



Dr. Pippa Malmgren: Donald Trump never expected to win. He ran for President to pursue an ulterior motive.

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Erik: Returning as this week's feature interview guest is [Dr. Pippa Malmgren](#), one of our all-time favorite guests on this program. Pippa, thanks so much for being with us this week.

You know, I've got to ask you as a geopolitical expert, what do you think is going on at this point? And how should investors understand this whole Trump–Xi situation? Because, as I understand it, the way it comes across to me, everything was rosy until October. All fourth quarter of last year we saw 20% – more than 20% – down on the S&P, mostly driven by fear of trade war.

Now maybe we're on the way. And we're seeing this huge bounce and it's all recovering. So it seems like this massive market swing has been driven largely by this. And now, I think, the message from President Trump is it's absolutely hardline. We're not going to negotiate. But, oh, by the way, the weather is nice at Mar-a-Lago at this time of year, so maybe we should do beers.

I'm having trouble interpreting what's going on here. Where do you think this is headed? And what does it mean?

Pippa: I hear you. Yeah, I think everybody's having trouble. And one of the reasons is because both Xi Jinping and President Trump are negotiating in a way that's very typical for businesses, not very typical for governments.

Usually government assigns people from the Pentagon to go discuss something like the normalization of relations on the Korean Peninsula, the potential removal of US troops from the 38th parallel there, that kind of thing. And separately, you would have your trade negotiators from the Office of the US Trade Representative and they would go talk about trade issues with China.

What we have here is all of these things are thrown onto the table simultaneously and are part of one big negotiation. And I would say that includes normalization and denuclearization of the Korean Peninsula, the question of the South China Sea, the trade disputes, and the Huawei question, which is how much latitude should the Americans give Chinese tech companies who the Americans view as surveillance enterprises that are serving a public function, they're serving the state's interests.

And, by the way, the Chinese take exactly the same view of Google, Facebook, Amazon – these are all part of the state apparatus, which is why they've banned them in China.

Now, there are more, but these are the core issues that they have both put onto the table. So notice the timing. As soon as there is some progress on the Korean question, this is when Trump says, oh, we don't have to be so tough, we can postpone the implementation of new tariffs and duties on Chinese goods and buy a couple of months. Everybody goes, wait a minute, I thought things weren't going well in the trade talks. How come now he's making a concession? And it's because it has nothing to do with the trade talks. He's offering something in exchange for progress on the Korean Peninsula question. Trade is just an instrument, a tool in that negotiation process.

So if we step back and stop looking at it from the narrow perspective that we've been trained to do, and instead step back and say what we have here is a property guy who wants a win. We've got a leader of a nation who sees a one-moment-in-history opportunity to settle a whole bunch of issues of the United States with a president who wants to do a deal. This is a rare set of circumstances.

The next president is not going to think like this. They're not going to put everything on the table at once. And aren't desperate to have some cool deal they can announce that, by the way, potentially involves a Nobel Peace Prize being awarded. Maybe not to Xi and Trump, but to the leaders of North and South Korea. And you can be sure that those two guys will be standing in the back of the frame – photobombing it, basically.

So I think what's happening is there is progress on the Korean Peninsula issue. And, as a result, there will be a diminution of the stress over trade. What I expect is some time in the next couple of years, before Trump leaves office, we will get a comprehensive deal.

All of a sudden, we will have the North and the South not reunified, but normalized. We will find the nuclear issue is addressed. There will be a high degree of confidence that China will take responsibility and make sure it doesn't come back to bite the world at a later date.

China effectively will be permitted by the United States to soft-annex North Korea. Which, by the way, everybody is delighted about because they can take responsibility for this very tricky population and basically bring them into the world economy. China wants it because it's the last pool of cheap labor left on the planet.

I think part of this will be something about the South China Sea – acknowledging China's right to be present there. But, equally, China acknowledging there is a need to protect the freedom of passage. And they'll come to accommodation.

And, when the market registers that there is some kind of comprehensive deal that permits the shaking of hands and some photo opportunities, that for the time being the stress will have been relieved, you can be sure the markets are going to go right up on that. The stock markets

are going to love that. Everywhere, markets are going to love that.

And then we can get into what happens next – the next president, the next set of circumstances. But what I think these two people are looking for is that kind of comprehensive deal. And the market is watching the details and missing the bigger picture here.

Erik: So let me make sure that I understand correctly, to summarize your view of the bigger picture. All of this trade talk, which basically tanked the stock market 20% and now we've retraced most of that, you think it was a red herring. That really this is a much broader thing and that all of the trade talk is going to be forgotten about, everything is going to be patched over once we come to terms on some broader agreement.

Is that it? Or is it more of the trade really lays in the balance with these other things and we might not come to the right agreement and the trade situation might get much worse than people think?

