

# Ray Dalio: "There Are No More Tools In The Tool Kit" - Complete Charlie Rose Transcript With The Head Of The World's Biggest Hedge Fund

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CHARLIE ROSE: Ray Dalio is here. He is the founder of Bridgewater Associates. He created the investment firm in 1975 out of a two-bedroom apartment in New York City. Today the company managed roughly \$125 billion in global investments. Its clients include foreign governments, sovereign banks, central banks and institutional pension funds.

Over the last two years, Bridgewater ranked as the largest and best-performing hedge fund in the world. In 2010, his returns were greater than the profits of Google, Amazon and eBay combined.

I'm very pleased to have Ray Dalio at this table for the first time to talk about a perspective on the global economic scene and a whole range of issues having to do with where we see ourselves and also a look at his own philosophy and what has informed his own opinions and the way he looks at the world. Having said that -- welcome.

RAY DALIO: Thank you.

CHARLIE ROSE: It's great to have you here.

RAY DALIO: It's great to be here.

CHARLIE ROSE: What is Bridgewater Associates?

RAY DALIO: It's a global macro firm. We assess what the world economy is like and what -- how asset classes will change and we are managing money for pension funds and endowments like you described; the Pennsylvania teachers, those types of pension funds. We're trying to keep them safe.

CHARLIE ROSE: When you look at the world today, the global economic picture, I read today Goldman Sachs had a disappointing performance. JP Morgan did not do as well as some had hoped it might be. What's happening with financial firms?

RAY DALIO: I think it's important to understand that we're going through a deleveraging. So we have to understand the big picture is -- there's a deleveraging. Three big themes: first there's a deleveraging; secondly we have a problem with monetary and fiscal policies are running out of ammunition; and thirdly we have an issue in terms of people most importantly who are at each other's throats politically and globally in terms of having a problem resolving those.

Imagine you earned \$100,000 a year and you didn't have any debt. You can go to a bank and borrow \$10,000 a year. You can spend, therefore, \$110 a year. When you spend \$110,000 a year, somebody else earns \$110,000 and they can go to a bank and there's a self-reinforcing process in which your debt rises in relationship to your income.

And that goes on for a long time and that goes on for 50 or 75 years through history. We've had 50, 75-year cycles and then you reach a point where you can't anymore get more debt and the process starts to change. And you can't leverage up. Traditionally the private sector leverages up, we leveraged up then we got to a point in 2007 where we had a bubble and that same sort of bubble that happened in Japan, same sort of bubble that happened in the Great Depression, meaning we reached our debt limits. Europe's reached its debt limits.

So then we begin the process in reverse as you can't spend as much you -- somebody else's income falls. And that process works in reverse. So we're in a deleveraging. So I think that this is important globally. That's what Europe's in.

So when we deal with Goldman Sachs or when we deal with banks and when we deal with Europe I think you can break the world into two parts, there's the debtor-developed world which has reached its debt limits and is going through a deleveraging. Then there's the creditor-emerging world, the countries like China which are competitive and are beginning to have those big surpluses and they're lending us money. So we have this big imbalance in the world.

You can break the world into two parts. Debtor-developed countries and emerging-creditor countries and they have a big imbalance which is a debt problem. That's the nature of the beast of what's going on.

CHARLIE ROSE: And how long would the deleveraging take place? Ten years?

RAY DALIO: These take place over ten years. The key is to spread it out as much as you can. Make sure that it's not disorderly.

CHARLIE ROSE: let me talk about the dysfunction issue. We can't solve our problems domestically in the United States, our economic problems, unless there's some sense of respect for other people's views and some sense of it being able to come together and find solutions that are in the interest of the country, not necessarily always in the interest of the ideology or the party.

RAY DALIO: Yes. And I think that's the problem so pervasively when we're talking about culture. It is -- when people disagree and you can take thoughtful people disagree, you have then the potential of learning a lot. If people who were disagreeing can say why do we disagree and work through that conversation in an intelligent way to try to find out what's true, you can learn, you can make progress, it can be a fabulous thing.

