Date: Fri, 26 Feb 2010 13:36:57 -0500
To: "Dr. Baruch Fischhoff - Chair, National Academy of Sciences Study on Social
& Behavioral Science and Improving Intelligence for National Security" <ba-
ruch@cmu.edu>,
From: Lloyd Etheredge <lloyd.etheredge@policyscience.net>

Subject: The "Who's Afraid of Governments?" challenge

Dear Dr. Fischhoff & Colleagues:

As the National Academy of Sciences prepares to write a final <u>Report</u> con-
cerning advice from the nation's social scientists for improving data systems and
analysis for national intelligence, one summary of several of my earlier submissions
is the observation that we could be entering a new **"Who's Afraid of Govern-
ments?" era.** This new era of political challenges reflects the changing relationship
of the bolder international financial sector (with a permanent increase in its availa-
ble wealth and remarkable asymmetries of money and brainpower) to governments
that can be penetrated and affected by several routes, including sophisticated lob-
bying and public relations with large, unprecedented sums of money.

This analysis suggests immediate implications for new data systems, new
DNI five-year forecasts of trends without corrective action, new analytic tools
drawn from theories of deterrence, new hybrid models of political economics, and
DNI recommendations for innovations in law enforcement and legal doctrines
(and perhaps campaign finance/lobbying laws) in the US and other countries.

They Are Not Being Deterred: The Greek Financial Crisis
As you draft your <u>Report</u> a useful case to watch would be the evolving
Greek financial crisis. This morning's latest headline in the <u>Wall Street Journal</u> is:
**"Hedge Funds Pound Euro: Traders Pile On, Using Multiple Big Bets Greek
Crisis Will Push Currency Lower."**[1]

Alongside the Greek case, a revealing contrast is between: a.) the behavior of
the head of Toyota, appearing recently before Congress - expressing genuine con-
trition   and remorse about injuries and damage they caused and a still-civilized
commitment to prompt corrective action - and b.) the stonewalling/play dumb
performance of the heads of major US investment banks with $1,000/hour le-
gal/PR advice when they appeared.

Observational Learning: Does the Domino Theory Apply?

- Does the domino theory apply in this new era? If so, the DNI might want to have R&D models and analysis tools that include the current data point of a wealthy CA health insurance company that openly raises premiums by almost 40% during a recession while Congress and the President are tackling health reform. If there is intelligent, observational learning across predators then, like George Kennan warning about Soviet expansion "into every nook and cranny," we may be seeing behavior that affects the US government's deterrent credibility in many arenas.

Lloyd Etheredge

<1> The Greek case also illustrates lines of refinement and development for predator-prey [Lotka-Volterra] eco-systems models. Earlier, hedge funds allied themselves with parts of the Greek political elites. Later, some of these local coalition members were sacrificed by the alpha-predators. The "prey" also includes future generations who can be designated to pay the debts, and who cannot currently vote.

<2> The "Who's Afraid of Governments?" increasingly bold behavior of the international financial sector may become worse in light of the recent Supreme Court ruling on corporate political contributions and similar money & politics trends in other countries (democratic & non-democratic).

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