Pippa: It's neither. It's not that trade is a red herring. These are real issues. And, certainly, as far as the president is concerned, they are very, very real issues. It's just that trade is one tool in a toolbox of ways to influence the outcome.

And if you ask what is the most important historic outcome, what would be the biggest victory that both of these parties are looking for? Would that be the announcement that the United States and China were no longer in trade disputes? That's a good announcement. As a former presidential advisor, I'd say that's a nice announcement. That will get you some headlines for a day or two. That's good.

If you announce that you are normalizing relations on the Korean Peninsula and effectively removing the nuclear threat to the world, if that goes in the Wikipedia entry, that's a huge historic event that those two leaders will be famous for forever. So if I can do both at once, if I can sort the nuclear issue and get a resolution on the trade stuff, that's like your ultimate cool victory.

And, from a Chinese point of view, if they can get the South China Sea thrown into the mix, which is a subject that most Americans don't know about, don't particularly understand, wouldn't really get – so Trump can negotiate that away a little bit without anybody criticizing him, and then it's win all around.

But let's be clear. The markets think the most important thing is an announcement on trade and they don't really care about the Korean Peninsula and history.

But markets – I always say perception is everything. And when I worked on the trading force – if we imagine that there is a theater, and standing on the stage is the president in the Oval Office, who is in the audience? Well, the traders and the market people, they think that they are in the front row, they are the most important thing that matters. And the general public, they're way

at the back.

But when you work in the White House, no, it's the opposite. The general public is in the front row. And way off somewhere in the corner, a dark corner where you can't even see them, are these trader people. And they make a lot of noise from time to time. You don't really know what they're on about. Why are they driven by some things and not others?

They're sort of important because they seem to drive the bond market. But they are not your principal focus if you are the president of the United States. That's a sideline. So that's why the market thinks their issue is the most important one – resolution of the trade conflict. But the White House – not just this one, but any White House – would say resolution of the Korean Peninsula, now that is historic.

Erik: Now, you mentioned most people don't understand the Spratly Islands and the South China Sea and so forth. Why don't we quickly get your overview of what the significance is of that? What is going on there? Why is it important? And who is it important to?

Pippa: Well, it's part of a big strategy that China has to take greater control over the supply lines in and out of China.

Now, they're doing it lots of different ways. There is this thing called the Belt and Road Initiative that now most people are familiar with, which is the building of truly historic infrastructure: airports, ports, railways, roads, digital infrastructure for the transportation of data. But also things like aqueducts to move water from the Himalayas into China and irrigate the West as if it could be a California.

It's a very broad, comprehensive view that they're expressing that China needs to be more connected to the rest of the world in order to secure stability. That's what they're focused on.

Now, one part of that picture is the South China Sea. The Spratlys, all these island chains basically were a bunch of rocks sticking out of the Pacific Ocean. But legally, once the Chinese started to put concrete on them – and particularly elevate them with concrete, because, under the law of the sea, elevation is everything – once they started to physically reinforce them, then their ability to claim ownership over them went up dramatically.

And in the last few years what they've been doing is building runways and airstrips and docking facilities, ports-type facilities, which further increases their foothold. Now why do they want it? Well, it's part of the security of supply. It's partly that they view that this part of the world is effectively their backyard. And they wanted some way of standing off against the United States and preventing the US from encroaching on China.

And let's not forget – it's a fact I'm always pointing out to people – but this is a country, China is a country that cannot feed itself. It does not have enough arable land, enough clean water. And so how are you going to feed all these people? Well, it turns out that 10% of the world's fish

supply is right there in the South China Sea. So part of establishing a physical presence is to secure that supply chain of protein.

I think it's bigger than that as well. China is extending its reach, pushing out the borders and boundaries to become more interconnected with the world. And they do it in one direction with the Belt and Road and in the other direction they're doing it with a maritime strategy.

But, taken together, that's the way I see it. It's a comprehensive approach, which Xi Jinping decided and announced in very early days, about 2013. So they've had a view on this for a very long time.

Erik: So, big picture, what you think is really going on, which investors need to understand, is Trump is really looking for the big political win. It's not just about trade negotiation, it's about this all-encompassing deal which brings together the conflict in the South China Sea, the elimination, hopefully, of the nuclear threat on the Korean Peninsula. Trade is part of it.

Now – just thinking about this as you're describing it – is President Trump's strategy here to time this so that he gets this really grand, big win right around election time in order to cement his re-election?

Pippa: I have a very out-of-the-market view on this. I think, yes, the total focus for the White House and for the Chinese is to announce this big, comprehensive deal that covers a lot of subjects at once. And the two leaders go down in history over the Korean stuff, but they also basically get to go down as that moment where there was a big fight and in the end they settled all the disputes. That's a great victory for both of them.

And it would set the stage for at least a decade, maybe two decades, of more normalized relations.

But, what is the president's personal agenda? My view is I think that chances are that he is not going to run again. And that is a function of – well, it's a number of things.

