



May 12, 2008

### **Letter from Washington**

Since the last letter, the race for the Democratic nomination entered the end-game, although it's not at all certain whether the Clinton camp would acknowledge that.

Last week two more key primaries played out with Obama winning convincingly (14 points) in North Carolina, and Clinton battling to a 2 point win in Indiana, a state that was solidly hers by double digits earlier. The narrowness of her vote there was seen by most observers as more of a moral victory for Obama.

Under the Democrats' delegate apportionment rules, the primary results did not do much to change the relative standing between the two, with Obama maintaining a lead in pledged delegates, but with neither side likely able to claim victory based on the number of delegates still available in the last six primaries. As previously surmised, this will put the nomination in the hands of the "super delegates" and the process will go on beyond the end of the primaries in June.

Senator Clinton has brushed aside calls that she suspend her campaign in the face of the daunting challenge that she faces in amassing the required number of delegates. Her position is that there is really not that much separating the two and that she will battle on until there is a nominee selected and approved by the party.

Her contention, not unfounded, is that she represents the better hope for the party in the general election in November. She bases that on exit polls taken in Indiana and North Carolina that indicate Obama is no longer the favorite among Democratic-leaning independents, and that his already tepid support among blue collar white voters continues to erode. Obama has pieced together a coalition that besides blacks included the young, first-time primary voters, the very liberal, highly educated college graduates, plus a minority of whites. In another troubling sign for Obama, he and Clinton ran about even among independents, a group he usually wins. The battle in November for white working-class voters in the Midwest will be crucial for the Illinois senator to capture enough states to win the presidency.

Clinton has not only declined to graciously disappear, but has made several statements that touch on the unspoken fear of the Democrat leadership ---

Obama cannot carry the white vote he needs to win. That line of thinking, rarely expressed in public, plays on the racist history of the United States, and runs the risk of causing a split in the Democrat party that will cause Clinton's supporters to stay home in November, or worse, vote for McCain.

The fear that Obama cannot carry the mid-west blue collar vote is made more palpable by McCain's unique personal story, one that plays very well with the same group.

So why doesn't Hillary just pack it in? An interesting question, worthy of psychological investigation. One school of thought holds that she and her husband are the ultimate narcissists, and are outraged that an upstart like Obama has upset what was shaping up to be the coronation for the Clinton restoration. They simply cannot accept that they may be denied what is their due, and are willing to sink the ship rather than strike the colors.

Another more Machiavellian possibility is that the Clintons acknowledge that 2008 is lost but want to damage Obama sufficiently so that he loses in November, opening the way for a 2012 return for Hillary. That will essentially be an open election since McCain will be 76 years old at that point, and unlikely to run again.

Either way, it is a curious spectacle with Obama walking a delicate line between openly attacking and possibly causing her to dig in to the finish even more firmly, or maintaining a respectful distance while she plots her own face-saving departure.

Meanwhile, on the other end of Pennsylvania Avenue, the Democrat leadership has devised a complex plan to fund the war effort into the next administration, effectively taking it off the table for the November election. The bill is expected to have the US\$108B requested by the administration for Iraq and Afghanistan, and also about US\$70B additional to bridge the change of administrations.

Joint Chiefs Chairman Mullen warned the Congress bluntly that the DoD needs the bill passed before the end of month Memorial Day recess. Hopes for that seem dim, however, since the leadership has crafted a three amendment bill that the President is likely to veto. The first part of the bill contains the war funding, the second part contains policy directives for winding down US participation, and the third part contains non-war related domestic spending items. This formulation cleverly allows the members facing reelection in November to: 1. Vote for money for the war; 2. Vote against the war itself; and 3. Do something for the folks back home, all in the same package. The President has said that he will veto any bill that contains more than the US\$108B he has asked for, but it seems unlikely that he can sustain a veto on domestic spending totally. The members are looking at how they would explain to their constituents how they voted for money to rebuild Baghdad when their neighbors' houses are being foreclosed.

Finally, according to the DoD, in 2007 the federal government blocked just one of 54 domestic industry merger and acquisition deals involving companies that do business with the Pentagon, while permitting all of the 39 proposed acquisitions of U.S. firms by foreign companies.

The blocked deal was a bid by General Electric and Smiths to form a \$1 billion joint partnership that dissolved after the Defense Department raised concerns that the lash-up might result in a monopoly for explosive trace detection.

The Committee on Foreign Investment in the United States, an interagency body chaired by the Treasury Department, reviewed 147 deals involving foreign firms looking to acquire U.S. companies. 14 of the U.S. companies were deemed to possess "critical technologies," while 25 proposed deals were determined to be otherwise important to the U.S. defense industrial base.

In all 39 instances, risk mitigation measures were approved that permitted the sales to go forward.