| | | |
|---|---|---|
| **Demetri Kofinas:** | 00:00 | Today's episode of Hidden Forces is made possible by listeners like you. For more information about this week's episode or for easy access to related programming, visit our website at hiddenforces.io and subscribe to our free email list. If you're listening to the show on your Apple Podcast app, remember, you can give us a review. Each review helps more people find the show and join our amazing community. And with that, please enjoy this week's episode. |
| **Demetri Kofinas:** | 00:32 | Predicting the future is a sport as old as civilization itself. Oracles and wishing wells litter the landscape of humanity's past. Yet in a world whose outcomes are determined, not by the forces of nature, but by the whims and behaviors of an irrational lot, ordaining the future becomes a matter of market introspection. After decades of declining interest rates and aborted tightenings, markets have gone from Goldie Locks to Wonderland. Impossible things are served before breakfast, lunch, and dinner. Yield curves have learned to play possum, assets have levitated and volatility absconded as investors have lost Ariadne's thread and with it any sense of price discrimination. |
| **Demetri Kofinas:** | 01:17 | In their thirst for yield, they've drank the sand from a mirage of private placements, tech stocks, cryptocurrencies, corporate bonds, and emerging markets. Fugitive prices, in their quest for asylum, have sought shelter in the coffers of candidates and on the message boards of social media, emerging as populism and civil strife. This week on Hidden Forces: Gillian Tett, markets, tech and the state of the global economy. |
| **Demetri Kofinas:** | 02:03 | Gillian, welcome to Hidden Forces. |
| **Gillian Tett:** | 02:05 | I'm delighted to be here. |
| **Demetri Kofinas:** | 02:06 | It's great having you on. I've actually wanted you on for more than a year. We met about this time last year. Actually, it was in May, I believe in 2017. I asked you to come on the program, and I persisted until you came on. And I think maybe you can tell me it's because I had a fellow anthropologist on this show and you saw that and you said maybe. |
| **Gillian Tett:** | 02:22 | Well, I'm keen to champion anthropology in all its forms, so yes. I think there needs to be a lot more. You can't have too much anthropology in public life. |
| **Demetri Kofinas:** | 02:29 | I didn't know you were an anthropologist. I didn't know you had your PhD in anthropology. I learned that when I was preparing |

| | | |
|---|---|---|
| | | for the interview. Maybe you can give us a little bit of background. Everyone knows you obviously, as the Managing Editor of the Financial Times U.S., but you have a PhD in anthropology. |
| **Gillian Tett:** | 02:44 | Yeah. I have a completely weird background to be doing my job as running the editorial operations of the Financial Times, let alone someone who's spent years of my life recently writing about finance and economics. I was originally trained as a cultural anthropologist, which means I was someone who went out to study social systems and cultural patterns all over the world. In my case, I went and did my PhD study originally in Tibet and then in a place called Tajikistan, where I lived for about a year and a bit up in the high mountains, studying marriage rituals amongst the Tajiks. |
| **Gillian Tett:** | 03:18 | That was actually back in the days of the Soviet Union, the last year of the Soviet Union. So I was looking a lot at how Islam and communism interacted and how they were expressed through the rituals or weddings, which would seem to be a million miles away from studying Wall Street or Washington or any of the big issues that consumes the media today. But I'd argue that actually, they're much more connected than people realize. |
| **Demetri Kofinas:** | 03:39 | Well, I've heard you actually compared the derivatives group at JP Morgan to Tajik wedding rituals, is that right? |
| **Gillian Tett:** | 03:45 | Well, the thing about looking at Tajik wedding rituals or any type of anthropology is you try and look at what makes human beings tick. Not through looking at their minds, that's psychology and not through looking at the economy because that's economics, but really by looking at the cultural patterns and the social patterns that we all absorb from our surroundings without even noticing it. We're all creatures of our own social environment but we never think about how those patterns shape our lives. And in Tajikistan, I was looking at the patterns that the Tajik's had inherited and which influenced how they behaved. The same thing's true of derivatives traders at JP Morgan or anywhere else. We're all social creatures influenced by tribalism and cultural frameworks we never even normally think about. |
| **Demetri Kofinas:** | 04:29 | When I was preparing for this interview, I was focused on what I want to talk about most, or what I want to get your opinion about most, which is about the financial landscape going forward. But when I did that, I started getting sucked into some of the articles that you wrote in 2007, 2008 and 2009. And I was very fascinated by the fact that you were covering the space |