One – remember, the reason he ran for the presidency was because he was intending to launch what they're calling TNN, the Trump News Network, which would challenge CNN. And, notice that in recent months he's often spoken or tweeted about the need for CNN to have a competitor. And every time I see that I'm going, hmm, that would be him.

And the weird thing was, having entered the race to create the profile that would be required to get that thing funded, then he ends up winning – which was not the expectation. So, in other words, he's just going back to Plan A.

Now, why does he want to go back? Again, perception is everything. I or you might say that being president of the United States is the coolest, hottest, most important role you can play in the world. But his view could easily be, well, actually, now that I've been here, it's a nightmare.

Being president, you're totally constrained, you've got legal constraints, you've got institutional constraints. You know, in the first half of his term he had a Republican congress. Now he doesn't, so he's very limited on what he can get done on domestic stuff – another reason he wants a victory on foreign policy where nobody can constrain him. He has freedom to act there that he doesn't have on domestic affairs.

I think, also, he's driven by another thing, which is the legal investigations. Not the Mueller case, because the fact is, really, at the end of the day, the president can pardon everyone including himself in the Mueller case. There might be some legal challenges to that over time, but you could just basically make that announcement one afternoon and you're done. Mueller is over.

But what you can't do is address the New York State prosecutor and the Manhattan Attorney General, both of whom are engaged in investigations into the Trump family affairs. And let's remember, it's not like you have to have a really serious case.

How did they get Al Capone? They got him on mail fraud. That means one time you misdated a check and you put it in the mail and you're done. That's an offense. So, if you've got to deal with that, that's all about you need money. That's how you buy time in those cases. You've just got to throw a whole lot of money at it.

Well, one way that you solve all problems at once, you secure your place in history, you announce a much bigger platform than the White House – because TNN would definitely be that. It would have more echo chamber, more influence. He'd have less constraint, more freedom to tweet anything he wants. And that would also earn a ton of money.

And so now you've solved all these problems. Because, let's face it, is this president really going to just retire? I can't see it. He always has to go from one really big thing to a much bigger thing. And what is the bigger thing? It's TNN.

And, by the way, before anybody dismisses it – let's remember, the last few presidents have all wanted to transition from being president of the United States into a global media brand. That's exactly what, for example, that's what the Clintons tried to do. Transition into a global brand that's visible through media. It's what the Obamas are currently doing – you do books and the public profile, world tours and you have a voice then. Tony Blair, similar thing.

This is not unknown. This is now a pathway that many former leaders want to tread.

In fact, the only who hasn't done this at all has been the president I worked for, George W. And George W Bush went, you know what? When I'm done, I'm done. And I will go back to chopping wood and other things, and I'm not going to use my position to have influence in that way because I don't think it's right. And he has been remarkably quiet since leaving office and did not – he's done a few speeches, but he didn't go off to try to be a voice and to criticize his successors or things like that.

So I think this is a real possibility. And I would go a step further and say, not only does he want to get this deal done with the Chinese, because that cements his place in history, he wants to be in a position to launch this thing immediately after leaving the White House. Which, to my mind, raises questions about where would the financing come from? I wouldn't be at all surprised to see that ends up being sovereign wealth funds, certain nations.

And that he'll probably announce this at the worst possible moment for the American political machine. Is he going to say to everybody, well, actually, I've decided I'm not going to run again. I'm going to launch TNN. I think you could expect that he might announce this weeks before the next American presidential election, throwing a spanner into the works, making everybody wrong-footed.

The Democrats will all be positioned to fighting on the *We hate Trump, vote for us to get rid of Trump*, and suddenly he's not there. They're pushing against something that just disappeared. So they're all wrong-footed.

And Republicans don't enter the race because it's hard to enter against an incumbent president. And then he steps to the side and goes, I'm leaving. And they'll go wait, wait, wait.

And why would he do that? Because he is so angry with the American political machine and how badly he feels it's treated him. I could easily see that he would announce this right at the last minute.

And, by the way, what would that guarantee? Massive coverage of his new network, which I suspect will have everything from political talk news to reality TV. And, might I say, when I saw that Kanye was having meetings in the West Wing, I'm like, it makes total sense if you're launching TNN. Total sense.

So, yes, that's the timing that I see.

Erik: Wow. So, let me summarize this to make sure I've got it straight. You're actually saying that you think President Trump ran for president of the United States not expecting to win but with the goal of discrediting the mainstream media so that when he didn't win he could say, look at what a mess this media thing was, I'm going to do a better job and create something else. To his own surprise, he wins the presidency...

Pippa: Well, I think definitely he did it with the intention of – he didn't expect to win. I would stand by that. And everybody in his team knows they didn't expect to win. Nobody expected him to win. But did he do it with the intention of discrediting the media? No, I think he did it with the intention of it was a great platform that gave him profile in his effort to create TNN.

