THOUGHTS FROM THE FRONTLINE

Turning Time, Part 2

By John Mauldin | August 5, 2023

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My friend Neil Howe titled his latest book *The Fourth Turning Is Here* because, well, the Fourth Turning is here. It is no longer the decades-away crisis he and the late William Strauss described in their 1990s books. As noted last week, each "turning" is generally 20 to 25 years. We are in the last half of what is the most disruptive and violent of the generational periods.

In conversations with readers (I would say ordinary but none of ***my*** readers are ordinary), I hear deep concern we are headed for a period of social and perhaps even kinetic conflict. The extreme partisanship, not just in the US but around the world, seems to be pointing to just such a crisis.

Historically these crises are followed by a period of progress and social cohesion, which is hard to imagine now. But getting to that halcyon time requires us to endure the problems which are creating the crisis. Perhaps this is naive, but I hope the worst we have to deal with is a resurrection of a lost species called bond vigilantes, and a resolution of the debt and economic crisis coming later this decade.

In last week's letter I described the generational archetypes behind the cycle that brought us here. We are at the Fourth Turning because a "Prophet" generation—the Baby Boomers—is beginning to leave the stage. They established the conditions that brought us here and, to a great extent, will determine how the rest of us make this turn. Neil has some specific and perhaps surprising expectations for their final act. Today I'll describe some of it for you.

First, let me underline that word "some." Over these few letters I'll write the equivalent of maybe 25 printed pages about the Fourth Turning. The hardcover version of *The Fourth Turning Is Here* has 592 pages. Some of that is footnotes and such, but the book goes far, far deeper into the outlook than I can. You really should make it this summer's main read. There's an audio version if you prefer listening.

Nearly everywhere I go, I am asked about how we will get through the end of this decade with all the problems we have. The best thing I can tell you right now is read this book and some of the others we will be reviewing so that you can understand the social and political problems we are facing, and then find your own personal path through them.

In a sense, the letters I will hopefully be writing the rest of this decade will be part of your journey as we explore together how to navigate this tumultuous time.

Counterculture Values

To understand the Baby Boom generation, we first have to identify it. The definitions vary by a few years at each end, spanning roughly the end of World War II until the early 1960s. Neil has a simpler approach:

> "If you remember World War II as a child, were out of college when JFK was shot, or learned about Woodstock as something 'kids' were doing, you're too old to be a Boomer—you belong to the Silent Generation.
>
> "But if you can't recall the moment JFK was shot, nor recall Jim, Jimi and Janis when they were still alive, you're too young—you belong to Generation X."

That makes me a confirmed Boomer. Neil is one, too, but keeps a clinical detachment in analyzing our generation. It's a more complex description than you might think. He points to a significant difference *within* the Baby Boom generation.

> "First-wave Boomers started out more like the Silent: They followed the rules more carefully, studied harder, went to school longer, and got married earlier. Late-wave Boomers—who hit the social and family turmoil of the sixties at progressively younger ages—got into more trouble, graduated less often from college, and married much later (if at all)."

Interestingly, this difference extends to economic outcomes. Early Boomers who launched their careers in the "go-go" years before about 1973 had generally more prosperous lives than those who got started in the subsequent inflationary/recession period.

Nevertheless, the entire generation has common threads. In the book, Neil explores three common "collective personality traits" defining the generation. The first is individualism, the idea they didn't really need institutions, marriages, families, or even each other. That led directly to the 1960s cultural rebellion and, later, an economic and political rebellion against taxes, regulation, and "big government."

