

## AN UNQUIET SUMMER

Between May 21 and the end of the month about 2.5 billion Australian dollars worth of “Uridashis,” high yielding bonds popular among Japanese retail investors, are estimated to come due.

While small in the context of trillion dollar financial flows, it is one of the heaviest historical redemption schedules for these bonds.

The degree to which these bonds are rolled over or redeemed could be a real time litmus test of the risk appetite of the great Asian retail wave that has fueled markets from Shanghai to Sydney, as well as an indication of broader liquidity conditions fueling markets in general.



But even if liquidity conditions continue unscathed by global rate hikes and lead to a summer of carry rather than a summer of correction, it does not follow that autumn will also be benign.

On the geopolitical front, the Bush Administration is putting the largest naval force in the Persian Gulf since the Iraq war. This may not be the Big Strike, but the US is flexing its military muscle to deter Iran from any escalation as new UN sanctions are imposed.

Iranian-backed Shi'a militias in Iraq, in turn, are stepping up attacks on US supply convoys out of Kuwait, preparing for an expected autumn withdrawal.

It may not be such a quiet summer after all.

In light of the US Memorial Day holiday on Monday, this week's Back Page Essay, by Colonel W. Patrick Lang, a retired senior officer of US Army Military Intelligence and the Special Forces, is a review of one of the key historical transformations of the US Army, and its consequences today.

Enjoy the read.

**Sassan Ghahramani**  
CEO, Medley Global Advisors

**THIS WEEK...**

**DIVERGENCE INDICATOR** p. 2

**THE MAJORS** 3

- FED:** Rate cut fever cured
- ECB:** Don't believe the hype
- BOJ:** Preparing the ground takes awhile
- BOC:** A way eye on capacity
- SNB:** Longer cycle, higher endpoint
- RBA:** Not within a cooee of a move

**OIL AND ENERGY** 5

- US Gasoline:** A demanding summer
- OPEC:** Calm before the hurricanes
- Fuels:**
  - Asia LNG
- US Utilities:** Ill & Texas

**GLOBAL POLITICS** 8

- Iran:** Smile for the enemy
- Iraq:** Convoy's getting hit

**EMERGING MARKETS** 9

- China:** We can ride this bull
- South Korea:** Conservatives in the lead
- Turkey:** Terrorizing the campaign

**US REGULATORY** 10

- US Telecom:** Alltel's state obstacles

**BACK PAGE ESSAY** 11

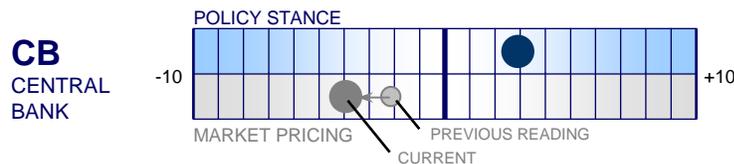
***Abrams' Army***

THE MAJORS

## Divergence Indicator

### Monitoring divergence between market pricing and policy

The Divergence Indicator is intended to give clients a clear and concise snapshot of where MGA believes the monetary policy stances of the respective central banks are different from market pricing. Our time horizon for this weekly analysis is limited to six months. We distill each of these central banks' policy stances (and respective market pricing) down to "half moves," meaning that one-half of a 25 basis point move in the relevant policy rate is the minimum increment. For example, a measure of +3 would represent one and a half rate hikes while a reading of -4 would represent two full rate cuts. We round to the nearest 1/2 move.



If you have any questions or would like to discuss the methodology of the Divergence Indicator, please call an MGA Strategist (+1 212-219-9096)

CENTRAL BANK	DIVERGENCE INDICATOR (POLICY STANCE VS. MARKET PRICING)	SUMMARY
<b>FED</b> US FEDERAL RESERVE		<ul style="list-style-type: none"> <li>Fed gets reinforcing strength in durables, some first signs of clearing in home sales</li> <li>Market continues re-pricing to Fed equanimity ahead of May minutes and payrolls</li> </ul>
<b>ECB</b> EUROPEAN CENTRAL BANK		<ul style="list-style-type: none"> <li>ECB w/no obvious consensus for moving beyond 4% but eyeing brent risk</li> <li>Market convicted on 4.25% &amp; beyond but looking for new catalysts; euro\$ lists</li> </ul>
<b>BOJ</b> BANK OF JAPAN		<ul style="list-style-type: none"> <li>BoJ reiterates recovery theme, basis for continued gradual normalization (but not yet)</li> <li>Market looking through cpi, starting to chatter on next hike; yen bleeds weaker</li> </ul>
<b>BOC</b> BANK OF CANADA		<ul style="list-style-type: none"> <li>BoC w/clear tightening bias but still mulling the domestic drivers and currency impact</li> <li>Market strongly pricing 2h action, expecting May statement language gratification</li> </ul>
<b>RBA</b> RESERVE BANK OF AUSTRALIA		<ul style="list-style-type: none"> <li>RBA's upside tilt remains; still chillin' after wage data</li> <li>Market stuck waiting on new drivers; aud struggling sub-\$.82</li> </ul>
<b>SNB</b> SWISS NATIONAL BANK		<ul style="list-style-type: none"> <li>SNB reiterates (again) continuing normalization, elevates close monitoring of chf</li> <li>Market gears up 3% &amp; beyond risk; eurCHF reconsidered, pulls back from 1.66</li> </ul>