| | | |
|---|---|---|
| | | prior to the crisis. And I'm curious, obviously no one could predict exactly what was going to happen with all the various knock on effects. |
| **Demetri Kofinas:** | 05:00 | But I wonder A what sort of drew you to this space? You were looking at credit default swaps for, I assume, mortgages as well, not just ... And what drew you to the space? And then also to what extent prior to this real panic of 2008 were you able to piece together a picture of what the landscape looked like and where the risks were, and what sort of the knock on effects could be on balance sheets for these instruments? |
| **Gillian Tett:** | 05:27 | Well, my story about my involvement with the credit crisis and writing about credit derivatives actually started back in 2004 when I was running the Lex column of the Financial Times, which is a financial commentary column. One day the editor came over and said to me, "Can you draw up a memoir of what you should be writing about in the financial media?" So I did the original normal memoir saying three pieces a week about industry, two pieces a week about retailing or whatever. |
| **Gillian Tett:** | 05:56 | And then I thought "what would happen if I was to step back from my surroundings and imagine that I was an anthropologist who'd crashed into the city of London," and I was living in London at the time, "or Wall Street?" They're pretty much the same. What would I see as an anthropologist arriving at this gigantic financial village? And if I was to do the kind of field work or study I did in Tajikistan, which was literally going around the Tajik village talking to people, trying to piece together what I saw and comparing rhetoric with reality, comparing what people said they thought was going on with what was really going on. What would I see in the City of London? |
| **Gillian Tett:** | 06:33 | And I tried doing that exercise really just out of curiosity, and two things struck me. Firstly, that back in 2004 it was very hard to see how the financial system actually operated. There wasn't a roadmap showing where all the money was flowing or anything like that. And then secondly, when I talked to people about what was really driving growth, it was completely different from what we were writing about in the media. And the media was writing about equity markets and currencies and sometimes government bonds. And what the bankers were phonetically excited about was derivatives and credit. |
| **Gillian Tett:** | 07:08 | So, I wrote a memoir saying well, I think that the way the media is covering finance is completely wrong and I called it The Iceberg Memoir. And I said- |

| | | |
|---|---|---|
| **Demetri Kofinas:** | 07:17 | Why The Iceberg Memoir? Because it crashed like an iceberg? |
| **Gillian Tett:** | 07:20 | No. If I'd known it was going to crash I would look like a genius. Sadly, that's not true. I thought it was like an iceberg because you had a little piece of the financial system poking above the water which was visible and that was the equity market. And there was this massive great underbelly which was credit and derivatives which was largely being ignored and hidden. So, I wrote The Iceberg Memoir and I said we should cover it. I jumped up and down, made myself quite unpopular and in the end- |
| **Demetri Kofinas:** | 07:47 | Why unpopular? |
| **Gillian Tett:** | 07:48 | Well, because like I was saying basically, No, I don't think our coverage is quite right. |
| **Demetri Kofinas:** | 07:52 | Oh, It's interesting. |
| **Gillian Tett:** | 07:53 | No company likes being told it's got it wrong. |
| **Demetri Kofinas:** | 07:55 | I've noticed this about you. You don't shy away at all. I've watched your interviews. You're the best interviewer. I've seen so many and you don't do them on television. Obviously you don't have a television show, you go to all these conferences and you interview panels of people or individuals and you're so excellent and you're so direct and you don't shy away from asking questions at all. So I would imagine that perhaps during that time you didn't shy away from sort of raising these concerns at all at the FT. |
| **Gillian Tett:** | 08:20 | Well, I was a bit, probably pretty outspoken about my thoughts. And what happened was, I ended up getting moved off the Lex column and being sent to run the capital markets team, which at that time was definitely not a promotion. I was actually pregnant at the time and a lot of people thought, "Oh, well, I've gone off to the mommy track." |
| **Demetri Kofinas:** | 08:38 | Because it was so quiet? |
| **Gillian Tett:** | 08:39 | Well, capital markets was at the back of the paper and it was pretty quiet and in fact, one friend of mine said to me when I told her I should go and exit, "Oh, that's a great place to go and have a baby because nothing ever happens." This was the market section in 2005. But I went there, and it was like a gift from the heavens and I discovered that there was this huge, great shadowy underbelly of the financial system that no one |

was writing about and suddenly in the capital markets team I was able to do that.

**Demetri Kofinas:** 09:07 And then when 2008 occurred, at that point were you able to quickly piece together what was going on and the impact of all of these OTC derivatives on liquidity and uncertainty of financial markets? Were you ahead of the curve on that in terms of understanding it?

**Gillian Tett:** 09:23 Well, what happened was I writing the capital markets team in 2005 instead of writing about the underbelly of the iceberg. And I originally did it because I wanted to provide almost like a travel guide for the FT readers to the strange new land. I actually thought it was very exciting what the bankers were doing. I wasn't particularly worried about a crash, I was more writing about it as a kind of sign of, "Wow, look at this innovation."

**Demetri Kofinas:** 09:45 Innovation.

**Gillian Tett:** 09:46 Yeah. And then in 2005 by the end of it, I became seriously concerned about the risks. So I wrote a few pieces saying, look out this is dangerous, went off to have my baby, thought at the time I'm going to miss all the fun, there's going to be crash while I'm off on maternity leave, and I'll miss it. And I came back and discovered I was 180 degrees wrong. That actually, the bubble had got even more big or even bigger while I was away. So then I thought, "Oh, well, clearly I didn't understand anything." These credit derivatives and stuff are actually great.

**Gillian Tett:** 10:17 And for about six months, I thought I was wrong, everything was fine. And then I began to think, "No. Actually, the system is crazy. I'm not crazy. The system is crazy." So then I issued a whole series of warnings in late 2006 and early 2007, and which turned out to be correct.

**Demetri Kofinas:** 10:32 Wow.

**Gillian Tett:** 10:33 So it was a combination of luck, being in the right place at the right time and also, I would argue, a big dose of anthropology.

