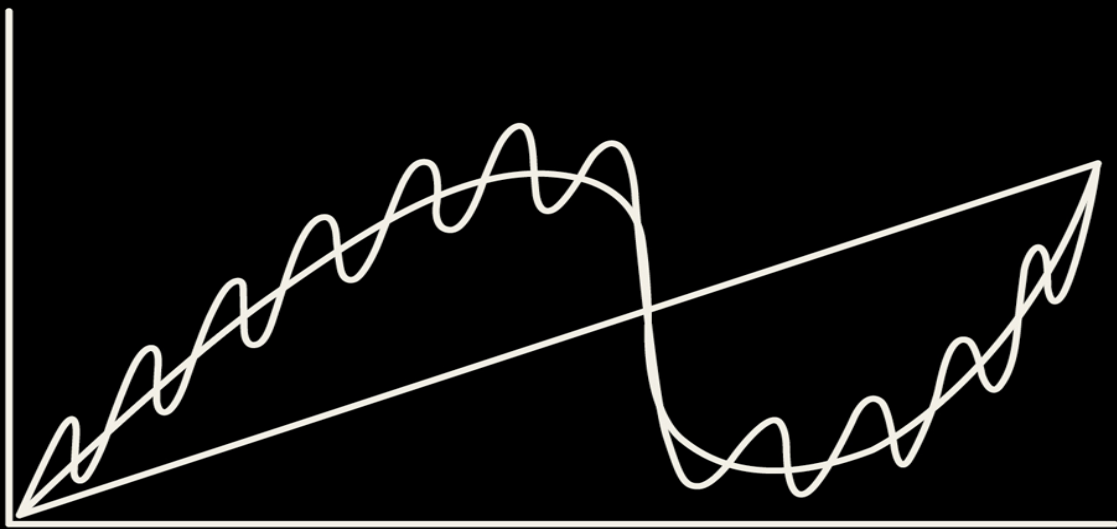


**Principles for Dealing with**  
**THE CHANGING**  
**WORLD ORDER**



**Why Nations**  
**Succeed and Fail**

**RAY DALIO**

**AUTHOR OF THE #1 NEW YORK TIMES BESTSELLER *PRINCIPLES***  
**AND FOUNDER OF THE WORLD'S LARGEST HEDGE FUND**

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**To my grandchildren and those of their generation who will be  
participants in the continuation of this story: may the Force of  
Evolution be with you.**

## WITH APPRECIATION

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# HOW TO READ THIS BOOK

- In writing this book I wrestled with whether to make it complete or concise and decided to try to make it both by bolding passages to create a quick-read version. **If you want to read the concise version, read what is in bold, and if you want more, it's all available to you.**
- I also wanted to convey some principles that are timeless and universal truths for dealing with reality well, which I denoted by ● ***putting a red dot in front of them and italicizing.***
- For some subjects, I had embellishments that I thought would be interesting to some but not all readers, so I chose to present them as an addendum to the respective chapter. Feel free to read or skip as you like.
- At the back of this book, you can find a glossary that explains the abbreviations you see in some of the charts.
- Finally, to keep this book from becoming much too long, there is also a lot of supplemental material available at [economicprinciples.org](http://economicprinciples.org), including reference material, citations, more data on the indices, etc.

# INTRODUCTION

**The times ahead will be radically different from those we've experienced in our lifetimes, though similar to many times in history.**

How do I know that? Because they always have been.

Over the last 50 or so years, in order to handle my responsibilities well, I have needed to understand the most important factors that go into making countries and their markets succeed and fail. I learned that to anticipate and handle situations that I had never faced before I needed to study as many analogous historical cases as possible to understand the mechanics of how they transpired. That gave me principles for dealing with them well.