THE MAJORS

## US Federal Reserve

### Rate cut fever cured

CPI more benign than expected has the Fed less nervous about upside inflation risk. On rates, the FOMC will remain on the sidelines and continue to reiterate the predominant inflation risk theme. The data have not moved them to believing that the economy is poised at a precipice. Taking a broad view of the way the data is describing the economy's forward evolution means the rebound hopes later in the year are intact. Despite benign inflation readings and some less robust activity data, the Fed is not rushing to change rate policy any time soon. In particular, they are not prowling around for an excuse to ease policy.

- FOMC minutes on May 30
- Heavy data week with GDP revision, Chicago PMI, personal income, and nonfarm payrolls
- Dollar index showing tentative strength on rates

## European Central Bank

### Don't believe the hype

After the upcoming meeting, when refi rates go to 4%, the ECB's policy stance will have the door ajar for a further move in the fall. Policy will be at the upper end of a "neutral" range already, and some council members feel that is likely to suffice, but even they would not want to rule out the option to go again if needed. Going beyond neutral to a restrictive policy is theoretically possible. It would require a changed outlook with regard to growth that is seen to have plateaued, and on inflation pressures, which aside for wobbles associated with oil base effects are holding right around the ECB's price stability definition.

- Council not as hawkish as the most outspoken members
- Little noise about the euro, so far, but disinflation impact eyed

## Bank of Japan

### Preparing the ground takes a while

While there was no policy change at this month's Monetary Policy Meeting, the BOJ Policy Board appears to have had a serious debate on conditions for future policy change. After some months of noncommittal discourse, BOJ officials are once again making the case that current interest rates are too low relative to growth rates and if left alone could cause or amplify various distortions in the future. This does not signal a desire for a sharply accelerated rate hike cycle but it is meant to leave flexibility for rate hikes -- even if CPI remains soft -- not inconsistent with market expectations of a move in the summer or fall.

- Next hikes are predicated on "improving" data, so timing irregular
- Expanding economy and rising prices would suffice, even if price level is low

THE MAJORS

## Bank of Canada

### A wary eye on capacity

The Bank of Canada faces several tough rate decisions in coming months. Inflation is higher, but the currency is soaring. Officials will translate the different forces into their impact on Canadian aggregate demand. The currency feeds into the bank's calculations largely though its influence on the forecasts for net exports. There are not particular trigger levels on the loonie. The net result will be the Governing Council will likely leave interest rates unchanged at its meeting on May 29. The alignment of the various forces at the following meeting on July 10 is not yet a sure thing, however. There is a contingent possibility of a rate hike then, even if the currency remains at elevated levels.

- Data on housing credit particularly important
- Loonie just one ingredient in the data stew

## Swiss National Bank

### Longer cycle, higher endpoint

The SNB's ongoing irritation about the weakness of the Swiss franc has led to the same warnings being repeated. This week, for a change, the market reacted to them, but only because rumors of a 50 basis point move at the next meeting went around. The bank has put flesh on the bones of its argument that sustained weakness of the currency was making it more likely the three-month Libor target would go beyond 2.50%, but that they would do it all at once is less likely. The SNB will sustain its "normalization" path in line with the ECB in June but, if current expectations are realized, will be prepared to move again in the second half.

- Current inflation non-event but projections are up
- No inflation impact from CHF yet, but the SNB fears embedded expectations

## Reserve Bank of Australia

### Not within cooee of a move

Key data signals spell another quiet week ahead for financial markets. The April blow-out employment gain still resonates in a way that will keep an upside policy tilt in play. Officials have room to watch the evolution of the data before deciding whether or not the economy needs another rate tweak, and the underlying strength of the economy will keep them wary of the potential need to move again should inflation data reverse course.

- Stevens speaks June 14 on economic conditions
- Retail sales, construction data due next Weds; Capex, trade, and private credit info on Thursday.

