

**Demetri Kofinas:** What's up everybody. Welcome to another episode of Hidden Forces with me, Demetri Kofinas. Today, we speak with Robert Johnson. Robert serves as president of the Institute for New Economic Thinking and is a senior fellow and director of the global finance project for the Franklin and Eleanor Roosevelt Institute in New York.

[00:00:30] Johnson served for many years as a managing director at Soros Fund Management and was part of the famous team of speculators that broke the Bank of England in 1992, forcing the Pound out of ERM. He served as chief economist of the US Senate Bank and Committee under the leadership of William Proxmire, and before this as senior economist of the US Senate budget committee under the leadership of Pete Domenici.

Robert was also an executive producer of the Oscar- [00:01:00] winning documentary Taxi to the Dark Side and is the former president of the National Scholastic Chess Foundation. Johnson received a PhD and master's in economics from Princeton University and a bachelor's in both electrical engineering and economics from MIT. In this episode we explore the history of finance, the politics of economy and the science of policy.

We begin at MIT, under the tutelage of Charles Kindleberger, perhaps the greatest financial historian [00:01:30] of our time. We learn about Thomas Ferguson's investment theory of party competition, and how power and money make policy and drive politics. We take a ride through the Reagan revolution, the deregulation of financial markets, and stop to contemplate the ways in which markets and the economy have changed in the years after the fall of communism and the rise of globalization and the wake of the Washington Consensus.

We hear tales of the early [00:02:00] days of high finance, where Robert Johnson, George Soros and Stanley Druckenmiller shorted Sterling, broke the bank of England and walked away with a \$2 billion payday. That was almost 25 years ago to the day. How has global finance, international trade, foreign exchange and financial deregulation changed the landscape of speculation in the years since? How has the decline in productivity, a collapse in marginal cost, a rise in total debt [00:02:30] and an aging demographic, laid the groundwork for a rise in populism and a decline in the authority of experts? How do we defend our liberal democratic institutions absent convincing academics, trustworthy politicians and inspirational leaders? How do we get the money out of politics, when politics is so beholden to money? How do we reform a corrupted government that is in bed with Wall Street, beholden to multinational corporations and commingled with industrial [00:03:00] military companies whose very profitability is dependent on multi-billion dollar federal contracts?

It's time for people like us to become educated on the how's and the why's of our political economy, because if we don't have the knowledge to call up the experts, then we are powerless to affect the very changes we seek to induce. As always, you can get access to reading lists put together by me ahead of every episode by visiting the show's website at [00:03:30] HiddenForces.io. Lastly, if you are listening to the show on iTunes or Android, make sure to subscribe. If you like the show write us a review, and if you want a sneak peek

into how the sausage is made or for special storyline told through pictures and questions, then like us on Facebook and follow us on Twitter and Instagram @HiddenForcesPod. Now, let's get right into this week's conversation.

So Mr. Johnson, welcome to Hidden Forces.

**Robert Johnson:** It's a pleasure to be here.

**Demetri Kofinas:** [00:04:00] I'm very excited to speak with you. With spoke a little bit there and I told I didn't want us to get too much into all the details because then I'd lose the excitement of asking you for the first time, but I'm very excited to have you on here.

Let's start off a little bit with, I don't ever normally do this with guests but I think your life is particularly interesting and worth exploring a bit. Could you tell a little bit about where you came from and how you found yourself in this place in your life?

**Robert Johnson:** Sure. I grew up in Detroit, Michigan. Father was a physician, a jazz pianist. My mother was [00:04:30] a choral singer and philanthropic, helping the symphony raise money. It was a turbulent time. We went through the 67 riots. You're just about to see this new movie Detroit which is all about that.

**Demetri Kofinas:** When is that coming out?

**Robert Johnson:** August 4th I believe. It's from the people that made The Hurt Locker. You're probably saying, that was my Hurt Locker.

**Demetri Kofinas:** You were involved in Taxi to the Dark Side. You were the EP on that, right?

**Robert Johnson:** That's right. I was the executive producer on that film.

**Demetri Kofinas:** Interesting, we should get into that too.

**Robert Johnson:** [00:05:00] Growing up in Detroit, what I experienced was people explaining Detroit, except they didn't explain Detroit. I was watching my father's friends become alcoholics, get despondent or whatever, and America's hearing a different story. Which is, corrupt African-American public administration, everybody's lost their mojo, et cetera.

What it felt like to me was they weren't trying to explain what was happening, they were trying to alleviate [00:05:30] the anxiety of people whose faith in the American Dream was shaken by what happened to Detroit. They were putting on an anesthetic but it was very cruel to the people who all work and it made me a big skeptic about social science.

Then I go study economics at MIT eventually and at Princeton. While I'm doing those things people are talking about equilibrium, well that feels to me like a Disney movie, like we got a

happy ending. We pre-suppose a happy ending, and then we work towards how we get there.

**Demetri Kofinas:** You were doing your bachelor's in economics at Princeton?

**Robert Johnson:** [00:06:00] No. Bachelor's in economics at MIT, along with a bachelor's in engineering, and then later on a PhD in economics at Princeton.

**Demetri Kofinas:** Okay. So you grew up in Detroit, what kind of physician was your father?

**Robert Johnson:** He was a urologist.

**Demetri Kofinas:** Okay. My father's also a physician. That's fascinating. You grew up during a very turbulent time, at a time of a great deal of change and economic uncertainty, and of course the assassinations of Martin Luther King and RKF. That was obviously very significant. What you're saying is that your experience of the actual, [00:06:30] the riots, Detroit, that entire period, differed greatly from the way in which the American people experienced it and understood it through the media with television-

**Robert Johnson:** That's correct.

**Demetri Kofinas:** ... and nightly news. What prompted you to go to MIT? First of all, it's a great school. What was that decision based on?

**Robert Johnson:** It was very simple. For a lot of my life, as a youngster I was a very, very ... How do you say? Committed and devoted racing sailor, like shooting for the Olympic trials. I was a bowman on a boat that won the Canada's Cup, which is in between America's Cups [00:07:00] in 1975. I wanted to be a naval architect and the greatest naval architect of the twentieth century was a man named [Holland Stevens 00:07:08]. He had gone to MIT.

While I was on that Canada's Cup boat, an Australian named John Bertrand, who later won the America's Cup away from America in 1983, but in 75 he said, "I did my master's at MIT. That's where you should go." So being at MIT felt like that's where a guy with [00:07:30] nautical ambition should be.

**Demetri Kofinas:** You went in what year to MIT?

**Robert Johnson:** 75, 76.

**Demetri Kofinas:** And you went with the intention of studying engineering? Naval-

**Robert Johnson:** I started to study engineering. I was kind of conflicted at the beginning between aeronautical engineering, oceanography and, what are they called, ocean engineering and naval architecture. I didn't have to declare a major at that time.

**Demetri Kofinas:** But you were introduced to economics somehow. How did that happen?

**Robert Johnson:** I took an elective course.

**Demetri Kofinas:** What year? Second year-

**Robert Johnson:** About 77-

**Demetri Kofinas:** [00:08:00] So as a junior.

**Robert Johnson:** ... with Charles Kindleberger. Theory of international trade. Obviously, a guy from Detroit. There was a woman named Emma Rothschild at MIT in political science. She's now at Harvard. She taught a course on the decline of the American auto industry, so I went and kind of shopped around these things.

**Demetri Kofinas:** Very exciting.

**Robert Johnson:** I started talking with Kindleberger about sailing. He said to me, "Well, when you write your junior paper, I know a lot about international trade. [00:08:30] I know about the competition between the Dutch empire and the British empire. But what you know about is nautical technology, and I'm sure there are naval strategies and there's the ship designs and everything. We're very different. So, I can get you the data and the economics but you have to talk to me about the technology."

We started to explore that together. I thought he was a beautiful and fascinating spirit. He was in the middle of writing his books, Manias, Panics and Crashes. He was working on petrodollar recycling from the [00:09:00] OPEC shocks to the emerging economies. He and his sweet mate [Maurice Edelman 00:09:05], who I thought at the time was the greatest oil economist in the world. I became their research assistant, helped them build conferences and some correspondence on it. I was just flowing in it. I just loved it.