Erik: Well, he was certainly vocal in expressing critical views of the mainstream media during his campaign. So it would fit that narrative. And then he ends up becoming president, decides,

okay, let's solve the nuclear problem on the Korean Peninsula, get – maybe not for himself but for somebody – a Nobel Prize that he gets some credit for.

And then at the last minute he says, you know what, the best thing I can do, people, for the country is, if you look at what's really going on here, the media is so corrupt that it's corrupted our entire political system. I'm a businessman. I'm going to step out of politics and go create the Trump News Network to bring you real news, according to him.

And that happens at a very awkward moment that leaves everybody wrong-footed. And that means the next election could go in any direction. Did I really get all of that straight?

Pippa: I would agree with all of that with one exception – which is not I'm leaving the political stage. I am moving the political stage where I want it, which is not the Oval Office. And this thing that I'm creating will dwarf the powers of the Oval Office. Because your ability to influence public opinion from a TNN platform is much bigger than your ability to influence it from the White House. So he will be remaining in politics. He's just saying, this platform is not as good as the one I'm about to create.

Erik: Wow. Let's move on to our next topic, China. How do you move on from that one? China and Russia and the alliance that seems to be forming there, both militarily – it seems like they may even be collaborating on efforts to ditch the dollar in foreign trade, the de-dollarization initiative and so forth.

What do you think the big picture is? What's driving it? What are people missing from that story?

Pippa: Oh, look, I think this has been around for a while. Bottom line is that Russians, I think, are very nervous about China because China is just so much bigger and has more resources and is slowly encroaching upon Russia. And the Russians can't really do anything about it.

You just have to look at the numbers. How many Russians are in Eastern Russia and along the border with China? Compared to the number of Chinese, they are just dwarfed. So what options do they have? Well, not many. The smart thing is for Russia to try to align itself with China.

But I don't think that China views Russia as that important a partner. So it's more about what does China want than it is about what Russia wants.

But there is an important thing developing, which is China and Russia and the United States are now understanding that conflict is not going to be occurring in traditional ways. It's basically happening in cyber-land. The new space race is in the cyber arena.

And this is why all three have a space programs. Because once you have a space program, what that's really all about is control over high altitude satellites, which is control over communications systems and networks. It's control over weapons system. So we now are in a

new space race. But it's not this get a man on the moon – you know, we've recently seen the Chinese land on the dark side of the moon. I think part of this is the military race for domination over the highest altitudes possible.

They are also all in a race for computational power, and that means the ability to crunch all this data that everybody is gathering. And there is no doubt, part of the new space race is for supercomputing and quantum computing. And we definitely have an incredible amount of state investment from all three of these entities going into supercomputers and quantum computers in the effort to have the fastest, most comprehensive number crunching capabilities.

Because, what does it buy you? It buys you the ability to break everybody else's codes. Whether they are nuclear codes, or personal passwords to your pentagon laptop, or it's the password to your bitcoin account, it's all about cracking the code.

And I don't only mean codes in the conventional sense of a password, but also breaking the code of the population.

There is a company called SenseTime, which is the most valuable startup in the world today. It's worth about US\$6 billion, about to be worth 8 I think. And what SenseTime can do – it's a Chinese company – it can identify, for example, the emotional state of a crowd of – well, it was 10,000 but it looks like they're getting close to being able to identify the emotional state of a crowd of 100,000 people. So you can begin to understand what's happening in a population.

And it can also identify micro-facial movements that indicate when someone is lying. You can imagine how valuable that is in any kind of negotiation process.

So when I say breaking the code, it's also breaking the code of a population, understanding what's actually happening in the White House, or with your forward troops somewhere, or any kind of information about logistics and the emotional topography of a population. This is where all these nations are devoting more and more resources. This is the new defense spending.

And it's the new quantitative easing – I mean it's how governments are checking an incredible amount of money into the world economy. The good news is that civilian spinoffs will be extraordinary. So it's better than spending it on new aircraft carriers. But, at the same time, this is the stuff that gives us faster weapons systems. Now we're in the land of hypersonic weapons and things like that.

So, yes, the China–Russia increased alliance definitely is a real thing. But I think it's much more driven by Chinese interests than by Russian interests. And definitely it's the new space race between the West and – if you want to lump Russian into the East, then it is that. Definitely it is that.

Erik: I want to touch on this question of what has changed in the public perception – or maybe it's the government communication priority. I'm not sure. But if I think back to the cold

war, all it would be is for Russia to put a new paint job on one of their tanks and, you know, that's newsworthy. It's something else to be afraid of. Oh my gosh, the Russians, they're trying to get one up on us.

