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INVESTMENT POLICY MEMO

Where to begin in this time of turmoil and turpitude? How about roughly 2,100 years ago? Julius Caesar had just been born. But, the Roman Republic had already transmuted into an entity that belied its name and its principles. The landed gentry, who had been the backbone of Roman citizenry as well as husbandry and the volunteer army, were fast disappearing as the plutocrats evicted them from their land. The Roman army became a force of mercenaries controlled by the increasingly wealthy oligarchs who were often also senators, generals and other government officials.

To satisfy the endless greed of the wealthy and to pay the cost of a growing army of mercenaries, Rome or her increasingly autonomous military commanders were involved in a growing string of wars focused on plunder. If enemies were not handy for this purpose, former allies were attacked. The rules of war by which the Romans had governed themselves were increasingly disregarded with the slaughter of civilians and prisoners. Protections for the rights of Roman citizens were ignored or abolished. The Roman world was ever more divided between a handful of extraordinarily rich and powerful people and a growing mass of the ill-treated poor. And the Roman state was increasingly militarized.

Rome's plutocrats would have felt quite comfortable at the Democratic and Republican conventions. Most of the people they encountered would have been, like themselves, very rich or super rich. All four candidates for President or Vice President are multi-millionaires. The two presidential candidates are to the manor born and their families possess close to a billion dollars each, although the Bush family fortune can only be surmised as it is well hidden in complicated trusts. (For the last century of the republic and throughout the empire, more Romans with wealth and power, including many emperors, came from humble backgrounds. When force became more important than law as the means to acquire property and influence, Roman society offered more opportunities for the poor to advance than exist today in the United States.)

Like the Romans vying with each other to be named dictator or proconsul, the two candidates for president have been intent on proving their superior qualifications to be commander in chief of the most destructive military force in global history. Each side produced hundreds of admirals and generals to testify to the warrior qualities of their candidates. This time around all of the admirals and generals were still retired, although in some cases only for a matter of weeks. The really bad news is that it took Rome another hundred years of increasingly bloody external and civil wars to declare itself an empire, albeit still cloaked in the niceties of the republic, and that the empire endured for another 500 years after that. From all this one might conclude that George W. Bush is a visionary ahead of his time, akin to Sulla and other military-adventurer autocrats of the dying Roman republic.

Meanwhile his opponent is proving himself the all too loyal opposition. As Harry Truman said: “Give the people a choice between a Republican and a Democrat who sounds just like a Republican and they’ll choose the Republican every time.” John Kerry hasn’t the courage to say that America would benefit from a single-payer healthcare system, an idea that has given every other advanced country in the world lower costs, much more equal access, and health outcomes as good or better than ours.

He cannot bring himself to say that he would have voted against the war in Iraq even knowing, as he probably did at the time, that there was no link to Al Qaeda and there were no weapons of mass destruction. He cannot manage to say that torture was a policy adopted by the Bush Administration which corrupted our children in uniform, endangered our troops who may be prisoners in the future, violated all principles of morality and international law and contributed powerfully (along with every aspect of the War on Terrorism) to creating more terrorists. But he has no trouble joining the chorus calling for the overthrow of Fidel Castro and of the democratically elected government of Venezuela.

Senator Kerry says that we cannot withdraw immediately from Iraq because “we have interests there.” What does this mean? Here are a few excerpts from a brief essay by Jerome Grossman:

Our post-Cold War world hegemony can only be challenged in two ways: if enough nations form an alliance against us, or if we try to do too much with the power we have... However, oil may be the key to overcoming any challenges. ... Potential rivals of the United States, including the European Union, China, Japan, and Brazil, depend on oil from the Persian Gulf and the Caspian Sea. U.S. control of these oil-producing areas will discourage the formation of anti-American coalitions. Control of Iraq and a U.S. garrison there will give us the military capability to protect our friends in regimes like Saudi Arabia and the Gulf states, as well as our ally, Israel. ... the United States has ... established military bases in Uzbekistan and Georgia to protect the oil pipelines The benefits of empire to corporate America, our standard of living, as well as our national ego, receive bipartisan support in our political system. ... the U.S. occupation of Iraq will be permanent with or without a successful Iraqi puppet government. That is why none of the Republican or Democrat candidates for president, vice president or even for U.S. Senate will advocate the withdrawal of our military forces from Iraq.