When you instead have people who were talking behind each other's backs and all criticizing and all looking for blame, this is a problem. I think the real question is how we approach those -- can we approach that in a thoughtful way in which we work that through?

Let's say for example the government budget balance.

CHARLIE ROSE: Right.

RAY DALIO: The government budget balance if you raise taxes -- if everybody just sucked it in a little bit, you raise taxes by three percent, you cut spending by three percent -- I'm using three percent as an example to say not much. Everybody should be able to pay three percent more or you should be able to cut your expenditures by three percent.

CHARLIE ROSE: If the government did that --

RAY DALIO: If the government did that, they would eliminate half the budget deficit -- it's estimated about \$8.5 trillion over the next ten years is what we're going to have as a deficit, they will eliminate half of that. Now --

CHARLIE ROSE: Over how long a period?

RAY DALIO: The next ten years.

CHARLIE ROSE: The next ten years, all right.

RAY DALIO: Now, I'm asking you if we could have every American -- can everybody pay three percent more? Can everybody just spend three percent less? You can make a heck of a contribution to that.

Instead we have a division that's going on in which we -- the basic division is Republicans will say that we shouldn't raise taxes.

CHARLIE ROSE: Or even reduce deductions.

RAY DALIO: Yes -- in that way of raising taxes. So we -- and Democrats say that we must raise taxes because we can't cut the spending. So the delineation that as we came into that was the debt limit issue, that remains the debt limit issue.

And there's vested interests involved; 70 percent of the taxes are paid by the top 10 percent of income earners, income taxes. And so -- so what we have is a division here in which there's not a coming together, I believe, and that means that in a deleveraging at a difficult time we're not dealing with it in the best possible way. But it's human nature.

CHARLIE ROSE: **We are doing as they say, kicking the can down the road and not dealing with it. Suppose the super committee does not reach an agreement in terms of its requirement and therefore the mechanism -- the trigger mechanism kicks in? What does your team think about that and what impact will that be?**

RAY DALIO: **Charlie, I'm meant to be a realistic person and sometimes when there's concerns it's difficult to talk about difficult situation. So I want to try and answer your question as honestly as I possibly can but I want to say that I'm very concerned not just of that. I do not believe that we will find a political solution.** I think that that would not be -- I'm pessimistic about that.

CHARLIE ROSE: So you have the same opinion that Standard & Poor's had when they reduced --

RAY DALIO: Essentially.

CHARLIE ROSE: -- America's credit rating.

RAY DALIO: Essentially. So I think -- and by the way I think it's very important to understand that the government debt is the terrible challenging issue that we should talk about maybe but also more important is the private sector debt. So that resolving the public sector debt does not resolve the problem.

That individuals face the same problem meaning that they're overly indebted and because they're overly indebted and spend a lot of their consumption through borrowing and they had a -- it was like if you borrow you have a party and everything's good and you have a

prosperity and you -- you have your party, you hire the caterers, they`re employed and everybody`s happy.

So that there`s a private sector debt issue at the same time as the public sector debt. They`re both. So if you resolve the budget deficit, you do not resolve the private sector debt issue. Both of those things mean we`re both overly indebted. We cannot -- the amount that we owe and have promised in its various forms can`t be paid.

Now we can accept is that right or wrong but let`s -- and I think we need to talk about it forthrightly whether that`s right or wrong. And if it`s right -- and I believe it`s right -- then we have to talk calmly and logically about how we can approach that and deal with it in the best possible way without having this battle of one side or another.

Like the issue of is it better to have austerity or stimulus? The basic problem there is that there`s not a quality conversation on the subject. So if people who disagree could sit down and work on a television show or something, work through, how does the machine work, how does the economic machine work? What does it mean to each of those? How has it worked in the past so that they can understand what exists. Get past the ideology part of it and get on with trying to say we have is very difficult situation and how do we deal with it in our best possible way together?