As I understand the current situation, and I do not profess to be expert on this, but my understanding is that the newest generation of hypersonic missile systems, which Russia is known to have – not just in development, but operational, ready for use right now, here and now today. China, I believe, is a little bit behind them but close. There is no defense in the existing US arsenal – it completely eliminates the defenses of our antimissile systems because the things just are going too fast.

Meanwhile, the US's ability to project force around the world is entirely based on its 10 aircraft carrier groups. And, as I understand it, there are new hypersonic missiles that are designed specifically to be able to sink a US aircraft carrier. And, once again, there basically is no defense system because the defenses that are in place are not capable of defending against an incoming target that's moving at Mach 12 or whatever it is that these things travel at.

I would think that that would be newsworthy, Pippa, but there's very few people that even know this is going on. What happened? Why is it not interesting?

Pippa: I agree. I agree. People don't know, and you're right. So one solution – and I think it's the direction that all of these nations are moving – one solution is you don't wait for the other side to launch a hypersonic weapon. What you do is build your offensive cyber capabilities in such a way that you understand their decision-making process and you can detect when they're moving in that direction before anybody actually hits a button.

You actually already know what their launch codes are and you intervene so that they can't be launched. In other words, warfare has entered the cyberspace in a way. Because the kinetic weapons, you're right, they're just too fast to respond to. So a deeper understanding of what's the precursor to a button being pushed, that's where all the intelligence and focus and money is going. And the question is, will we be correct in our assessment or not?

These days – if you recall at one point it was discovered that the Chinese had a very secret cyber command on a particular stretch of road in Shanghai and how was it discovered? Because one of the Chinese employees at a very senior level stopped in the same Starbucks everyday on his way in to work.

And what they call the side leakage of his mobile device gave away enough information that they were able to almost count the steps from the time he left the Starbucks to the time he got to his desk and started to launch cyber-attacks, that they knew it was him. And therefore this was the building where all of this capability resided. And then it was made public that this was where this is.

This is kind of how we're conducting our new wars. It's not with kinetic weapons. It's in

cyberspace.

And, honestly, to be fair, maybe that is a better way to conduct our conflicts. Better not to use kinetic weapons and, instead, we can have a whole bunch skullduggery and cat and mouse going on in the cyber area that the public isn't even aware of. Maybe that is a better way to have our competitions and our conflicts. If you can't eliminate them altogether, better to have them happen in this more limited arena.

But then the big question becomes, okay, in cyber-world, then what would be a truly catastrophic event? And the answer is when you turn the whole electrical grid off. It's infrastructure vulnerability. And this is a high, high, high priority for most militaries and governments around the world.

And, so, should be public be aware of this? I think yes. And I've written about this. In the end, people are very focused on what's in it for me today? So, unless there is a threat to them right now, then all of this is just too dark a subject to bother with for the time being.

So you and I can talk about it, but most people, they're just not that focused on all this.

Erik: Let's move on to another subject. Actually, two topics which I believe are very closely related, although some people don't think so. One is the populism explosion that we're seeing in Europe with the yellow vest movement and so forth.

And then in the United States there is something that I think is related but it comes in a different flavor, which is the growth of the Democratic Socialist Party. Alexandria Ocasio-Cortez – some people have even observed that if she were old enough to be eligible to run for president she could probably get the nomination. This is the ex-bartender from New York who seems to be trying to outdo Bernie Sanders as a socialist.

What's going on here? What's driving all of this? And where is it headed?

Pippa: Well, I think there's a quite universal trend towards populism. People keep thinking it's local and it's specific – Brexit is specific to Britain. Even the election of Donald Trump is a very narrow, specific set of forces.

I disagree. I think that it's a much more generalized phenomenon. And it represents a breakdown of trust and confidence in the traditional institutions of power and the people who've been working in them.

So, for example, in this last congressional race that brought Alexandria Ocasio-Cortez to power, I think it's something like nearly 1/3 of the new members in the House have not worked in politics. They are genuinely from outside the system. And I think the American public in particular has wanted outsiders.

In Britain, we're seeing a similar thing where people are getting fed up with the traditional party politics and leaving to form new parties. And suddenly traditional alignments are not reliable anymore. The same is happening across Europe. People are saying, I'm frustrated with the traditional approach and I'm looking for new ideas, new leadership.

This underpins populism all over the world. Personally, I always take it back to the debt. It's the burden of debt bearing down on all these societies and making everybody realize that we can't afford to meet everybody's needs.

The minute you realize there is not enough money to go around, then you start to say, Hey, how come their interest are being met but not mine? And the moment you say that, the next question is, Why are you guys in charge? That's the question of populism. Why are you in charge?

We are seeing everywhere a desire for new leadership. This was very much the subject of my last book on leadership called [The Leadership Lab](#) – today's leaders are not understanding that this desire for somebody outside the system is so powerful. Because their view is, but I have the skill, I have worked in this leadership world for many years, therefore I know.

