands at $8.07 trillion and is comprised mostly of formal debt instruments such as Treasury bills, notes and bonds. This is not a static figure, but is regularly reported by the Treasury

Dept. with January having posted an increase of nearly $22 billion[6] . It offers more in the way of recognition than reality, but can be useful in establishing a frame of reference.

Last year we were alerted by The Concord Coalition[7] that it set our true debt at $27 trillion. More recently, this amount was raised to $43 trillion by two people with unchallengeable government experience and access - - former secretary of the Treasury Paul O'Neill[8] and David Walker, the current comptroller general[9] .

Senator Joseph Lieberman went even further and claimed the true debt is $72 trillion in an informal conversation for which we lack records, but it is interesting to note that he was notably silent about this during his campaign for the Democratic nomination.

> "... grateful for the information and fearful of its meaning."

The most detailed argument that we have come across estimates our true debt at $51 trillion. It is provided by economist Lawrence J. Kotlikoff and journalist Scott Burns in their recent book, <u>The Coming Generational Storm</u>[10] . This is a scholarly and detailed book with proof offered in the forms of charts, formulae and figures that provide historical and mathematical documentation. Because it hides nothing and reveals all, it precludes any kind of neutral reaction to it. We found ourselves grateful for its information and fearful of its meaning. And, because its claims and methods appear as valid, if not more so, than others, we will adopt its $51 trillion as our standard. As we are unable to wrap our minds around $1 trillion, we are not likely to make sensible distinctions between 43,51 and 72. But 51 it is; for now, for us.

"THE RICHEST NATION IN THE WORLD"

In tossing about figures such as $43, $51 or $72 trillion they seem to run together because we cannot perceive them accurately enough to grasp their differences. They have become abstract. They serve as labels in a foreign language. We hear and see but cannot comprehend their reality. Force yourself to concentrate and think in terms of trillions. Try to visualize a trillion of anything. We have not been successful in this endeavor, most probably because we have never experienced trillions.

But, with the exception of taxpayer dollars, neither have the members of Congress. And yet they regularly create obligations and dispense funds in such amounts with the result that, if memory serves correctly, our government has shown an operating surplus in very few, perhaps a handful or less, years since WWII. And these reported operating figures refer only to "on the books" obligations that have found their way into the formal budgetary process.

To try to comprehend the far larger amount of true debt we submit this image. The Congress is a space with 535 small cubicles, 435 for the House and 100 for the Senate. In each cubicle is a stack of blank checks and IOUs which are accessed and exercised by each or any member whenever a government obligation is created.

Over the past 60 years every Congressional district has had multiple representatives who have regularly participated in this dream-like funding process. All commitments are made in the privacy of the district's cubicle according to the individual representative's concept of whatever enabling legislation or funding agreements seem appropriate.

> "... that we have committed more than we can afford, more even than we have. ."

It's clear that a critical element is missing. Quite simply, there is no over-all control; nowhere in this process does anyone add up the total and warn those dispensing our assets that they have gone too far, too fast; that we have committed more than we can afford, more even than we have.

When individuals reach this point, reality applies quick, corrective pressure like the pull at the bottom of a bungee jump. Our government appears to lack such a mechanism. Over the past two generations, as successive members of Congress have arrived, served and moved on, our true debt has steadily grown by large or small increments without anyone taking serious note of its total.

This has been a leisurely, head-in-the-sand, don't-tell-anyone process the consequences of which have so far been avoided by passing them on to future generations. But, as authors Kotlikoff and Burns forecast, this cannot last forever without a reckoning which might well precipitate a major crisis. Among the many uncertainties posed by such a seemingly unlimited and unrecognized debt accumulation there are two things we must point out.

First, because of the variety of forms of our obligations, some of which are contingent like guarantees, we cannot be assured when, or even if, they will all be presented for payment, but this only makes their lack of acknowledgment by their creators more worrisome.

Secondly, this burden of debt is of such magnitude that it cannot be repaid by improvements in our operating account. We have shown annual deficits there since the Bush administration took office of several hundred billion dollars. Although

Mr. Bush claims he will reduce this deficit by half in five years, he expects to do so largely by "growing the economy".