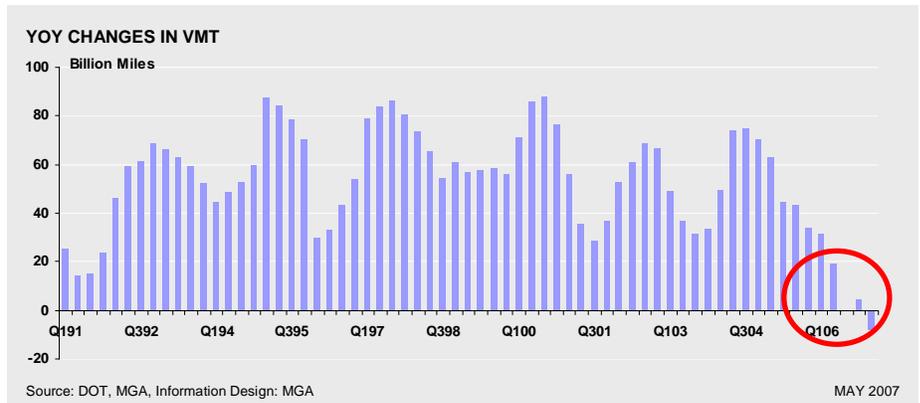
GASOLINE

A Demanding Summer

With retail gasoline prices over \$3 per gallon so early in the season and US refineries falling like flies at a frog convention, there has been much focus on the supply side of the equation this summer. But perhaps more important than supply will be how summer demand behaves in such a high price environment. Last year, US gasoline demand contracted for the first time in recent memory with pump prices holding above \$3 per gallon for the peak driving months of June, July and August. The question now is whether US consumers have become acclimated to higher gasoline prices, or if 2007 will bring a further contraction in demand.

The problem with demand is that you can only get a real sense of how strong it is after the fact. Unlike supply, there are no accurate accounting measures, and much depends on anecdotes and best guesstimates. Two key data sets used to gauge US gasoline demand -- the DOE's implied demand data and the DOT's vehicle miles traveled (VMT) series -- have been telling two very different stories in the past 12 months.

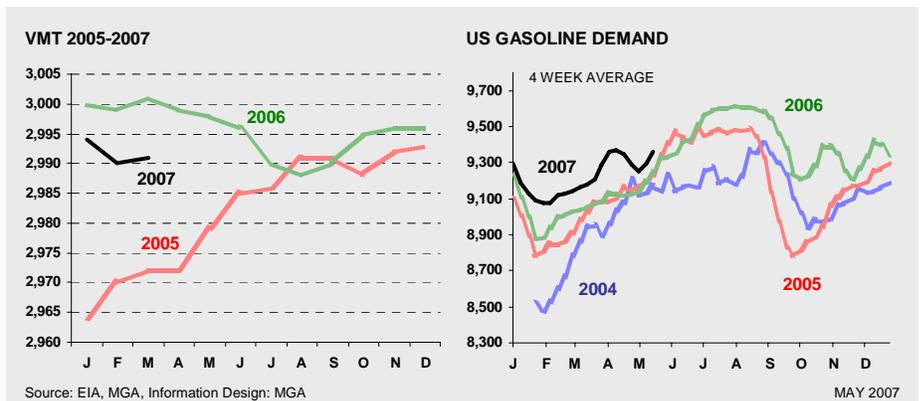
The DOE demand data, which is essentially a measure of product supplied at the refinery gate, has consistently been showing gasoline demand has been rising at a healthy 2-3% over last year. The DOT data, however, shows VMT declined by 0.8% year-on-year in Q1 of 2007, the first year-on-year decline in 20 years. While the DOE data suggest demand for gasoline continues to post strong increases, the VMT data suggest that people are driving less than in previous years.



Both data sets have their limitations. The VMT data is based on a sampling collected at approximately 4,000 continuous traffic counting locations nationwide, which is used to estimate the percentage change in traffic volumes for the current month compared with the same month in the previous year. The DOE demand data is also limited in that it is actually a measure of product supplied. The reasoning is that if there is a need for more product to be supplied from refiners, then this must mean there is more demand.

Some argue the two data sets are not contradictory. It is clear that with \$3 gasoline, Americans drove less last summer. But at the same time, the switch to ethanol from MTBE resulted in some efficiency loss: even though the number of miles traveled has decreased, Americans need to burn more fuel than before to drive the same mile. Ethanol, with its high octane levels and lower burn rate, means that more conventional gasoline is needed to make a gallon of reformulated gasoline than the same RFG gallon that uses MTBE as a blending stock. Some estimates of efficiency loss for ethanol-blended gasoline run as high as 10%-15%.

In the period 2000 to 2004, US gasoline prices were rising at roughly 40% a year. From 2005 to 2007, gasoline price rises have been much more modest. There is an expectation that consumers will become acclimated to these price increases, and there won't be the same kind of sticker shock as last summer. So far there is not enough evidence to suggest that US consumers have thrown in the towel and are trading in their SUVs for hybrids en masse. But this summer is shaping up as a key test to the tolerance of the consumer to high gasoline prices.



OIL AND ENERGY MARKETS

**Oil**

**Calm before the hurricanes**

Crude runs surged last week as refiners took advantage of historically high cracks. Outages meanwhile continue and its unlikely that runs will be sustained at such a high level into next week. Imports also surged, keeping stocks plentiful. While crude will draw later in the summer, current high levels will continue to pressure the contango. OPEC is likely to remain on hold until September.

- OPEC on hold
- Gasoline deficit
- Imports will be erratic
- Refinery problems capping crude demand outlook in Q3

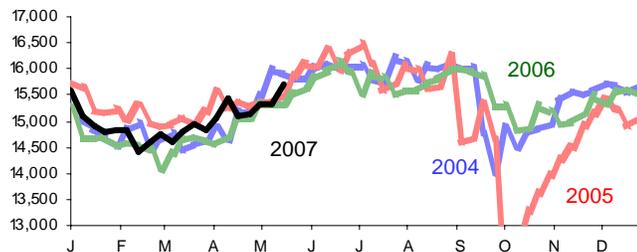
There is an expectation that high gasoline cracks will incent refiners to maximize gasoline production, and, indeed, prices fell this week as refinery runs surged, and stocks began to grow. However, there are a number of problems to overcome this summer. First, demand remains strong while production and imports lag last years high levels. While there will be short-term relief, gasoline stocks should remain fairly tight for the balance of the summer. The belly of the gasoline curve looks like a better buy than the front months.