**A few years ago, I observed the emergence of a number of big developments that hadn't happened before in my lifetime but had occurred numerous times in history.** Most importantly, I was seeing the confluence of huge debts and zero or near-zero interest rates that led to massive printing of money in the world's three major reserve currencies; big political and social conflicts within countries, especially the US, due to the largest wealth, political, and values gaps in roughly a century; and the rising of a new world power (China) to challenge the existing world power (the US) and the existing world order. The most recent analogous time was the period from 1930 to 1945. This was very concerning to me.

**I knew that I couldn't really understand what was happening and deal with what would be coming at me unless I studied past analogous periods, which led to this study of the rises and declines of empires, their reserve currencies, and their markets. In other words, to develop an understanding of what is happening now and might happen over the next few years, I needed to study the mechanics behind similar cases in history—e.g., the 1930–45 period, the rise and fall of the**

**Dutch and British empires, the rise and fall of Chinese dynasties, and others.**<sup>1</sup> I was in the midst of doing those studies when the COVID-19 pandemic struck, which was another one of those big events that never happened in my lifetime but had happened many times before. Past pandemics became a part of this study and showed me that surprising acts of nature—e.g., diseases, famines, and floods—need to be considered as possibilities because those surprising big acts of nature that rarely come along were by any measure even more impactful than the biggest depressions and wars.

**As I studied history, I saw that it typically transpires via relatively well-defined life cycles, like those of organisms, that evolve as each generation transitions to the next.** In fact, the history and the future of humanity can be seen as just the aggregate of all the individual life stories evolving through time. I saw these stories flow together as one all-encompassing story from the beginning of recorded history up to this moment, with the same things happening over and over again for basically the same reasons, while still evolving. **By seeing many interlinking cases evolve together, I could see the patterns and cause/effect relationships that govern them and could imagine the future based on what I learned.** These events happened many times throughout history and were parts of a cycle of rises and declines of empires and most aspects of empires—e.g., of their education levels, their levels of productivity, their levels of trade with other countries, their militaries, their currencies and other markets, etc.

Each of these aspects or powers transpired in cycles, and they were all interrelated. For example, nations' levels of education affected their levels of productivity, which affected their levels of trade with other countries, which affected the levels of military strength required to protect trade routes, which together affected their currencies and other markets, which affected many other things. Their movements together made up the economic and political cycles that occurred over many years—e.g., a very successful empire or dynasty could have its cycle last 200 or 300 years. **All the empires and dynasties I studied rose and declined in a classic Big Cycle that has clear markers that allow us to see where we are in it.**

**This Big Cycle produces swings between 1) peaceful and prosperous periods of great creativity and productivity that raise living standards a lot and 2)**



**depression, revolution, and war periods when there is a lot of fighting over wealth and power and a lot of destruction of wealth, life, and other things we cherish.** I saw that the peaceful/creative periods lasted much longer than the depression/revolution/war periods, typically by a ratio of about 5:1, so one could say that the depression/revolution/war periods were transition periods between the normally peaceful/creative periods.

While the peaceful/creative periods are certainly more enjoyable for most people, all these realities have their purposes for advancing evolution, so in the broader sense they are neither good nor bad. The depression/revolution/war periods produce a lot of destruction, but like cleansing storms, they also get rid of weaknesses and excesses (such as too much debt) and produce a new beginning in the form of a return to fundamentals on a sounder footing (albeit painfully). After the conflict is resolved, it is clear who has what power, and because most people desperately want peace, there is a resolution that produces new monetary, economic, and political systems—together, a new world order—and fosters the next peaceful/creative period. Within this Big Cycle are other cycles. For example, there are long-term debt cycles that last about 100 years and short-term debt cycles that last about eight years. This short-term cycle also has within it longer, prosperous expansion periods that are interrupted by shorter recession periods, and within these cycles are shorter cycles, and so on.

