

CONVERSATIONS WITH MIKE MILKEN



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Mike Milken: Ray, thank you for joining us today.

Ray Dalio: Thank you for having me.

Ray, you and I have studied the rise and fall of economies and empires over the centuries. And when we recently talked about the coronavirus, you placed it in that context. Share some of these lessons and observations you've discovered in your research and how they apply to this crisis.

Let's start off in 1929 to '32. The Roaring Twenties produced a boom that also led investors to borrow money and to get overextended. There was quite a lot of debt. Then we had a downturn and a stock market crash, because when you have a contraction in credit, a contraction in debt, you have to sell assets and you can't buy anything. So the government had to change its policies. This happened when we had a large wealth gap from the 20s, and so President Roosevelt was elected and he announced that the link with gold would be broken and that the government would spend a lot of money on people. So what the government did then was to print money and buy financial assets, essentially. And that carried into social programs, transfers of wealth.

The same thing was happening around the world, but in different ways. In Germany they had this depression and then Hitler came to power in 1933, and that was because they were fighting with each other internally, fighting mostly over wealth. Because of the chaos and the difficulties, they wanted an autocratic leader and gave special powers to Hitler. And then that led to the wars and the challenges. After the war, they set up a new monetary system.

In 1945 we began the new world order, and the United States was the leader of that world order, and the U.S. dollar. That's because the United States has 80% of the world's gold stocks. And we began a new beginning, and I remember a lot of it well. I'm 70 years old. I was born in 1949, and I came into a world where there was equal opportunity and our country was working together and we were a rich country where the dollar was dominant. And we carried that forward.

Well, the same things happened again: we got more overextended. We had the 2008 financial crisis with interest rates hitting zero. When they hit zero, like in 1929 to '32, we had a downturn and then central banks came in and they printed money and they bought financial assets. And that caused a rally, and we had the wealth gap. And so on.

So now we have a downturn caused by an act of nature. But whatever causes it, we have a situation where there are shortages of incomes, hits to balance sheets, and like in March of 1933, the government is giving that money to fill in those holes. And we have the United States government taking that lead.

You have laid out history here, and so the goal is to make sure that the negative parts of history are not repeated. We're going to deploy trillions of dollars. One of the things I've learned, when you treat cancer patients, quite often cancer patients want to do the least possible at the beginning and hope it works and then at the end, in reoccurrence, are willing to do anything. So we have to make sure that we've made enough of an investment here to stabilize our economy.

Because the United States has the world's central bank, because the U.S. dollar is the world's reserve currency, the federal government can take that money and borrow it from the federal reserve and then target it where it wants to. And it's going to have to make choices. And those choices are going to be difficult choices.

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Think of this as almost like a bomb has gone off. A financial bomb has gone off. And then you have to say, okay, who are you going to help first? And in what way? When states have falls in their tax revenue, and have more expenses, will they get money? What companies will get money? Who will be saved? It's going to be a politically challenging

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job – *did you save this one?* and *why didn't you save that one?* – a lot of arguments along those lines.

So those kinds of choices have to be made. The real question is whether we can do that together in a bipartisan way, in a skillful way, because there's enough money and credit to go around and this can be done. The best things that the money can go to are those things that produce productivity in a well-shared way.

Investing in people so that there's excellent-quality education. There's also the teaching of values and character and then coming out into a world in which there is something like equal opportunity. It's never going to be perfect, but we strive for a system that people feel is fair. I think that that's going to be the most fundamental necessity, not just because I experienced it and I've seen it, but I've studied like you say, these dynasties. So, we're going to have to invest in that I think.

This health crisis has decimated hundreds of millions of lives who have not gotten the virus itself, but they've seen the government shut their businesses – their little restaurants, the dry cleaner, whatever it might be. Is this a race, in some way, between human inventiveness and nature? How do you envision this story ending?