**Demetri Kofinas:** 10:40 How would you say that that experience changed you or informed who you are today as a journalist?

**Gillian Tett:** 10:46 Well, it taught me I hope, enough humility to realize that often as journalists on a good day, we get 40% of the truth. What keeps me going is I think my competitors tend to get 35%. But we never know everything and even when we think we're right, even when we're proven to be right, we're probably only partly right and there's always more things that we can learn. But the other thing it taught me is that the power of social silences is very important. And what I mean by that is, when I was an academic anthropologist, I was heavily influenced by the work of a French intellectual called Pierre Bourdieu who argued that the way that an elite stays in power is not just by controlling the means of production i.e., money, it's by shaping the way that we think. And what really matters in terms of that shaping is not what we talk about, but what we don't talk about.

| | | |
|---|---|---|
| **Gillian Tett:** | 11:36 | It's the social silences that are crucial. And as an anthropologist, you're trained to look at what people don't talk about as much as what they do talk about. And in the case of finance before 2008, as I say, people were talking about the equity market, they weren't talking about credit derivatives. That was the social silence if you like. And I think as journalists our job is really to try and train ourselves to look at social silences and to explore them. And when journalism is at its best, we illuminate social silences in a way that makes the entire system much more transparent for everyone. |
| **Demetri Kofinas:** | 12:15 | What are people not talking about today? |
| **Gillian Tett:** | 12:18 | Not talking about pensions and the slow moving car crash that's there, I would say they're not talking about antibacterial resistance that's growing. Until quite recently, they weren't talking about the big issues in cybersecurity and tech economy. One of the things I find fascinating is that if you look at the whole plethora about Cambridge Analytica and Facebook and the tech companies recently, there's a huge amount of anger about the fact that tech companies have been taking data which of course, no one was talking about two or three years ago. |
| **Gillian Tett:** | 12:53 | But what people still aren't talking about there is actually what was going on in recent years and it's still going on, is a pattern of exchange that can only be understood by anthropologists because it's not about economics in the normal sense that economist look at it. It's not about money, It's about exchange in a wider concept. Anthropologists don't just look at the economy in terms of money, they look at it in terms of the exchange in the widest possible sense. And anthropologists spend a lot of time looking at credit in a very broad sense, and barter. |
| **Gillian Tett:** | 13:22 | And the tech economy today is based off barter. So, when tech companies collect data from us, they do so in exchange for services and there's no exchange of money that takes place, it's |

a barter. But economists don't know we're talking about barter and ordinary people don't think about barter either way. So until now, no one's actually stood up and said quite openly, what's happening in the tech economy is a massive barter economy has grown up. And the real scandal is not so much that companies are taking data from us, but that people are getting services back for free and no one's actually talking about the terms of that exchange or making that transparent.

| | | |
|---|---|---|
| **Demetri Kofinas:** | 14:02 | That's so interesting. That's an interesting way of looking at it. So it's kind of like saying that tech companies have found this new source of wealth that wasn't recognized before or able to be tapped, they've tapped into it, and they're extracting it and that is going unregistered because there's no monetary exchange. It's not formalized. |
| **Gillian Tett:** | 14:19 | Absolutely. But at the same time consumers are getting something back as well. And you have to recognize that if you're going to change the terms of that service, of that arrangement, consumers will also be affected. And so the question of whether consumers have knowingly willingly bought into that gigantic barter, how you measure it, how you record it in the GDP statistics, how you deal with an antitrust law because the whole basis of American antitrust is that breaches of antitrust are measured through consumer prices being too high. But in order to measure if consumer prices are too high, you have to have monetary exchanges. How do you measure antitrust in an economy where barter is very, very important? So I just cite that as one example of an area of social silence that until now, no one's talked about but it's been crucial to the economy more widely. |
| **Demetri Kofinas:** | 15:10 | It's interesting. I've heard you a year ago or so say that Silicon Valley began to feel eerily similar to Wall Street pre-crisis. Not exactly the same, not as bad, you said, but it was beginning to feel somewhat like that. You still feel that way and if so, why? |
| **Gillian Tett:** | 15:31 | Well, I certainly think that Silicon Valley was like Wall Street about three years ago because what you had was incredible asymmetries of information. You basically had a bunch of technocratic geeks who were in control of processes that had the potential to impact us all in very powerful ways, but which almost nobody understood apart from the geeks. It's a whole area of the world that is basically driven by profit motives and where the regulators have got very little idea what's going on, where politicians or consumers don't have much idea of what's going on either. |

**Gillian Tett:** 16:08

No, not because the geeks are necessarily hiding everything, but because politicians and consumers until recently have thought that they were getting great benefits from Silicon Valley in the form of all these tech gadgets, cheap or free services. And they didn't want to rock the boat, they didn't see any need to rock the boat in much the same way that pre-2008 consumers in America didn't want to challenge the financial system because they were getting free mortgages.

**Demetri Kofinas:** 16:33

And cheap credit.