**Demetri Kofinas:** I'm so incredibly jealous. Obviously, what difference does it make, it's not possible, I couldn't have possibly learned under Charles Kindleberger but-

**Robert Johnson:** I was punk from Detroit at that time. I didn't have a resume.

**Demetri Kofinas:** Was that before or after he had written his book on the Great Depression?

**Robert Johnson:** The World [00:09:30] in Depression was already out, because we read that as part of that first semester [crosstalk 00:09:34]

**Demetri Kofinas:** I was telling you, that's one of the few books that I've read twice and fully annotated, studied. I loved that book. I find it immensely valuable for thinking about so many of the change in commodity prices and everything else, and how everything

factored into everything else. What was your experience like reading that book and taking his class sort of educationally? What was that like?

**Robert Johnson:** It felt like somebody just opened the blinds and you were starting [00:10:00] to understand a part of the history that had been powerful in my family. A lot of my family had come from Germany in the thirties and there was a lot of story and folklore from aunts and uncles and everything else. World War II was considered an outgrowth of dysfunction that started in World War I and went through the Great Depression.

Here's a man who's talking about the changing of the guard from British leadership to American leadership. One is relinquishing in stress before the other's really picked up the ball. [00:10:30] In that void, in that dysfunction is where a whole lot of turbulence and trouble for the world happened. To me, right now, I can't think of two other books I would recommend to young people to read when they think about US-China relations.

**Demetri Kofinas:** Really?

**Robert Johnson:** It's a different setup because the British and the Americans came from the same philosophical, religious and historical tradition. That handoff should have been easier than one between the United States and China, or a collaboration [00:11:00] in sharing. But Kindleberger also has this notion of the benevolent hegemon. One country has to make ends meet and make the system balanced. We're moving to a multilateral, multipolar world, which is more unstable from the vision of Charles Kindleberger.

**Demetri Kofinas:** He also dealt a lot of currencies in that book, and of course there was an attempt to return to gold and the effect that it had on the UK with the attempt to return to the pre-war price. Fascinating book. You also took classes under Thomas [00:11:30] Ferguson, is that correct?

**Robert Johnson:** That's right.

**Demetri Kofinas:** Tell us a little bit about Thomas Ferguson, and what that was like, and what you learned there. Because I feel that his work expresses itself a great deal more, in fact from the interviews I've seen of yours I find you channeling his work even more.

**Robert Johnson:** It's been an enormous influence because, well first of all I'm fond of him, but the reason it's such an influence is because it was so ahead of the curve and it was so right about what was unfolding. I read his PhD dissertation, which is not published. It's in [00:12:00] the Seeley Mudd Library down at Princeton. It's 2,200 pages.

It was called, Critical Realignment, Decline of the House of the House of Morgan and the Origins of the New Deal. It was all about the power of industrial sectors and the transformation of the economy and the transformation of power within different sub-sectors of banks, or banks and interview banks, and all of these things. His work was analytical. It was evidence-based. It was archival, and it was human story.

Let me [00:12:30] go back a little before. When I first meet Tom I said to him, my mother used to study a lot of things in economics and I said, "I'm listening to you talk about politics and the election of 1896 and the work of Walter Dean Burnham and all this stuff, but what do you know about banks and oil companies?" He says, "Do you like Chinese food?" I said, "Yeah." He says, "Meet me tomorrow night at this restaurant [00:13:00] in Central Square." I get there and there's two grocery bags of books, one on oil and one on banks, sitting on the table. He was so generous and he was so compromised by all the rules and norms and fads of academia. I just felt like he cut right to the bone.

**Demetri Kofinas:** How is it that you these amazing professors who were so willing and interested in being close to you as a student?

**Robert Johnson:** I don't know. I don't know that.

**Demetri Kofinas:** What an incredible-

**Robert Johnson:** You'd have to ask them, but I felt lucky [00:13:30] to cross them. But I do, when I sense someone of that kind of brilliance, I'd impress them to see what I can learn. That's the part I contribute.

**Demetri Kofinas:** Was that when he came out ... Before you came to MIT he came out with the investment theory of party competition, is that correct?

**Robert Johnson:** Yeah. He was working on it as a working paper. It was published [Jim Curt 00:13:47]'s journal. I think it's called International Organization, or Industrial Organization. I can't remember. I think it's International Organization. But I had read it as a working paper, it was an outgrowth of his thesis work. But all the things that were on his reading list make [00:14:00] sense, and then a little bit later, when I was a graduate student, he did these two books, The Hidden Election with Joel Rogers, and also Right Turn which is about how the Democratic party is going to let go of its relationship to labor and broader social movements and work on, what I'll call a defensive tactic, to be able to raise the money in politics to not be squashed by the Republicans.

**Demetri Kofinas:** Was it Kevin Phillips who wrote The Emerging Republican Majority?

**Robert Johnson:** Yes.

**Demetri Kofinas:** Okay. That came [00:14:30] after that. The work of Thomas Ferguson, his investment theory of party competition was controversially accepted. It wasn't accepted at first.

**Robert Johnson:** It's controversial to this day, because you have a whole bunch of people-

**Demetri Kofinas:** To this day. Can you tell-

**Robert Johnson:** ... who are ideologists who are trying to whitewash what's actually happening in our system. Tom just said, "No, that's not what's happening."

**Demetri Kofinas:** What was his thesis, for our audience?

**Robert Johnson:** His thesis was to understand the machinations of politics you have understand the role of money. In between ... This isn't what we might [00:15:00] call a standard Marxian, which is they're just trying to crush labor. He thought what was interesting was that different sectors of the economy, the producers, oil, telecom, banks, whatever. They have different needs, and it's the fight between them as studied through the money and who they give to, and what structures, and regulations and regulatory enforcement, and cabinet nominations, and everything, flow from that money. [00:15:30] That designs, sort of creates the imprint of what the society looks like.

**Demetri Kofinas:** It's a complex system of competing interests working together that no mathematical model ... You were also at MIT during the time of Paul Samuelson, that no mathematical model could capture. You were beginning to appreciate that it sounds like.

**Robert Johnson:** You can create data which gives you the opportunity to see orders of magnitude, but every little nuance you can't capture.

**Demetri Kofinas:** Right, right, right. Okay.

**Robert Johnson:** Who [00:16:00] has a dime-store in Iowa, I don't about. But our banks, pharmaceutical companies, I'm using the present context, military production, are these people contributing a lot to what committees, to what people, for what purpose, at what time?

**Demetri Kofinas:** Exactly, okay. So was that the most influential factor in determining your choice to go to work in government after MIT?

**Robert Johnson:** No, I think there are a lot of different things. I was [00:16:30] not inclined to become an academic. I felt like I was a little bit that guy in Detroit, that my baseball coach was mourning because he was bottom guard for [Walter Reuther 00:16:43] who had been blown up in an airplane. Like I said, the 67 riots ... I was interested in more institutional economics than I thought would be afforded to me as a professor.

**Demetri Kofinas:** You wanted real world experience, is that another way of saying it?

**Robert Johnson:** It's more like real world learning. I felt like [00:17:00] I knew how to do the math. I had an electrical engineering degree from MIT. I didn't think the math was a constrain, or the statistics was a constraint to my, how you say, expression. But what I wanted to focus on differed from the agenda at say 1984, when I would have been an assistant professor.

My dad was a doctor. I didn't want to do premed because it felt like a circus game. It didn't feel like learning about medicine. I thought physician was a beautiful [00:17:30] profession, but that had nothing to do with what I wanted to do. That obstacle course called premed had nothing to do with what I wanted to do.

The same thing came from being an assistant professor. I just thought I could live in a reality with economic knowledge a little more Kindleberger type spirit or [Edwin 00:17:49] the oil economist type spirit, than a guy who's doing models and --

**Demetri Kofinas:** You wanted experiential knowledge.

**Robert Johnson:** Yeah.

**Demetri Kofinas:** Is that another way to put it? So what was that transition? When did you move to government? I'm not entirely [00:18:00] sure on what it is that you did. I know that you were-

**Robert Johnson:** I left and I went to the division of international finance at the Federal Reserve board.

**Demetri Kofinas:** What year was this?

**Robert Johnson:** 84.

**Demetri Kofinas:** 84, okay.

**Robert Johnson:** I worked there while I was finishing my dissertation. I had the good fortune to meet a man named Dale Anderson, Ken Rogoff, Peter Eisar. These were committed civil servants with very high level of education.