ENERGY INVENTORY UPDATE

**US CRUDE RUNS**

BEARISH NEUTRAL BULLISH

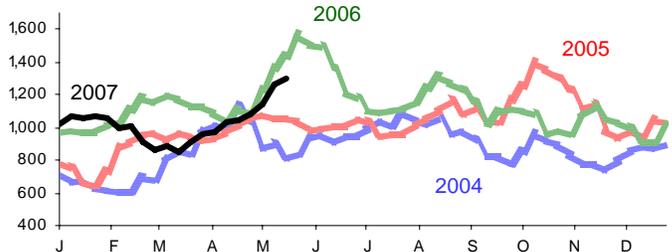
Million Barrels



**US GASOLINE IMPORTS**

BEARISH NEUTRAL BULLISH

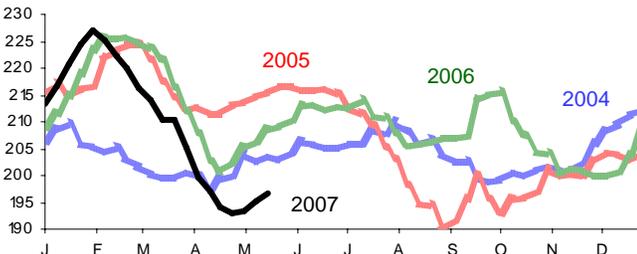
4 Week Average



**US GASOLINE STOCKS**

BEARISH NEUTRAL BULLISH

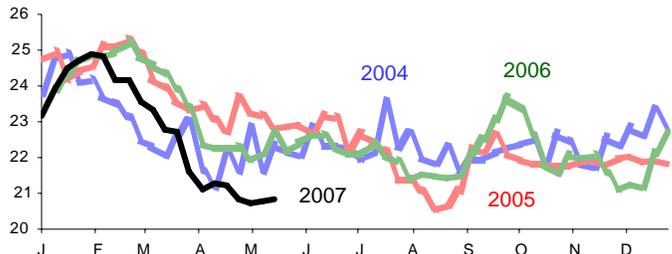
Million Barrels



**GASOLINE DAYS OF COVER**

BEARISH NEUTRAL BULLISH

4 Week Average



Source: Department of Energy

OIL AND ENERGY MARKETS

## Fuels

### Japan: Nuclear inspections to have little impact

LNG imports to Japan are expected to increase 4-5% year despite milder than normal weather through May. One reason for the uptick in imports has been fuel switching by electric utilities in preparation for the Kyoto protocol next year. The measures being put into place to cut emissions of greenhouse gases are leading utilities to switch from coal and fuel oil to cleaner burning natural gas. However one factor that should not lead to an increase in LNG use, are the additional checks being performed at nine nuclear reactors this summer by METI. The plants will be required to close for additional checks during the regular maintenance inspections as a result of previous violations. Both regulatory and industry sources note that additional checks are only expected to keep plants closed for 2-3 weeks longer than normal and should have a limited impact on the market.

- **Should any lost nuclear generation need to be recouped utilities will turn to "dirtier" fuel oil or coal rather than LNG**

## US Utilities

### Illinois Senate seeks relief

Illinois Senate leaders revived talks this week to create a rate credit fund to reduce the high electricity bills that followed the end of a 10-year freeze on prices. The rate credit fund has expanded from some \$350 million to perhaps twice that amount as a means of providing legislators a political victory in the form of reduced consumer bills. The Senate talks have advanced this week due to the "more extreme" ideas advanced in the House to restore the rate freeze, create a state-owned power authority, and impose a tax on electricity generation. The Senate's plan for a rate relief fund would not require House passage. The Senate would pass a binding resolution in which members agree to abandon the rate freeze issue. Sources are "cautiously optimistic" the Senate will reach an agreement.

- **Senate discussions continue to gain Rep. support**

### Texas paves way for KKR

A House-Senate conference to agreed to a bill this week that resolves differences over electricity legislation that contains provisions that KKR can "live with" as it seeks to acquire TXU. The Senate-passed bill requirement that TXU divest power plants is not in the conference report. The agreement clears a significant potential obstacle to the deal and provides a clear path for review by the Texas Public Utilities Commission under current law. Commission sources indicate regulators will review the TXU buy-out in a timely way. Texas does not specify by law that a regulatory review of the merger must be completed in a given time but sources indicate Texas "does not intend to use a protracted review" as a means of sidetracking the deal.