**Before I get your head spinning with all this cycle stuff, the main thing I want to convey is that when the cycles align, the tectonic plates of history shift, and the lives of all people change in big ways.** These shifts will sometimes be terrible and sometimes terrific. They certainly will happen in the future, and most people will fail to anticipate them. In other words, **● the swinging of conditions from one extreme to another in a cycle is the norm, not the exception.** It was a very rare country in a very rare century that didn't have at least one boom/harmonious/prosperous period and one depression/civil war/revolution period, so we should expect both. Yet, most people throughout history have thought (and still think today) that the future will look like a slightly modified version of the recent past. That is because **● the really big boom periods and the really big bust periods, like many things, come along about once in a lifetime and so they are surprising unless one has studied the patterns of history over many generations.**

Because the swings between great and terrible times tend to be far apart ● ***the future we encounter is likely to be very different from what most people expect.***

For example, my dad and most of his peers who went through the Great Depression and World War II never imagined the post-war economic boom because it was more different from than similar to what they had experienced. I understand why, given those experiences, they wouldn't think of borrowing and putting their hard-earned savings into the stock market, so it's understandable that they missed out on profiting from the boom. Similarly, I understand why, decades later, those who only experienced debt-financed booms and never experienced depression and war would borrow a lot in order to speculate and would consider depression and war implausible. The same is true with money: money used to be "hard" (i.e., linked to gold) after World War II until governments made money "soft" (i.e., fiat) to accommodate borrowing and prevent entities from going broke in the 1970s. As a result, most people at the moment of my writing this book believe that they should borrow more, even though borrowing and debt-financed booms have historically led to depressions and internal and external conflicts.

Understanding history in this way also raises questions whose answers provide us with valuable clues on what the future will be like. For example, throughout my life, the dollar has been the world's reserve currency, monetary policy has been an effective tool for stimulating economies, and democracy and capitalism have been widely regarded as the superior political and economic systems. Anyone who studies history can see that ● ***no system of government, no economic system, no currency, and no empire lasts forever, yet almost everyone is surprised and ruined when they fail.*** Naturally I asked myself how would I and the people I care about know when we are entering one of these depression/revolution/war periods and how would we know how to navigate them well. Because my professional responsibility is to preserve wealth regardless of the environment, I needed to develop an understanding and strategy that would have worked throughout history, including through these sorts of devastating times.

The purpose of this book is to pass along what I learned that has helped me and that I believe might help you. I present it for your consideration.

## HOW I LEARNED TO ANTICIPATE THE FUTURE BY STUDYING THE PAST

While it might seem odd that an investment manager who is required to make investment decisions on short time frames would pay so much attention to long-term history, through my experiences I have learned that I need this perspective. My approach isn't an academic one created for scholarly purposes; it is a very practical one that I follow in order to do my job well. The game I play requires me to understand what is likely to happen to economies better than the competition does, so I have spent roughly 50 years closely observing most major economies and their markets—as well as their political conditions, since those affect both—trying to understand what is happening well enough to bet on it. From my years of wrestling with the markets and trying to come up with principles for doing it well, I've learned that **one's ability to anticipate and deal well with the future depends on one's understanding of the cause/effect relationships that make things change, and one's ability to understand these cause/effect relationships comes from studying how they have changed in the past.**

I arrived at this approach after the painful learning that the biggest mistakes in my career came from missing big market moves that hadn't happened in my lifetime but had happened many times before. The first of these big surprises for me came in 1971 when I was 22 years old and clerking on the floor of the New York Stock Exchange as a summer job. I loved it because it was a fast-paced game of making and losing money played on a trading floor with people who liked to have a blast with each other—so much so that traders used to have water pistol fights right on the trading floor. I was engrossed in this game of watching the big developments in the world and betting on how they would drive the markets. Sometimes it could be dramatic.

