
From: Joi Ito <[REDACTED]>
Sent: Saturday, April 23, 2016 8:09 PM
To: Jeffrey Epstein
Subject: Re: rough draft of a paper on accounting

Does it help if I add this paragraph in bold?

Right now, the financial system is built on top of a way of thinking about money and value that was designed back when all we had was pen and paper and where reducing the complexity of all of the web of dependencies and obligations was the only way to make the system functionally efficient. The way to reduce to complexity was to add it up and simplify it. The current technology just builds these 700 year old building blocks trying to make the system "better" by doing very sophisticated analysis of the patterns and information without addressing the underlying problem of a lossy and over-simplified view of the world. This view of the world being that everything of "value" should be as quickly as possible reduced to some "value" where "value" is a number denominated in "money."

The idea of "value" is a reductionist view of the world that is useful to scale the trade of commodities that are roughly of equal worth to a large set of people, but in fact most things have very different values to different people at different times and I would argue that much if not most things of value can't and probably shouldn't be reduced to numbers on a spreadsheet.

An email from you to me about a feeling that you had about our last conversation is probably valuable to me at a particular time and probably not useful for most people. An apple to a hungry person is worth a lot more than an apple to an apple orchard owner. If you lived in Boston and all you ate were Big Macs, having your paycheck paid in Big Mac certificates would probably be more valuable to you than cash since the price of Big Macs might fluctuate. Context is everything.

Financial "value" has a very specific meaning as well. For instance, if you have some, or you are a bank that owns the mortgage on a home. The home clearly has "value" because someone can live in it and it's useful. However, if no one wants to buy it and no one is trading similar homes, you can't set a price for it, it's illiquid and it is impossible to determine its "fair value." Some contracts and financial instruments are non-negotiable and may not have a "fair value" from a pricing perspective but may be "valuable." Part of the problem and the confusion comes from the difficulty of describing legal and mathematical ideas in English.

Then here is the issue of exchange rates. My wife moved to Boston several years ago, but still looks at prices and converts them into Yen. She sometimes comments on how expensive something has gotten because the value of the Yen has diminished. Because most of our earnings and most of our spending are in dollars I always have to remind her, the "value" in Yen is irrelevant to her now, although to her mother who she talks to in Japan cares about the "value" in Yen.

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