

## Clashing Crises

By John Mauldin | January 20, 2024



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“Two is better than one” is a nice saying, but it really depends on what you’re describing. Two hurricanes or earthquakes aren’t better than one. Just one disaster at a time will suffice, thank you very much.

The same holds true for man-made crises like the debt fiasco we’ve been discussing. Last week in [No Way Out](#) I said we’ve missed our chance to avoid it. We are simply not going to do what it would take to get the federal debt under control—like it was as recently as 2001—until we have no other choice. I have said it before, and I truly believe it, it will take a crisis to force us to act on the deficit and debt.

When you know a problem is coming, the normal ideal is to address it immediately. Procrastination just lets the problem grow and raises the odds you will face multiple problems at the same time.

And that, unfortunately, is what I fear will happen. The government debt crisis will be bad enough, but it’s also likely to crescendo just as we face social, geopolitical, and demographic crises, too.

Last fall I spent 10 letters describing the historical cycles that all look set to peak in the next decade. That's also when I expect the debt to reach its limits. This is something where two is definitely not better than one. And in this case, we're talking about more than two. A *bunch* of bad things are going to happen in a fairly short time.

Now is the time to begin preparing for what will come. But to do that, you need to have at least some idea of what to expect. This is where the cycle theories of Neil Howe, George Friedman, Peter Turchin, and Ray Dalio can help. It's a lot to juggle in your head, so today I want to quickly review these ideas. They will help stimulate your thinking as you develop your own strategy for the next decade.

Their views differ but don't contradict each other. Rather, they are just different ways to look at history for patterns and causes. And as you might expect, there is often significant overlap in their findings.

## **“Everything Will Be on the Table”**

Longtime readers know I am good friends with Neil Howe of “Fourth Turning” fame. His latest book, [\*The Fourth Turning Is Here\*](#), is a must-read for investors, particularly if you're not familiar with his idea of generational turnings.

(Briefly, for those who don't know, Neil and his colleague the late William Strauss describe a repeating four-generation cycle. Each generational archetype—which they call Hero, Artist, Prophet, and Nomad—has particular characteristics derived from its place in the cycle. Turnings occur as each generation exits and another is born, roughly 20 years for a generation and 80 years for a complete cycle. Like archetypes, the Turnings also have different properties. The Fourth Turning is a time of crisis, and we are in one right now.)

Last year I reviewed Neil's new book and added more thoughts of my own in [\*Turning Time, Turning Time, Part 2\*](#), and [\*Turning Time, Part 3\*](#). Rereading those letters now as I just finished covering the debt crisis was quite illuminating. The present Fourth Turning marks the Boomer Generation's sunset. We (I'm one of the older Boomers) had a lot to do with creating that debt and, on our way out, we are sadly not making matters any easier for our children and grandchildren.

Here's some of what I said, with some quotes from Neil.

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Every Fourth Turning 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.

“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.”

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Neil has much more to say on this. The key point I want you to get today: The younger generations will fix the problem *their* way, which may not be the way we Boomers prefer. This is what I mean when I say to expect the unthinkable. What’s unthinkable to us may seem perfectly sensible to those who follow us. And they, not us, will be in charge.

I can hear the scoffing and emails written to me telling me this will never happen. Again, unthinkable. But I remember being in Italy with Neil in Tuscany. Every Fourth Turning seems to involve a war going back in Anglo-Saxon history for centuries in England. I pointedly asked Neil where would the war come from? War didn’t seem very likely 10 years ago.

Much of what will happen as we approach that crisis will be things we see as completely unthinkable now. Again, everything will be on the table. Beyond what we can imagine. And none of us will be happy about it.

## Outstripped by Reality

Dr. George Friedman of Geopolitical Futures (another good friend) structures US history in another way, with some similarities to Neil Howe but also important differences. I described it in my [Storms and Patterns](#) letter last year.

In George's view, the US has two repeating patterns: an 80-year institutional cycle and a 50-year socioeconomic cycle. They have never coincided before but, in a cruel twist of math, will soon culminate at about the same time, the latter part of this decade (just in time for the Fourth Turning).