**We can`t solve the problem easily because we still have too much debt. But we can move forward in being able to make the best of it. We can spread it out, we can keep orderly we have a situation now in which we have a very severe situation, not only because we have a deleveraging going on, but we have a situation in which monetary policy cannot work the way it worked in the past, that fiscal policy will not be stimulative.**

CHARLIE ROSE: Some people say that they describe that as there are no more tools in the tool kit.

RAY DALIO: **There are no more tools in the tool kit.**

CHARLIE ROSE: In terms of fiscal and monetary policy.

RAY DALIO: Yes, so number one is we have a deleveraging. Now that deleveraging means we`re going to have more debt problems. You`re going to see -- no matter what is solved in Europe you will have a deleveraging. Banks will lend less and lending less will mean a contraction. That`s -- that is what I believe is the case, we should talk about whether or not that is the case. Thoughtful people should discuss that.

**If it is the case, we should then approach how do we deal with that? Now - - so I`m saying there`s a -- I believe there`s a deleveraging going on. There are no tools in the tool kit and everybody`s at each other`s throats.**

So that there is not a quality conversation of what is true; how do we best handle it?

CHARLIE ROSE: We have had that debate about the need for growth -- which would be a stimulative impact on the economy and at the same time the need to reduce spending because of the debt and the deficit as well as the long-term debt. You need also to make investments for the future in terms of science and research and a whole range of issues so that that the country - - this country can be competitive around the world. Make sure it trained scientists and doctors and people who make a positive long-term contribution to the economy.

## **What is your own analysis as to how we find the right balance between austerity and growth? Or austerity and stimulus?**

RAY DALIO: I think -- I think it just comes back to the fundamentals same for us. Individually, the economics for government work the same as the economics pretty much for the individual that whatever we expend money on, we have to make sure -- there`re certain things that are critical.

First you have to make sure that it will -- it produces an income to pay it back. Investment, in other words, in some fashion or another. What we have to do is make sure that we put that money out and we -- let`s say we build infrastructure, I believe that you can build infrastructure. I believe that you can hire people who unproductive people -- people now who are idle, I think the worst thing now is not only the economics of it but I think the social impact of individuals who are not working or are living beneath their potential is a -- is a dangerous thing.

It`s a social tragedy. It`s not good for them; it`s not good for the society. It`s a cancer that exists. They have to be made productive. But you can`t waste money doing it.

So those jobs -- whatever they may end up being -- or those investments have got to have a payback. And then --

(CROSSTALK)

CHARLIE ROSE: Did the stimulus program that was enacted by the Congress after the President -- this President -- assumed office, did it make a contribution to growth at all?

RAY DALIO: Oh, it made -- it certainly made a big contribution --

(CROSSTALK)

CHARLIE ROSE: It did create jobs? Because some people would like to believe that that stimulus program didn`t create jobs and you`re here to say with your own analysis it did create some jobs.

RAY DALIO: Oh, a lot.

CHARLIE ROSE: Yes.

RAY DALIO: Ok but we -- at the same time -- and it created growth and it created some jobs. At the same time we have this overriding factor that is depressing jobs. So it created jobs in an environment -- and let`s -- so let`s turn to what is depressing jobs.

CHARLIE ROSE: Right. What is?

RAY DALIO: Ok. What`s depressing -- what`s depressing jobs is that the world supply and demand for labor has changed. In other words, there`s a lot more people working as China came on and India came on and they are competitive. There`s a world supply of labor has change -- has increased and technology has had an effect.

So we`re in an interesting era because I think almost and if you think of a person as -- in a machine, an economic machine as being tool, a part of that economic machine the demand for labor has changed in a very profound way. It`s an interesting question. We might enter into a period in which we don`t need people as tools. So what does that mean?

CHARLIE ROSE: The two reasons that people are enormously curious about you: number one, is simply the objective success of what Bridgewater has done and become. And secondly there are interesting questions as to how you think about the world and how you think about investments.