**Gillian Tett:** 16:34

Yeah, and cheap credit. So both cases, you had essentially the geeks in a very, very powerful position. Not just because they had the master of this technology, but you also had the rest of the world not interested in actually challenging them. So those are the perils I saw up in Silicon Valley and the financial crisis two or three years ago. And of course, on top of that the geeks were becoming very, very rich and very powerful and full of hubris. What struck me going around Silicon Valley two or three years ago, was just the level of hubris and arrogance and inability to see themselves as others might see them. And that was very, very reminiscent of Wall Street in 2007.

**Demetri Kofinas:** 17:12

So that now you feel like we are beginning to see some level of accounting by the public but would you say that we're still in a sort of period of euphoria in tech? And I also wonder, when I was thinking about this, there's a few things came to mind. One was or is rather this culture of this infatuation with futurism in society. It's a sort of growing cultural trend.

**Demetri Kofinas:** 17:34

Also, the economy itself has transformed itself a great deal and so companies with technological acumen have a certain advantage over others and so in that sense and it's also I think difficult to properly value them. A lot of these also are private placements and that's sort of another wave that is feeding off of maybe the low interest rates and the redistribution of wealth. How much do all those factors play and where do you attribute most of this and are we, in your view, in a sort of bubble of sorts in technology stocks and the technology companies?

**Gillian Tett:** 18:06

I think that Silicon Valley has been dramatically overhyped. They do have control of technologies that are absolutely transformational, there's no question of that. But there's also a lot of mystique and a lot of hype around tech stocks right now. For the most part people don't really understand the threats that could be emerged further down the tracks to their supremacy. Whether it's the risk of a splinternet emerging that basically breaks up the internet. So much of our vision of the

| | | |
|---|---|---|
| | | future is predicated on the assumption that the internet remains a single coordinated global hole which may not be the case. |
| **Gillian Tett:** | 18:43 | The challenges posed by Chinese companies, the chance or some technological platform change up ending a lot of the current models or even the chance of a major cybersecurity hack and public trust and the internet beginning to crumble. All those things could come in to actually undermine some of these stratospheric valuations that we see right now. But to me the more interesting question is just this pattern that whenever you get a small group of geeks in control of a technology which only a tiny number of people understand but which affects everyone and where there's a lot of money to be made you almost always get hubris, overreach arrogance that eventually have a political backlash rebounds on them. We saw that in finance and we're seeing it now in tech. |
| **Demetri Kofinas:** | 19:29 | There's also a kind of a cult worshiping factor that goes on. One place where I've seen that has been with Elon Musk. There's a strong showmanship that comes out with respect to the company we saw. I'm reading John Carreyrou's account; the Wall Street Journal reporter who wrote on Theranos, I'm reading his account of Elizabeth Holmes also a strong sense of like a self-awareness about presentation and appearances and I feel like you've talked also about cryptocurrencies, I see that as well in cryptocurrencies. That gap between what the public understands and what the entrepreneur or the people, the geeks, as you call them, understand. That's exploited. Often times at peaks, no? |
| **Gillian Tett:** | 20:08 | Yeah. I don't think necessarily the geeks or the financier or the techies are necessarily doing this as some kind of deliberate stage managed, carefully crafted plot at all. |
| **Demetri Kofinas:** | 20:19 | Not even a little bit in some cases? |
| **Gillian Tett:** | 20:20 | I think they certainly ride the way, they know that it pays them well to basically present a front and to kind of consort this magic. But I think what tends to happen is somebody has a good idea or gets intoxicated with a new technology or new way of doing business and they start selling it to outsiders and selling it themselves and they start to believe their own hype and then sell the hype to others. And then what happens is that the people selling this hype become so damn busy and they're scrambling to build this business ,they're talking to people like themselves, they get caught up in their bubble of achievement and success and they end up basically becoming very cocooned. |

| | | |
|---|---|---|
| **Gillian Tett:** | 20:57 | And what struck me about the financial world before 2007, was the degree to which all the derivatives traders and other traders were scurrying frantically to do this financial business very successfully, but very much existing in a little silo of their own where they talked to people like themselves, they took their reference points from each other. It was very self-referential. It became very easy within that closed system to really believe your hype. |
| **Demetri Kofinas:** | 21:22 | Also narcissistic. |
| **Gillian Tett:** | 21:24 | There was a tremendous amount of narcissism. |
| **Demetri Kofinas:** | 21:25 | I see that now also in Silicon Valley in a way that I didn't see in the past. Again, to bring back to this book on Theranos which I'm currently reading, with respect to the CEO of the company, Elizabeth Holmes there was her obsession, for example, in the way that it was chronicled with Steve Jobs. A microcosm for me of obsession with derivative in a sense that I hadn't seen before. Do you see that? |
| **Gillian Tett:** | 21:49 | I don't know if I see an obsession with derivative, but what I do see is a tendency amongst financiers like techies to start believing your own hype. And it's very hard to believe this now, but back in 2004, 2005, 2006 when I first started diving into the world of finance, there was an overwhelmingly dominant theory amongst the financiers is that instruments like credit derivatives and the other innovations were going to make the financial system a lot healthier. They really believed it. Or they rather, they told themselves they believed it. And they had these elegant theories about why financial innovation was good. |
| **Gillian Tett:** | 22:29 | To do with this idea that if you could liquefy markets, if you made every asset in the world credible and liquid, you would then get the perfect pricing and the perfect allocation of risk in the system. And in retrospect, that whole intellectual framework seems in the crazy. It was riddled with contradictions. Like the fact that the systems they were creating to distribute risk were introducing new risks in the system. But at the time people seemed to have believed it and going back to Bourdieu again, the French intellectual who I looked at as an academic, he said that the most powerful truths are those which need no words but merely a complicitous silence. |
| **Gillian Tett:** | 23:10 | People just kind of agree to go along with something. And he also pointed out that the most powerful cultural constructs are those which exist at the border of conscious and unconscious thought. They're the ideas and frameworks and justifications |