On a Sunday night—August 15, 1971—President Richard Nixon announced that the US would renege on its promise to allow paper dollars to be turned in for gold. As I listened to Nixon speak, I realized that the US government had defaulted on a promise and that money as we knew it had ceased to exist. That couldn't be good, I thought. So on Monday morning I walked onto the floor of the exchange expecting pandemonium as stocks took a dive. There was pandemonium all right, but not the sort I expected. Instead of falling, the stock market jumped about 4 percent as the dollar plummeted. I was

shocked. That's because I hadn't experienced a currency devaluation before. In the days that followed, I dug into history and saw that there were many cases of currency devaluations that had had similar effects on stock markets. By studying further, I figured out why, and I learned something valuable that would help me many times in my future. It took a few more of those painful surprises to beat the realization into my head that I needed to understand all the big economic and market moves that had happened in the last 100-plus years and in all major countries.

In other words, if some big and important event had happened in the past (like the Great Depression), I couldn't say for sure that it wouldn't happen to me, so I had to figure out how it worked and be prepared to deal with it. Through my research I saw that there were many cases of the same types of things happening (e.g., depressions) and that by studying them just like a doctor studies many cases of a particular type of disease, I could gain a deeper understanding of how they work. I studied these qualitatively and quantitatively through my experiences, by speaking with preeminent experts, reading great books, and digging into statistics and archives with my great research team.

From that learning came a visualization of an archetypal sequence of how rises and declines in wealth and power typically happen. The archetype helps me see the cause/effect relationships that drive how these cases typically progress. With that archetypal template specified, I can study deviations from it to try to explain them. Then I put these mental models into algorithms both to monitor conditions relative to my archetypes and to help me make decisions based on them. This process helps me refine my understanding of the cause/effect relationships to the point where I can create decision-making rules—i.e., principles for dealing with my realities—in the form of “if/then” statements—i.e., if X happens, then make Y bet. Then I watch actual events transpire relative to that template and what we are expecting. I do these things in a very systematic way with my partners at Bridgewater Associates. If events are on track, we continue to bet on what typically comes next; if events start to deviate from our template, we try to understand why and course correct. This process has helped me both understand the big cause/effect sequences that typically drive their progressions and gain a lot of humility. I do this continuously and will continue to do it until I die, so what you are reading is a work in progress.<sup>2</sup>

## THIS APPROACH AFFECTS HOW I SEE EVERYTHING

Seeing events in this way helped shift my perspective from being caught in the blizzard of things coming at me to stepping above them to see their patterns through time.<sup>3</sup> The more related things I could understand in this way, the more I could see how they influence each other—e.g., how the economic cycle works with the political one—and how they interact over longer periods of time.

**I believe that the reason people typically miss the big moments of evolution coming at them in life is because they experience only tiny pieces of what's happening. We are like ants preoccupied with our jobs of carrying crumbs in our very brief lifetimes instead of having a broader perspective of the big-picture patterns and cycles, the important interrelated things driving them, where we are within the cycles, and what's likely to transpire.** From gaining this perspective, I've come to believe that throughout history there are only a limited number of personality types<sup>4</sup> going down a limited number of paths, which lead them to encounter a limited number of situations to produce a limited number of stories that repeat over time. The only things that change are the clothes the characters are wearing, the languages they are speaking, and the technologies they're using.

## THIS STUDY AND HOW I CAME TO DO IT

**One study led to another, which led me to do this study.** More specifically:

- **Studying money and credit cycles throughout history made me aware of the long-term debt and capital markets cycle (which typically lasts about 50 to 100 years), which has led me to view what is happening now in a very different way than if I hadn't gained that perspective.** For example, interest rates hit 0 percent and central banks printed money and bought financial assets in response to the 2008 financial crisis. I had studied that happening in the 1930s, which helped me see how and why central bank actions of creating a lot of money

and credit/debt 90 years ago pushed financial asset prices up, which widened the wealth gap and led to an era of populism and conflict. We are now seeing the same forces at play in the post-2008 period.