But, in fact, what we see is the public want outsiders. And that's why I also would say the next American presidential race is going to be so interesting. Because, even if I'm wrong and Trump remains in the race, I think he is going to face competition from other Republicans. I think there are various groups forming to challenge him from the Republican side.

And from the Democrat side, some Democrats are challenging the central tenets of the Democratic Party. The Bernie Sanders and Ocasio-Cortez camp are challenging the traditional Clintonian view, which is, Democrats are fairly conservative on economic policy, liberal on social policy, but not the extreme.

They're going, forget that. We want a whole new system which is much more like France. It's a rejection of capitalism and the embracing of what Americans traditionally called socialism.

In Britain, we're seeing exactly the same thing but in the opposite direction – actually Israel as well – where you start to see the far right becoming attractive to certain members of the population as they say, the mainstream is not serving our interests. Let's go further out the curve.

So I think it's in both directions. We're becoming more extreme both to the left and the right.

And what I think might actually work is the centrists, if they can come up with a compelling story. And that's why one combination that I'm keeping an eye on – someone like Mike Bloomberg, if he were to actually commit and enter the race, he's exactly the kind of candidate that people want. A successful business guy. He's quite bipartisan. He's not ideological. Quite progressive. Conservative but not hard Christian. And I think there is a market for that in this

new environment.

Is there a market for the Bernie Sanders end of the spectrum? Yes. But I'm still not sure that the American public is ready to say, let's move to a world at an 80% tax rate. I just don't see the United States actually being in that position. But I think this is a fascinating moment in history. Because the capacity for the public to realign around extremes and then leave space in the center for candidates that have the real possibility of bringing everybody back into the middle, I think that's where we could potentially go next.

Erik: Just a quick note for our listeners, since you mentioned your outstanding book *Leadership Lab*. You didn't mention it, but your prior book, [Signals](#), was also excellent. We've done interviews with Pippa on both of those books. Just go to macrovoices.com type Pippa in the search box, and you'll find those past interviews, which are as relevant today as they day that they were recorded.

Moving along, coming back to this shift in capitalism. There is another trend that I know you have talked and written about, which is the move from capitalism to so-called surveillance capitalism. What does that mean? And what are the consequences?

Pippa: There is a new book out by a Harvard Business School professor called Shoshana Zuboff called *The Age of Surveillance Capitalism*. And it's getting a lot of traction. I think it's one of those must reads.

What she does is to explain this new environment where, basically, data is being gathered about you all the time, whether it's a camera that you pass at a shopping mall, capturing your face and your emotional state as you walk by, or the chips that are in your clothes or your shoes. The information that your mobile device is giving off about you, even if you don't have the Google location finder on – you turned it off – it's still tracking your location.

Or Facebook – they have apps, and the fact is you may not use them but they're still tracking how you walk. And how you walk reveals a huge amount about the condition of your heart, your general health.

We're moving into an environment where your identifier – in the past, how did you identify yourself? Because you signed and it was your signature. And maybe it was your thumbprint. Now we're in a world where it's your behavior.

So the Pentagon has just made a big investment in – I'm trying to remember the name of the company – that is making building passes, so your pass to get in and out of the Pentagon, based on your overall behaviors. So, if you go to a certain grocery store every week on a Thursday, and then for a couple of weeks you don't go there, you go to a grocery store clear on the other side of town, it's going to clock that your behavior has been disrupted and therefore challenge as you enter the building to say, Is it really you?

In other words, where you go, how you walk, the tone of your voice, who are you talking to – all these things get picked up to create a biometric picture of your behavior. And that behavior is known to the Internet. It's known to whoever owns all those silos of data. And, let's face it, the purpose of artificial intelligence is to connect the dots in all those different silos to create a comprehensive picture.

What really matters is, first of all, this changes the balance of power between states and citizens, between companies and customers, because the company knows much more about you than you even know about yourself.

I was talking with someone who runs a luxury goods firm the other day. They said, oh, yes, we're using all this already. And we have customers, we know who they are from the moment they walk into the shop because we have facial recognition and we see this is the customer.

They will tell you, if you ask them, I am here to buy a handbag. But we already know they're not. They're going to buy earrings. Because the data we have about them tells us they're going to buy earrings. And they will deny it. They'll be like no, no, no, I'm here to buy a handbag. But what do they walk out of the store with? Earrings.

So this is the thing. What does this mean for capitalism?

By the way, we have insider trading laws. If you know inside information about a company you're not allowed to profit from that. I think we might need insight trading laws. If you mined a level of insight into your life, your emotional state of being, it's so deep that I can basically sell you anything. If I know that you're at home on a Friday night but you'd rather be out and your dating apps are not working for you, this is the perfect time to be selling you ice cream.

So this type of thing, it changes the nature of capitalism. And, frankly, there is question of how much personal freedom does a human being require to really be human? Like, what is it to be human? And I like what Frank Zappa said: Progress comes from deviating from the norm. So if you don't allow people to deviate from the norm, you're not going to get progress.