- **Approval of the House-Senate conference agreement by the full House and Senate**
- **Regulatory scrutiny of the TXU deal with a likely approval decision by Oct.**

GLOBAL POLITICS

**Iran**

**Smile for the enemy**

While the US and Iran hold rare direct talks over Iraq next week and EU foreign policy chief Solana will meet Iran's Larijani, Iran is not ripe for even a phased nuclear suspension and wider UN sanctions will be thrashed out in June. The US is pushing for sanctions that go beyond the targeted measures agreed to date, and is mounting a show of naval force to rattle nerves in Tehran and deter Iran from retaliating as new penalties are imposed. The door will continue to be left open for talks, but if Iran's nuclear advances remain on the same path by autumn, the Bush Administration will start reviewing additional options. There is little risk of a near-term US strike on Iran's nuclear facilities, but "accidents" are possible with Iranian hardliners eager to show Iran will not quietly absorb Western pressure.

- US naval build-up to reassure GCC, warn Iran
- Further UN sanctions in June to go beyond WMD, missile programs
- Iranian centrifuge program running faster than expected

**BRIEFLY NOTED**

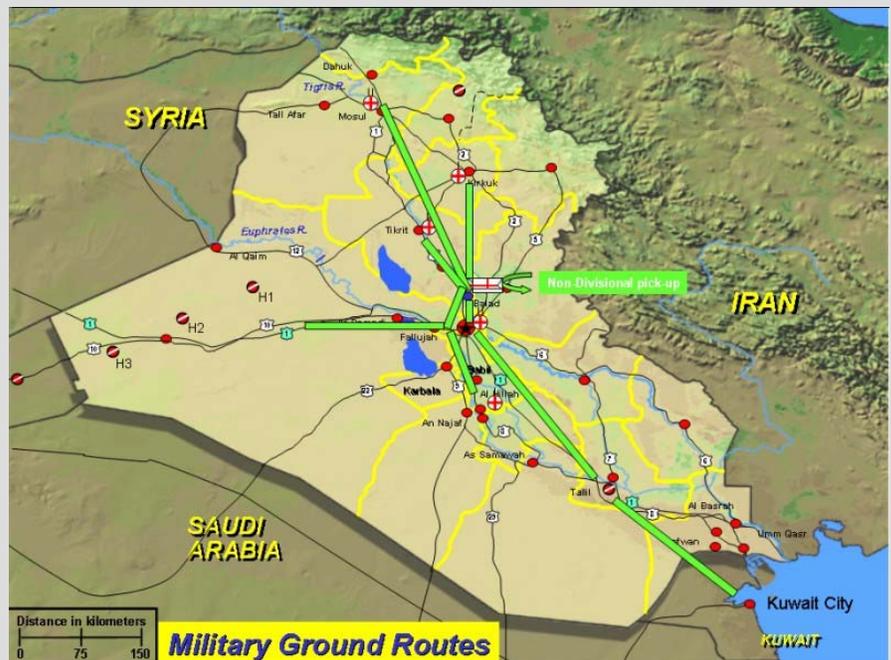
**Iraq: Convoys under attack**

While most of the media reporting and politics in Washington is focused on the flailing "surge strategy" in Baghdad and the Sunni "Triangle of Death" just south of the capital, well-placed US military sources report an ominous rise in the frequency and sophistication of Shia militia attacks on US supply convoys from Kuwait.

The attacks on the convoys -- which are almost daily and can comprise up to 500 trucks at a time -- have in recent days led to fewer hot meals or fresh fruits and lettuce available to US troops. An unclassified notice went out on

Monday on "Theater-Wide Delay in Food Deliveries" warned that MREs (Meals Ready to Eat) will have to take the place of at least one hot meal a day. While in itself not an undue hardship, it does mark the first time the US military was not able to maintain its supply lines since the invasion of Iraq in 2003, which is raising eyebrows among Army logistics planners working with troop levels already stretched.

More ominously, military intelligence in Baghdad believe the attacks are being orchestrated by Iranian-backed Shia militias, both as "live" training in tactics should the need arise in confronting the US military more directly, and as counter signal to Washington's naval exercises with battle carrier groups in the Persian Gulf.



EMERGING MARKETS

## China

### We can ride this bull

Last week's hikes in bank reserve ratios and lending and deposit rates will likely do little to temper China's blistering growth rates for Q2. Some State Council members are grumbling that PBOC governor Zhou Xiaochuan's monetary policies are being swallowed up by further growth: recent NBS statistics showed real estate investment bubbled higher to 27.4% y/y for Jan-April and fixed asset investment to 25.5%. The State Council will likely wait for May data before approving more major monetary moves, but China is increasing administrative controls to squeeze excess investment in energy-intensive industries and to clamp down on illicit stock market speculation. The RMB's wider trading band ahead of this week's US-China economic talks was a political gesture to Washington that does not signal a faster pace of currency appreciation.

- China still targets 3%-4% RMB appreciation
- US Congress to advance countervailing duty, FX legislation

## South Korea

### Conservatives in the lead

Although the presidential election is not until December and a key party primary not until August, the campaign season is all but underway with the latest agreement between the two leading candidates, both from the opposition Grand National Party on the right, on their party's primary election rules. The candidates, Lee Myung-bak, the businessman-turned-politician, and Park Guen-hye, the daughter of an earlier president, are commanding 40% and 20% standings in national polls. The progressive camp, despite having had the current and previous presidents, is in disarray with uncertain prospect of having a unified candidate. Both Lee and Park are promising faster growth and less unemployment and tougher (albeit still conciliatory) policy toward North Korea.