Jerome Grossman is a retired corporate CEO, former Democratic National Committee member from Massachusetts, Chairman of the Council for a Livable World and a consistent supporter of John Kerry’s endeavors over the last thirty-three years. These selections are from an Op Ed submitted to numerous newspapers in early summer and rejected by all of them except his local town weekly. American imperialism is yet another of the obvious truths from which our media feel duty-bound to protect us.

Of course there are differences between Kerry and Bush. The stock market, in particular, is of the majority opinion that a Bush victory would mean continued favors and exemptions for the drug industry, the energy industry and everyone who pollutes the environment. The majority also seems convinced that the gravy train of tax giveaways to corporations would be maintained or expanded in a second Bush administration, while a Kerry regime might succeed in cutting back a bit on corporate welfare. And so the stock market has been celebrating what it senses as a likely Bush victory. However, the celebration has been dampened, even obliterated by a plethora of bad news on most other fronts. One might wonder why all this bad news doesn't also increase Kerry's chances of defeating Bush; but we will say no more about that in this memo.

In Afghanistan and Iraq U.S. troops are being attacked with increasing frequency and growing casualties. Opposition to the occupations is rising and neither American troops nor puppet regimes are able to govern. Reconstruction remains only a word in the President's speeches. Mounting human and financial burdens continue to be borne almost exclusively by the United States. Even middle-of-the-road Republican senators are recognizing the disastrous failures and ghastly consequences of these continuing wars against civilian populations.

Oil prices remain stubbornly high. In part this is due to the disruptions of the war in Iraq and the threats of terrorist attacks on oil facilities in many other countries as well. In part it is caused by political events or prospects in Nigeria, Russia, Venezuela and several other countries. Growth of the world economy has also led to strong increases in demand, especially from China and from the United States, which has been systematically retreating from fuel efficiency. An additional factor distinguishes the current surge in oil prices from previous episodes: the virtual absence of spare output capacity in OPEC or anywhere else in the world.

This fact may, in turn, be a symptom of a more ultimate development. After more than 130 years of false predictions, the idea that the world is "running out" of oil may finally be true. The amount of new oil being discovered has been declining for the last thirty-five years. Oil companies do not appear optimistic about finding much more as they have steadily reduced their expenditures on exploration for new oil, even in the current environment of high prices. So we may be at or near the point when declining production from older fields will no longer be overtaken by more production from younger fields and from new discoveries.

High oil prices are squeezing consumers and businesses. More household money spent on gasoline, heat and electricity, means less spent on everything else. Higher prices for energy-related goods and other raw materials mean lower corporate profits, which usually leads to lower capital spending. Growth is also being buffeted by the absence of new tax stimuli, although both parties seem eager to continue the tax-cutting parade and the deficits be damned. Falling interest rates, which supported the economy through inexpensive loans to consumers and businesses and generous mortgage refinancings, have now been replaced with rising interest rates. Higher rates and the record high ratios of prices to rents are among the indicators that housing prices, especially on the two coasts, are about to reverse direction with additional slowing effects on the U.S. economy.

As a result of all this, economic growth has definitely slowed in the United States and remains tepid in Europe and Japan. Only India, China and its immediate neighbors, raw material producing countries, and Latin America are growing vigorously and the Chinese seem intent on reducing their rate of expansion. The bottom line, as they say, is that American corporate profits have ended one of their greatest expansions of all time. The profit boom is being slain by a thousand cuts (more or less): slow growth, high materials prices, rising health care costs, rising interest rates, rising pension costs (only some of which have been abolished by Congressional action to the detriment of the retirees), improved accounting rules (which have barely survived Congressional assault so far), and the absence of immediate new cuts in corporate taxes.

This list of negatives, plus concerns about an out-of-control deficit, a falling dollar and the eventual negative impact of rising interest rates on stock prices have all been just about offset by the prospects for a Bush victory in November. The present level of the market is only slightly lower than it was when we were selling equities to raise additional cash in April and May. So the advantage to holding cash has been small. Clients did gain when we recommitted a small part of the cash to equities, mostly of energy companies, at the market low point in the middle of August. Most portfolios that we manage have done better than the averages through today; but this is more because of the stocks that they do own rather than cash.

For now we will continue to emphasize these same successful stocks we have owned for clients in health services, biotechnology, energy and other areas that benefit from materials price inflation and a falling dollar. We are also continuing and in some cases increasing exposure to selected overseas markets in Latin America, the periphery of China and countries that have strong raw material exports. Exposure to information technology remains minimal. We would increase holdings if the best of these companies were priced the same as other cyclical companies. This was the case for a brief moment in August and another opportunity may develop in coming months.