And I think the Chinese are going down this road more forcefully than anyone else with their social credit system where they actually give every citizen a score, like an Uber score, based on their social behaviors. And I just don't know, how do you say to all these people, I want you to behave in this very narrow, limited way, and not look at pornography, and not behave badly, don't leave your bicycle on the footpath – because all these things will reduce your score. But when you go to work I want you to just let the creativity rip.

You have to give humans latitude to test the boundaries of life in lots of different ways. And I think this will prove to be our great strength in the West.

This is one reason that we need to keep an eye on how much the surveillance capitalism is being

introduced. Because we don't want to cause humans to start being fearful to Google something on the Internet because it might affect whether they can enter the building they work in because it might be considered not appropriate social behavior.

And I don't mean just looking at pornography or something. I mean, maybe you start looking at a Twitter feed that is deemed to be too far to the left or too far to the right from what your employer thinks is appropriate and suddenly you become a question mark as an employee. This is a really important development, and I don't think people are sufficiently aware of how deep this is. So that's my point about surveillance capitalism.

Erik: Help me understand what changed in human behavior. Because if we go back to June of 1949, when the book *1984* by George Orwell was first published, it was extremely controversial. First of all, people said, well, the technology is never going to happen. But, even if it did, there is no way that the American people would ever remotely begin to submit to that kind of surveillance and control.

Now, when the – I forget which model of iPhone it was, 8 or 10 or something – there was one model recently where it was very widely publicized that this new phone has camera technology which a lot of people thought was put there so that Apple would be able to collect basically the level of detail about your face that would make you recognizable to facial recognition systems for the rest of your life.

And everybody knew that that feature was in there. People that were hoping to kill the launch of that product were publicizing it. And they were lined up, Pippa, around the corner, sleeping in sleeping bags, waiting for the Apple store to open so they could buy one.

What happened that people went from in 1949 there is no way we would ever allow ourselves to be surveilled that way to we can't wait to get the next thing from Facebook?

Pippa: I know, it's so interesting. And, by the way, it continues. The new phones are all going to have triple rear cameras. And those triple rear cameras are even better than a single to capture the environment, your emotional expressions. And Apple, every time you open your phone you have to look at it. It's not that it's just identifying your face. What it's learning is all your emotional reactions. What's your state of mind?

And if you combine that with voice, then you start to understand what is the person's frame of mind at this particular moment that I'm trying to interface with them? That's why I think Google recently announced in their next device that, yes, it does have a voice recorder. They thought everybody knew that and it turns out people were surprised.

But nobody should be surprised. Everything now from your refrigerator, your trash can literally, your sneakers, every single thing will have sensors, cameras. And all of it is aimed at capturing your emotional state, your physical location. Even your phone has a barometric device that tells them you were on the 15th floor of the building, not the 16th floor of the building.

And how is it that they've sold it to the public? Because it's fun. Because it's fun.

And, to be honest, it is fun. These devices bring us incredible amounts of fun and productivity and we're able to run our lives in much better ways, smarter. I mean, I run my business off my phone. So I'm not saying that we should get rid of all the tech. I'm just saying one thing to be aware of is technology is always a double-edged sword. And the double-edged sword is a good analogy.

There is a wonderful book called *The Axemaker's Gift* which came out years ago – it might have been even the late '80s. A very clever book about how technology always cuts both ways. You get incredible advances and big, big problems. They happen simultaneously.

So I'm just saying this next iteration of technology, it's absolutely turbocharging our lives in ways that I see huge economies unfolding that everybody's going to be able to engage in. I see democratization of technology. People will be able to make a living doing all kinds of great, interesting, cool things in the future.

But there's also this other side, which is this lockdown on the behavior of individuals. And I'm asking questions about is that what we want? And should we be trying to do something about what it means for the balance of power in the society. Do we need to think about – are their places that people should be able to go without being watched all the time? Is this really like only a system the Stasi could dream of, but somehow it's become reality?

I just think these are important social and philosophical questions. So I'm not anti-tech, not at all. But I do think there are lots of philosophical and practical issues that deserve our attention. And there are a lot of people writing about this, more and more. I think that the tech community, too, is recognizing the benefit of having all this information about you may be offset by some of the negative aspects of someone having all this information about you.

Erik: Let's tie all of this together to what it means for markets, which, of course, interests our investor audience. The whole Trump–Xi thing, the China–Russia alliance, presidential race, populism – what does this lead you to in terms of a conclusion of where we're headed?

Because a whole lot of people think that we are overdue for some kind of market crash here. Do you share that view?

Pippa: I don't. I don't remember when we did our last interview together, but it was some months ago. And I remember saying at that time I was very optimistic about markets and the global economy.