- Lee-Park relations remain tense so amicable conclusion of primary vital for GNP win
- Eleventh-hour "surprise," like a successful North-South summit, could help the progressive side and result in an upset

## Turkey

### Terrorizing the campaign

The May 22 bombing in Ankara dealt a blow to the Justice and Development Party (AKP) government as it faces rising military and opposition criticism for being too soft on terror. The bombing will boost calls for direct Turkish military action in northern Iraq, but the AKP government is reluctant to do so ahead of this summer's polls. The ruling party thinks a military foray into northern Iraq could do some damage to the PKK but not eradicate the group's activities. AKP sources also fear the bomb attack will benefit the right-wing Nationalist Movement Party (MHP) but do not believe it will lift the MHP above the 10% electoral threshold. But if the Ankara bomb is just the start of a series of attacks, it will boost the MHP's chances of joining the AKP, the Republican People's Party and the Democratic Party in parliament. A four-party scenario is the outcome the AKP seeks to avoid, as it would be difficult to maintain a single majority unless it can capture over 40% of the July 22 vote.

- Series of bombings would increase chances for four-party parliament...
- .. and increase chances for a northern Iraq incursion

U.S. REGULATORY

## US Telecom

As Alltel tries to take itself private, the regulatory landscape at the state level for additional USF subsidies is becoming less stable. State commissions across the country are keenly aware of the Federal State Joint Board's recommended decision urging the FCC to cap support among all Competitive Eligible Telecommunications Carriers ("CETCs") statewide at 2006 levels. This recommendation applies to all CETCs, both wireless and wireline across the country.

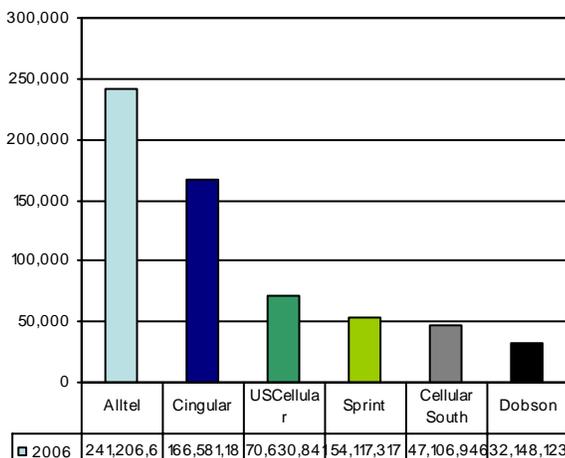
We expect the FCC will try to adopt this recommendation by the latter part of June or early July. Meanwhile, state commissions are examining its impact on carriers currently designated in their states today. Alltel has about 9 applications for additional USF support pending at the state level – which, if granted, would reduce the amount of high cost USF support existing ETCs receive for that particular state. In anticipation of an FCC order adopting a cap, state commissions are trying to examine its impact, especially since many have already granted ETC bids from Alltel and other carriers this year.

In 2006, Alltel collected over \$241 million in federal high cost USF support, which is the highest among all wireless carriers currently eligible for USF subsidies. In the wake of their private equity takeover, state commissions and the FCC may end up becoming less forgiving toward them in the USF arena.

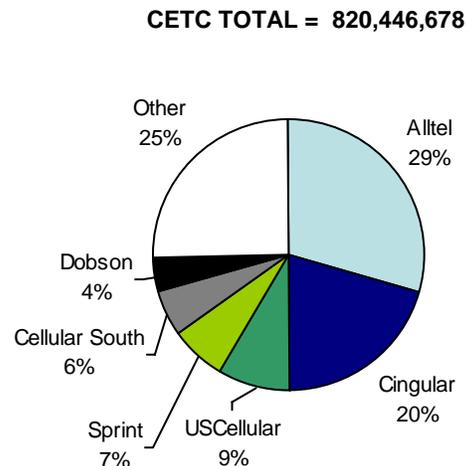
Existing ETCs and rural ILECs are oddly on the same page as they lobby separately but make similar arguments before state commissions against approving any more ETC bids. Indeed, the lobbying among those already designated against pending applicants is fierce and is expected to get louder in states where commissions appear close to acting on pending petitions like in South Carolina or Florida.

By contrast, Alltel's CETC applications pending in state commissions in Nebraska, Oklahoma, New Mexico, Mississippi Louisiana and even Arkansas may not be granted anytime soon. No commission action in Arkansas would be a blow to Alltel since it's headquartered in the state and clearly has strong political ties. AT&T, however, has mounted a stiff challenge and continues to lobby hard against it. The commission could end up placing a moratorium on all pending applications until well after the FCC votes on the cap. In Texas, Alltel already won ETC designation two years ago, putting it on the opposite end in fighting against the approval of any new applications. The regulatory environment is growing more hostile toward ETC designation, which means additional USF support for wireless firms may not increase in the next couple of years.