and stories that we tell ourselves which we kind of just accept and don't really challenge very hard. And they're kind of convenient for us to believe or at least tell ourselves that we believe. So, people in finance before 2007 had a cultural and an intellectual framework to justify what they were doing. And if you fast forward to Silicon Valley today, that's the same sense of evangelical ... Until recently, evangelical belief that bringing the internet to everyone could only be good, that the internet would connect everybody, that it would create a more transparent egalitarian society. These were the kind of framings that people talked about.

**Gillian Tett:** 24:02 And on one level, they kind of believed it. Just like people believe that bringing credit derivatives was going to make the financial system healthier.

**Demetri Kofinas:** 24:09 Indeed. But also I can't help but feel that there's a strong amount of self-interest and cynicism there because it serves their business models and there's very lofty rhetoric. I actually saw a recent speech by Jonathan Haidt, where he was at Berkeley Business School. And he read the mission statement of Berkeley and it was so lofty and idealistic and I think that's an interesting trend as well.

**Gillian Tett:** 24:33 Well, we all have little lies in own lives that we live with every day. And we all have unchallenged pieces rhetoric that we just kind of quietly accept even though if we sat down and deconstructed them we would probably think it's ridiculous. So none of us live such pure intellectually consistent lives. But yes, Silicon Valley in the last five years persuades itself in this evangelical rhetoric which in many ways is completely contravened by what they're actually doing and yet it's jolly convenient for them to wrap themselves in that language. And on one level, probably some of them believe it and who knows? Parts of it are actually maybe true.

**Demetri Kofinas:** 25:13 To stick with that point about Silicon Valley and the earlier point about the private placements and the amount of money that has piled into these companies pre-IPO, of course, there's a risk to all the investors there. Do you see any risk in that case for the broader economy?

**Gillian Tett:** 25:29 I think that if there was a big pop of the internet stocks today, we wouldn't see a 2007, 2008 credit crisis because it would primarily at this point affect equity markets and it'll be private placement issue. It's not the case that these internet company they're taking out huge amounts of debt as they did in 2001 in quite the same degree. That's going to suddenly pop and it'll

| | | |
|---|---|---|
| | | bring down a lot pension funds or anything else like that. So yes, it would be bruising but I don't think we're going to see a 2007 crisis. What we are seeing or what we have seen signs of is for the private companies and of course, much of the internet. Whiz kids these days are actually private companies are still unicorns not publicly quoted. |
| **Gillian Tett:** | 26:15 | It's more like a great ooze where the projected ... By that I mean we're not seeing a bubble go pop, we're seeing it go ooze. Some of the airs are seeping out. Well, it's kind of the best way to say it because essentially what you've got is some of the backers of these big unicorns and others maybe just start marking down the value of their holdings a bit. They come in at the BC series. That's more in line with what we've been seeing. Rather a big market crash- |
| **Demetri Kofinas:** | 26:41 | Instead of the Great Depression, the great disappointment. |
| **Gillian Tett:** | 26:44 | Yeah, I think that's probably the way we're going to do it and that'd be more elliptical. |
| **Demetri Kofinas:** | 26:48 | So another area was thinking about as I mentioned it earlier and you kind of touched on it a little bit with the talk about unfunded liabilities. And that's just liabilities more broadly. That has grown and has grown also a percentage of GDP but that's really I think, neither here nor there. What really matters is the notion of that load because we go through these economic cycles. And there's some interesting points that have come out of some papers I read. You've recommended to read the BIS report, which I read also a report by the Institute of International Finance. |
| **Demetri Kofinas:** | 27:20 | And I pulled out some interesting points primarily dealing with corporate debt. So, it looks like corporate debt is one of the most concerning areas of global finance. What can you tell us about the debt landscape overall and sort of the way that debt markets have changed particularly for corporates? |
| **Gillian Tett:** | 27:37 | Well, it is one of the most remarkable thing that's happened in the last decade. That we had a debt fueled crisis. A crisis in 2008 triggered by there being too much debt in the system. After the crisis, nobody tried to cut the level of debt in a meaningful way. Debt has continued to go up and up and up. Most of the increase has been different from before the crisis. And before the crisis, the biggest area of growth was in mortgages and this time round it's been emerging markets globally. Places like China and India have seen corporate debt increase very rapidly. |

