

Date: Mon, 21 Dec 2009 11:59:54 -0500

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: New Explanations: Why was gasoline \$4/gallon?

Dear Dr. Fischhoff and Colleagues:

You might ask Admiral Blair to disclose the intelligence community's July 2008 explanation, and its supporting data and analysis, re the sudden rise of the US retail price of gasoline above \$4/gallon in July 2008, from \$3/gallon in January 2008.

At the time, the explanation of oil company executives - who testified before Congress but not under oath - was honest "supply and demand" that nothing could, or should, be done about. And this is about the degree of penetration of most news reporting - e.g., that growing oil consumption by China was doing this. And this is what President George W. Bush seems to have told - to judge from his few public remarks, and assuming that he was honest.

A dialogue about DNI data systems and analysis methods could be useful.

New Explanations: A Dialogue with National Academy Economists?

By now, I expect that National Academy economists and other social scientists have developed independent, alternative theories of global manipulations of real economy oil prices (i.e., by the growing financial sector).

Specifically, the oil prices might have been driven by complex and sophisticated profiteering and hedge fund operations in the financial sector - rather than by supply and demand in the real economy. Soaring prices, driven by the future markets, might have been an effort to create the same kind of leveraged asset bubble and profit opportunities as had grown in the housing markets. The intense activity in the futures market imply that sovereign wealth funds - in the Middle East and perhaps Chinese investors - also may have been experimenting with similar mechanisms to extract huge profits from these over-priced assets.<1>

However, as late as the fall of 2008, in the Global 2025 Report, there is no indication that the DNI system was seeing, or considering, these global power connections. Thus, a social science dialogue with Admiral Blair might be urgent and useful. In part because - without recognizing these global power connections - it could happen again, unexpectedly. [Given the amount of money that was deftly extracted from US and other consumers, there *will* be an incentive for this to happen again.]

- Re food prices. It would be timely to take a fresh look at other global basic commodity prices - e.g., food - that have begun to show sudden, unexpected increases and that, accompanied by a dust cloud of puzzlement and a faith that market pricing mechanisms reflect the real economy, have elicited World Bank/US policy responses that may have been costly and misinformed.

Lloyd E.

<1> Looking back, the DNI system probably had inadequate data and analytic tools to test alternative hypotheses. That the US intelligence services were out of touch with reality - and that global financial institutions were exerting new power to drive the system, and extract huge profits from powerless consumers, is suggested by the quick fall of the price to under \$2/gallon in January, 2009. American gasoline consumption had not fallen that sharply (there was only a slight recession at this point) and real demand from the Chinese economy - cited as the culprit earlier - has continued to grow and could not explain the price collapse.

Dr. Lloyd S. Etheredge - Fellow, World Academy of Art & Science
Director, Government Learning Project
Policy Sciences Center Inc.
127 Wall St., Room 322 - Box 208215
New Haven, CT 06520-8215
URL: www.policyscience.net
301-365-5241 (v); lloyd.etheredge@policyscience.net (email)