This happened in prior Fourth Turnings as well. Neil describes the post-Civil War period (emphasis mine):

> "By the early 1870s, America had taken the central lesson of the Civil War—that size, efficiency, and planning always wins—and applied it triumphantly to national life. The integration of people into cooperative (if also competitive) civic and economic 'machines' became a popular metaphor for progress. At a rate unequaled before or since, civic leaders began investing in colossal municipal waterworks and bridges, industrialists in their gigantic factories and distribution networks. Nationwide unions of farmers and workers were launched. The local family business seemed doomed. 'The day of combination is here to stay,' wrote John D. Rockefeller in 1880. '**Individualism has gone, never to return.**'"

Rockefeller was wrong. That individualism always returns as part of the cycle. Yet what is deeply ingrained into me and others in my Boomer generation (individualism), that which we see as a bedrock of civil society, will somehow (I admit I don't understand how but history suggests it will) morph into a cohesive society.

The second Boomer trait is an attraction to risk—with their health, their marriages, and their money. He quotes data about motorcycle accidents. In the 1970s, motorcycle deaths were usually people under 30. Since the early 2010s they're mostly people over 50. That same attitude shows up in financial choices. Despite generally high earnings, large numbers of Boomers are reaching retirement age with little savings.

Boomers aged 65 and older have the most saved (as expected); but just 36% of that age group have $100,000 or more saved, and almost 24% haven't saved anything at all. No wonder they deeply care about Social Security, Medicare, and other government benefits.

The third Boomer personality trait was about values. Boomers like to classify the world into a simple right/wrong, good/bad division. They created a "counterculture" to judge their parents then, upon reaching that same age, launched "culture wars" in the 1990s and 2000s, largely against each other. They try to measure success with values rather than material achievements and want subsequent generations to do the same.

Neil observes this attitude made Boomers more tolerant of income and wealth inequality. But holding that belief while your generation also ironically holds most of the wealth and power (concentrated in an even smaller group) leads, unsurprisingly, to conflict. Neil talks about the Boomer governing style.

> "On their watch, 'visionary' CEOs have pocketed trillions through debt-financed LBOs, stock buybacks, and various mark-to-market repackagings. With even Democratic leaders like President Bill Clinton agreeing that 'the era of big government is over,' few Boomer political leaders have bothered themselves much with managing the big government that remains in operation. Liabilities grow, programs overlap, and infrastructure crumbles. **Meanwhile, Boomer leaders remain vastly more interested in rightness and wrongness.**"

All this has a lot to do with our current debt problems. To understand why, we need to turn another direction for a minute.

Clogged Plumbing

I know a lot of economists and serious financial analysts. I talk to and/or email/Zoom economists almost every day. And when the goal is to understand how the global financial system functions *as a system*, none explains it better than Michael Pettis.

To Michael, it's basically plumbing. We have a vast network of pipes through which money flows, and along which are various control mechanisms that regulate the flow, much like valves and pumps regulate water. Close one and the water will just go somewhere else. Close too many and pressure will build, eventually bursting the pipes. If you know where the pipes go and what obstacles exist, you can predict what the water will do.

In a *Financial Times* column last week, Pettis said the vast US government debt is the structural result of the higher income inequality which arose during years of Boomer leadership. The government spending that produces the debt is a result of these larger forces.

The key problem is that income inequality reduces consumer demand. Here's Michael Pettis:

> "The rise in income inequality is the key driver of debt. Because the wealthy save a much larger part of their income than do workers or the middle class, and use a much smaller part for consumption, rising income inequality automatically reduces overall consumption and forces up savings by effectively transferring income from high consumers (ordinary Americans) to high savers (the wealthy).
>
> "If the higher resulting savings funded higher investment by US businesses, this would be a good thing for the economy. Lower consumption would be balanced by higher investment, with total demand remaining the same in the short term and rising in the longer term as more investment caused growth to accelerate.
>
> "But must more savings lead to higher investment? This belief is at the heart of supply-side economics, but while it was true many decades ago, when business investment was mainly constrained by scarce savings and the high cost of capital, it is no longer true today, when it is constrained mainly by weak demand. Business investment has not risen in line with the savings of the wealthy.
>
> "This creates a problem for the economy. If lower consumption is not balanced by higher investment, total demand must decline, and in response businesses will cut back on production and fire workers."