| | | |
|---|---|---|
| **Gillian Tett:** | 28:12 | But also in the US corporate debt has risen quite fast and in quite a striking manner. So the debt bubble this time is bigger than it was in 2008, it's different. If you're being optimistic you say well, it's less dangerous. That actually the system has got better buffers and you've got company they're able to pay back their debt loads for the most part because they've got good earnings and you can argue that the Chinese debt bubble which is the thing that many people worry about. The Chines debt bubble is simply backed by the government so it's fine. People say that. |
| **Gillian Tett:** | 28:46 | I was meeting earlier today with people like Ben Bernanke he who would argue that basically that makes debt different from last time. But if you're being pessimistic, you'd say, "Well, history shows whenever you get debt going up and up and up something nasty would eventually happen." |
| **Demetri Kofinas:** | 29:01 | Well, indeed. But also, it seems that our global capitalist system, the way it operates today requires ever more amounts of debt in order to continue to grow. So are we not just caught in this vicious, repeating exponential loops until there's a point at which there's a finite time singularity and there needs to be some type of reset? |
| **Gillian Tett:** | 29:25 | Well, there's two ways of looking at the fact that debt keeps growing. And if you look at any chart of the last century you can indeed see that debt, the GDP keeps going up and up and up and up. One way to look at it is say that debt basically is the new electricity that drives the global economy. And the fact we have more and more debt is simply the fact that we have a bigger and bigger financial system that's more complex and sophisticated and we shouldn't worry about it. It's just a sign that there are more transactions happening in the world. |
| **Gillian Tett:** | 29:51 | Another way of looking at it is to say, well, what's really going on is a system, a global economic system where there's no constraint on how much credit can be created. And because there's no constraint, it's just going to keep going up and up and up until there's a social explosion or some kind of political safety valve is created. And there's a regular anthropologist called David Graeber, who wrote a book called Debt: The First 5000 Years, who said if you look back at history, basically monetary systems fall in two categories; they're either constrained by being tethered to something tangible and finite like gold or they are unconstrained and they're just dependent on people trusting each other. |

| | | |
|---|---|---|
| **Gillian Tett:** | 30:36 | And for a while, America was on the gold standard and that constrained the amount of money. Today the global system's based on an unconstrained system. And David Graeber said that if you look back at history, when you get unconstrained systems what happens is that credit gets bigger and bigger and bigger until you have such extreme to social relations and inequality of power, that an explosion happens. Or you create some kind of debt forgiveness mechanism. |
| **Demetri Kofinas:** | 31:02 | A debt Jubilee. |
| **Gillian Tett:** | 31:03 | A debt Jubilee, yeah. A write off. Debt forgiveness or a default. A default is basically a debt forgiveness mechanism but in the most brutal way. And if you want to know where the phrase 'wipe the slates clean' comes from, they come from Mesopotamia. |
| **Demetri Kofinas:** | 31:22 | The Pharaoh. |
| **Gillian Tett:** | 31:22 | Well, it was the first society to ever create a safety valve where in Mesopotamia they had credit creation which was unconstrained. The lending was never tethered to anything tangible or finite. So every, I think it was every 50 years, the pharaoh or person in charge would actually physically decree that all the clay tablets listing the debts will be literally wiped clean and everyone would start again. |
| **Demetri Kofinas:** | 31:49 | So we're now in a period of tightening. The global central bank starting with the Federal Reserve are trying to unwind their balance sheets and trying to do it in a way that's not going to wreck the economy and trying to do it in a way where they have "firepower" in the event there's another crisis. We talked about corporates. There's a record number of bonds coming due in about five years or so and they're going to need to be rolled over. Banks because of regulations have had to curb back their lending, there's a restraint on what they can do and sentiment can always change. |
| **Demetri Kofinas:** | 32:19 | And on top of that global governments are even more burdened with that populations are aging in developing economies even in China. We have roughly the same, I believe, demographics as the Chinese. How do we confront this and what are the challenges you see for the current dynamic? And I think, particularly given what I mentioned about the rates, we're seeing the flattening of the yield curve as well, yields in 10 year treasury's dropped again below 3%, the 2/10 year spread is at the lowest level it's been in like 10 years since the Greenspan |

conundrum. How concerning are these things? That for me, the 2/10 is the most all the statistics I've seen the most meaningful.

| | | |
|---|---|---|
| **Gillian Tett:** | 33:00 | Yeah. Well, the financial system currently looks very odd. If you look at the surface, you can say, well, equity markets are still very high, credit spreads are very tight. Everything right now is very calm. I mean there was a few dramatic wobbles earlier this year but it's still basically pretty good, asset price is still very high, everything looks pretty calm in spite of the trade tensions. But if you start delving underneath the surface there are a lot of relationships that appear to be breaking down in terms of asset prices and things like the credit card flattening and inverting even, in some markets is very, very strange. |
| **Gillian Tett:** | 33:41 | I would argue what's really going on is that you have a financial system that's been flooded with a lot of money where investors have lost their ability to discriminate a lot of credit risks because they've become so used to this tidal wave of money from quantitative easing and where what they think is normal, is actually a very artificial situation. And as money gets pulled out of the system through the shrinking of the Fed's balance sheet, as the Fed starts to raise rates, as things like the repatriation of overseas holdings by American corporations takes place, you have the potential in the next year for a lot of financial flows to occur which may have some quite unexpected impact. |
| **Gillian Tett:** | 34:25 | I think it's going to be very hard to exit from this rather abnormal situation calmly. And plus of course, you've got this US economy which is pumped up with this kind of sugar high of tax cuts and where essentially the chance of a slowdown in the next two years is quite high even as the fiscal stimulus is due to run off in two years and even as of course, that is currently intending on raising rates. |
| **Demetri Kofinas:** | 34:51 | And that's been the sort of argument, right? The Fed when they flooded the system with liquidity, central banks generally the argument was we have to do now. Okay, fine. But there was an additional point that was made by central banks. Whether they believed it or whether they wanted to create confidence was that they'd be able to unwind this balance sheet. It wouldn't be that difficult. We got in easy, we can get out easy. You're touching on one area that feeds off of what you're saying is emerging markets, right? You're talking about a potential change in market regime as a matter of not just the actual liquidity but the liquidity that was put into the system created a sort of plasticity in the market. |