- In 2014, I wanted to forecast economic growth rates in a number of countries because they were relevant to our investment decisions. I used the same approach of studying many cases to find the drivers of growth and come up with timeless and universal indicators for anticipating countries' growth rates over 10-year periods. Through this process, I developed a deeper understanding of why some countries did well and others did poorly. I combined these indicators into gauges and equations that we used (and continue to use) to produce 10-year growth estimates across the 20 largest economies. Besides being helpful to us, I saw that this study could help economic policy makers because, by seeing these timeless and universal cause/effect relationships, they could know that if they changed X, it would have Y effect in the future. I also saw how these 10-year leading economic indicators (such as the quality of education and the level of indebtedness) were worsening for the US relative to big emerging countries such as China and India. This study is called "Productivity and Structural Reform: Why Countries Succeed and Fail, and What Should Be Done So Failing Countries Succeed." (This study, and every other study mentioned here, is available for free at [economicprinciples.org](http://economicprinciples.org).)
- Soon after the Trump election in 2016 and with increases in populism in developed countries becoming more apparent, I began a study called "Populism: The Phenomenon." That highlighted for me how gaps in wealth and values led to deep social and political conflicts in the 1930s that are similar to those that exist now. It also showed me how and why populists of the left and populists of the right are more nationalistic, militaristic, protectionist, and confrontational—and what such approaches led to. I saw how powerful the conflict between the economic/political left and right could become and the significant impact this conflict has on economies, markets, wealth, and power, which gave me a better understanding of events that were and still are transpiring.
- From doing these studies, and from observing numerous things that were happening around me, I saw that America was experiencing very large gaps in people's economic conditions, which were obscured by looking only at economic

averages. So I divided the economy into quintiles, looking at the top 20 percent of income earners, the next 20 percent, and so on down to the bottom 20 percent, and examined the conditions of these populations individually. This resulted in two studies. In “Our Biggest Economic, Social, and Political Issue: The Two Economies—The Top 40% and the Bottom 60%,” I saw the dramatic differences in conditions between the “haves” and the “have-nots,” which helped me understand the greater polarity and populism I saw emerging. Those findings, as well as the close contact my wife and I were having through her philanthropic work with the reality of wealth and opportunity gaps in Connecticut communities and their schools, led to the research that became my study called “Why and How Capitalism Needs to Be Reformed.”

- At the same time, through my many years of international dealings in and research on other countries, I saw huge global economic and geopolitical shifts taking place, especially in China. **I have been going to China for 37 years and am lucky enough to have become well-acquainted with the thinking of top economic policy makers and a broad range of others. Having this direct contact has helped me see up close the reasoning behind their actions, which have produced remarkable advances.** It is a fact that these people have led China to become an effective competitor with the US in production, trade, technology, geopolitics, and world capital markets, so how they’ve done this must be examined and understood without bias.

**My most recent study, on which this book is based, came about because of my need to understand three big forces that hadn’t happened before in my lifetime and the questions they prompt:**

- 1. The Long-Term Debt and Capital Markets Cycle: At no point in our lifetimes have interest rates been so low or negative on so much debt as they are as of this writing. The value of money and debt assets is being called into question by the supply-and-demand picture for them. In 2021, more than \$16 trillion of debt was at negative interest rates and an unusually large amount of additional new debt will soon need to be sold to finance**



**deficits.** This is happening at the same time as huge pension and healthcare obligations loom large on the horizon. These circumstances raised some interesting questions for me. Naturally I wondered why anyone would want to hold debt yielding a negative interest rate and how much lower interest rates could be pushed. I also wondered what will happen to economies and markets when they can't be pushed lower and how central banks could be stimulative when the next downturn inevitably comes. Would central banks print a lot more currency, causing its value to go down? What would happen if the currency that the debt is denominated in goes down while interest rates are so low? These questions in turn led me to ask what central banks would do if investors flee debt denominated in the world's major reserve currencies (i.e., the dollar, the euro, and the yen), which would be expected if the money that they are being paid back in is both depreciating in value and paying interest rates that are so low.