However, even if the deficit is reduced by 75% from its present $400 billion plus level to $100 billion, we would still not achieve any reduction in the debt. We would continue to add to it and in the time span covered by the President's terms of office the deficits could easily exceed two trillion dollars.

Neither debt nor revenues appear in operating results until they are activated and recorded, and, in instances when they are scheduled items, become part of the budgetary process. Given the discrepancy between our "national" and "true" debts, the threat of unforeseen payment calls in any year are quite real.

Within the context of the background we have described, what can we foresee as the results of our escalating debt?

" The debt will manage us!"

We have already taken the necessary first step of recognizing that any realistic economic growth will not produce the surpluses necessary to eliminate our true debt threat. That means that, lacking a clear policy and the tools with which to enforce it, we will not manage the debt. The debt will manage us! Usually this is accomplished by a credit crunch followed by other painful market and consumer corrections as we experienced in 1987.

As our debt increases or, in the case of true debt, is recognized, the value of our dollar decreases. The rate and extent of this decrease can be influenced by a variety of events and decisions – political and economic, here and abroad.

Regardless of the details, these two factors, more debt and cheaper dollars, will lead investors away from the declining dollar. In order to prevent this and maintain the appeal of our dollar debt, interest rates will rise and create a ripple effect throughout our economy.

A time-tested way for governments to escape their debt burdens is to simply print more money with which to repay them, but printing more money is in effect an unacknowledged devaluation of the currency. This brings about inflation which is a silent tax on consumers, lenders and governments that can paralyze policy and topple governments as it did in Germany following WWI and Argentina after WWII.

In viewing this joined cycle of debt, devaluation and inflation we must point out there's a new element to be considered. For the past sixty years, since the end of WWII, the US dollar has been the global currency of choice. We were able to maintain this position because we enjoyed a stable political system and a strong currency which enabled us to continue to attract investments throughout the free world.

"Enter the Euro!"

Our dollar, and the economy behind it, could dominate other currencies to such a degree that most free world nations assigned the greater part of their investment funds and reserves to dollar-derived investments. Other currencies assumed minor roles. This has now changed, and there is a new game in town. Enter the Euro! A regional currency issued by the European Union, it offers the considerable strength of Western Europe's economic market which is capable of competing with the US at many different levels.

While the EU's origins lie in the early coal and steel economic agreements of the post WWII years, it has now become a dominant political, as well as economic, fact of European life, and shows signs of actually moving quite consistently towards a "United States of Europe". This was generally seen both here and there as an impossibility until about twenty years ago.

The Euro is significant in our discussion of US debt because it now offers a viable investment alternative to the dollar. It provides a strong, other choice for domestic and foreign investors – i.e. a logical, quick "out" from a weakening dollar.

In February, spokesmen in Japan and South Korea announced that they might diversify their foreign exchange reserves to lessen their concentration in dollars.[11] We cannot know at this time whether this move is an isolated non-event or the important commencement of a trend in which other countries will join.

"The choice of policies and actions is ours, but the choice of investment is theirs."

We do know that they are watching our dollar with concern, as our policies of record trade/budget deficits and debt affect the value of their holdings. The choice of policies and action is ours, but the choice of investment is theirs. Our aversion to recognition of our true debt suggests that its price measured in domestic political consequences is just too high for our elected politicians to pay. In the past this policy may have offered us a free ride, but it is unlikely that our creditors will continue to hold dollars whose value is being eroded by our course of non-action.

The situation is presently one which we control. However, we need to take both substantive and symbolic steps to assure others that their trust in us is justified. If we do not, we run the risk of increasing outflows of investment funds to other areas. In such a process the rate of flow may accelerate from orderly to heavy and then to a rate at which our mechanisms of adjustment prove inadequate and the process is no longer under our control.

Like any other topic bearing upon our government or our society today, the way in which it plays out cannot be separated from the place that the global media and their power occupy in our world. Instant, intensive media treatment will be focused on any economic event that might suggest a weak link in the economic chain. We can assume that this treatment will be global in reach and that its effect will be to magnify and accelerate both the root causes and their public perception.