You have mentioned a couple times the economic machine. Give us a sense of what that means to you. Because my understanding is that`s central to a philosophy you have about the way the economy works.

RAY DALIO: Reality works in a certain way. You have to understand how reality works. If interest rates go to zero and you can`t ease monetary policy, how does the economic machine work? Ok, a central bank can make a purchase and get money in the hands of somebody else or blah, blah, blah, blah, blah.

There is a certain machine. It is operated this -- you can raise your debt relative to your income to so far but you can`t raise it more than that. And then when you reach that, that changes.

So the private sector cannot -- there are such laws of economics, such realities of if -- let`s say Europe. I`ll give you another one. We have a debt problem in Europe. You can either transfer the money from one rich country to a poor country --

CHARLIE ROSE: Right, Germany to Greece.

RAY DALIO: You can print the money.

CHARLIE ROSE: You can`t do it.

RAY DALIO: Or ECB could say I`ll find a way to do it, whatever.

CHARLIE ROSE: Right.

RAY DALIO: Or you can write them down. Those are the choices.

CHARLIE ROSE: So-called hair cut?

RAY DALIO: Hair cut.

CHARLIE ROSE: Machine for you is a theory of the way things work?

RAY DALIO: And so -- yes, that`s right. It`s a description of reality. If I ski and I`m putting my weight on my downhill ski I will make a better turn than if I don`t.

CHARLIE ROSE: And you always make a point that you know what you don`t know and that`s equally valuable.

RAY DALIO: More valuable. I want to say that -- so this is the whole philosophy. I -- I so, know that I can be wrong; and look, we all should recognize that we can be wrong. And if we recognize that we`re wrong and we worry about being wrong than what we should do is have a thoughtful dialogue.

(CROSSTALK)

CHARLIE ROSE: Ok, but that --

(CROSSTALK)

RAY DALIO: So the way I get to success. The way -- it's not what I know. I've acquired some things that I know along the way and they're helpful.

(CROSSTALK)

CHARLIE ROSE: It is -- it is -- it's not what you know but it is --

(CROSSTALK)

RAY DALIO: It's knowing what I don't know or worrying that I won't -- that I'll be wrong that makes me find --

CHARLIE ROSE: Yes.

RAY DALIO: Well, I want people to criticize my point of view -- I want to hold down.

CHARLIE ROSE: Right.

RAY DALIO: Say I have a -- I think this but I may be wrong. And if you can attack what I'm saying -- in other words stress test what I'm saying -- I'll learn.

CHARLIE ROSE: So that everybody knows so therefore people will be free to tell you what they think.

RAY DALIO: Of course.

CHARLIE ROSE: Because you know that it will not be held against you and you can benefit from it.

RAY DALIO: That's right.

CHARLIE ROSE: So anybody in a meeting at your company can stand up and say Ray --

(CROSSTALK)

RAY DALIO: Absolutely.

CHARLIE ROSE: -- you're absolutely wrong.

RAY DALIO: Of course.

CHARLIE ROSE: And you have not been precise, and your assumptions are flawed.

RAY DALIO: Oh it's so essential, right. There's -- the -- the number one principle at our place is that if something doesn't make sense to you, you have the right to explore it, to see if it makes sense.

I don't want people around who do things that they don't -- they don't think makes sense because I'm going to have not-thinking people.

(CROSSTALK)

CHARLIE ROSE: Right.

RAY DALIO: So that they have not only the right, they have obligation. Don't walk away thinking something's wrong.

CHARLIE ROSE: Failure teaches you more than success?

RAY DALIO: Of course. One of my favorite books is "Einstein`s Mistakes."

CHARLIE ROSE: Right. And because it showed you that even Einstein, the most brilliant person of the century in common judgment made mistakes?

RAY DALIO: The great fallacy of all -- I think of all of mankind practically -- I mean that`s a big statement -- but the great fallacy is that people know more than what they do and there`s a discovery process and so when you look at -- that`s the process for learning.