That's a very negative outcome increasing the tensions of a Fourth Turning, but the plumbing only allows three ways to avoid it.

One is to encourage household borrowing so consumers can spend amounts equal to the portion of total income wealthy people are holding in savings (instead of business investment). This lets consumption continue and maintains employment levels. This happens mainly through monetary policy. (Bringing to mind the paradox of savings, and the problem with consumption driven by borrowed money is simply future consumption brought forward creating more problems down the road.)

A second option is for the government to borrow money and use it to replace the demand that was lost via reduced household consumption. That raises the fiscal deficit and national debt, but also reverses the consequences of the wealthy holding so much income. It also makes the inevitable Great Reset crisis even worse!

The third option is to run a trade surplus, maintaining production while exporting the goods domestic households can't afford to purchase. That's not really possible for the US, however, since the rest of the world sends so much of its money here.

We have come to that period that I have often said we would, where we have no good choices. Thus, we shamble zombie-like into the future, making the debt and societal pressures even worse.

This brings us back to Neil Howe… who thinks the same Boomers who let so much wealth rise to the top may decide to bring it back down.

Larger Cause

Every Fourth Turning is and ends in a dramatic crisis. It's not just a hold-your-breath moment where we watch to see what happens. It develops over a few decades and then climaxes over a few years. Nothing is off limits. Everything we consider foundational to society is at stake. Some of it doesn't survive.

Neil Howe argues the Boomer focus on values will define its culmination. The "Me Generation" will seek to place its imprint on history. How? That's where it gets interesting.

> "With the Crisis itself placing new burdens on the lives of younger generations, Boomers will choose to retain their moral authority by arguing—uncharacteristically—to impose sacrifices on themselves and other older Americans for the sake of their community. This will seem less surprising in the context of their own families; most Boomers today are already providing generously, sometimes more generously than they can afford, for their own children and grandchildren. But it will seem more surprising when they do so in the context of the national community and support tax and benefit changes that hit their own ranks the hardest. But the logic will be inexorable. The young, acting on behalf of the community at a time of peril, will now have a much better claim on resources than they do. So Boomers will let go.
>
> "Everything will be on the table. A persuasive case will be made for taxing consumption and assets along with meaningful inheritance taxes, since these draw the most revenue out of affluent elderly age brackets… Stricter tax compliance measures will flush assets out of the tax havens of Boomer plutocrats. Rationing of high-end luxury services and goods may be instituted to save resources, if such opulence has not already been driven into the shadows by social stigma."

Let me stop there and note *this* Boomer has been advocating a consumption tax for a long time. I think a combination VAT/lower income tax would be a vast improvement over the current system, if we could assure high income taxes wouldn't come back and burden us with both. I like that part of Neil's forecast. The rest? Going on:

> "Public benefits will also be overhauled. Entering prior Crisis eras, government spending on benefits to the nonindigent was minimal. This time, it is massive—and it flows mostly to the elderly…
>
> "Most Boomers won't have their heart in this fight. Here too they will make large concessions and even rationalize them as participation in a larger cause. Retirement ages will be raised, and benefits may get fully taxed or means tested. Most importantly, health benefits will be subjected to radical changes—possibly converting today's extravagant and dysfunctional fee-for-service labyrinth into a simple capitated allowance. Doctors and hospitals, for the first time, will work within fixed budgets."

That last part is going to hurt, but there's simply no way to resolve the debt without radical healthcare reform. It is a giant part of the debt.

The idea Boomers would go along with all this, much less want it, may seem surprising. But maybe not. Thinking about this reminded me of a 2020 event.

As COVID spread and leaders first started talking about business closures and other restrictions, Texas Lt. Governor Dan Patrick made waves by suggesting he and other grandparents would rather risk their health than harm the economy. "Those of us who are 70 plus, we'll take care of ourselves. But don't sacrifice the country," he said.

