



Ray Dalio is the founder of Bridgewater Associates, one of the world’s largest hedge funds. Bloomberg ranked him as the world’s 79 wealthiest person earlier this year. Like many of us, Mr. Dalio was “fortunate enough to be raised in a middle-class family by parents who took good care of me, to go to good public schools, and to come into a job market that offered me equal opportunity.” He has lived the American Dream. America created the first truly middle-class society; now, a middle class life is increasingly out of reach for many of its citizens.

Mr. Dalio “became a capitalist at age 12, using earnings from part-time employment to start an investing career.” Mr. Dalio has been a macro global investor (making predictions on large-scale world events) for 50 years, which required him to gain a practical understanding of how economies and markets work. (In 2007, Bridgewater predicted the coming global financial crisis that hit in 2008-09). Mr. Dalio has learned that capitalism can be an effective motivator to make money, save it, and invest it, rewarding people for their productive activities that produce a profit. “Being productive leads people to make money which provides capital resources, which

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when combined with ideas can convert them into the profits and productivities that raise our living standards.” Even communist countries, including “communist China” have made capitalism an integral part of their systems.

As part of his work, Mr. Dalio has studied what makes countries succeed and fail. In short, “poor education, poor culture (that impedes people from operating effectively together), poor infrastructure and too much debt cause bad economic results.” The best results come from more equal opportunity in education and work, good family upbringing, civilized behavior, and free and well-regulated markets.

So, how is the US doing?

“Capitalism Is Not Working Well for Most Americans” says Ray Dalio. His research looked at the differences between the haves and have-nots in American- those in the top 40% and those in the bottom 60% of income earners. He found the following key stats:

- There has been little or no real income growth for most people (the bottom 60%) for decades.
- The income gap is about as high as ever and the wealth gap is the highest since the 1930s.
- Most people in the bottom 60% are poor- they would struggle to raise \$400 in the event of an emergency.
- The economic mobility rate is now one of the worst in the developed world- US people whose fathers were in the bottom income quartile have very little chance of moving up to higher quartiles.
- Many of our children are poor, malnourished and poorly educated.
- Low incomes, poorly funded schools and weak family support for children lead to poor academic achievement, which leads to low productivity and low incomes of people who become economic burdens on the society.
- The US scores in the bottom 15% of developed countries on standardized educational tests. High poverty schools really push our average test scores down.
- Poor educational results can lead to students being unprepared for work and having emotional problems which manifest in damaging behaviors, including higher crime rates.

And, most importantly, he found that the income/education/wealth/opportunity gap reinforces the income/education/wealth/opportunity gap.

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These gaps weaken us economically because:

- They slow our economic growth because a large portion of our population doesn't have money to spend
- They result in suboptimal talent and human development and, in many cases, lack of having a job that honors the dignity of one's work
- They result in a large percentage of our population detracting from our GDP, not contributing to it.
- In addition, these gaps can cause dangerous social and political divisions that threaten our cohesive fabric and capitalism itself.

In conclusion, Mr. Dalio suggests capitalism is now producing a self-reinforcing feedback loop that widens the income/wealth/opportunity gap to the point that capitalism and the American Dream are in jeopardy. Ray Dalio believes what is needed is a long-term investment program for America that achieves good “double bottom line” returns on investments; producing both good economic returns and good social returns.

The nice bump in economic growth brought on by tax reform has already started to fade. GDP growth is expected to be less than 2% next year. While capitalism has likely worked very well for most of us, who are in the top 40%, it hasn't worked so well for the bottom 60%. Let's hope our politicians, of both parties, focus on long-term investments for our country with double bottom line returns. That could really make a difference in long-term economic growth.