**Demetri Kofinas:** Where was Rogoff at the time?

**Robert Johnson:** At the fed.

**Demetri Kofinas:** At the fed also.

**Robert Johnson:** At the fed. Brilliant, brilliant guy, who was melding ... I mean, the guy's a grandmaster in chess and he's melding [00:18:30] that power of conceptual intellect with what's happening for real. I don't think it's a coincidence that he wrote that book like This Time is Different, meaning he was going to assimilate things and portray things with that sense of reality that was really under his skin [crosstalk 00:18:51]

**Demetri Kofinas:** And sense of history.

**Robert Johnson:** Yeah.

**Demetri Kofinas:** You must have met Paul Volcker as well.

**Robert Johnson:** Yes. Yes, I did. As a matter of fact, I got engaged [00:19:00] to a woman at the fed.

**Demetri Kofinas:** Really?

**Robert Johnson:** I told Ted Truman, who was my boss, that would shouldn't work in the same place. He got Volcker to get me seconded a year of visiting with Pete Domenici in the Senate's budget committee. I ended resigning from the fed and staying at the Senate's budget committee because I really liked Domenici and his staff.

**Demetri Kofinas:** So that's how you moved to ... Okay.

**Robert Johnson:** That's where I really broke into that. Domenici was a fabulous mentor. He's still alive, but I'm just speaking of the time-

**Demetri Kofinas:** Pete Domenici.

**Robert Johnson:** [00:19:30] Pete Domenici of New Mexico was the chairman of the United States Senate budget committee. His staff directors were Steve [Bill 00:19:37], and there was Bill Hoagland after that. Gail Fosler was there. Domenici said to me, very early on he says, "I want to try to help you be helpful to me." He said, "The first thing you've got to do is when you do a study, or you write a speech, or anything, you've got to come to me and you've got to tell me who are the winners, who are the losers in [00:20:00] the economy? Who are the winners and losers, state by state? Who are my colleagues that I have to negotiate with and find a compromise? Who are the guys that are going to be on my team?" So we were mapping from economic policy change into opposition and allegiance. The second he said to me-

**Demetri Kofinas:** Right back to Ferguson.

**Robert Johnson:** Yeah.

**Demetri Kofinas:** Right back to Thomas Ferguson.

**Robert Johnson:** Ferguson was a big help in my being able to diagnose and give reasonable advice. But then the next dimension in this was, [00:20:30] Domenici said, "I don't always know what you're saying but I'll let you write speeches. But the way you've got to write a speech is you put your economics in, you turn the squawk box on every morning that you know I'm down on the floor and you listen, so I deliver things in my voice, I do not trip over words and craziness. You have to hear the music of my voice. Write the speech with your ideas, that way I'll deliver and then I'll watch if James Baker, Paul Volcker, whoever calls [00:21:00] me, and I'll decide whether I'll use you again as a speech writer?"

**Demetri Kofinas:** Were you nervous?

**Robert Johnson:** Of course, but I thought the guy was giving me a roadmap to how to be helpful. That was a great group.

**Demetri Kofinas:** How old were you at this point?

**Robert Johnson:** I was about 26.

**Demetri Kofinas:** You were so young to be in that position. Amazing.

**Robert Johnson:** [crosstalk 00:21:19] it was really ... you learn a lot for a few years in Capitol Hill and these are really nice [crosstalk 00:21:25]

**Demetri Kofinas:** When were you chief economist of the Senate banking committee?

**Robert Johnson:** That was right after that, 86. The [00:21:30] Democrats took control because the Republicans had this pretend repeal of social security, where the Republic Senate came out for it, and then Ronald Reagan backed away and the Democrats never had to stand up. There was a lot of hostility. American Association of Retired Persons and others lobbied very hard and the Democrats seized control. Proxmire was on that side.

We had done some stuff between Domenici and Proxmire, in those days things were quite bipartisan at times, [00:22:00] about state chartered federally insured savings and loans. Trying to stop wildness on the asset side of the balance sheet.

**Demetri Kofinas:** It was before the blow up.

**Robert Johnson:** Before the blow up, but it was coming. With the help of my friend Robert Dugger who had worked with them, they hired me as the chief economist of the banking committee.

**Demetri Kofinas:** And you're like 29, if I'm doing the math right.

**Robert Johnson:** Yeah, 28, 28, 29, yeah. I had the traumatic birth experience, that as I got there we had the 87 stock market crash and then the savings and loan [00:22:30] bailout preparation. That seems like a minor league compared to 2008, but the same kind of logic, the same kind of forces and everything, were something you could learn about [crosstalk 00:22:40]

**Demetri Kofinas:** Absolutely incredible. If you could summarize your takeaways from that experience, what you learned that stuck with you that was most invaluable, to summarize what is the practical experiential knowledge of what it was that you had already begun to learn at MIT, about how the sausage is made so to speak?

**Robert Johnson:** [00:23:00] It's a combination of the conceptual frameworks and logic, and seeing real-time experiences unfold before your eyes, and integrating the two. Because when you just see a body of evidence, there's an old saying by E H Carr, the famous

historian of the twenties and thirties, "Facts are like sex, if you don't put anything in them they don't stand up." The idea that you had an interpretive framework that you could try on. Sometimes it can color your lens the wrong way, but sometimes [00:23:30] it can help you integrate, "What's all this chaos? I can see a sense of order here." But the evidence and the real-time episodes are driving you curiosity, your sense of priority. I think that helped. I think as a postdoctorate education, it was a very good one for me.

**Demetri Kofinas:** You're batting 1,000 right now so far. When did you leave your position in the senate or in government? Was your immediate stop to Quantum Fund?

**Robert Johnson:** No. I had met George Soros briefly over the 87 stock market crash. I was [00:24:00] reaching out to people like him and Warren Buffet, back-channel, asking for evidence of what took place. George had a particularly tense episode in the futures market, where somebody had backed away it was like an air pocket and he lost a lot more than he needed to and wondered if they hadn't been predatory vis-a-vis his position.

But when Bill Proxmire retired I decided to go to work in the private sector. I had two young children. Ronald Regan had removed [00:24:30] pensions for congressional employees, and I was thinking about their fortune, and my wife of course was taking maternity leave. She was an economist at the fed at the time too.

How would I say? Just those pressures, those personal pressures, financial pressures, a guy named Mike Dooley was the first baseman on a softball team I managed. He said, "I saw this wonderful job at Bankers Trust Company, but my kids haven't finished high school and I can't take it yet, but can I put your name in?" I went [00:25:00] up there and I fell in love with these guys. There were radiant, vibrant, go-get-it.

They were led by a man named Jay Pomrenze who was a fantastic spirit and speculator and ordained rabbi, all this stuff. They had a wonderful culture. So we moved to New York and I started that. I thought, "I've got get myself a little mentorship from this guy Soros." At the time he was not like-

**Demetri Kofinas:** You're not bashful about asking for help.

**Robert Johnson:** He's not [Madonna 00:25:24] though. He's not like the household name. He's this underground genius. Everybody [00:25:30] that's in my little cohort at Bankers Trust knows of him and thinks he's super genius. And so because we had met before, he had actually invited me also to be on a transitional, while I was at Bankers Trust, a transitional thing about, it's called the Shatalin 500 Day Plan, about the transformation of Russia as the Soviet Union collapsed. He asked me to write the signet on relationship between the parliament, like our Congress-

**Demetri Kofinas:** This is in 89?

**Robert Johnson:** Yeah.

**Demetri Kofinas:** 89.

**Robert Johnson:** The parliament and the [00:26:00] central bank. Because I used to run the Humphrey-Hawkins hearings and the fed governor confirmation and stuff in the Senate, so I could piece together what he did and our laws and help with that. But I wanted to get insight from Soros, and he very quickly ... We had dinner with a guy named Richard Medley, who's now deceased, founder of Medley Global Advisors. George started talking. He brought me over to meet Stanley Druckenmiller who was the leading financial manager in his firm at the time.

**Demetri Kofinas:** You've called him the Michael Jordan of traders.

**Robert Johnson:** [00:26:30] Absolutely.

**Demetri Kofinas:** Why? I want to ask you later why that is, but continue, I didn't mean to interrupt.

**Robert Johnson:** So anyway, I started talking with them frequently. They were much broader based in their speculative strengths. I was in a currency area, but I started working with another guy, a friend of Ken Rogoff named Norman Weinstein, who was a grandmaster in chess and we built a thing, a foreign exchange fund that was involved in the ERM in Europe. The exchange rate mechanism was the system bounding [00:27:00] the currencies together, not in a tight fix but in two and a half percent, two and a quarter percent bound on each side, and somewhere a little wider, like the Greece's and Portugal's and [crosstalk 00:27:09]

**Demetri Kofinas:** So you weren't officially with the fund yet as you guys started talking about ERM.

**Robert Johnson:** [crosstalk 00:27:12] that happened later.

**Demetri Kofinas:** So you guys are talking about ... Continue, you were talking about ERM.

**Robert Johnson:** Just talking about ideas, talking about what's happening in Australia. What do you think about Japan? I'd have a lot of experience, and my former wife was the head of Japan analysis for the federal reserve system. I was in the flow of strategic [00:27:30] conversation with them.