| | | |
|---|---|---|
| **Demetri Kofinas:** | 35:27 | Investors lost their ability to discriminate, they loaded up on beta, a lot of the alpha driven investors left the market, you also have a lot of these ETFs, wind up easy again, unwind can unwind very violently. It seems to me that this area is because there have been so many people that have been ringing the alarm bell for so many years in this space that also, I guess, kind of feeds into what you're saying about people just getting used to it. |
| **Demetri Kofinas:** | 35:54 | I guess the thing that's the most concerning about it though, is the fact that the central bank's don't have the balance sheet capacity to ... And I think also the confidence of the public to do what they did in 2008 all over again. Do you think that they would be able to enact roughly the same sort of measures and do it successfully in the event that we had a contraction? And do we even need to do it given the fact that the interconnectivity in the banking system has changed and we don't necessarily face a financial crisis in the event of a major equity drawdown? |
| **Gillian Tett:** | 36:25 | Well, the Fed certainly has the space to cut rates a bit if there was slow down and it is shrinking its balance sheet now very slowly. They're scaling back the degree to which they want to shrink it overall. It's now well established within Fed circles that you can use balance sheet management as a perfectly seemingly normal tool of monetary policy. So I don't think they'd have any problems with expanding the balance sheet again if they needed to. |
| **Gillian Tett:** | 36:51 | What's far more controversial is whether the Fed or the Treasury would ever be allowed to move to bail out a financial system again if there was another crisis. And people like Ben Bernanke and Hank Paulson, who are all the luminaries of the financial crisis back in 2008. They are very explicit in saying that they're very concerned these days that many of the tools that they used to fight the last financial crisis have been removed by Congress and they're no longer deemed to be acceptable by the American political body. In Europe, it's actually in some ways, a harder situation because in Europe they have less fiscal space arguably because you need to get political agreement amongst all the governments to do something. |
| **Gillian Tett:** | 37:33 | Individual companies can raise taxes or cut taxes as they want but it's just much harder politically to use fiscal measures that have been in the US and of course, the ECB hasn't really started tightening so there isn't the same level of wiggle room that you've got in the US now. So if the crisis happened in Europe today I think in some ways it will even be harder for the |

Europeans to actually act and bail out the system or even do even more radical monetary policy measures.

**Demetri Kofinas:** 37:58 So you made a really good point there which is that there's this consensus view that they can expand the balance sheet and it's not really a problem. And I think that has something to do with their narrow definition of inflation, right? So the central banks have been focused on consumer price inflation. But we've seen inflation and we've just seen in an asset prices. And that inflation and asset prices has had a direct effect on wealth distribution, right? And that wealth distribution has also had an effect on politics and populism. And we're seeing perhaps in some of these other areas, like in our politics, and in our trade, the impact of monetary policy of regulations of economic policy.

**Demetri Kofinas:** 38:32 I wonder, and I'm curious to your thoughts on this, if we might not see the volatility that we haven't seen in markets show up in politics as we're already beginning to see and also in geopolitics. And are we beginning to see the change in the international order and the change in the politics of individual countries and the breakdown of this traditional order? Is that going to lead to over time a new volatile world where the misallocation of capital is going to result in wealth destruction from a breakdown of global trade, war perhaps? And I don't mean this like in an alarmist sense, but just in a very realistic sense.

**Gillian Tett:** 39:09 I think you raised a very interesting point there and to me one of the most telling indications that you're onto something there is that Ray Dalio, who runs Bridgewater, the world's biggest hedge fund has spent most of his career looking at financial flows and economic numbers and he was one of the few people that actually predicted the last credit crisis. Really, on the back of his very numbers driven econometric analysis of credit flows.

**Gillian Tett:** 39:34 But these days, what Dalio spends most of his time looking at is political trends and geopolitics. And he produced a fascinating index of populism last year. He was trying to measure what percentage of the Western vote have gone to populist anti-establishment candidates in the last 150 years. And what that shows is that from 2010 to 2017, there was a jump from about 5% to about 35%, 40% in the Western world of the share of the vote that's gone to populous candidates.

**Gillian Tett:** 40:07 And that I should say was before the Italian elections. It's a really big jump. There's only one time in history you can see that kind of jump and that was in the 1930s. And so if you think that risk has moved from the financial sphere into the political sphere and that's where the volatility is going to be, you can actually see evidence of that in the charts and numbers already.