On the institutional side, George believes we will soon see the end of the post-WW2 era (almost 80 years ago) he characterizes as "government by experts." The way we give authority and influence to those we think have special abilities dates back to FDR and Truman. It's had advantages but doesn't provide truly cohesive leadership. George thinks this will change. Here's George:

"The post-World War II model of a deep interlocking of private life with a federal government helmed by experts, poorly overseen and managed by those who can't see the unintended consequences of expertise, has been outstripped by reality. **It is not the size of government that matters but its claim to authority...**

"The first institutional cycle [the Revolutionary War] did not define the relationship between federal and state governments. The second [the Civil War] established the primacy of the federal government but did not set its limits. The third [WW2] created almost complete [federal] domination of the states. All were in their time what was needed.

"It follows that the next cycle will be one that accepts the federal government's primacy but will necessarily require the creation and institutionalization of a new level of expert—the generalist—to make certain that the area experts are both effective and non-contradictory."

Now, think about this in light of the dramatic changes needed to solve the debt crisis. Who will make those choices? We've tried multiple blue-ribbon expert panels, without success. So we will see not just big changes, but probably a whole new way of deciding what the changes will be.

Two other quick points: George sees a significant chance of a shooting war in this period. And his concern about experts parallels the next writer about cycles, who is concerned about the overproduction of elites.

## Revolutionary Situation

I also spent two letters ([The Science of Cycles](#) and [Noble Sacrifices](#)) covering Dr. Peter Turchin and his idea of "elite overproduction." I really urge you to read those letters (and his books). It's a robust, deeply thoughtful theory I can't fairly summarize in a few paragraphs.

Turchin noticed societies always seem to split into elites and commoners. The elites hold power because they have the most wealth and education. In prior centuries it might have been simply that they were born into power, but eventually those in power have children and grandchildren who expect to be given certain privileges. Eventually, there are too many elites, and they begin competing with each other. The losers fall from the exalted place to which they feel entitled. Conflict follows.

This same sequence repeats throughout history and rarely ends peacefully. Here's Turchin:

“The American ruling class today finds itself in the predicament that has recurred thousands of times throughout human history. Many common Americans have withdrawn their support from the governing elites. They've flipped up 'a throbbing middle finger in the face of America's ruling class.' Large swaths of degree holders, frustrated in their quest for elite positions, are breeding grounds for counter-elites, who dream of overthrowing the existing regime.

“Most wealth holders are unwilling to sacrifice any personal advantage for the sake of preserving the status quo. The technical term for it is 'revolutionary situation.' For the ruling class, there are two routes out of a revolutionary situation. One leads to their overthrow. The alternative is to adopt a series of reforms that will rebalance the social system, reversing the trends of popular immiseration and elite overproduction. The American ruling elites did it once, a century ago. Can they do it again?”

Turchin points to two examples—Britain and Russia in the 19<sup>th</sup> century—where elite classes faced political and financial pressures not unlike the US today yet managed to maintain stability. The key was their elite classes understood change was inevitable and were willing to adapt. That meant sacrificing their own short-term interests for the greater long-term good.

## Forced Change

Finally, I looked at Ray Dalio's “Big Cycle” theory of the changing world order. You can read those letters here: [Cyclical Forces](#), [The Big Cycle](#), and [The Big Cycle 2](#).

As you would expect from such a successful hedge fund manager, Dalio rigorously quantifies and systematizes data before reaching conclusions. He first identifies the major forces driving societies and economies, all of which have their own cycles, then looks at how the cycles coincide.

Like Turchin, Dalio defies attempts to briefly summarize his ideas. He describes how great powers arise from strong and capable leaders, but then fall apart. Success breeds complacency which manifests as debt and asset bubbles. Wealth flows mostly to the top. Eventually it is too much to sustain, and the decline begins. Here's Dalio:

“As conflict within the country escalates, it leads to some form of **revolution or civil war to redistribute wealth and force the big changes**. This can be peaceful and maintain the existing internal order, but it's more often **violent and changes the order**.