**Demetri Kofinas:** Just for our audience, a quick consolidation recap. This is now, we're talking about the midst of dissolution of the Soviet Union. ERM is the exchange rate mechanism that was put in place in Europe as part of the transition to the Euro for countries that wanted to enter the Euro and be part the Euro zone.

**Robert Johnson:** That's right.

**Demetri Kofinas:** And that has an important role to play in our conversation, so please continue. I just wanted to capture and make sure-

**Robert Johnson:** I guess the next dimension is I was involved ... The fund that Norman and I managed had a very large position in Finland, [00:28:00] in the Finnish markka. But more than just the ERM and German unification and the other stresses that took place, the collapse of Russia affect Finland disproportionately. Finland exported a lot to Russia, or to the Soviet Union.

So we had to get out of a very big position and eventually took a short position in the Finnish markka. Soros had friends in Finland. When the whole thing blew up in 1991, November, he called a guy named Pentti Kouri, who's now deceased. He was a MIT PhD. [00:28:30] Pentti, he said, "Who got this right?" He said, "Well, that one guy from New York at Bankers Trust, Johnson, got on the right side of that?"

**Demetri Kofinas:** Weren't you living in Finland for a while?

**Robert Johnson:** Yeah, for just a couple months.

**Demetri Kofinas:** It's interesting. Our audience should also know, my interview with Christian Madsbjerg, which was episode 14, a few episodes ago. We discussed this. Christian wrote about your experience. He interviewed you extensively I assume for this. That was part of the conversation around qualitative versus quantitative modeling. You were in were in Finland learning, getting a feel [00:29:00] of the place and that was giving you a certain proprietary knowledge base from which to make a decision about the-

**Robert Johnson:** It's about timing. Because for instance, a gentleman like Robert Solow who as my teacher at MIT or Paul [Krugman 00:29:13], will have a modeling framework that will help kind of see in the big picture what do I think is going to happen. Then I'd got to go see what's going on institutionally in the place, and then when it's coming, like the heat is on in Finland, I moved my family to France, because [00:29:30] I wasn't having to ping-pong every other day back across the ocean, and then I would go up and stay in a hotel room in Helsinki. I would go out to dinner with government officials, private officials. I would talk to reporters. I was looking for something to break down in the relationships between the labor union and the government which would trigger frustration and a need to devalue the currency.

**Demetri Kofinas:** Was there an intensity that you brought to that task? What was that particular experience like for you? I mean, I find that absolutely fascinating. I'm so jealous, but please, what was that like? [00:30:00] How did you approach that task?

**Robert Johnson:** It was important to really listen, because if you could go out to dinner and you could listen to people with a hypothesis but not a conclusion in your mind. I wasn't saying, "I know they're going to devalue." I'm thinking, "It's very likely, but let's let them convince me." We'd go out to a nice restaurant, three or four of these guys, talking in indirect terms about models and simulations.

[00:30:30] I remember going to a restaurant called Amadeus, named after Mozart. These guys had a lot to drink and I said, "Come on guys, when you simulate a devaluation you don't see big run-up inflation. You've got 18% unemployment." They all start and said, "Well, you're right about that in the simulations." I said, "They're doing simulations, they're getting ready, they're studying the valuation-"

**Demetri Kofinas:** What did that feel like, that moment? Was it a moment?

**Robert Johnson:** It's a poker moment. You do not tell what you've got in your head.

**Demetri Kofinas:** Was it like adrenaline rush that you felt? Do you still remember?

**Robert Johnson:** Yeah, yeah.

**Demetri Kofinas:** That's amazing. That is so incredible.

**Robert Johnson:** [00:31:00] Well, when I went back I had code words worked out with Norman, when it was time to get out. I went and I negotiated with the government a way to get out of that position without creating undue turbulence in the market. I asked him to make me a price right at the boundary and I'd quietly get out. I had a code word, something about, "Did the Minnesota Twins win last night?" If I said, "Did they win last night?" that meant get out. If I said, "Did they lose last night?" That meant [crosstalk 00:31:28]

**Demetri Kofinas:** What if you forgot?

**Robert Johnson:** [00:31:30] I didn't forget.

**Demetri Kofinas:** Or if you mixed up your codes.

**Robert Johnson:** You can't forget at times like that. There was an intense focus. There was a tense ... I mean this kind of like a Robert Ludlum or something and maybe when I talk about why I'm doing something different now, because it's not ... What I want young people to understand is I didn't think it was a deep purpose. I thought I was learning and I thought I was on a team and playing the best I could. But there were deeper parts of me that were not being fulfilled [crosstalk 00:31:58]

**Demetri Kofinas:** You felt like what you were doing wasn't [00:32:00] speaking to some higher purpose.

**Robert Johnson:** I was doing well but I wasn't doing good in that spiritual sense.

**Demetri Kofinas:** Right, but you weren't doing it for the money. You were doing it for the learning and for the experience and for the adrenalin.

**Robert Johnson:** No for the game.

**Demetri Kofinas:** For the game, yes, which is-

**Robert Johnson:** You and I talked earlier, when Druckenmiller and I were talking one day, we were laughing about something and he said, "You know man, if Soros came in here and said, 'I'm only paying you 50,000 bucks each, you'd still do the job.'" I said, "So would you." He said, "You're right."

**Demetri Kofinas:** Yeah, I mean you guys were in a position to apply your knowledge and to see, to learn from the market. The market [00:32:30] offered you the most complex data set of sociological behavior of anything else I could imagine. So, all right, because I do want to get into what you're doing now-

**Robert Johnson:** Let me just say about that, you were talking about Druckenmiller and Michael Jordan. At the end of the first year, when we'd worked together, I went to a party at his house and I brought him a picture. My father was a jazz pianist. I was way into jazz music. I brought him a picture of Miles Davis and John [00:33:00] Coltrane playing together. He was like, "What's that?" I said, "That's what it feels like to work with you." Because there was a [crosstalk 00:33:08] I think John Coltrane is the finest musician's ever walked across this earth. There was this feeling like Davis was his mentor and collaborator and made him better. And so through that image, that's what it meant to me and that's why I gave him that picture.

**Demetri Kofinas:** It feels very satisfying. It would be very a satisfying, viscerally satisfying experience. All right, so because I do want to get to [00:33:30] some other things, let's just get to 1992. Did you join the Quantum Fund right after that, right after the experience in Finland? How-

**Robert Johnson:** No, it was in the following Spring. There was a thing called the Maastricht vote in Denmark. The Maastricht was no from Denmark, and then the French announced, "We're going to vote," I think it was September 22nd [crosstalk 00:33:53]

**Demetri Kofinas:** They voted no on the Maastricht treaty.

**Robert Johnson:** Right.

**Demetri Kofinas:** Which was German reunification.

**Robert Johnson:** And the French ... The Maastricht was a bunch of rules related to the Euro [00:34:00] zone in light of German reunification.

**Demetri Kofinas:** Right, right, right.

**Robert Johnson:** So the French announced, "On September 22nd we will hold a similar vote." I said, "Wow, " because the world doesn't start with no positions. Everybody's long all these high yield things like Spain, Portugal, Italy, Sweden, and short Deutschmarks, and the system's under stress anyway. Germany is needing to do big fiscal expansion for-

**Demetri Kofinas:** [00:34:30] They're short Deutschmark because they're expecting that-

**Robert Johnson:** That's a low yield currency and the others are high yield currencies, and you earn ... Let's say Germany's yielding 8%, Sweden's yielding 12%. Everybody's funded in Germany and making 400 basis points, four percentage points [crosstalk 00:34:47]

**Demetri Kofinas:** But it's a [crosstalk 00:34:48] right? You're talking about they're all carried [crosstalk 00:34:49] They're borrowing in Deutschmark and-

**Robert Johnson:** Correct.

**Demetri Kofinas:** Okay.

**Robert Johnson:** But the whole world's loaded up on that stuff. So when the French says, "We're going to hold a vote," you think, "What's going to happen on that day [00:35:00] when they have that vote?" I don't want to be sticking around and find out with a big long position, so you go to day minus one or minus 10, or whatever, people are going to be unwinding positions, and that's going to put stress on everybody's reserves.