**A reserve currency is a currency that is accepted around the world for transactions and savings. The country that gets to print the world's primary currency (now the US, but as we'll see this has changed through history) is in a very powerful position, and debt that is denominated in the world's reserve currency (i.e., US dollar-denominated debt now) is the most fundamental building block for the world's capital markets and the world's economies.** It is also the case that all reserve currencies in the past have ceased to be reserve currencies, often coming to traumatic ends for the countries that enjoyed this special power. So I also began to wonder whether, when, and why the dollar will decline as the world's leading reserve currency, what might replace it, and how that would change the world as we know it.

- 2. The Internal Order and Disorder Cycle: Wealth, values, and political gaps are now larger than at any other point during my lifetime.** By studying the 1930s and other prior eras when polarization was also high, I learned that which side wins out (i.e., left or right) will have very big impacts on economies and markets. So naturally I wondered what today's gaps will lead to. My examinations of history have taught me that ● **when wealth and values gaps are large and there is an economic downturn, it is likely that there will be a lot of conflict about how to**



**divide the pie.** How will people and policy makers interact with each other when the next economic downturn arrives? I was especially concerned because of the limitations on central banks' abilities to cut interest rates adequately to stimulate the economy. In addition to these traditional tools being ineffective, printing money and buying financial assets (now called "quantitative easing") also widens the wealth gap because buying financial assets pushes up their prices, which benefits the wealthy who hold more financial assets than the poor do. How would that play out in the future?

- 3. The External Order and Disorder Cycle: For the first time in my life, the United States is encountering a true rival power. (The Soviet Union was only a military rival, never a significant economic one.) China has become a rival power to the United States in most ways and is becoming strong in most ways at a faster rate.** If trends continue, China will be stronger than the United States in the most important ways that an empire becomes dominant. Or at the very least, it will be a worthy competitor. I have seen both countries up close for most of my life, and I now see how conflict is increasing fast, especially in the areas of trade, technology, geopolitics, capital, and economic/political/social ideologies. I can't help but wonder how these conflicts, and the changes in the world order that will result from them, will transpire in the years ahead and what effects that will have on us all.

To gain the perspective I needed about these factors and what their confluence might mean, I looked at the rises and declines of all the major empires and their currencies over the last 500 years, focusing most closely on the three biggest ones: the US Empire and the US dollar, which are most important now; the British Empire and the British pound, which were most important before that; and the Dutch Empire and the Dutch guilder before that. I also focused less closely on the six other significant, though less financially dominant, empires of Germany, France, Russia, Japan, China, and India. Of those six, I gave China the most attention and looked at its history back to the year 600 because 1) China was so important throughout history, 2) it's so important now and will likely be even more important in the future, and 3) it provides many cases to look at of dynasties

rising and declining, which helped me better understand the patterns and the forces behind them. In these cases, a clearer picture emerged of how other influences, most importantly technology and acts of nature, played significant roles.

**From examining all these cases across empires and across time, I saw that the great empires typically lasted roughly 250 years, give or take 150 years, with big economic, debt, and political cycles within them lasting about 50 to 100 years.** By studying how these rises and declines worked individually, I could see how they worked on average in an archetypical way, and then I could examine how they worked differently and why. Doing that taught me a lot. My challenge now is trying to convey it to you.

You can miss seeing these cycles if you watch events too close up or if you are looking at the averages rather than the individual cases. Almost everyone talks about what is happening now and nobody talks about these big cycles, even though they are the biggest drivers of what is happening now. When looking at the whole or at averages, you don't see the individual cases of rises and declines, which are far greater. For example, looking at a stock market average (e.g., the S&P 500) and not looking at individual companies will lead you to miss the important fact that almost all the individual cases that make up the average have periods of birth, growth, and death. If you experienced any one of these, you would have had a hell of a ride up followed by a hell of a ride down into ruin unless you diversified and rebalanced your bets (e.g., the way it is done by S&P to create the index) or were able to discern the rising periods from the declining periods ahead of the crowd so as to be able to move well. By "move" I don't just mean move your position in markets—in the case of rising and falling empires, I mean "move" in nearly everything, including where you live.