2006 WIRELESS CETC DISBURSEMENTS



2006 WIRELESS CETC DISBURSEMENTS AS % OF CETC



Source: Universal Service Administrative Company, Information Design: MGA

BACK PAGE ESSAY

## Abrams' Army

By Patrick Lang

By the end of the Vietnam War, the United States Army was nearly destroyed as a fighting force. It had to be rebuilt from the "ground up" over the next few decades, and the man who designed that reconstruction was General Creighton Abrams.

Abrams, for whom the Abrams tank is named, deliberately re-designed the structure of the three components of the Army to prevent the civilian leadership from ever sending the Regular Army to fight alone as they had in Vietnam. And his success in doing so is exactly what limited the military options when President Bush chose to go to war in 2003 without the recommended number of troops or the political support for a sustained war, and likewise, is what still limits Bush's options as he gropes for a way out of Iraq.

### The damage of the Vietnam War

Abrams graduated from West Point in 1936. He first served in the Army horse cavalry, but when he saw the German Panzers destroy the Polish cavalry in a matter of days in 1939, he joined the new Armored Force where he was one of the most brilliant front line commanders of World War Two. He was, for instance one of the tank commanders who broke through the German army surrounding Bastogne and the 101st Airborne during the Battle of the Bulge.

After serving in Korea and in West Germany, he was promoted to the rank of General and vice chief of staff of the US Army in 1964. He was then overall military commander in the Vietnam War from 1968 through 1972. Abrams concluded from his experience in South Vietnam that the Johnson Administration had made a number of very bad decisions with regard to the war, but that the worst from the Army's point of view as an institution was President Johnson's politically-driven decision NOT to call to active service the National Guard and Army Reserve. That this decision was made in the context of the war's ever increasing unpopularity made it worse.

This decision was clearly prompted by Johnson's unwillingness to accept the disfavor of home town America. From Johnson's point of view it was easier to

rely on the cadres of the Regular Army, increase draft calls (even if that required lowering admission standards), and to create new units using these sources of people while hoping for an early end to the war. One of the results of these decisions was to make the National Guard and units of the Army Reserve into havens for people seeking to avoid combat duty. At the same time, the Army made similarly misguided decisions.

First, the Army decided that officers lucky enough to obtain command in Vietnam were limited to six months in that position before they were sent to staff jobs. This decision was intended to give as many officers as possible a chance to command, but the concept deprived troops engaged in combat of seasoned leaders. Second, the Army decided that a fear of having units who had arrived as one group in Vietnam leave all at the same time required that units be broken up as they arrived in Vietnam and repopulated with people from other units.

This destroyed unit cohesion and the loyalty of man to man so necessary in combat. As a result, units in Vietnam remained there as organizations for the duration of the fighting while a continuous stream of individual replacements arrived in units where they knew nobody and where they served under leaders who would be gone in a few months. The net result of these mistakes was an Army that by the end of Vietnam was broken in spirit and internal cohesion. This effect "spilled over" into Europe and America itself where troops were undisciplined and on the edge of mutiny for several years.

### The Abrams Reforms

The US government's decision to abolish the draft set the stage for widespread change in the Army. Volunteer soldiers are a much easier leadership task than are citizens conscripted against their will. This change set the stage for the "Abrams Reforms" that made possible the Army now fighting in Iraq, Afghanistan and across the world.

Among his key reforms were to stabilize command tours of duty for officers, making them much longer and with commanders selected by Army-wide boards seeking

---

*Colonel W. Patrick Lang is a retired senior officer of U.S. Military Intelligence and U.S. Army Special Forces (The Green Berets). In the Defense Intelligence Agency (DIA) he was the "Defense Intelligence Officer for the Middle East, South Asia and Terrorism," and later the first Director of the Defense Humint Service."*

BACK PAGE ESSAY

**A SOLDIER'S STORY**



I first met Creighton Abrams while standing behind a rubber tree in the highlands of Vietnam in 1969. I was a captain Commanding Detachment A, Third Battalion, 525th

Military Intelligence Group, accompanying a company from the First Cavalry Airmobile Division on an operation for which I had provided the intelligence. The Americans had advanced into a grove of rubber trees and made "contact" about fifty yards inside. A fire-fight was underway and I was carefully standing in the "fire shadow" provided by a tree, trying to judge progress in the fight while bullets "thunked" into trees around me. I heard a helicopter land somewhere behind me, and assumed it was a "medivac."

Unexpectedly, a hoarse voice behind me said, "What's up?" Turning, I discovered that General Abrams himself was standing three feet away. The cigar, the wrinkled square face, the four black stars on his cap, there was no doubt who it was. He had been flying around, listening to the radios while en route to somewhere and had decided that our little fight should be looked at. This was the commander of all US forces in South East Asia. He wore no armor, did not have a helmet, and was armed with the .32 caliber "pop-gun" automatic pistol that the Army used to give general officers.