Robert Hormats, Vice-Chairman of Goldman Sachs International, stated that "the US pulled in 80% of total world savings last year" and "43% of all US Treasury bills, notes and bonds are now held by foreigners"[12] He added, "These countries don't have to dump dollars – they just have to reduce their purchases of them for the dollar to be severely affected."[13]

In addition to its economic consequences our growing debt is certain to cause powerful political challenges and changes. While we can't be prescient about their impact on our daily lives at this time, the existence and growth of an economic element of this magnitude within our society has the power to overwhelm the two major political parties and their conduct of government on a "politics as usual" basis.

Consider, then, as the pressure of our true debt intensifies to the point where it dominates our political discourse and cries out for legislation, the dilemma that will face both parties. Republicans who have traditionally favored low taxes and, until recently, low debt will be forced to modify or abandon their historical persona.

Similarly, traditional Democratic support of higher levels of spending for social issues will no longer be viable. These are not relatively simple budget issues. Nor are they legislative ones to be resolved in conference or committee. Rather they are enormously powerful ones which may force both parties to attempt to transform their identities. It is almost assured that in the process government will suffer.

Our congressional capability to avoid issues of consequence is unquestioned, but when the time comes for the debt mountain to move, it will reverberate through our society, and Congress will face an alarmed electorate with little chance of finding either political solutions or sanctuary.

As we view the massive paradox of both parties having to retreat from their established philosophical positions, the emergence of a strong, independent third party candidate becomes more likely. The moments in American politics that have called for broad party redefinition have not been frequent. But the political and economic confusion that may derive from our debt situation might bring about just such a moment.

We have tried to show the scale and seriousness of our true debt. Its accumulation has become a narcotic to which both political parties are now addicted. It has the power to overwhelm our government and way of life, and will surely do so if we do nothing.

Whatever remedies of action are available to us, they can only be implemented by America's citizens through the election of candidates for Congress and the Presidency that will have the candor and courage to speak out openly, forcefully and continuously.

PART II – IRAQ

TODAY'S ANSWERS ARE TOMORROW'S QUESTIONS

Our failure in Vietnam was a defining moment for U.S. military and foreign policy in the 20th century. We feel that our incursion in Iraq has the same tragic potential for this century and that, unfortunately, no real understanding of our position there can be had from official reports and public statements.

Following the January elections, the situation has entered a highly fluid phase with some measure of power being returned to what can best be described as a new, temporary and highly fragile form of self-government charged with writing a constitution to guide and legitimize popularly elected successor governments.

Again, in the wake of the elections there have been frequent comments from all sides emphasizing the need and desire for a government of unification. But it is likely that these calls ring with more hope than reality and serve as a shield to obscure the real transfers of power by threat, purchase, force or negotiation that attend the formation of any new government.

Recalling our own good fortune, we had a new continent at our disposal, a generally cohesive Anglican culture and an ocean to separate us from predatory neighbors once the French and British colonial efforts had been defeated. The circumstances facing the new Iraq are completely the opposite on all counts. The perils are more and greater, and the chances of success fewer and less. But whatever happens in the near term, it will be a matter of some years of trial and error in Iraq before we can have even a chance to accurately evaluate the results of our actions there. And then history, even later, will render its own verdict.

As background, the January elections were held to elect a 275-member parliament from over a hundred slates of candidates. The results were:[14]

United Iraqi Alliance (led by US backed interim prime minister Ayad Allawi)	140 seats	50.9%
Kurds	75 seats	27.3%
Secular Shiites	40 seats	14.5%
9 Smaller Parties	20 seats	7.3%

It is evident that fashioning a representative government in which all these constituencies have a meaningful voice, while one enjoys a narrow majority, will not be easy. Indeed, it is certain that constant bickering, deception and shifts will be used to establish gains or prevent loss of power in creating legislation and distributing benefits.

In our own country these contests have been divided mostly along the lines of our two party system. In Iraq, claims will be made by no less than three ethnic groups, two religious sects and a military insurgency of considerable determination and durability.

> " And there is always the threat of collapse into civil war which would set the progress clock back to zero."

Because of its geographical/ economic position we think the potential for destabilization makes the stakes in Iraq far higher than those in Vietnam. There are so many sources and kinds of threats to the emerging political structure that the chances of achieving sudden, far-reaching successes seem to be slim and none. Rather, whatever advantage that does accrue to any of the parties will have to be built gradually by small amounts. And there is always the threat of collapse into civil war which would set the progress clock back to zero.