The scale of speculation was large in relation to the scale of reserves that the central banks and finance ministries in Europe held. Everybody was saying, "The only way out of this is if Germany massively cuts rates," but they had a historic propensity to resist [00:35:30] inflation for very sound reasons relating to what had happened there in the twenties and thirties. So we said, "This is a bottleneck that's not going to be resolved without devaluation." I sat down with George and Stan-

**Demetri Kofinas:** But this is ... Now hold on, because you mentioned the French and we're talking now about the Pound, because you guys, this is-

**Robert Johnson:** Pound comes into this, because what's happening is the Pound is a low-yield currency, but it's fragile. It's a very interest sensitive currency. It's not going through a big fiscal stimulus [00:36:00] like Germany, but it's very, very sensitive to floating rate mortgages, big equity market. Germany can ride out high rates a lot longer than the UK can.

**Demetri Kofinas:** Let me get this straight because I don't really know the history that well. You're expecting a reverse in the carry trade.

**Robert Johnson:** Yes, throughout the system.

**Demetri Kofinas:** Okay, throughout the system, and because you're expecting that the Germans are going to have to start raising rates. The Bundesbank is going to have to start, to raise, raising rates.

**Robert Johnson:** Or won't cut them-

**Demetri Kofinas:** Or won't cut them.

**Robert Johnson:** ... to relieve the pressure [crosstalk 00:36:26]

**Demetri Kofinas:** Or won't cut them. I'm missing the French vote. What was it that you were [00:36:30] concerned about that the French-

**Robert Johnson:** The French vote not to approve the Maastricht treaty, the ERM blows up.

**Demetri Kofinas:** Okay. Got it, got it.

**Robert Johnson:** And therefor, everybody's not going to wait for that result, they're going to square up their positions beforehand. But the scale of positions was monstrous that it was just going to unbuckle the whole system.

**Demetri Kofinas:** So you were worried about, even regardless of what the outcome of the vote would be, you were worried about the interim period.

**Robert Johnson:** I was worried about the fact that nobody would sit around and wait for the vote, because it wasn't obvious [00:37:00] what the outcome would be, and that would motivate action in the months prior.

**Demetri Kofinas:** Money's going to pile into Germany.

**Robert Johnson:** Into Deutschmarks and out of the others.

**Demetri Kofinas:** Yeah, to Deutschmark. Right, right.

**Robert Johnson:** And with the British being very fragile because of this high interest rate sensitivity of their economy and their financial markets, they looked quite vulnerable. To put it the other way, to be long Germany and short the UK was only about 75 basis points, less than 1%.

**Demetri Kofinas:** And that's because of a ban on the ERM?

**Robert Johnson:** Well, the ban on the ERM, and [00:37:30] the British Pound was a reserve currency and a very liquid currency, has some of the same qualities that the Deutschmark had. I guess as the time approached, as September approach, we heard a speech where the prime minister John Major, former Chancellor of the Exchequer, said that for the foreseeable future the British Pound will remain the reserve currency of Europe.

I was putting a red flag in front of a German ball, and the German start to leak in their press and everything else, "We're not cutting our rates for anybody." Seeing that [00:38:00]

vulnerability, working with one of our other colleagues who understood the equity markets in the UK, in other words the balance sheets and income statements of the companies, his name is Scott Bessent, he's an older well known financial manager. Scott said, "The British can't ride this out," so we sat down and we had a strategy to go after the-

**Demetri Kofinas:** So the Brits went in in 1990, and that was mainly John Major who really pushed that, right?

**Robert Johnson:** That was the Chancellor of the Exchequer. He went in and then he [00:38:30] became the prime minister, succeeded Thatcher.

**Demetri Kofinas:** He was banking his political career on that, and it wasn't a clearly popular position, right? I mean there was a lot of opposition to that.

**Robert Johnson:** There was kind of two camps in those days. There was what you might call the Euro-centric people, Michael Heseltine was the head of that wing of the Conservative party. Then there was the Anglo-centric, the United States and perhaps the Far East, Hong Kong, were the other-

**Demetri Kofinas:** Hadn't the queen said that, "I won't spend any money that doesn't have my face on it," around that time?

**Robert Johnson:** Probably. I don't remember that, but-

**Demetri Kofinas:** And there was a lot [00:39:00] of pride too. I mean, the Brits came in at a much higher valuation or relative value to the Deutschmark than [Schlesinger 00:39:06] and some of the people in Germany advised, correct?

**Robert Johnson:** Correct.

**Demetri Kofinas:** So they were already dealing with that. That was a problem [crosstalk 00:39:14]

**Robert Johnson:** They joined at the wrong level.

**Demetri Kofinas:** At the wrong level. And that's something that you could identify. You also took into account the politics. We're talking also about the carry trade, social mood. All those things kind of came together in a soup and you guys were talking. Who were the major [00:39:30] people in this trade? It was you, George-

**Robert Johnson:** It was myself, George, Stanley Druckenmiller, Scott Bessent in some dimensions of it, and a consultant named David Smick who lived in Washington, who I used to work with on Capitol Hill, who had very good relations with the German Bundesbank.

**Demetri Kofinas:** When did you start putting on these trades? When did you go all in? When was it?

**Robert Johnson:** There was a position couple months before, but we started really going for it after [00:40:00] Major announced that they were going to be the reserve currency of Europe and the Germans said, "We're not cutting for anybody [crosstalk 00:40:05]"

**Demetri Kofinas:** Wasn't George at that speech? Wasn't George Soros there?

**Robert Johnson:** I don't believe he was. I don't believe he was there.

**Demetri Kofinas:** Maybe it's folklore.

**Robert Johnson:** Because I think Dave Smick reported to us the German reaction, but I think George was with Stan and I in New York as that unfolded.

**Demetri Kofinas:** How significant was this also? I'm curious because a lot of people don't recognize the importance of ... What I often find with my friends is they have this expectation that there is this ... George [00:40:30] talks about this, reality and perception and reflexivity, and when these things get out of whack. How significant was this? You guys alone would not have been able to break the bank. You wouldn't have been able to stare down the Bank of England. They had 44 billion in foreign exchange reserves, but-

**Robert Johnson:** It was less.

**Demetri Kofinas:** Was it less than that?

**Robert Johnson:** I think it was £22 billion, was what I recall. We were-

**Demetri Kofinas:** I mean dollars, but-

**Robert Johnson:** Yeah, then you're not far off, because the dollar to pound was about two to one. You're right.

**Demetri Kofinas:** Yeah, yeah. But you relied on the perception in the market that they wouldn't be able to hold that line, [00:41:00] and so you needed that to be part of your whole analysis.

**Robert Johnson:** There's different things that are happening there. One, the sheer volume of what we were doing. We had a target of going for £15 billion.

**Demetri Kofinas:** You were super leveraged.

**Robert Johnson:** So we would be super leveraged. We'd be about four-to-five to one as a firm.

**Demetri Kofinas:** You would have blown up if you [crosstalk 00:41:17] maybe.

**Robert Johnson:** [crosstalk 00:41:17] one side that we would take more than half of their reserves if we had gotten all of our position on. We didn't. Second thing is all the dealers that were working with us, they're saying, "This Soros guy's smart. Druckenmiller is smart. Let's go for it." [00:41:30] People like my alma mater at Bankers Trust are saying, "We're hearing you're doing this." Various guys that have been in my network and Stan's network and everybody, they're calling from all over the world, saying, "You guys are going for it."

Now, we don't give them, "Yeah, come on with us." We don't do that stuff. We just say there's an opportunity here that the world is getting excited about. Keep a modest and secretive perspective. At the time my wife was a New York fed official and she knew nothing of what I was doing until several days after.

**Demetri Kofinas:** [00:42:00] That's the game. That's the game. You guys were in it. That was an incredible experience.

**Robert Johnson:** How would I say? To me, if you say in a kind of a pinnacle moment, Stanley Druckenmiller, I said I would have today called him the Roger Federer of financial speculation. In those days it was Michael Jordan. He was so brilliant and so intense and so clear-minded. George is this, I don't know, like God [00:42:30] of that realm. He's really a genius, no question about it. I'm working with him as a coach and he's not threatening to take away our banking license of any of these other kind of things, like if you're working at Bankers trust and you blow things up in Europe, they might get mad and ban your bank and then your stockholders and your top management are upset. George wanted to go for it. George has courage. He has insight. He's a coach, but he's a tremendous player coach and-

**Demetri Kofinas:** Show up in the moment.

**Robert Johnson:** Yeah.

**Demetri Kofinas:** [00:43:00] It's remarkable.

**Robert Johnson:** So to me, I call it the freedom to just go after these ideas, which I had been living in the bowels of the CRM system. They would have done it without me I hope they believe, and I think they believe, that my presence helped them do bigger and faster and more decisive because of the intimate experience I brought from all my roaming around in Europe.

