

Date: Mon, 07 Feb 2011 11:47:49 -0500

To: "Dr. Baruch Fischhoff - Chair, National Academy Committee on Improving Intelligence" <baruch@cmu.edu>, "Dr. Theda Skocpol - National Academy of Sciences" <ts@wjh.harvard.edu>, "Bill Nordhaus - National Academy of Sciences" <william.nordhaus@yale.edu> "Dr. Daniel Goroff - OSTP" <dgoroff@ostp.eop.gov>, "Dr. Christopher Sims - National Academy of Sciences and AEA President-elect" <sims@Princeton.EDU>, "Dr. Robert E. Hall - National Academy of Sciences and AEA-President" <rehall@stanford.edu>, "Dr. Richard Cooper" <rcooper@harvard.edu>, "Dr. David Swensen - National Economic Recovery Board" <david.swensen@yale.edu>, "Dr. Paul Krugman" <pkrugman@Princeton.EDU>, "Dr. David Shaw - PCAST" <dshaw@blackpointgroup.com>
From: Lloyd Etheredge <lloyd.etheredge@policyscience.net>

Subject: 222. Red Team (urgent): Predator-Prey Models, World Food Price Index up 17% in 3 months?, Friedman on Prices, Political Outrage and Middle East Instability

Dear Dr. Fischhoff and Colleagues:

The National Academy of Sciences should recommend that a Red Team organize a rapid test of the new Predator-Prey model of global finance and economics (e.g., # 17, 178 et passim at www.policyscience.net at II. D.). This eco-system model predicts that the next cycle should be starting and Thomas Friedman's column in this morning's Times (below - i.e., as interpreted by a Predator-Prey model) suggests that testing mechanisms of driving up prices and creating exploitable bubbles are underway using massive futures and commodity trades in meat, corn, sugar, wheat and oil - with resulting price increases that have *"slammed into"* the Islamic world (Friedman's term) just within the past six months.

Challenging Conventional Models - Connecting the Dots

General Clapper and his senior staff also should be hearing loud alarms, rethinking conven-

tional assumptions, and connecting the new dots. The World Bank's food price index rose by 17% between August and November 2010. [<http://www.worldbank.org/foodcrisis/>] - and while there was a slow recovery from a global recession and high unemployment in many countries! The NSF was scientifically neutralized years ago, but the fact that none of the models and data systems that it has supported predicted this - new - global economic crisis does suggest that new and powerful eco-system variables, outside the models, are manipulating the market system's behavior. And Robert Zoellick, President of the World Bank - a smart man - does not have competing explanatory models and data systems aside from conventional-assumption economics.

We also have learned that the new high-rollers in global finance lack the ethical restraints that we normally expect from leaders of major institutions. Lasswell famously asked the question: "Why gets what, when and how?" and General Clapper should - by now - have the balance sheets of all the players and know if it is the farmers of the world who are getting rich in this new, unexpected, and unforecast global "crisis."

Is it Really China?

- Friedman is using the "black box" explanation that China and normal market forces are somehow behind this huge non-linear change, but this is the same dust cloud that was used to explain why gasoline suddenly spiked to \$4/gallon (# 76) while everyone looked innocent, in testimony to Congress, and said that it must be "the market" and "the Chinese," although there were hints of huge hedge fund activities.<1> [The \$4/gallon explanations did not explain why the bubble burst and gasoline prices fell.]

Admiral Blair's Order to the CIA

Admiral Blair ordered the CIA to move quickly - in light of the failed stewardship of NSF, academic social science, and other institutions - to truly understand and accurately forecast global economics and finance. But there may still be asymmetries of brainpower and lagging information systems (e.g., that also require aggressive spycraft and better analysis methods)

A Red Team should nail this question - and fast.

LE

<1> Some of the most effective global strategists in the earlier cycle were "funds of hedge funds" with Asian investors. It is possible that what appears to be Asian/Chinese purchases are not, in reality, for consumption.

February 5, 2011

China, Twitter and 20-Year-Olds vs. the Pyramids

By THOMAS L. FRIEDMAN

Amman, Jordan

Anyone who's long followed the Middle East knows that the six most dangerous words after any cataclysmic event in this region are: "Things will never be the same." After all, this region absorbed the fall of the Berlin Wall and the rise of Google without a ripple.

But traveling through Israel, the West Bank and Jordan to measure the shock waves from Egypt, I'm convinced that the forces that were upholding the status quo here for so long — oil, autocracy, the distraction of Israel, and a fear of the chaos that could come with change — have finally met an engine of change that is even more powerful: China, Twitter and 20-year-olds.

Of course, China per se is not fueling the revolt here — but China and the whole Asian-led developing world's rising consumption of meat, corn, sugar, wheat and oil certainly is. The rise in food and gasoline prices that slammed into this region in the last six months clearly sharpened discontent with the illegitimate regimes — particularly among the young, poor and unemployed.

This is why every government out here is now rushing to increase subsidies and boost wages — even without knowing how to pay for it, or worse, taking it from capital budgets to build schools

and infrastructure. King Abdullah II of Jordan just gave every soldier and civil servant a \$30-a-month pay raise, along with new food and gasoline subsidies. Kuwait's government last week announced a "gift" of about \$3,500 to each of Kuwait's 1.1 million citizens and about \$850 million in food subsidies.