The process for learning is to say "I don`t know." Like, I`m -- I`m totally comfortable being incompetent. If I -- if I -- I like being incompetent. I don`t mind being an incompetent. If I don`t -- how -- how much can you be competent about?

And so that whole notion of do you like learning? Do you like finding out what`s true and building on it without an ego? And that becomes the problem. How many statements do you listen to people that begin "I think this, I think that," where they should be asking "I wonder."

CHARLIE ROSE: What`s in here? And why did you write it; because you wanted people who come to work with you to understand what your own philosophy was about openness, about management about dialogue, about the machine.

RAY DALIO: Yes. So what -- I think every place has to have a culture.

CHARLIE ROSE: Right.

RAY DALIO: And culture is the values. What -- when values are leaving (ph) out and so for example the number one value is it has to make sense to you, we have to talk about it, we have to work it through in a none egotistical kind of way. And so it`s an unusual place and it`s an unusual culture.

CHARLIE ROSE: Are you offended when people sometimes label it a cult?

RAY DALIO: I think that -- I think a cult -- when I think of a cult it means believe this. And where -- it`s the opposite.

CHARLIE ROSE: Yes, you`re taken from on high.

RAY DALIO: In other words a cult mean -- yes. Somebody`s telling you believe this --

(CROSSTALK)

CHARLIE ROSE: Because I said so.

RAY DALIO: And follow it.

CHARLIE ROSE: Because I have a superior wisdom.

RAY DALIO: Ok, it`s exactly the opposite of that, right? The number one principle is "Don`t believe anything; think for yourself." And now let`s go through a process of what is true together. But we can`t stop that with ego. We can`t let that barriers stand in our way. So we`re going to live in a culture in which we can do that.

Ok, now that's opposite of a -- ok, it's a belief system, in other words I'll ask you do you believe that we should operate this way with each other. Ok, if you want to call that a cult, I think it's the opposite of a cult, it means "think," right? Speak up. Don't hide it; don't talk behind people's backs. Its talking behind people's --

(CROSSTALK)

CHARLIE ROSE: Did you have these ideas for a long time or these ideas that you came to through, came to through your own experience and your own living and your own sense of what you read and what you question and you came to this?

RAY DALIO: Of course, of course through my whole life. Now as I say when I started at the markets, the knowing I don't know and the liking to have people challenge me. So when I was young I did like that -- to know. I did know that I'm -- I'm an independent thinker and I know that for an independent thinker and I like to innovate. We like to innovate.

And if you're going to have an innovative thinker, they made --there's a high chance they'll be wrong and if you have to have an independent thinker they're going to have a different point of view than the next person.

So if you're going to have innovation and independent thinking you're going to have to have the ability to disagree, to find out what's wrong and I learned through my whole experience day after day that the cost of being wrong is a terrible thing.

So I worry about being wrong and because I worry about being wrong I want to know what's true.

CHARLIE ROSE: Yes.

RAY DALIO: And we have a community here, I want to know what's true including my strengths and weaknesses so that I know how to deal with them and I want to be in a community of other people who want to do that.

CHARLIE ROSE: Do you believe as --

(CROSSTALK)

RAY DALIO: And by the way that's connected to our performance.

CHARLIE ROSE: You have this dialogue with members of the Tea Party on the Republican side and the members of the President's administration on the other side. What would you tell them about the necessity for revenue in the next ten years?

RAY DALIO: Well, here's what I would be telling them.

CHARLIE ROSE: You've got to tell them more than just talk.

(CROSSTALK)

RAY DALIO: Ok, no but here's what I would say. Can I, Mr. President -- Mr. Alternative Republican --

(CROSSTALK)

CHARLIE ROSE: Mr. Cantor, let's say.

RAY DALIO: Ok, can we first just together sit down in a room, together with whoever you want to bring in, and go through an exercise of finding -- now forget what we should do at the moment -- just find out a discussion of how does the economic machine work? How does the machine work? We`re not going to get to what we`re doing at the moment. And can we agree on how the machine works?