That's of course the big question. You see throughout history that some of the great economic and social conflicts and wars had *nature* causes to them. There's pandemics and diseases, floods, droughts and so on. This one is global because a pandemic is global. Changes in climate will be global.

Human intelligence is enormous. I'd still bet on nature. Nature is brilliant. Man does not have the intelligence probably to make a mosquito and all of the other things that are possible. So I wouldn't want to mess with nature.

We both believe in expanding the pie, expanding the economy, expanding opportunities, but I know you feel very strongly we need to slice the pie differently.

Talk about the role of inequality as you see it. How is it magnified during the coronavirus?

Throughout all of history, what causes revolutions is large wealth gaps, large opportunity gaps and systems that people believe are not fair. You want to enable as many people as is possible to have equal opportunity of education. That's number one. And then establishing a minimum acceptable living standard and poverty level that they can't go below, particularly their children – children should not be in violent poverty levels. Those that are incapable because of one reason or another have a minimum living standard – just civility – others' children growing up have got to have those basic elements. And we have the capacity to do that. If you look at what money's spent on, the resources, if we go back and think *that's fundamental*, and that a lot of the luxuries we spend money on are less important, I think we could do that.

We live in a country where people talk about the American Dream. As you know, for the last six years we've been working on this Center for Advancing the American Dream, that dream of a chance to succeed. We've been very concerned about the challenge to the American Dream, where people don't feel they have a chance to achieve it, which is why this center's called *Advancing the American Dream*. Ray, your own life in many ways is symbolic of the American Dream. I know you've studied issues of society, not just financial. How do we reaffirm that every person feels that they have a chance at this American Dream, which is what the country stands for, and how other people around the world look at the United States. What has this crisis, not just a health crisis, but this economic crisis that's been brought on, what does it do to this concept of achieving the American Dream?

I'm not sure that Americans know what the American Dream is or whether there's a clear definition of what the American Dream is. We were born right after the new world order began in 1945, and we lived that dream, which was equal opportunity, equal education – those basic things.

I think in my mind I know what the American Dream is. And in your mind you know what the American Dream is. But just because it's in our mind, I don't know that we've agreed as a society that that's the American Dream. Because if we did – if we said equal opportunity is fundamental to the American Dream, and then we said, how are we doing in relationship to that,

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you would look at the schools that I'm referring to or the differences in spending and so on. We would know that we've lost sight of that beacon – that we're not delivering on that American Dream. I don't know that if you were to take a survey and everybody says what is the American Dream that they would answer. So I think it starts with the question of what is our common dream? What is our common mission? What are we trying to achieve? I don't know that we have that.

I think, Ray, that's why we use the word *advancing*, because we need to find out how to reaffirm that upward mobility today. I remember when I was very young, my father told me if everyone didn't feel they had a chance to a good life, that my children wouldn't have a good life. And I think you're underlining that. I'd like to end where we started today. Enormous economic dislocation. Fear of a continued spread of a pandemic. As one of the world's leading money managers responsible for pensions of so many people, or retirement savings or just people's investments, how have you led your own firm during the last few months and what are you telling your employees?

These are stress tests. They're in a way very good for us because they identify volatilities. Then diversify well. The most important thing through this is to know offense and defense, to know opportunity and to know risk reduction. So from a business point of view or for an investing point of view, have enough cushion, have enough safety, and then it's all who you're on the mission with, how their character and their capabilities to relish the tests even though they're difficult because we'll come out of that in a better way.

Diversification is very important, and to understand that from an investment point of view in the broadest way. To understand what monetary policy – the printing of money – means. To understand how to balance the portfolios. And to recognize, to have enough wealth and to have it well enough diversified, as the fundamental underpinning of investing. And then to take your bets from there.

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Ray, you always provide a great deal of wisdom and, in many cases, unconventional wisdom. And your knowledge of history has served you well over the years. I want to thank you for joining us today, and we appreciate your insights.

Thank you, Mike. It's always a pleasure to do it with you.