With this in mind we suggest two acts that may play out in the difficult drama of Iraq's rebirth. Although these two directions are totally different, they have two things in common. They would present the U.S. with extremely hard and contradictory policy questions, and they could have been anticipated by any realistic analysis in the early planning stage of our involvement.

EXIT SIGNS

Given the simmering mix of ethnic, religious and political tensions that dominate life in Iraq today, what is the one thing that would gain the approval and support of all factions; that would provide a center that might, at least temporarily, create a common ground for common interest?

This is not a difficult question. The answer is, of course, the prompt and full withdrawal of U.S. military and civilian forces except any specifically and publicly requested to remain by the new government to be elected later this year.

For the terrorists of the insurgency, such a removal of what are viewed as occupation forces would achieve their highest goal and constitute them as a major force in the new political process. For the religious communities, both Shia and Sunni alike, our departure would permit a return to a traditional Islamic state free of an imposed occidental footprint.

And for the Iraqi people, they would shed the restrictions of personal freedoms that inevitably accompany any occupation along with their disappointment in the impact of the U.S. presence on their daily life.

Are we suggesting that peace would break out and all problems be solved? Certainly not! There would remain serious security problems which would have to be dealt with by Iraqis, but the great irritant of imposed foreign culture and government would be no more.

No matter when we leave, what we leave will have to stand or fall without benefit of military support. And the trial period may run into years. Our role then should be that of a patient observer with neither macro- nor micro-management from Washington.

But how will our government deal with such a situation? We are embarked upon a policy of casting the light of democracy into the dark corners of other cultures and governments by the use of preemptive force. And, whether the consequences turn out to be favorable or not, we have faced, and will continue to face, discomforting periods of resistance and uncertainty.

> "Today the superpower is a vulnerable target both at home and abroad. . ."

It has seemed to us that our policy rests on an almost pre-Copernican centrism that has accompanied our rise to sole superpower. This is nothing new. Witness Rome of the Caesars and Paris of Napoleon. But, of course, there are differences. Today the superpower is a vulnerable target both at home and abroad, and in countries that have Islamic governments we are faced with opposition that has spread around the globe.

The question posed by our withdrawal and the emergence of an Iraqi government is, "How will Washington's politicians and policies react to our loss of innocence?" For many in present positions of power in both parties this will be a difficult accommodation.

The first continuing quandary for the US then becomes that the best way to bring about a broad reduction in hostilities is for us to reduce our presence; that we are as much, if not more, part of the problem as its solution; that, in respect to our involvement, less is now more.

Even with the sophisticated spin techniques now in use, it would take considerable political magic to explain these new insights to the American people in light of previous arguments.

And there is the matter of "face", always more easily lost than won. Today America has suffered over 12,000 casualties (with over 1,500 lives lost) and has spent over $200 billion in Iraq in attempting to establish a popularly elected democratic government with a free market economic system. While, in the abstract, this may have seemed a worthwhile goal, it has proved to be more difficult than we imagined, and it is impossible to harbor any realistic view of our presence there without a prolonged continuation of our manpower and monetary losses.

We should note that the rate of our casualties has slowed, as the insurgency chooses to concentrate its attacks more on Iraqi institutions. The Iraqi people have suffered far heavier casualties and loss of life than we have. Their courage is much to be admired, and any government elected in the fall will have to recognize their plight and move towards an Iraqi solution to the many problems facing the country.

The main problem now facing both our government and Iraq's is that, while the best way to lessen hostilities, bloodshed and resentment would be to reduce our presence, that same reduction can exacerbate the security problem and decrease the chance of success for our long term goals.

There is now no "good" time for us to leave, as to leave too early is as bad as to stay too long. There will be a national loss of face with any choice, as more power is returned to the Iraqi government and events move further away from our control.

We chose a time to commence a war of occupation of a foreign country. Whatever our choice as to departure, it will not dictate the end of the conflict. Whether we leave "too soon" or stay "too long", we will sustain real damage to our credibility at home and abroad, although any move towards "sooner" rather than later would generate a more favorable international response.