CHARLIE ROSE: Do you think they`ve done that or not?

RAY DALIO: I -- they don`t do that. They don`t -- this is the big thing. Everybody`s looking at what to do and there`s a debate --

(CROSSTALK)

CHARLIE ROSE: Well but no this is about can they do -- when I said do you think they have done that or not? Meaning have they set --

(CROSSTALK)

RAY DALIO: No, no, no.

CHARLIE ROSE: Let`s just test all of our assumptions about what`s necessary in the way the system works and the machine works?

(CROSSTALK)

RAY DALIO: No. No, so that`s the interesting thing. Everybody`s looking about what to do and each approaches it with a bias and we`ve not in a conversation that`s a quality conversation --

(CROSSTALK)

CHARLIE ROSE: And part of the argument comes -- has to do with how you read history too. Those people who were saying --

RAY DALIO: Well, we could do it together.

CHARLIE ROSE: Right, we read history together?

RAY DALIO: And you can at a very nuts and bolts level I can take any period of history and put it through my template. There`s a template I wrote that describes how I think machine works.

(CROSSTALK)

CHARLIE ROSE: Right, right. When you have signed "The Giving Pledge" with Warren Buffett and Bill Gates, have you not?

RAY DALIO: Yes.

CHARLIE ROSE: When you look at the Buffett rule about 00 as a man who has a huge income, how do you feel about the Buffett rule vis-a-vis the way you look at it in terms of whether there needs to be more sacrifice on the part of people who are at the highest level of the economic --

RAY DALIO: So I -- so -- I think the answer to that is probably true.

CHARLIE ROSE: Yes.

RAY DALIO: Ok. I think that -- but I want to be clear what -- I want to say more than this on the subject. I think that there's not enough discussion on people being -- how do we get people to be self-sustaining?

So I want -- so the number one thing I want for my kids, the number one gift I can give my kids or the number one gift that I can give anybody is that you're self-sufficient.

I don't -- it's not a matter of even living standards. It's the notion of if you're self-sufficient you have the freedom to make your own choices --

(CROSSTALK)

CHARLIE ROSE: It's like a difficult parable about giving fish and teaching how to fish.

RAY DALIO: Yes and you can make whatever choices in life you want to make but you're self-sufficient. And on an ethical standard it means that what I'm giving is equivalent to what I'm taking -- self-sufficiency, right?

So what I want to do, what I think that we need to do is say this large percentage of the population, how do we make them useful? How do we make them self-sufficient? Let's all agree on a goal of how to achieve that. So like my kids I don't want to just give money. Let's -- I give -- I'm going to give away a lot more than half of my money.

CHARLIE ROSE: Right.

RAY DALIO: I'd be happy to give that to the government --

CHARLIE ROSE: If?

RAY DALIO: If the government put together programs that were like I'm giving away to charity to certain programs in which I believe the money is sufficiently used to help people.

Let's say for example if the government created a series of programs that said there's this education, teach for America. If I can read these things off, ok, of these types of things --

CHARLIE ROSE: All those you support.

RAY DALIO: Yes or it doesn't have to be those.

CHARLIE ROSE: Yes.

RAY DALIO: It just has to be good.

CHARLIE ROSE: Right.

RAY DALIO: Ok? If the government --

(CROSSTALK)

CHARLIE ROSE: The result has to be self-sufficient?

RAY DALIO: Yes. So for example Arne Duncan --

CHARLIE ROSE: The Secretary of Education.

RAY DALIO: Secretary of Education is a fantastic person for dealing with improving the quality of education in the United States and he -- "Race for the Top" and such.

(CROSSTALK)

CHARLIE ROSE: So you say I`d be happy for my taxes to be raised if I knew that the money would go to be administered by someone like Arne Duncan.