**Demetri Kofinas:** Tremendous.

**Robert Johnson:** But they taught me one hell of a lot than Scott with his knowledge of the interest burdens of the British companies and [00:43:30] Smick's knowledge of German central bankers. It took a lot of things to create that level of intensity and aggression and decisiveness.

**Demetri Kofinas:** You're remarkable. I hope you write about this one day in great detail.

**Robert Johnson:** Yeah, Sebastian Mallaby wrote a nice book called More Money Than God [crosstalk 00:43:46]

**Demetri Kofinas:** I'm familiar. He was on the show actually. Sebastian was on the show, yeah, yeah, yeah, recently

**Robert Johnson:** He's written a book on Alan Greenspan.

**Demetri Kofinas:** That's what the show was all about actually. It was a lot of fun. I really enjoyed it. It was a total geek-out, central bank geek-out. Okay, and you guys made a lot of money. You guys made somewhere [00:44:00] between one and two billion dollars on that trade, right? Somewhere there, I mean a lot of money. It was a huge payday.

So after that, we don't have to go into what you did after that because I do want to get into what you're doing now. Now you are the president of INET today?

**Robert Johnson:** Yes.

**Demetri Kofinas:** Okay. Why don't you tell us a little bit about INET is?

**Robert Johnson:** INET is called the Institute for New Economic Thinking. It was founded in 2009 after conversations between the journalist Anatol Koletzki, George Soros, myself and Robert Dugger. Where [00:44:30] we all felt that the TARP legislation that came down after the Lehman crisis unfolded was going to be toxic. That we were not just going to have a crisis of finance, we would have a crisis of government legitimacy, beginning with this, what do you call it, page and half bill that was put forward by the secretary Paulson, and then the structure of that legislation.

And then the feeling you're [00:45:00] going to have bailouts with no penalties, no prosecution and reform to follow but after the pressure's and given the strength of financial lobbies, which I was quite familiar with from working on the banking committee. That this would be a despondency would emerge in the body politic in America. We saw it in Occupy, we saw it in the Tea Party. It's not a left or right thing.

But the other dimension was, you had had a society where financiers were considered the highest paid, the best and the brightest, [00:45:30] the wise men, the prescient, the disciplined. So they could tell you, "You can't have money for your school system, or for your healthcare system. We can't afford it." And then they walk up to the bar, snap their fingers and say, "Give me \$800 billion now, fast. We need it. We messed up." That scares people to the roots of the legitimacy of a society.

INET was formed, what you might call fill the void related to the loss of confidence in efficient markets and rational expectations, and all of these prevailing [00:46:00] free

market ideologies, without necessarily submitting to a naïve romance about how government would fix it, because government is a more complicated process.

**Demetri Kofinas:** I had been reading some great writers prior to the crisis, and so I was tuned into the mortgage market. I was tuned into the dangers and the meltdown that was inevitable, and so when the fed stepped in in the way that it did, Paulson, the bailout, everything, that shocked me. [00:46:30] But of course I was looking at it as a young man with no experience in that world. You were a person who has been in the world of high finance. Were you equally shocked? I've seen interviews from that of yours.

I saw also by the way an interview you did with Bill Moyers, whose show I miss. I really wish he was still around doing that show. You seemed I think in the early days optimistic about what we could accomplish, what the Obama administration could accomplish given his rhetoric. Were you [00:47:00] shocked at the initial effects with what Bush did in the bailouts, and Paulson, and then subsequently the lack of enforcement and lack of follow through by the Obama administration?

**Robert Johnson:** Shocked would be the wrong for the first portion, which is the TARP. Because I was involved in the process and I knew the political economy of the Bush administration and the power of finance and how things had been going. So to think that somehow the Congress was going to turn on a dime when [00:47:30] various high level Democratic officials were telling me after Bear Stearns, when I do a PowerPoint in their office, they'd say, "Well, we've got to do five fundraisers a week on Wall Street. We'll deal with that after the election."

**Demetri Kofinas:** You're talking about March 2008.

**Robert Johnson:** Yeah.

**Demetri Kofinas:** You're beginning to-

**Robert Johnson:** Yeah. Right before, several months before Lehman. I'm saying, "This isn't over. This is the, kind of the first shoe to drop, and you guys got to watch out." I'm talking to Democrats, talking to Republicans and everybody is afraid to shut off the faucet on financing [00:48:00] for elections and discipline the financial sector. So I wasn't shocked at all by the tepid response.

**Demetri Kofinas:** Because they were also comprised in terms of the amount of money they were taking from finance.

**Robert Johnson:** That's right. That's righty, and cognitively they thought these were the experts. These were the leaders. These were the vanguard of disciplined creativity.

**Demetri Kofinas:** It's an intimidating subject for many people. I've found that people are more intimidated by finance than any other subject I've cover on this show.

**Robert Johnson:** [crosstalk 00:48:24]

**Demetri Kofinas:** People in Silicon Valley who are brilliant, I've often encountered them to be sort of intimidated by the [00:48:30] subject. Which is-

**Robert Johnson:** Finance is almost mystical.

**Demetri Kofinas:** Yeah.

**Robert Johnson:** It's why Bill Greider wrote that old book, Secrets of the Temple, about the federal reserve. It was [crosstalk 00:48:36]

**Demetri Kofinas:** Exactly. I like that book. I enjoyed that book. You liked that book too?

**Robert Johnson:** You see my name all over the acknowledgements because he's a close friend, so if I said I didn't-

**Demetri Kofinas:** That's so interesting.

**Robert Johnson:** ... enjoy that book I'd be a liar.

**Demetri Kofinas:** I have to tell you, I love that book. In fact that book, and this is a little interjection here, but we were speaking about economics and such, that was one of the most important books in helping me understand the most basic aspects of how the fed [00:49:00] set interest rates and the way monetary policy operated. This was after I had gotten a bachelor's degree in economics. We never learned anything about interest rates. That was, you know, the Saturday Night Special, all that stuff. We kind of covered that with Sebastian as well, but I did very much enjoy that book. But I cut you off there, what-

**Robert Johnson:** No, we're good. Just saying, I wasn't shocked by what happened with TARP. Where I was hopeful with the intensity of that crisis and with Obama's wonderful communicating skills and the turnout of young people, I had hoped he would [00:49:30] be bolder. If you recall, when I was on with Bill Moyer, I was arguing that they needed to basically create a sacrificial lamb. In my thinking at the time, nationalize and break up Citibank. Because if they had done that it would have differentiated Obama from his predecessor, Bush. It would have said, "We've turned a page. It's new." It would have bought time and it would have created a sense of leadership that this guy really stood, he practiced what he had preached.

**Demetri Kofinas:** [00:50:00] And to be clear, nationalizing the banks didn't mean actually putting in bureaucrats in positions of management. It simply meant to transfer the equity over to the government who was bailing out these institutions, dismantling them because you'd needed them given the fact that they're such an integral part of the way that credit flows.

**Robert Johnson:** That's right. They would continue to operate in a receivership, in as structure, and then be sold back to the private sector. I used to joust a little bit with some of the members of the Obama economics group in the administration. I'd say, "Guys, you've already socialized the down side. We're just fighting over the upside."

**Demetri Kofinas:** [00:50:30] And I think the answer is pretty clear, but what happened and why? Why did that follow through not happen?

**Robert Johnson:** I think there are two dimensions to it. One which is, there's a pattern of intertwined holdings all around the world, and people were afraid to do anything that would propagate anxiety, unfamiliarity into a system that was already traumatized and fragile. The second is Obama knew he needed to get reelected, and if you looked at his 2008 war chest, [00:51:00] it's really clear-

**Demetri Kofinas:** There you go.

**Robert Johnson:** ... how big finance was.

**Demetri Kofinas:** There you go.

**Robert Johnson:** The question is how are you going to fill that hole in 2012? That's not personal about Obama, that's the logic of our system and two parties and everybody running for Congress. I think if he had ... They said at the time with Obama great oratory skills he could take one of two tracks. He could mobilize the people to reform the political economic system [00:51:30] profoundly, or he could use his skills to mollify the people on behalf of the elites, and most people think he took the latter course. But we're not just talking about playing Parcheesi or something, we're talking about trillions of dollars. He's a young man, not a lot of experience in finance personally. I don't know where you find the spine to do that, so I can only be so critical-

**Demetri Kofinas:** Sure, of course.

**Robert Johnson:** ... because if you're sitting in the captain's chair, that's a big, big decision.

**Demetri Kofinas:** Sure. And you want to talk about power, and then there are so many sources [00:52:00] and centers of power all around you. Yeah, I think that's important for people to appreciate that. It's just one person and it's just one office, and the government includes many people, many sources of power, conventions, et cetera. So then, you know what? That brings us to something which you talk about often, because there are a number of things that I wanted to get to. But one of them is money in politics.