**Demetri Kofinas:** 40:30 So you mentioned Ray Dalio. Another thing I was curious to ask you is given the fact that I mentioned at the very beginning you're the most ... Again, it's an honest compliment. You're the best financial interviewer I think that we have. I wish you would do more stuff on television and you speak to so many people off the record. Forget what we do on the record. I'm very curious who are some of the most interesting ... Maybe interesting is too soft a word. The smartest, most sort of prescient, are creative thinkers that you come across and who do you think has some of those most interesting ideas to share that you've come across?

**Gillian Tett:** 41:06 Wow. I'm not going to give away all my trade secrets about who I think is smart and bright because I'd probably offend all the ones that I actually mention.

**Demetri Kofinas:** 41:15 Well, how can we state in a different way? I'm very curious about this. It would be really insightful, I think, for me and the audience to know who you listen to particularly.

**Gillian Tett:** 41:24 I listen to a wide range of people. Ray Dalio is very smart. There are many other very smart financial gurus and Titans who get essentially paid to read the markets. I tried to expose myself to different points of view. I don't do it nearly as much as I should do and one of my biggest regrets is that which I tend to get trapped into intellectual bubbles and professional bubbles myself. But over the years I've got very smart tips from all over the place.

**Gillian Tett:** 41:54 One of the people who I always give a shout out to who helped me to see the financial crisis coming back in 2007 was a very wonderful Japanese official who worked at Central Bank of Japan who had I known a full decade earlier, who'd been at the heart of the Japanese financial crisis. And I stayed in touch with him over the years and he gave me some very smart tips just before the American financial crisis about the parallels between Japan and America. I try to draw lessons from all over the world.

**Demetri Kofinas:** 42:24 That makes sense of course, because the crisis we encountered in 2008 had many similarities to the Japanese deflation.

**Gillian Tett:** 42:30 Absolutely and I think it's got many similarities to China as well right now going forward.

| | | |
|---|---|---|
| **Demetri Kofinas:** | 42:34 | Are you concerned about China? We mentioned the thing about the corporations. The Chinese government has allowed Chinese corporations and China generally to generate tremendous amounts of debt. So much of that has gone to construction and real estate. Is that a concern? |
| **Gillian Tett:** | 42:50 | China is fascinating because in so many ways its path nears that of Japan three decades earlier where you basically had an economy that grew very rapidly on the back of a bank centered financial system. In the case of China, government controlled, in the case of Japan government influenced and where essentially you had cheap money going to build up industries very fast build an export and a system that wasn't very good at allocating credit on any graded or subtle concept of risk. |
| **Gillian Tett:** | 43:20 | The Chinese have been frantically trying to learn from the history of Japan what not to do in terms of reforming their system and more recently, they've been trying to learn from the Americans who were at the heart of the financial crisis about how to avoid a financial crisis. Again, going back to Bernanke and Graeber and Paulson, they've all been in long conversations with the Chinese but how not to have an American style financial crisis. But the reality is that China today has a massive amount of debt, it has an economy which is moving from a bank centered government controlled system to a more liberal capital market. It’s definitely got a lot of bad debts in the system which the government could absorb and write off if they wanted to but may not be able to do that easily. |
| **Gillian Tett:** | 44:03 | And the thing that Japan shows is that when you have big debt borrowing from bad debts, you can cope with that if there's an inflation and growth. But if there's ever deflation and recession, it becomes much harder. |
| **Demetri Kofinas:** | 44:16 | And of course, the demographics are different now than they were for the Japanese at the time, right? The Japanese demographics I don't know what they were, but they weren't median age 38 when they had their crash in 1989, were they? |
| **Gillian Tett:** | 44:27 | No, the Chinese had terrible demographics compared to the Japanese. And if actually they were on a par, if not worse. A lot of Western countries too. And that's another big worry for the Chinese. |
| **Demetri Kofinas:** | 44:36 | And they have the environmental factors and then on top of that you mentioned the pandemics, the antibiotic resistance, the cyber attacks, interconnectivity. Gillian, I want to thank you so much for taking the time to join us today and I know our |

audience will have appreciated the conversation. I wish we could have had more time.

| | | |
|---|---|---|
| **Gillian Tett:** | 44:52 | Thank you. I enjoyed it. |
| **Demetri Kofinas:** | 44:54 | Thank you. |
| **Gillian Tett:** | 44:54 | Thank you. |
| **Demetri Kofinas:** | 44:56 | And that was my episode with Gillian Tett. I want to thank Gillian for being on my program. For more information about today's episode or if you want easy access to related programming, visit our website at hiddenforces.io and subscribe to our free email list. If you're a regular listener to the show, take a moment to review us on Apple Podcasts. Each review helps more people find the show and join our amazing community. |
| **Demetri Kofinas:** | 45:23 | Today's episode was produced by me and edited by Stylianos Nicolaou. For more episodes, you can check out our website at hiddenforces.io. Join the conversation at Facebook, Twitter and Instagram @hiddenforcespod or send me an email. As always, thanks for listening. We'll see you next week. |