RAY DALIO: Oh, man. Or even create a series of quality -- I will -- I will fund that opportunity. Give -- don`t waste it. Ok, don`t waste it. Put it to good use for education, for opportunity.

So I`m -- I think that what the country`s most important thing to give anybody is opportunity.

CHARLIE ROSE: Let me take this downtown to where there`s an economic protest on Wall Street.

RAY DALIO: Yes.

CHARLIE ROSE: In your sense -- you clearly have read about that and looked at it -- what do you think is at stake there and what do you think they`re saying to us?

RAY DALIO: I think the number one problem is that we`re not having a quality dialogue. So I wish that I could sit down --

(CROSSTALK)

CHARLIE ROSE: So somebody should be listening and --

RAY DALIO: No, no yes we get together, sit here in a room like you with those thoughts and understand how -- how -- what`s going on and what`s true. So for example on that particular case I don`t know that I adequately know the various points of views that are behind it.

CHARLIE ROSE: Right.

RAY DALIO: I certainly understand the frustration. I understand the dilemma. I understand that there`s discontent. Ok --

(CROSSTALK)

CHARLIE ROSE: Yes, discontent about there`s somehow a feeling that --

(CROSSTALK)

RAY DALIO: Right so it seems to me --

CHARLIE ROSE: -- that some people did better because of the way the rules were or some people did better because --

(CROSSTALK)

RAY DALIO: Right.

CHARLIE ROSE: -- they had power to influence Washington and they didn`t.

RAY DALIO: So I think we need to work ourselves through that. I -- I`m sorry --

CHARLIE ROSE: No, no go ahead.

RAY DALIO: Ok, so I think that not only do we have to work ourselves through that, I would say like the question really is also a question that should be dealt -- designated for our legislators, our government. Because if the government makes the rules, people will behind either -- did they break laws or did they not break laws? This is a -- this is a question of how should behavior be managed?

Like I think I -- I think I did everything right, you know I -- I did well for my customers. My customers are pension funds, teachers. I did well when others didn`t and I`m going to say that they are very grateful.

We have a wonderful relationship, 15-year wonderful relationship. That -- what happens is I happen to earn one-fifth of the profits.

CHARLIE ROSE: Right.

RAY DALIO: So then --

CHARLIE ROSE: You make 20 percent.

RAY DALIO: Ok, I earn 20 percent of the profits.

(CROSSTALK)

CHARLIE ROSE: And you take a two percent fee for doing it.

RAY DALIO: What -- yes that covers my overhead and a bit more.

CHARLIE ROSE: Right.

RAY DALIO: But anyway, I earn this money as a result. Very similar to I would say, any of those companies you mentioned, the eBay and so on and so forth.

CHARLIE ROSE: Right.

RAY DALIO: I pay about one-third in taxes. I pay about one -- I give away about one-third. And I`m -- and that`s what I do and I follow the law. And if I`m doing something that is incorrect, that they think is incorrect I`d like to know that and I would also like to say should those laws -- is that right or wrong.

CHARLIE ROSE: You want the people who work for you to tell you exactly what they believe and to be able to document the fact that it`s not just what they believe but it`s what they have discovered.

And you have to test those ideas in the marketplace of your own firm before you go off and act on those assumptions, correct?

RAY DALIO: Yes.

CHARLIE ROSE: So what is it telling you now if Greece defaults? And that has a contagion ability to leap across the Atlantic and have some influence on the U.S. economy. What is it telling you, you know, about whether China, for example can maintain the level of economic growth it`s had and avoid the kind of social conflicts that might exist in that society.

What does it tell you about emerging nations and what it is that -- what impact they will have on commodity prices and what does it tell you about the future of the dollar as a currency? All of those kinds of issues?

RAY DALIO: You've got a bunch of questions.

CHARLIE ROSE: No. I know I did.

(CROSSTALK)

RAY DALIO: And also I'll do the best I can.

CHARLIE ROSE: In my remaining minute. Go ahead.