I've watched a bunch of your interviews, that is a theme that constantly crops up. Here we have another great example of how money in politics corrupts the system. It makes it [00:52:30] so that it's non-representative of the communal societal issues that we face. People keep saying we've got to get the money out of politics. Bernie Sanders ran on that

platform, that we have to get the money out of politics. How do you get the money out of politics when politics is so influenced by money already?

**Robert Johnson:** The dilemma is enormous because in order to enact a law and pass a law which gets money out of politics, incumbents who are in office now [00:53:00] have to vote for it. But money in politics is an insurance policy for incumbents, because if everybody has to raise money, incumbents can sell existing policy to lobbyists, corporations, wealthy individuals.

Challengers can only sell something contingent on winning, so they can cotton up to the ideology of what they think the big deep pockets want, but they don't really have the power to sell anything [00:53:30] until they're in office. So incumbents giving up money in politics by enacting a law of campaign finance reform has to come from a place ... People don't remember how John McCain with the McCain-Feingold Act felt so embarrassed by the Keating Five episode of the Savings and Loan that he was trying to dignity do something that would clean things up. He was redeeming himself.

**Demetri Kofinas:** Right, exactly.

**Robert Johnson:** But the whole system right now is I think very dangerous. There's a paper by Ben Page and Martin Gilens [00:54:00] which talks about how when you break surveys between the top 10% and the bottom 90%, almost everything that congress does is pay attention to the top 10% and not the bottom 90% when they differ, almost exclusively. You look at why is Donald Trump in office, when you talk about the politics and economics of despair, symptoms of healthcare problems, places where houses stayed in a slump. These are the same districts that voted for Trump. So the failure of a broad base prosperity, [00:54:30] which is in part the byproduct of a contorted money-politic system, produces the rebellious reaction and brings someone like Donald Trump to power.

**Demetri Kofinas:** You know, that also dovetails with the need for new economic thinking. Because the trade policies are very much based on this sort of Ricardian model of comparative advantage. In general there has been a bias in the academic community towards many of the neoliberal policies that divorce economics [00:55:00] from politics.

**Robert Johnson:** Yes, and you can't do that.

**Demetri Kofinas:** You can't do that.

**Robert Johnson:** In a way there's a little sleight of hand here. Economists say, "You should do free trade according to the Ricardian type logical, because everyone can be better off and no one worse off, because there are gains from trade." But the redistribution of those gains so that everyone is better off never happens. I've said this to many leading economists who are trade economists in recent years.

I started on Capitol Hill in May of 1994, [00:55:30] I would put \$100,000 on a table at breakfast every morning and say, "In the next 365 days I bet there will be no major trade

adjustments since this bill passed. You put \$1,000 on the other side and we have a bet." No one would have taken that bet between then and now, and this is 2017.

**Demetri Kofinas:** Willful ignorance.

**Robert Johnson:** What's that?

**Demetri Kofinas:** Willful ignorance on the part of policy ... I mean ...

**Robert Johnson:** And then you get into something which you and I have talked about offline a little bit called the ideas industry. When tenure-

**Demetri Kofinas:** I love what you sent me [00:56:00] there.

**Robert Johnson:** When you get tenure, when you get big chairs, when you get appointments at think tanks, when you get prestigious sabbaticals, you get government positions, you get consulting contracts, there's a whole big price to pay for having integrity and being honest and going with the flow, which is, "Why not do free trade? Everybody can be better off and no one worse off?" Except you left out the political adjustment that isn't going to happen.

Where does that willful ignorance come [00:56:30] from? It may not just come from being asleep at the switch, it may come from ... What is it Upton Sinclair said? "Sometimes people depend on not understanding in order to keep their paycheck going how it is."

**Demetri Kofinas:** Absolutely, 100%.

**Robert Johnson:** There is a cognitive dissonance that takes hold and you can't say that experts in a highly wealth and income concentrated society are going to be immune from the consequences for themselves. [00:57:00] I always tease economists, I say, "You guys model, everybody is venal and greedy, and you model yourself as dispassionate scientists. If you indigenize yourself and became venal and greedy, you would understand how come economics doesn't map what we need to see."

**Demetri Kofinas:** That is 100% correct. I had a show before this one that I did many years ago. I created a television show called Capital Account. It had a particular perspective and became impossible for me to divorce myself from that perspective because I had to straight-jacket it in. I think it's [00:57:30] very difficult in our society today to evolve organically because people sort of attach to your ideas and they attach to you and even if it were ... I completely agree with you. I think there's so much truth to that. Drezner is the name of the individual.

**Robert Johnson:** Yeah, David Drezner.

**Demetri Kofinas:** David Drezner, I need to get him on the show. I watched the video, I'm going to get his book. I really liked the thesis. Okay, so let's talk a little bit more broadly

about income inequality, because that's something else that you guys discuss and that's something I'm very interested in, particularly from the standpoint of how [00:58:00] it manifests in society. We see it with, you and I spoke a little bit about Uber.

We did a Market Forces short segment on Uber with an analyst where we discussed their business model and their valuation. To me, Uber reflects something that I've seen across the board, which is the fact that you have an extraordinary level of wealth represented by capital or by wealth, individuals with money who are looking for places to put that money. They're taking these moonshots because it makes sense economically from [00:58:30] their standpoint, and they're also buying ...

I have this anecdote to say as well. I was in the Hamptons recently at a very small party. I didn't know anyone there. It wasn't even a party, it was six people at a small little pool on a 40 acre estate which courses running across the grass. The house has been sold three years ago, brand new, no furniture still. No one had ever lived in the home except for the staff. The people that were there were not even the people living there. They were just staying there because the person who owned it let them stay for a little while. That is happening across [00:59:00] the board in real estate, in Shanghai, Australia, New York.

**Robert Johnson:** I was going to say [crosstalk 00:59:04] emerging markets, where they don't think the currency's stable. So they buy New York and London real estate-

**Demetri Kofinas:** 100%.

**Robert Johnson:** ... as a store of value.

**Demetri Kofinas:** 100%.

**Robert Johnson:** It's a new currency.

**Demetri Kofinas:** 100%. Art, everything. And of course, Uber's valuation of almost \$70 billion I think reflects that. They've been spending reportedly billions of dollars subsidizing their riders, with the hope that they might have a successful exit. I mean, that to me reflects a broken capitalist system as a result of the inequality, so I'd love to talk to you about [00:59:30] that. What do you think of that, of what's going on with wealth inequality and disparity, and how that's maligning the capitalist system making it incompatible? To me it feels very feudalistic, rent seeking.

**Robert Johnson:** Well, the ability to use wealth to protect yourself from misfortune, with government bailouts and things like that, or to enact policies, like cut my taxes and cut the public school systems of all the people in rural, [01:00:00] so that the budget balances the same but I'm better off and they're all worse off. Those are the byproducts of highly concentrated wealth, what we might call a plutocratic feudalism. That is a dangerous and unstable, socially unsustainable system, unless people deploy weapons and ordinance at a scale that's very inhuman.

I think we also see tremendous psychological damage. I would encourage [01:00:30] your listeners to watch Mark Levin's HBO, there's a film called Class Divide. It's about education in New York City, where there's a private school right across the street from the projects. The damage that's done to the children in the wealthy private school psychologically may be even greater than that's done to those on the outside in the projects, who know the system's unfair. Because the ones on the inside know it's unfair, but they don't know how to handle what you might call the existential guilt of why [01:01:00] they're there. Are they there because mom or dad or grandma or somebody who has a lot of money.

**Demetri Kofinas:** Like survivor's guilt.

**Robert Johnson:** Not because they have any merit. It makes them even more psychologically vulnerable and insecure.

**Demetri Kofinas:** Having a lot of money also make you a prisoner. You become very fear-based. If you inherit or you have a great deal of money you're constantly worried about losing it, and that's reflected in-

**Robert Johnson:** That's where shame can be. That's a lot of money, once you have it that's all you can be, ashamed, yeah.

