

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>, "Dr. Robert M. Hauser - Exec. Director, DBSSAE" <hauser@ssc.wisc.edu>, "Mr. Jake Sullivan - Director, Policy Planning Staff via Ms. Marisa S. McAuliffe" <mcauliffems@state.gov>

From: Lloyd Etheredge <lloyd.etheredge@policyscience.net>

Subject: 255. Red Team: The Next Attack on Governments - Auditing the CIA's Forecasting Model for International Finance Actors

Dear Dr. Fischhoff and Colleagues:

It would be worthwhile for a Red Team to audit the CIA's new model of global finance and its forecasts of the next round of political strategy to neutralize key governments. The CIA's model probably needs to be strengthened.

- Earlier in the Fischhoff process I proposed a new, unconventional international model with testable predictions based on *hubris*, new asymmetries of brainpower and money, growing self-awareness, and the predator-prey dynamics of the Lotka-Volterra equations (e.g., # 17 and # 7 archived at www.policyscience.net at II.D). The model seems to be making accurate predictions - and these are very different from the comforting null hypothesis that "Everybody has learned their lessons" from the worst global economic crisis since the Depression.

Early Warnings

The attached article by Paul Krugman (“The Attack on Warren”) spots the [professionally orchestrated] leading edge of the next round of political attack in America. The key change, which can be observed in the US - and that the CIA’s model should be registering worldwide - is the transformation of lobbying to a professional level that probably exceeds the planning of many CIA and military operations. Every key actor is identified, and what they care about and the arguments to which they respond, and every person who can have an influence on them: direct campaign contributors, Board members of local banks, editorial writers in local newspapers, hard-core opponents of any government role, Party members in a State who receive campaign contributions from the industry, etc. And the lobbyists - often former Committee members, key staffers, or former regulators - spot and fight every battle (every nomination, every amendment, and every phrase that could create a loophole or weaken a bill or its implementation/enforcement).

[We already have seen the transformation of global strategic planning and of a balance of power in the adroit changes in different tax laws, loopholes, and accounting definitions to minimize the taxes paid to any national government by globalizing corporations. Now, the attack systems are expanding to pre-shape the selection and election of candidates for public office and regulatory bodies.]

President Obama needs to know where the vulnerabilities for global financial regulation are emerging and his options.

More Resources for the CIA?

My assumption, in recommending a Red Team, is that the CIA will need more resources to war-game the opponents of the US and other governments and spot their neutralizing counter-strategies for the new episodes of predator-prey exploitation and destabilization.

An Early Warning

Here is a prescient observation by the late David Broder, from 6/13/96, remembered on the Charlie Rose Show of 3/9/2011: By now - and (also) less visible to the press - the changing

balance of power also can be predicted in foreign countries:

“ . . . [T]he picture that I had in my head of lobbying was of the guys in the Gucci loafers standing outside the Committee rooms as they come in and give them the thumbs up or the thumbs down on whatever amendment was being voted on. And of course at the same time those same people are writing checks from their Political Action Committees for those members. That is Stone Age lobbying! [It is much more sophisticated] and it is much more outside of Washington, and therefore much less visible to the press or the public. [These organizations] operate now almost like little political parties. They have gone into the political marketplace. They have paid top dollar to hire the best pollsters, the best media advisers, the best field organizers, and they use all of the modern electronic communications equipment to gin-up their supporters, the people that they have enlisted in the countryside. And flood these Congressional offices with what looks like authentic grass-roots opinion but is of course, unlike, you know, the big political parties which represent a broad spectrum of voters with a whole, broad set of interests, these folks have a very defined agenda. And for the most part, their agenda is to protect what they already have in the status quo. So this kind of interest group (perfectly legitimate, nothing undemocratic or, you know, illegal about it) - but they have become so powerful now that they become, really, barriers to making any major change that affects their status.”

LE

NYT. March 20, 2011

The War on Warren

By PAUL KRUGMAN

Last week, at a House hearing on financial institutions and consumer credit, Republicans lined up to grill and attack Elizabeth Warren, the law professor and bankruptcy expert who is in charge of setting up the new Consumer Financial Protection Bureau. Ostensibly, they believed

that Ms. Warren had overstepped her legal authority by helping state attorneys general put together a proposed settlement with mortgage servicers, which are charged with a number of abuses.

But the accusations made no sense. Since when is it illegal for a federal official to talk with state officials, giving them the benefit of her expertise? Anyway, everyone knew that the real purpose of the attack on Ms. Warren was to ensure that neither she nor anyone with similar views ends up actually protecting consumers.

And Republicans were clearly also hoping that if they threw enough mud, some of it would stick. For people like Ms. Warren n people who warned that we were heading for a debt crisis before it happened n threaten, by their very existence, attempts by conservatives to sustain their antiregulation dogma. Such people must therefore be demonized, using whatever tools are at hand.

Let me expand on that for a moment. When the 2008 financial crisis struck, many observers n myself included n thought that it would force opponents of financial regulation to rethink their position. After all, conservatives hailed the debt boom of the Bush years as a triumph of free-market finance right up to the moment it turned into a disastrous bust.

But we underestimated the speed and determination with which opponents of regulation would rewrite history. Almost instantly, that free-market boom was retroactively reinterpreted; it became a disaster brought on by, you guessed it, excessive government intervention.

There remained, however, the inconvenient fact that some of those calling for stronger regulation have a track record that gives them a lot of credibility. And few have as much credibility as Ms. Warren.

Household debt doubled as a share of personal income over the 30 years preceding the crisis, and these days high levels of debt are widely seen as a major barrier to recovery. But only a handful of

people appreciated the dangers posed by rising debt as the rise was happening. And Ms. Warren was among the foresighted few. More than a decade ago, when politicians of both parties were celebrating the wonders of modern banking and widening access to consumer credit, she was already warning that high debt levels could bring widespread financial disaster in the face of an economic downturn.

Later, she took the lead in pushing for consumer protection as an integral part of financial reform, arguing that many debt problems were created when lenders pushed borrowers into taking on obligations they didn't understand. And she was right. As the late Edward Gramlich of the Federal Reserve — another unheeded expert, who tried in vain to get Alan Greenspan to rein in predatory lending — asked in 2007, “Why are the most risky loan products sold to the least sophisticated borrowers?” And he continued, “The question answers itself — the least sophisticated borrowers are probably duped into taking these products.”

Given Ms. Warren's prescience and her role in shaping financial reform legislation — not to mention her effective performance running the Congressional panel exercising oversight over federal financial bailouts — it was only natural that she be appointed to get the new consumer protection agency up and running. And it's hard to think of anyone better qualified to head the agency once it goes into action.

The fact that she's so well qualified is, of course, the reason she's being attacked so fiercely.

Nothing could be worse, from the point of view of bankers and the politicians who serve them, than to have consumers protected by someone who knows what she's doing and has the personal credibility to stand up to pressure.

The interesting question now is whether the Obama administration will see the war on Elizabeth Warren for what it is: a second chance to change public perceptions.

In retrospect, the financial crisis of 2008 was a missed opportunity. Yes, the White House

succeeded in passing significant new financial regulation. But for whatever reason, it failed to change the terms of debate: bankers and the disaster they wrought have faded from view, and Republicans are back to denouncing the evils of regulation as if the crisis never happened.

By the sheer craziness of their attacks on Ms. Warren, however, Republicans are offering the administration a perfect opportunity to revive the debate over financial reform, not to mention highlighting exactly who's really in Wall Street's pocket these days. And that's an opportunity the White House should welcome.

Dr. Lloyd S. Etheredge

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.]