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

Subject: 223. Red Team: Friedman on Mideast instability and cautions re US pressure for Chinese currency devaluation

Dear Dr. Fischhoff and Colleagues:

Thomas Friedman's theory (# 222 at www.policyscience.net at II. D. - forwarded earlier today) that the growing political instability in the Middle East is partly caused by increased prices for food and oil that have "slammed across" the Middle East in the past six months, deserves immediate evaluation. These steep and unexpected increases, he believes, are especially driven by (apparently the normal rate of) increased Chinese demand. <1>

However, currently, Secretary Geithner is pressuring China to change the exchange rate of the Renminbi. This will make foreign goods suddenly cheaper in China and unleash a new global demand from 1.4 billion Chinese to import even more oil, wheat, meat, sugar, and corn from abroad. The World Bank says that we already have a world food "crisis" - and this could be the wrong time for another series of mistakes by the US government.

The National Academy of Sciences has been asked for advice: my recommendation is that a Red Team/National Academy project should sort this out.

A New World "Food Crisis" - Made Worse?

It would not be surprising if Secretary Geithner and Dr. Summers [and advisers from the Peterson Institute for International Economics], as economists, made a Renminbi devaluation case to the President, with selected corporate backing, without running wider equation models and briefing the President about the effects on the World Bank's global food price index and Middle East prices, the humanitarian cost, and the political shocks in many UDCs with high levels of poverty, unemployment, and income inequality that have not yet recovered from the last global economic crisis. And, especially, without briefing the President about what will happen politically across the Middle East on top of what has been happening in the past six months.

Pending a Red Team audit of Secretary Geithner's behavioral assumptions, General Clapper should recommend that President Obama put Chinese currency devaluation on hold. It could be too risky a change, and too costly in the Middle East and around the world, to do now.

Asking Chinese Help

It might be worthwhile for President Obama to explain, to the Chinese government, why we are suspending this devaluation effort temporarily. The Chinese may have better models of their own economy than the CIA, or than Secretary Geithner ran, and it would be interesting to know the Chinese analysis of the global impact on demand and prices.

Also, the Chinese intelligence services - once alerted - may be able to produce the needed penetrations in Asia more quickly than General Clapper and evaluate the Predator-Prey financial models. It will be interesting to know what they think, since the sudden price rises also are affecting them.

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<1> I seen no mention on the www.worldbank.org/foodcrisis/ Website about these food price

increases "slamming across" the Middle East during the past six months.

The degree of volatility that Robert Zoellick is chasing does not appear to be predicted or predictable from their standard market equations, a fact which is suspicious.

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