EXIT NORTH – KURDS ONLY

The Kurds are a fiercely independent and culturally cohesive group that wants no more than to be left alone to their commercial and community pursuits in their high, hard lands in northern Iraq that lie in the shadow of its Turkish border.

Even in their isolation, their wish for privacy has been denied them, as they have a long history of conflict with the Turks and Iranians. In the past half century they have been attacked by both of these neighbors, subjected to Sadham Hussein's chemical weapons of mass destruction, and have been betrayed by the US on more than one occasion. Their lot has not been easy, but they are strong and determined to survive the dangers that surround them.

In the January elections their status changed dramatically from neighborhood whipping boy to the second ranked slate of candidates with 27% of the popular vote. They are now a major force in Iraqi politics of the future and are assured of one or more significant appointive posts in the interim government that will write the constitution and serve until the next elections.

We think it likely that the Kurds will become the effective "swing" element in Iraqi politics. If they align with the Shiite majority, the combination would reduce the opposition to fringe status. On the other hand, if they take a stand against the Shiites, they become a center around which a credible opposition can form and act.

We also think that, over time and perhaps in gradual increments, they will continue to push for greater autonomy which might culminate in a declaration of independence. The possibility of separation will increase as their political reach grows and if life in Southern Iraq deteriorates due to continuing ethnic and religious conflict.

> "... the independence they sought, but have been denied for so long."

Bear in mind that the Kurds see themselves as an indigenous society that has been removed from its territorial homeland, Kurdistan, which at one time included lands that are now part of Turkey, Iran and Iraq. It would not be surprising if the Kurds used their newly gained political strength to pursue the independence they have sought, but have been denied for so long.

If so, their journey would be greatly facilitated by the fact that Iraq's northern oil fields are located in the Kirkuk-Mosul region of the Kurdish zone. Oil is the trump card in the near East, and the Kurds' production assures that their voice will be heard even if they talk of independence.

Both Turkey and Iran have taken some satisfaction from Saddam Hussein's suppression of the Kurds, and these northern neighbors would take strong issue with any independent Kurdish state. This would, of course, complicate matters for the U.S. as Turkey, just granted the right to apply for NATO membership, has been the hinge between Europe and Asia about which much of our near Eastern military and diplomatic policy has turned.

The scenario that the US may find itself facing, then, might develop along these lines. The Kurds, combining their new political power with their old yearnings for independence, could make known their intention to form a free and independent Kurdish state and dissolve their ties to Iraq. This could be done gradually or suddenly either through the media, the UN or diplomatic channels. Whatever the method employed, recognition and support would be invited from members of the international community many of which would respond positively, either because of the political merit of the Kurds' claim for autonomy or as a continuing statement against our policy and presence in Iraq.

Turkey, Iran and Syria would naturally oppose an independent Kurdish state, but only Turkey's position would cause a problem with the US, and through normal diplomatic procedures it could be dealt with.

The heart of the matter is that we could be asked to support the legitimate political and human rights aspirations of the Kurdish people seeking liberation and self determination. This might be perfectly acceptable for Kurdish northern Iraq, but at some point northern Iraq vanishes and becomes southern Iraq.

In the south the effect of a Kurdish secession might so weaken and destabilize the country that it would invite external aggression or collapse the fragile structure of the new government from within. Could the US take the chance of such a result given the years, lives and dollars it has spent to create a unified, representative democratic state?

Our hearts might well go out to the Kurds in their effort to break free, but if their freedom were to sound the death knell for our political goals for Iraq, it is more than likely that they would find us to be a reluctant and distant friend at best. The Kurds have shown integrity in the past. They bear watching and our support.

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These two situations are quite different, and yet they are similar in that they pose tough questions involving national pride and "face". Were we to have to engage them we would find no quick or easy answer, but rather a series of difficult questions with long term consequences.

However, what most commands our attention is not so much their difficulty as their predictability. We will be fortunate, indeed, if we can avoid them.

PART III
THE SCHIAVO LITIGATION

In our previous issue (Jan '05) in commenting on the role of the "Religious Right" in the November elections we said "… it will have to be recognized as a source of both religious fervor and political force. Demands will be made and they will be paid." — We had no idea how soon nor how prominently the debt would be called.

