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To: "Dr. Baruch Fischhoff - Chair, National Academy of Sciences Study on Social & Behavioral Science and Improving Intelligence for National Security" <baruch@cmu.edu>

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

**Subject: An Urgent Warning for Admiral Blair & the DNI system ;
Andrew Ross Sorkin, hubris, and repetition**

Dear Dr. Fischhoff and Colleagues:

My memorandum of September 25, 2009 [and a related memorandum on September 30 about Tom Wolfe, *hubris*, and missing variables] discussed the urgent need to upgrade DNI/NIC baseline forecasting models, inherited from the Bush Era, to understand the new international financial system, especially its dangers. <1> For example, there is an urgent need for your National Academy of Sciences study group to alert the DNI to models that predict a predator-prey dynamic, *hubris*, and asymmetries of brainpower and money that will operate to neutralize government regulatory responses worldwide, and perhaps even in the US political system. These models are not yet part of standard political science and/or economics textbooks.

Thus, may I bring to your attention the findings reported by Andrew Ross Sorkin on the PBS Newshour of 12/28/2009? Mr. Sorkin, a New York Times reporter, has just completed a book of investigative reporting about the financial crisis and key US actors: Too Big to Fail:

PBS Interviewer: "Andrew, what is the key insight that you get from your reporting? . . .

Sorkin: "I think about this as people who think that they are too big to fail, and really a story about *hubris* and greed and power and what all of that meant in terms of the decision making . . ."

PBS Interviewer: "Where are we now? Have lessons been learned?"

Sorkin: "Here is the sad news. Having now lived with many of these people for a year at the very, very top, in the corner office, I am not sure that much has changed at all. The culture has not changed: the whole ethos, the greed is good mentality, seems to still be alive and well. And frankly there has not been much reform out of Washington. . . ."

"I did have an encounter with John Mack, who is the CEO of Morgan Stanley, who actually was probably the most self-aware of the CEOs who said recently that actually 'Wall Street people can't control themselves . . . We need to be controlled.' Almost as if he was an addict and you need to take the crack pipe away. . . ." Most other people on Wall Street not only do they not have that view, they are pushing back on any view that would put real reform in place."

The PBS discussion including another author/journalist (John Cassidy) who noted that: "Sixteen months after the collapse of Lehman Brothers we do not have any new regulations on the book. . . These big banks have got lobbying power again in Washington. . . The Wall Street reform movement has been stymied."

Sorkin agreed: "We are going to get change, but it will be only at the margins."

Another Prediction

- There are differences between my predictions, what Sorkin and Cassidy currently report, and what I believe the record eventually will show. For example, Sorkin and Cassidy refer to "short memories," while my prediction is that there is an extraordinarily smart, well-funded, and effective lobbying operation, in America and abroad, that is orchestrating the political silences, the shift of most journalistic focus, and forgetting.

Implications of Hubris, Predator-Prey, and Brainpower/Money Asymmetries Models

Part of this story could change. More than 1,000 bank executives went to jail as a result of the earlier S&L crisis. A very smart and strategic Obama Administration - if it recognizes the *hubris*, the asymmetries of brainpower and money, the danger of an emerging predator-prey international financial system, and the drive to repeat earlier behavior - could be holding-off a definitive battle for domestic/international power until health care reform is passed, the national economy has a strong recovery underway, and the possibility of voluntary and effective reform

has been given a chance, even if it is unlikely to succeed. If, by early spring, we begin to see a large number of high-level indictments, and renewed momentum for reform, here and abroad, then the Obama Administration may be learning and the urgency of the National Academy's social/behavioral science warnings to the DNI, re evaluating these - possibly better - non-textbook models, may be diminished.

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<1> There are reference copies on the www.policyscience.net Website; scroll toward the bottom, II. D.

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