**Demetri Kofinas:** And there's a lot of ... Again, I'm familiar with this because a lot of the stuff I cover comes from the perspective of looking [01:01:30] at the work and you sort of find safe assets work and you invest in this period of time. I think that's reflected in that. What do you think about technology and the role of technology today? How does that factor into the work that you guys are doing at INET?

**Robert Johnson:** I think the advances in technology on the positive side raised the scope or possibility for the betterment of mankind, but they are not just good, there's good and evil contained within. [01:02:00] The social structure of transitions, how you manage them, what kind of technologies you subsidize to what ends and what goals, are human collective social policies. The fact that you have an Uber, that might be a good thing, but if you can see some side effects, the fact that you don't have a society that's powerful enough to mitigate those side effects and channel it in a constructive direction is a failure.

It think right now we're coming out of a period [01:02:30] I'll call the post-Barry-Goldwater-Ronald-Reagan era, where the idea that the market is a deity that solves everything and doesn't require the input of morals and ethics and values, or a vision of what a good and healthy society is and a highly unequal society, is not in my view a vision of a healthy society.

How do you mitigate those things? How do you design systems to garner the benefits of that [01:03:00] innovation and channel it in way that are socially meaningful and productive? We're not facing that challenge. We're pretending that you can't talk about values because that's what happened in the old days, where you had to separate church

and state, or you're saying, "You can't talk about the state because we watched what happened in Soviet Russia."

These are like little cartoon parodies of what needs to be done. We need to talk about values. [01:03:30] We need to talk about design. We need to talk about collective action, as I say to channel these innovations in a way that helps everybody. Some of your most far-sighted and interesting people in Silicon Valley ... I'll recommend a guy who collects that wisdom is Tim O'Reilly who's got a new book coming out in October called What's the Future?

There are people out there who care. There are also people out there who want to just get everything the hell out of their way so they can make some more money. I didn't know myself [01:04:00] if basic guaranteed as a hypothesis came from guys who just want to get people out of the way of their new apps and innovation, or if they came from a genuine care for humankind. Probably a little of both, because you can recognize when you're on an unsustainable trajectory, people are going to stop your innovation.

**Demetri Kofinas:** But I think you'll agree that's not the ideal path. You want to something ... because people don't want to sit around. People weren't created to just have an income. They want a meaningful life. I just want to emphasize something in what you're describing about market ideology. [01:04:30] I think people need to recognize corporations are not a natural phenomenon, and economic externalities are called economic externalities exactly because they aren't represented in the capitalist system.

Those are two fundamental disconnects. I think it's important for people to recognize that. That if you're saying that markets are not perfect because they can't be perfect because they don't internalize everything, and also the way we're constructed them with corporation as an example. They don't function like a laissez-faire pioneer economy in 1776. [01:05:00] That's an important point.

**Robert Johnson:** It's like you're man Drezner talking about the thought leaders. They're like visionaries of something that's really simple and big and bold, and whatever, the wealthy or powerful affirm it. Someone who he calls on the other side a public intellectual has a more nuanced yin and yang, this and that. People, it doesn't inspire their enthusiasm. It doesn't inspire patrons. It may be right though.

**Demetri Kofinas:** That's why we need to address [01:05:30] the problem of poor continuing education. I don't mean the schools. I mean the way people are educated today through the news or Facebook, everything else, is inadequate. I might – we don't even need to get into all the stuff of why that is – it's stuff that I've tried to talk about on the show before, but that's a huge problem. The fact that people can't wrap their heads around this sorts of things because of the way that everything is talked about in sound bites and people want easy, lazy explanations for everything.

Let me ask you, there are a few things I want to run through now if we have the time. We talked about technology, [01:06:00] we talked about some of the other issues. I think a

really huge one is secular stagnation. I think of that with respect to on the one hand debt that the income producers are carrying more than anything the previous generation's faced, and then on the other hand we have the structural demographics issue on the other side of that. Which is people going into retirement needing to begin to consume and need to pull their investment out of the stock market, not being able to work. Those are two incongruencies that have to work together. [01:06:30] That is a huge problem I think that we don't really appreciate, I think in the same way that we can't appreciate climate change. It's nonlinear. What is your view on that?

**Robert Johnson:** We're doing big projects. Adair Turner, my chair on the board who ran the financial services administration in Britain, Larry Summers, who you know from Harvard University, and myself, at INET are doing a big project on the different elements of secular stagnation. One, if you articulated a large subset of, which is what are the causes? [01:07:00] Are these debt overhangs? Does inequality also drive debt accumulation among the more despairing and then lock them up so they don't feature prominently in demand?

We have secular stagnation say in Japan, where the population's aging. But you don't have it in Southern Africa or India, it's just they don't have any money to be that demand, so inequality plays a role. Technological pessimism plays a role. Adair Turner often emphasizes that a lot of the investment [01:07:30] today, like WhatsApp, what was it? 51 employees and \$19 billion. They didn't have to go out and build machines.

**Demetri Kofinas:** Yeah, zero marginal cost factor.

**Robert Johnson:** The savings is there and the investment is small relative to the impact that's created, meaning financial investment, the input to get that output when you're successful. So there's a lot of questions about how is the macro-system balancing savings investment. There's a lot of questions related to inequality. There's question related [01:08:00] to, do debt overhangs create a problem? Martin Guzman who's a young man at Columbia University, do we not have sovereign debt restructuring mechanisms, where just like a corporate debt you can reschedule and move on? We sit here and slog and slog and slog, like the Greek government in Europe basically, so you never have to have a write down by the German or the French or the other big banks.

**Demetri Kofinas:** That's a huge problem.

**Robert Johnson:** These things contribute to that stagnation. I think there are a lot of dimensions. And then the final is [01:08:30] what I'll call the game of musical chairs. In a stagnant world, everybody tries to depreciate their currency to generate some more export-led growth, but that is a zero sum game. That's pushing the stagnation onto somebody else's shores.

**Demetri Kofinas:** Currency wars.

**Robert Johnson:** I know you've had James Rickards and others, Marc Faber and others. They're quite aware of these inconsistencies in the operation of the current dysfunctional system.

**Demetri Kofinas:** Speaking of Europe, that is sort of in some ways, I wouldn't say forgotten but certainly unappreciated [01:09:00] I think or ... It was in the news in 2011 but it's no longer really in the news there. What do you think is the future of the Euro and some of these economies in Europe that are under a great deal of stress like Greece?

**Robert Johnson:** I feel that there's been a great deal of destruction of young people throughout Europe with the levels of youth unemployment, the lack of investment in young people and future generation I think is a tremendous tragedy. The second dimension [01:09:30] is the scale of the migration inflow from North Africa and the Middle East, we're talking about Syria a lot right now, is overpowering.

People tell me in a 250 million person society, Europe as a whole, they're talking about over 12 to 15 years maybe 60 million new people. How do you take a place where you have youth unemployment, lots of young men with no jobs, and then you bring all kinds of new people in? That demands a level of politics [01:10:00] and compassion and guidance and insight and wisdom that isn't a free market phenomena. Whether they can do that ... I think Europe is a very dangerous place. Not meaning dangerous for you physically but vulnerable to disintegration and dysfunction, and much more than people realize.

**Demetri Kofinas:** I'm getting the cane here Mr. Johnson. I'm getting the flashing red light. I'm going to have to end this interview. I wish we could keep going on and on. Maybe one I could get you back and we could continue where we left off.

**Robert Johnson:** Sure. It'd be my pleasure.

**Demetri Kofinas:** Because there are so many things that [01:10:30] I want to speak to you about. You're so knowledgeable. I've never met anyone that's read as much as you and experienced as much as you. Those two things are not common. Usually you spend your whole life in academia and you study, read the books, or you're in the trenches and you don't have time to integrate those two. It's been a great pleasure having you on. I hope our audience really appreciates it.

**Robert Johnson:** Well, I think-

**Demetri Kofinas:** I think they will.

**Robert Johnson:** How would I say? I just want to keep working for my four children, so I read and I work, I experience and I don't sleep that much because of them.

**Demetri Kofinas:** All right. Well thank you again Mr. Johnson. [01:11:00] Thank you so much.

**Robert Johnson:** Thank you.

**Demetri Kofinas:** That was my episode with Robert Johnson. I want to thank Dr. Johnson for being on my program. Today's episode was produced by me and edit by Stylianos Nicolaou. For more episodes you can check out our website at [HiddenForces.io](http://HiddenForces.io). Join the conversation on Twitter, Facebook and Instagram @HiddenForcesPod, or send me an email [01:11:30]. Thanks for listening. We'll see you next time.