He listened gravely, asked a couple of questions about what we were going to do next, nodded and said. "It looks like you fellas have this under control." We shook hands and he walked back to his helicopter. He never looked back or seemed to even notice the bullets cutting through the grass around him, he just kept walking. He was always like that, a gruff, plain spoken person who naturally attracted loyalty, and he had mine. – Patrick Lang

the best people and not the most favored; created a "Ranger Regiment" of elite light infantry troops to serve as a model for what enlisted soldiers should be in his new model Army; he re-emphasized unit identity for soldiers so that the Army would accept the idea that soldiers are social creatures and would not again send people to combat as individuals rather than units; raised recruiting standards, educationally, physically and with regard to proven character.

Most importantly, Abrams restructured and spread the skills and capabilities needed to fight big wars across the "active force" or regular Army, the National Guard and the Army Reserve in such a way that it would be impossible to send the "active force" overseas alone again. In other words, much of the sustaining logistics base needed for large-scale expeditions would be located in the National Guard and Army Reserve where the political cost of mobilization would be high.

The message Abrams was trying to send was clear: there would be no more big wars fought by regulars leading conscripts. Instead, a large-scale, sustained war of more than a few months would require a clearly laid out case for war and the political backing across the states whose National Guard would be called up to fight. Even in the absence of the draft, any new war would mean towns across America would share the experience of the struggle.

The Abrams legacy and the Iraq War

Abrams was dead a couple of years later, but the Army was re-built on that model. As a result the National Guard and Army Reserve have been heavily engaged in Iraq. His success in creating that force structure was exactly what prevented former Secretary of Defense Donald Rumsfeld from accepting the advice of Army Chief of Staff General Eric Shinseki who estimated that 300,000 troops would be needed to secure post-invasion Iraq. A force that big would have almost certainly required the politically explosive resort to a draft if the war continued for very long and large-scale rotations had been necessary. Instead, the Bush Administration opted for far fewer troops and "private contractors," gambling on a quick clean war that was going to allow a drawdown to only 30,000 troops by the end of 2003.

Four years later, that gamble on a favorable outcome has been a catastrophically costly one. But the Bush Administration is still struggling to come to terms with the political price of the cuts in the size of the "active force" that happened under President Bush Sr. and President Clinton as well as the checks and balances Abrams created to deter going to war without a broader but politically costly mobilization of troops. Even now, the current so called "Surge strategy" is hobbled not only by a questionable military and political logic to begin with, but by the ongoing shortage of troops. Although his reforms may have failed to prevent a rush to war, Abrams has at least left a legacy that is, in effect, forcing the president to face a political reckoning on his decision to go to war.

## IN CASE YOU MISSED IT...

### MGA REPORTS

#### MAJORS

- ECB: "Rumors And Residual Risks" 05-24-07
- BOC: "Loonie Not Lone Driver" 05-25-07

#### GLOBAL POLITICS

- US-China: "What Would Zhou Enlai Say" 05-24-07

#### ENERGY

- Oil: "Refining The Message" 05-22-07
- US Utilities : "Ill Rate Relief Fund Optimism" 05-23-07
- US Utilities: "TX Won't Approve Divestiture" 05-23-07

#### EMERGING MARKETS

- South Korea: "What A New President Will Bring" 05-24-07
- Ukraine: "When Doves Coup" 05-25-07
- Turkey: "Terrorizing The Campaign" 05-23-07

#### US REGULATORY:

- Telecom: "ETC Landscape Mixed For Alltel" 05-25-07

#### SUBSCRIPTION INFORMATION

*For more information about Medley Global Advisors' (MGA) products and services please contact:*

##### Europe/Asia

**Alex Wark**

Phone: 44.207.377.5517

Email: [awark@medleyadvisors.com](mailto:awark@medleyadvisors.com)

##### North America

**Lindsey Bernard**

Phone: 212.941.2704

Email: [lbernard@medleyadvisors.com](mailto:lbernard@medleyadvisors.com)

##### Emerging Markets

**Tugba Colpan**

Phone: 212.941.2774

Email: [tcolpan@medleyadvisors.com](mailto:tcolpan@medleyadvisors.com)

##### Energy, Utilities, and Telecom

**Manish Gautam**

Phone: 212.941.2751

Email: [mgautam@medleyadvisors.com](mailto:mgautam@medleyadvisors.com)

#### BUSINESS MANAGER

**Tracey Bennett**

#### Medley Global Advisors

Tel.: (212) 219-9096

451 Greenwich Street, 6th Floor,  
New York, New York 10013

[www.medleyadvisors.com](http://www.medleyadvisors.com)

**Disclaimer:** This was prepared by Medley Global Advisors, LLC ("MGA"). The contents are not intended to provide investment advice and under no circumstances does this represent a recommendation to buy or sell a security.

The information contained herein reflects the opinions of MGA based on information received by MGA from independent sources. While MGA believes that the information provided to it by its sources is accurate, MGA has not independently verified such information. Neither the author nor MGA has undertaken any responsibility to update any portion of this in response to events which may transpire subsequent to its original publication date. As such, there can be no guarantee that the information contained herein continues to be accurate or timely or that MGA continues to hold the views contained herein.