This leads me to my next point: ● **to see the big picture, you can't focus on the details.** While I will attempt to paint this big, sweeping picture accurately, I can't paint it in a precise way. Also, in order for you to see it and understand it, you can't try to do so in a precise way. That is because we are looking at mega-macro cycles and evolution over very long time frames. To see them, you will have to let go of the details. Of course, when the details are important, which they often are, we will need to go from the very big imprecise picture to a more detailed one.

Looking at what happened in the past from this mega-macro perspective will radically alter how you see things. For example, because the span of time covered is so large, many of the most fundamental things that we take for granted and many of the terms we use to describe them do not exist over the full period of time. As a result, I will be imprecise in my wording so that I can convey the big picture without getting tripped up on what might seem to be big things but, in the scope of what we are looking at, are relative details.

For example, I wrestled with how much I should worry about the differences between countries, kingdoms, nations, states, tribes, empires, and dynasties. Nowadays we think mostly in terms of countries. However, countries as we know them didn't come into existence until the 17th century, after the 'Thirty Years' War in Europe. In other words, before then there were no countries—generally speaking, though not always, there were states and kingdoms instead. In some places, kingdoms still exist and can be confused with being countries, and in some places they are both. Generally speaking, though not always, kingdoms are small, countries are bigger, and empires are biggest (spreading beyond the kingdom or the country). The relationships between them are often not all that clear. The British Empire was mostly a kingdom that gradually evolved into a country and then into an empire that extended way beyond England's borders, so that its leaders controlled broad areas and many non-English peoples.

It's also the case that each of these types of singularly controlled entities—states, countries, kingdoms, tribes, empires, etc.—controls its population in different ways, which further confuses things for those who seek precision. For example, in some cases empires are areas that are occupied by a dominant power, while in other cases empires are areas influenced by a dominant power through threats and rewards. The British Empire generally occupied the countries in its empire while the American Empire has controlled more via rewards and threats—though that is not entirely true, as at the time of this writing the US has military bases in at least 70 countries. Though it is clear that there is an American Empire, it is less clear exactly what is in it. Anyway, you get my point—that trying to be precise can stand in the way of conveying the biggest, most important things. So you are going to have to bear with my sweeping imprecisions. You will also understand why I will henceforth imprecisely call these entities countries, even though not all of them were countries, technically speaking.

Along these lines, some will argue that my comparing different countries with different systems in different times is impossible. While I can understand that perspective, I want to assure you that I will seek to explain whatever major differences exist and that the timeless and universal similarities are much greater than the differences. It would be tragic to let the differences stand in the way of seeing the similarities that provide us with the lessons of history we need.

## **REMEMBER THAT WHAT I DON'T KNOW IS MUCH GREATER THAN WHAT I KNOW**

In asking these questions, from the outset I felt like an ant trying to understand the universe. I had many more questions than answers, and I knew that I was delving into numerous areas that others have devoted their lives to studying. One of the benefits of my circumstances is that I can speak with the world's best scholars who have studied history in depth as well as with the people who are in, or have been in, the positions of making history. This allowed me to triangulate with the best of them. While each had in-depth perspectives on some pieces of the puzzle, none had the holistic understanding that I needed to adequately answer all my questions. But by speaking with all of them and triangulating what I learned with the research I did myself, the pieces started to fall into place.

The people and tools at Bridgewater were also invaluable to this research. Because the world is a complicated place, playing the highly competitive game of making sense of the past, processing what's going on in the present, and using that information to bet on the future requires hundreds of people and great computer power. For example, we actively consume about a hundred million data series that are run through our logic frameworks that systematically convert this information into trades in every market we can trade within every major country in the world. I believe that our ability to see and process information about all major countries and all major markets is unparalleled. It was through this machine that I could see and attempt to understand how the world I'm living in works and I relied on it in doing this study.

Still, I can't be sure that I'm right about anything.