Now, we did have a pullback and you could say it was a significant pullback. I think you said we looked at a 20% correction. But we've recovered it all. And it happened so fast you almost missed it if you blinked.

And I think this is very important – actually, the underpinnings for a melt-up are so much stronger than the probabilities of a melt-down. And even when the market gets itself super-negative and it finds every darned thing that it could be upset about, it goes down but not for very long.

So what do I see? I see investors all over the world, particularly large institutional investors, they have a lot of dry powder. They want to put their capital to work. They are no longer just doing share buybacks. They are actually looking to invest in the real economy.

There is a place for them to invest because the technological innovation revolution that we're in is epic. And I know that from being in it myself with my robotics company, as a manufacturer. I can see you no longer need to have a huge lab and thousands of employees to create and innovate. A couple of people with an iPhone can build world-class stuff. You don't need much capital. It's just a totally different economy-of-scale environment that this technological revolution has ushered in.

I also see governments are spending. They're just not spending on QE, they're spending it on the defense sector and cyber. I see that as being highly investable. Not in terms of buying defense stocks though. It's really interesting to see what's happening to defense stock prices. But it is in terms of, What are all these technologies and what are the spinoffs into the real economy? And I have to say they're huge.

I see a world where China is building the Belt and Road Initiative and creating much better quality infrastructure, which the whole world can benefit from. And will that lift many emerging markets? I'd say yes, it definitely will.

So my personal view is, where I hear from investors all over the world, whether they're retail or institutional – they're all preparing for a melt-down and they're completely and utterly unprepared for the possibility that they're wrong and it's a melt-up for the next decade that's going to dominate that landscape.

And I just ask, why is it that we have so much certainty when everybody's been blindsided so consistently over, certainly, the last decade. How is it you can be so sure that Brexit would never happen, that Trump would never win, that China wouldn't slow down? And then all these things have happened.

And now you go, but I'm sure that the markets are going to melt down and I'm going to build my future on that.

What about the possibility that it isn't binary, first of all? That there's an array of possible outcomes, and we should consider that there is a possibility that some of those outcomes might be really, really good?

Again, the Industrial Revolution, that was an amazing period of history. But if I compare it to the level of innovation now, I'd say it's much bigger. I think it's a much bigger risk that we sit in our armchairs afraid and miss this thing than that we dive in and we get a melt-down. Because, even if we get a melt-down, they don't last very long. There's just too much money and too much innovation for the whole thing to stop.

Erik: Pippa, I can't thank you enough for a fantastic interview. We're going to have to leave it here in the interest of time.

Before we go, though – I never know how to do this with you, because are you Pippa Malmgren geopolitical consultant? Or are you Pippa Malmgren award-winning author? You've got two recent books out *Signals* and *Leadership Lab*. The rumor mill says that *Leadership Lab* may be under consideration for Business Book of the Year – I guess it's a little bit early to congratulate you on that one if that's coming.

Meanwhile, that's not even your day job. You also run [H Robotics](#). Why don't you tell us a little bit, very briefly, about what the books are about and about what H Robotics does?

Pippa: I always say I'm an economist. I just express it in a lot of different ways. The books are about how I see the world unfolding. *Leadership Lab*, yeah, it just got shortlisted for this Business Book of the Year award. I'll find out next month, which will be exciting.

But, really, that book is about the diversity of thinking that is required to manage in today's complex environment and trying to help people who have been trained to be analytical to learn how to be more parenthetical.

And by that I mean they are super-good at the drilldown into every deeper mathematical detail. They're not great at the look across the landscape, at understanding the zeitgeist. They can measure the numbers and the math, but they just have no sense of the mood. And so they just miss what's happening out there. And so that was my focus for that book.

H Robotics, that's my main enterprise, my main focus. It's, frankly, the best thing I've ever done. It was a personal bet. I just decided after the bailout, I was like, you know what? We're going to have at least a decade of amazing growth and probably more. \$20 trillion, that lasts a long time. And if I really believe that, I should be part of building the world economy.

And I had a particular view about robotics and automation. Basically what we're manufacturing is, we make commercial drones, drones for industrial use. But really what it's about is data gathering.

So this surveillance capitalism that I talk about, I'm very much a part of it, except my focus is on gathering data for the purposes of helping businesses run better. I don't know if you've heard about this terrible dam collapse they had in Brazil a few months ago which killed so many people on a mining site.

My robotics get used to prevent that from happening, so that you can see when there is a problem with the tailings dam. I'm in favor of preventing those kinds of crises and that sort of unnecessary loss of life. And it lets me be at the cutting edge of what all the new devices and sensors and technology is and then manage the data process, which is how companies get to actually see what's happening to their assets all over the world.

So that's my principle focus. But it's sure been useful, to say the least, in informing my understanding as an economist of what's really going on out there.

Erik: Well, I can't thank you enough for a fantastic interview and we look forward to having you back soon. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.