Born in 1950, Dan Patrick is one of the older Boomers. I don't know how seriously he meant that statement. But it's a glimmer, maybe a foreshadowing, of the self-sacrificial attitude Neil Howe thinks Boomers will adopt more widely in the coming crisis.

But even if that's what happens, Neil isn't sure if it will go well.

> "It is easy to envision old Aquarians as pillars of fire leading to the Promised Land—but just as easy to see them as unhinged Ahabs determined to wreck the ship and take everyone down with them. Either is possible."

The process will continue either way:

> "Yet for all its benefits, modern state formation does require periodic conflict. Because these powerful civic leviathans cannot easily reform themselves, they will inevitably be regarded as less just and less secure with the passage of time. Eventually, after new institutions are created, the generations who know how to manage them competently and fairly will disappear—as will the generations who are content to be managed by them. New values and ideas will emerge, and rising generations will coalesce into factions around them. At some moment, one or more of the new factions will do everything they can to push the old regime aside and replace it with something newer and more powerful."

Next week we'll look at the Millennial Generation, the "Hero" cohort rising as the Boomers exit. They will be successors to the "GI Generation" but not mere copies of that much-revered group. Millennials are different in many ways, which we will examine more closely.

What Can We Do Now?

Somewhat analogously to Schrodinger's cat, we have to ask if observing the event changes the event. Can understanding past historical cycles and their associated problems forestall the worst outcomes? By proactively dealing with some of the worst of our problems, economic, political, fiscal, etc., can we lessen the future chaos? I note more than a few nascent groups trying to do just that. We should encourage them.

On that note, let me do something a little different. Longtime readers know I try to avoid getting into politics in this letter, since my readers are all across the political spectrum. This letter is about economics in general and I try to talk about politics only as it impacts the economy. So indulge me with this one diversion.

Two weeks ago in Memphis, I heard Larry Elder, the former talk show host who is running for president. He gave a very powerful message on how race is dividing us and what we should do, the problems of our educational system, and the lack of two-parent families. Maybe I am more sensitive to it as I have two Black sons, but his message resonated, and I believe should have a wider hearing.

He needs 40,000 individual donors to get on the Republican primary debate stage. He had about half of that as of two weeks ago. To get a quick feel for Larry's background and the issues that he is running on, see this video of his recent speech to the Iowa Republican Party.

Understand, I am not endorsing Larry for president. I am endorsing his message which I think, if given a national platform, could help heal some of our divisions. If you agree, go to larryelder.com and donate $1 and let's give these issues a voice. Racism, education, and family are critical issues as we enter the last half of the Fourth Turning. Larry would say his campaign is about more than that, but those are the issues that resonated with me, and I think deserve a platform.

To be clear, I'm not fundraising for Larry. Note I said he needs 40,000 *donors*—not signatures. Giving $1 (or more if you choose) to a politician today is akin to giving your signature to get on a ballot. You'll be seeing more of this from both parties, and it makes sense.

This is a picture taken after I heard his speech.

And with that, it is time to hit the send button.

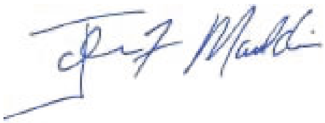
Dallas, Europe, and Paris

Shane and I fly to Dallas at a ridiculously early hour this Sunday. I will have to get up at 2:30 am Central time. Did I mention I hate early flights? Then at the end of the month we will go to Europe ending up in Paris to have a birthday celebration with Charles Gave.

I had a wonderful time in West Palm Beach and enjoyed being hosted by Dr. Ben Carson. Geoff Houston (of King Operating) hosted a fabulous outdoor dinner the next night. Great people and conversations.

I will limit this personal section as the letter is running long, but have a great week and spend time with friends and family. And don't forget to follow me on X. (Does X sound weird? I guess we will get used to it.)

Your all in this together analyst,



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