For example, the Roosevelt revolution to redistribute wealth was relatively peaceful, while the revolutions that changed the domestic orders in Germany, Japan, Spain, Russia, and China, which also happened in the 1930s for the same reasons, were much more violent.”

Dalio goes on to note how these internal problems often happen as a country faces external challenges as well. A rising rival can exploit the leader’s domestic conflicts to its own advantage.

Now think about this as the US and China. By Dalio’s quantitative measures, the US is still far ahead of China but losing strength. Meanwhile, China’s scores are rising. At some point the lines may cross. Not necessarily soon—but as the saying goes, sometimes there are weeks when decades happen.

## How Does the Debt Affect All This?

As longtime readers know, one of my best and worst calls about 12(?) years ago was that Japan would monetize its government debt, causing the yen to depreciate to around 200 to the dollar. Japan in fact did monetize but the yen mysteriously (at least to me) strengthened. I was convinced by the Reinhart and Rogoff research showing governments monetizing their debt almost (99%) always leads to currency depreciation.

What did in fact happen became known as Japanification. Hindsight being 20/20, we can come up with all sorts of reasons for their seemingly unique ability to monetize their debt without significant currency depreciation.

Could that happen in the US? Yes, there is a significant potential for that to happen. The US is the cleanest dirty shirt in the laundry, a massively productive and rich nation, albeit marred by political and social stress, and that wealth can mask a multitude of sins.

Reinhart and Rogoff’s book is called “This Time Is Different” which is what is always said during massive monetization and rarely turns out to be true, except for (so far) Japan. Some argue the US won’t see its currency necessarily collapse but instead will become like Japan: slow or no growth but still seemingly rich.

Will the US also be different this time? I’m not persuaded. There are some similarities but also significant differences. For one, about the time the interest rate on the debt becomes intractable we will also be reaching the peaks of the four cycles mentioned above, which will put additional stress on the system, and I believe will change the bond market’s willingness to finance our debt.

That being said, most of the western world will also be going through the same debt crisis. Europe will probably enter their crisis a little bit sooner. Total speculation upon my part, but I think in the midst of a future crisis the debt actually might be the trigger for the various types of crises described above.

The Boston Tea Party, the firing on Fort Sumter, Pearl Harbor? The assassination of Archduke Ferdinand? In all these events the dry tinder only needed a spark. A debt crisis would be one hell of a spark that could quickly become a bonfire. Given the political and geopolitical tensions in the world, it might not take much.

Let me be clear, I would much prefer Japanification than a crisis. I dearly hope I am wrong. But hope is not a strategy.

## Washington, DC, NYC, and Cape Town

Next year will be my 25th of writing this letter. Now Ed D'Agostino and I are working together to put all of **our research into an actionable framework**. It's going to be an exciting culmination of what I've been working on for a very long time. I think you're going to love it. [Click here to learn more.](#)

I am writing this letter a day earlier than usual because I'm on an extended trip. I find myself in Naples, Florida, today on my way to Washington, DC, tomorrow for a meeting about an exciting new longevity drug. Then the train to New York on Sunday afternoon and then a nonstop 2 1/2 days of meetings with old and new friends before I fly back on Wednesday. Then I will be back in New York February 1st for a speech, and then in June Shane and I will be in Cape Town, South Africa, for a speech there. And wherever I am, I am working on the SIC, which will be our best ever. You will want to be there.

I had lunch today with Newt Gingrich and my close friend and biotech expert Pat Cox, who will go to DC with me. Newt has been reading my work and gave a little pushback. We both see a crisis coming, but we remain optimistic because we think that by the end of the decade, we will have seen major strides in longevity and anti-aging, with ultimately the potential for reversing aging. Artificial intelligence is going to change a lot of our world. Other technologies are proceeding apace, and after we resolve the debt issue, we both see in the '30s a period of fabulous growth and major human progress. I keep saying I'm ultimately an optimist. I'm not sure how many people actually believe me, but it's true.

It is time, however, to hit the send button. You have a great week, spend some time with old friends and new friends, and don't forget to [follow me on Twitter X](#). I have become much more active on X and you should join the fun.

Your seeing opportunity everywhere analyst,



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