But China is a challenge for Egypt and Jordan in other ways. Several years ago, I wrote about Egyptian entrepreneurs who were importing traditional lanterns for Ramadan with microchips in them that played Egyptian folk songs from China. When China can make Egyptian Ramadan toys more cheaply and appealingly than low-wage Egyptians, you know there is problem of competitiveness.

Egypt, Jordan, Yemen, Tunisia today are overflowing with the most frustrated cohort in the world "the educated unemployables." They have college degrees on paper but really don't have the skills to make them globally competitive. I was just in Singapore. Its government is obsessed with things as small as how to better teach fractions to third graders. That has not been Hosni Mubarak's obsession.

I look at the young protesters who gathered in downtown Amman today, and the thousands who gathered in Egypt and Tunis, and my heart aches for them. So much human potential, but they have no idea how far behind they are or maybe they do and that's why they're revolting. Egypt's government has wasted the last 30 years i.e., their whole lives plying them with the soft bigotry of low expectations: "Be patient. Egypt moves at its own pace, like the Nile." Well, great. Singapore also moves at its own pace, like the Internet.

The Arab world has 100 million young people today between the ages of 15 and 29, many of them males who do not have the education to get a good job, buy an apartment and get married. That is trouble. Add in rising food prices, and the diffusion of Twitter, Facebook and texting, which finally gives them a voice to talk back to their leaders and directly to each other, and you have a very powerful change engine.

I have not been to Jordan for a while, but my ears are ringing today with complaints about corruption, frustration with the king and queen, and disgust at the enormous gaps between rich and poor. King Abdullah, who sacked his cabinet last week and promised real reform and real political parties, has his work cut out for him. And given some of the blogs that my friends here have shared with me from the biggest local Web site, Ammonnews.net, the people are not going to settle for the same-old, same-old. They say so directly now, dropping the old pretense of signing antigovernment blog posts as “Mohammed living in Sweden.”

Jordan is not going to blow up today. The country is balanced between East Bank Bedouin tribes and West Bank Palestinians, who fought a civil war in 1970. “There is no way that the East Bankers would join with the Palestinians to topple the Hashemite monarchy,” a retired Jordanian general remarked to me. But this balance also makes reform difficult. The East Bankers overwhelmingly staff the army and government jobs. They prefer the welfare state, and hate both “privatization” and what they call “the digitals,” the young Jordanian techies pushing for reform. The Palestinians dominate commerce but also greatly value the stability the Hashemite monarchy provides.

Egypt was definitely a wake-up call for Jordan’s monarchy. The king’s challenge going forward is to convince his people that “their voices are going to be louder in the voting booth than in the street,” said Salah Eddin al-Bashir, a member of Jordan’s Senate.

As for Cairo, I think the real story in Egypt today is the 1952 revolution, led from the top by the military, versus the 2011 revolution, led from below by the people. The Egyptian Army has become a huge patronage system, with business interests and vast perks for its leaders. For Egypt to have a happy ending, the army has to give up some of its power and set up a fair political transition process that gives the Egyptian center the space to build precisely what Mubarak refused to permit — legitimate, independent, modernizing, secular parties — that can compete in free elections against the Muslim Brotherhood, now the only authentic party.

If that happens, I am not the least bit worried about the Muslim Brotherhoods in Jordan or

Egypt hijacking the future. Actually, they should be worried. The Brotherhoods have had it easy in a way. They had no legitimate secular political opponents. The regimes prevented that so they could tell the world it is either “us or the Islamists.” As a result, I think, the Islamists have gotten intellectually lazy. All they had to say was “Islam is the answer” or “Hosni Mubarak is a Zionist” and they could win 20 percent of the vote. Now, if Egypt and Jordan can build a new politics, the Muslim Brotherhood will, for the first time, have real competition from the moderate center in both countries and they know it.

“If leaders don’t think in new ways, there are vacancies for them in museums,” said Zaki Bani Rshaid, political director of Jordan’s Islamic Action Front, the Muslim Brotherhood’s political arm. When I asked Rshaid if his own party was up for this competition, he stopped speaking in Arabic and said to me in English, with a little twinkle in his eye: “Yes we can.”

I hope so, and I also hope that events in Egypt and Jordan finally create a chance for legitimate modern Arab democratic parties to test him.

Dr. Lloyd S. Etheredge - Director, Government Learning Project
Policy Sciences Center
URL: www.policyscience.net
301-365-5241 (v); lloyd.etheredge@policyscience.net (email)

[The Policy Sciences Center, Inc. is a public foundation that develops and integrates knowledge and practice to advance human dignity. Its headquarters are 127 Wall St., Room 322 PO Box 208215 in New Haven, CT 06520-8215. It may be contacted at the office of its Chair, Michael Reisman (michael.reisman@yale.edu), 203-432-1993. Further information about the Policy Sciences Center and its projects, Society, and journal is available at www.policysciences.org.]