RAY DALIO: Ok, I would want to say that there is -- there are two worlds. **There's debtor-developed countries and there's emerging creditor countries, classically the United States and China.**

CHARLIE ROSE: Right.

RAY DALIO: One is a creditor, one a debtor. They are getting we're still borrowing, we're still in debt, we're still -- they're still earning. Then those two worlds can be broken into two -- those that can print money and those that can't print money.

So now when I'm giving you the total answer in my remaining minutes, Europe is -- can't, a lot of it, can't print money. Therefore it will have to deal with whether there's a transfer of wealth, there's a limit to that transfer of wealth.

And so we are going to deal with the question of whether they would print money or get the haircuts. I think they'll do both.

CHARLIE ROSE: Right.

RAY DALIO: **When looking at China, China because they can't raise interest rates because of their existing monetary policy, is that they can't control credit growth in the normal ways that we control credit growth. So there's a credit bubble emerging there and as -- in other words there's a quality of lending and it's bypassing the credit system.**

And that's something that the Chinese will need to get a control of because it's a dangerous thing. And so that creates their risk. If I take then the United States we're in a position in which there is this deleveraging. **Deleveraging is risky so for example banks are leveraged about 12 to 15, 17 times.**

CHARLIE ROSE: Right.

RAY DALIO: 15 times is a round number it depends on the bank. They're leveraged 15-1 and if they go down by one-fifteenth, we have a capital problem and we're in a deleveraging. Those problems -- bank crisis that have existed every ten years normally we are -- we can have a problem.

We don't have the ability to have the same effect of monetary policy as we did before because a central bank -- it can buy a bond. It can -- therefore buy the bond. It gives that money to somebody who sold the bond and they were going to buy something like a bond. They're -- the -- the getting it in the hands of somebody who spends it on cars and houses

who really owes probably too much in debt is not an easy thing to do for monetary policy. So monetary policy is not as effective and then we have this social tension.

So we should be able to -- there`s this downward pressure of the deleveraging. We should be able to grow at a rate that`s comparable to our income growth if we are -- if we keep orderly and we -- and we work this through and everything is orderly. **That means something between like 1.5 percent or 2 percent we should be growing at maybe about the 2 percent vicinity.**

**The problem with the 2 percent vicinity is that the employment rate remains the same or can trend higher. That produces social pressures, that produces tension which itself means that you can have a situation analogous to that which is existing in Greece and more social pressure you create the more tension that is existing and emerging in various ways, not just a Wall Street piece. But it`s existing in Spain.**

CHARLIE ROSE: Right.

RAY DALIO: So if we can keep orderly and not argue with each other and not do disruptive things and we don`t go down ok and grow at that two percent you know maybe then it will be ok.

If we have disruption and we are not able to have a monetary policy and we can`t have fiscal stimulation and you have a problem of what do you do -- you can`t recapitalize the banks. I mean if you should happen to need to recapitalize the banks you can`t have a TARP program again.

CHARLIE ROSE: Politically not feasible.

RAY DALIO: Politically not feasible.

So you have to have a plan. You need to be thoughtful, I think, how do you create that plan and not only it`s a theoretical thing when I say how do you make a plan because you have to be able to have agreement to implement the plan. You can`t have people at odds.

As I say sometimes to policymakers my job is very -- is much easier than their job. My job is that I just have to pretty much anticipate what`s going to happen and be one step ahead. That`s not an easy job but it`s an easier job than policymakers who have to do that. They have to then find a solution for the bad stuff not happening. That`s not easy to find solutions and then even if they had solutions they have to get that solution through the political system. In which there`s -- there`s -- everybody`s saying that you can`t do that, whatever that is and everybody blaming each other.

CHARLIE ROSE: Are you optimistic or pessimistic?

RAY DALIO: I suppose I`m -- if I was -- **I`m concerned**. I think it`s a test of us. It`s a test of us in our society. It`s a test of us.

CHARLIE ROSE: On that note thank you for coming.

RAY DALIO: My pleasure, thank you for having me.