In the Schiavo matter there is undeniable tragedy in Mrs. Schiavo's medical condition and the bitter division between her parents and husband. But the litigation has challenged her medical care and diagnosis. Over the seven years in which this matter has been in the state and federal courts no less than 24 decisions have been issued. Not one has favored the parental position of permanent life support measures.

The recent activation of national "Right to Life" groups has been accompanied by seemingly endless 24/7 media reports of vigils, demonstrations, photo-ops, congressional speeches, medical bulletins, talk shows, etc. that has magnified the situation to a level of international prominence.

But this matter is not an international, or even a national, issue. Its subject is the medical treatment of Terri Schiavo. And what is more contentious and serious than Mrs. Schiavo's personal tragedy is the attempt by members of both parties in Congress and the administration to hastily write and pass a bill, designed for the benefit of one person, to override the results of a long and orderly progression through our judicial system.

The separation of powers in our government has been one of its basic foundations, and for the executive and legislative branches to combine in an effort to undermine the judiciary's performance of its duties in this case seems a matter of enormous gravity.

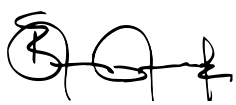
We hear a lot about the "American dream" and it usually has to do with economic advancement in a free society. The original "American dream" pursued by our founders from the Declaration of Independence through the writing of the Constitution was that they could create an honest, responsive, fair and humane system of government.

They were almost unbelievably successful in how they created a structure, both strong and idealistic, with a system of checks and balances by which it could endure.

It appears to us that the action taken by the Congress and the President to evade the multiple decisions of the Florida courts struck a hard blow at our system of checks and balances and the separation of powers.

It is impossible to escape the question that, if Mrs. Schiavo's medical treatment and care can be made a matter of Congressional intervention, why not other cases? Where does one draw the line in attempting to prolong "life"? Should judges who are trained to weigh such matters and render decisions, even highly difficult for them, be supplanted by politicians? And at what cost, or peril, do we undertake to rewrite the relations between our three branches of government?

This was not a good moment for our government. Hopefully it will pass soon. And yet, looking ahead, we cannot help but still feel that "Demands will be made and they will be paid."



IMPORTANT ANNOUNCEMENTS

1) As we write this our website is in preparation. It will contain all but the two most recent issues at any time so that the public can have access but only subscribers will enjoy the advantage of being current. Our website address will be **www.CenterforPublicConscience.org** and should be operational by May 1.

2) We completed our initial filing with the IRS for 501 (c)(3) status in January and can expect a response soon. It may request additional information and, if so, we will provide it promptly in the hope that we can complete the approval process, thereby making '05 contributions tax deductible.

END NOTES

1 The Associated Press – via Palm Beach Post 11/4/04

2 Bureau of Economic Analysis; Federal Reserve Board; American Bankruptcy Institute via Associated Press/Palm Beach Post 1/11/04

3 Ibid

4 SMR Research Corp., Hackettstown, NJ via Wall Street Journal/Ruth Simon – 2/14/05

5 Benchmark Consulting International, Atlanta, GA Ibid

6 U S Treasury Dept. via Copley News Service/Union Tribune

7 The Concord Coalition – Jan '04

8 The Price of Loyalty: George W. Bush, The White House and the Education of Paul O'Neill by Ron Suskind. Simon & Schuster, NYC, NY 2004

9 Palm Beach Post – 2/8/05. Asking the $43 Trillion Question by Joel Engelhardt.

10 The Coming Generational Storm: What You Need to Know about America's Economic Future. By Laurence J. Kotlikoff and Scott Burns. The MIT Press, Cambridge, MA - 2004

11 Associated Press via Palm Beach Post 3/17/05

12 New York Times; Thomas L. Friedman 2/24/05

13 .Ibid

14 The Associated Press via Palm Beach Post – 2/18/05

EDITOR'S BIO

Mr. Ault has a background in marketing of consumer products and financial services. He is a graduate of Yale University, a special limited partner of the Venture Capital Fund of America, NYC, NY of which he was a co-founder, and the author of A Retail Food Study (La Roche & Co. NYC, NY 1957) which described the emergence and growing dominance of the supermarket in American food retailing.

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