

**From:** Jeffrey Epstein <jeevacation@gmail.com>

**To:** Bill Gates <[REDACTED]>

**Subject:** Re: FW: A video of my template for "How the Economic Machine Works"

**Date:** Thu, 31 Oct 2013 01:03:00 +0000

---

Ray is a well meaning person . His funds show great results. He believes himself to be both a critical thinker and a teacher. He is certainly not the former. He stands high above many of his peers , but i believe that is due to the flatness of the landscape around him. The video is just wrong , over simplified and pedestrian. 1 . The economy that even the simplistic illustrations purport to represent on close examination is not a machine. certainly not as Ray suggests a simple machine - not at all, - quite the contrary , the economy is a system. The antiquated machine analogy broke down 50 years ago. A machine has an input and a predictable output. A system may be comprised of simple machines, like the body being described as a simple machine comprised of a digestive tract and a liver and some other simple machine called the [brain an](#) input output device. Poincare the French mathematician did a great deal of work on the "three body problem." three simple pendulums, three of the simplest of "machines". The movements when combined are UNPREDICTABLE. because they are not independent.the proof is elegant 2. In Rays second two minutes he describes Banks as exchanging credit . It is not the same as creating credit. which in fact is their life blood. . He then makes the bold statement that Total spending drives the economy. I assume he understands inflation but his statement doesn't reflect it. Nazi germany's spending went up dramatically as their currency went in the toilet. It did drive the economy , but it wasn't in the direction I think they had hoped for. He also ignores the international in his words" transactions" which brings in goods but sends out money. and does not at the same time create income for your next door neighbor. I guess the idea is that if he uses the word " simple " enough , people will believe it . The emperor has no clothes . sorry

I will review more tomorow, or maybe he does have clothes but they must have been a clown suit when he put this together or it was to be his 6 th graders science fair project. Im not sure of its "value". ( AH yes .the value word ) I have not read his required reading for all his employees, of his things that he dictates they should know . but hopefully one of them , is to recognize ones own capabilities with a minimum of self deception.

On another note , Terje is in the middle east , talking about a polio peace for Syrian refugees. I am aware of the many challenges you currently face in your many facted disciplines and endeavors , and hope you are still having fun.

On Wed, Oct 30, 2013 at 7:34 PM, Bill Gates <[REDACTED]> wrote:

Ray did a strong job on this video which I promoted in a tweet...

I will be interested to get your reaction to it if you have a chance to look at it.

**From:** Ray Dalio [mailto: ]  
**Sent:** Wednesday, October 16, 2013 11:08 AM  
**To:** Bill Gates; Elizabeth Loy  
**Subject:** A video of my template for "How the Economic Machine Works"

Dear Bill,

I know that you are terribly busy with very important matters. Nonetheless, I would appreciate you taking 30 minutes to view the video "[How the Economic Machine Works](#)". Besides possibly helping me, I believe that it might help you.

I distilled everything I have to say about economics into this 30 minutes.

I did this simple video because I believe that most influential decision makers and most people cause a lot of needless economic suffering because they are missing the fundamentals shown in that template. I know this first hand because I speak to most countries' finance ministers and central bankers about their challenges and they agree that this template is more practical and much easier to understand than conventional economic thinking.

Paul Volcker said of this template:

"Ray Dalio's "template" may be unconventional but it casts strong light on how the economy actually works, with its history of repetitive and ultimately destructive excesses in credit creation. The analysis points the way to practical ways central banks and governments can ease the pain of defaults and de-leveraging. An even larger lesson for both policy makers and the public would be to understand how to anticipate and moderate the excesses. The animated video of the template is an intriguing "teaser", but serious economists and officials should read and absorb the insights of Dalio's written text."

On YouTube there were 3,742 Favorable ratings and 100 Unfavorable ratings.

It is logical and our track record from using it is well established. I now want to share it because I believe that understanding it could help prevent big economic blunders.

It is based on my belief that everything you need to know comes from following the transactions, the people behind them and their motivations. Therefore the vague "market" reactions should be a thing of the past and replaced with much better attributions.

This transactions-based approach implies clear paths for addressing big and controversial issues like whether "printing money" is inflationary. For example, if we agree that demand is best measured by spending that is made-up of both money and credit and that an increase in the growth rate of money spent can offset a slowing of the growth rate of credit spent, then we know that it won't lead to inflation.

It implies that the effects of QE should be understood by tracking transactions though the system (by following what is bought from whom and why).

It implies that the conventional  $MV=PG$  perspective is misleading because there really isn't much "velocity" of money happening as most of what we call velocity is credit growth, which is very different and has different reasons for happening. Velocity is made out to be some vague force that drives the rate that money goes around, and it's not that at all. I believe that we should agree that spending comes from either money (with a bit of velocity) or credit and we should understand how each is made-up and spent to make nominal GDP.

It implies that traditional supply/demand curves that measure both in terms of quantity don't make much sense because the price of anything is equal to the total amount of money and credit spent on it divided by the quantity of it (goods, services and financial assets) sold, and that by tracking this spending back to each spender of money and credit and each seller of goods, services and financial assets (and knowing their motivations) everything adds up.

It helps to explain debt cycles -- what drives starts them, what sustains them and what reverses them -- and how they affect spending and asset prices, which is different from conventional economic thinking.

If you find it interesting, I'd be happy to discuss it with you and then, if you find it valuable, I'd like you to pass it to others. Are you willing to do that?

Best Regards,

Ray

<http://www.economicprinciples.org/>

-----  
This message is intended exclusively for the individual(s) or entity to which it is addressed. It may contain information that is proprietary, privileged or confidential or otherwise legally exempt from disclosure.

If you are not the named addressee, you are not authorized to read, print, retain, copy or disseminate this message or any part of it. If you have received this message in error, please notify the sender immediately by e-mail and delete all copies of the message.

--  
\*\*\*\*\*

The information contained in this communication is confidential, may be attorney-client privileged, may constitute inside information, and is intended only for the use of the addressee. It is the property of Jeffrey Epstein. Unauthorized use, disclosure or copying of this communication or any part thereof is strictly prohibited and may be unlawful. If you have received this communication in error, please notify us immediately by return e-mail or by e-mail to [jeevacation@gmail.com](mailto:jeevacation@gmail.com), and destroy this communication and all copies thereof, including all attachments. copyright -all rights reserved