

Storm Cycles

By John Mauldin | June 10, 2023



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In economics we often talk about cycles. “Business cycle theory” is an entire academic sub-field whose basic idea is that economic history really does repeat itself. Not in every detail, of course, but as a recurring sequence of expansions and recessions.

More broadly, some historians think human civilization goes through cycles. Often, they base this on the fact life itself is a cycle. People are born, grow up, reproduce, grow old and die. Then their children do the same. Our cycle of existence spawns other cycles.

Last week I talked about crises and how they are uncomfortable but create the conditions for growth. I noted how this also happens in nature: Wildfires clear out the underbrush that lets new life flourish. Do those count as “cycles?” I think so, but they’re less regular. Nature has a seemingly larger randomness element. But there appear to be “rules” even in the randomness.

The most read letter I have written has been the [“Sandpile” essay](#). Essentially, a very important book by Mark Buchanan (*Ubiquity: Why Catastrophes Happen*) shows how even natural disasters seem subject to “power laws.” Earthquakes, forest fires, volcanoes and so on occur often on a small scale and less often on large scales.

Buchanan talks about research on computer simulated sandpiles. If you are not familiar with this topic you should read the above letter at your leisure, but let me briefly quote a few paragraphs (emphasis mine):

“There are many subtleties and twists in the story... but the basic message, roughly speaking, is simple: **The peculiar and exceptionally unstable organization of the critical state does indeed seem to be ubiquitous in our world.** Researchers in the past few years have found its mathematical fingerprints in the workings of all the upheavals I’ve mentioned so far [earthquakes, eco-disasters, market crashes], as well as in the spreading of epidemics, the flaring of traffic jams, the patterns by which instructions trickle down from managers to workers in the office, and in many other things.

“At the heart of our story, then, lies the discovery that networks of things of all kinds—atoms, molecules, species, people, and even ideas—have a marked tendency to organize themselves along similar lines. On the basis of this insight, scientists are finally beginning to fathom what lies behind tumultuous events of all sorts, and to see patterns at work where they have never seen them before...

“In this simplified setting of the sandpile, the power law also points to something else: the surprising conclusion that even the greatest of events have no special or exceptional causes. **After all, every avalanche large or small starts out the same way, when a single grain falls and makes the pile just slightly too steep at one point.**

“What makes one avalanche much larger than another has nothing to do with its original cause, and nothing to do with some special situation in the pile just before it starts. **Rather, it has to do with the perpetually unstable organization of the critical state, which makes it always possible for the next grain to trigger an avalanche of any size.**”

In the much smaller scale of human history, we see what *look* like patterns. Are they patterns or just random noise? It’s not always clear. Our brains can make chaos look orderly.

But it’s also true that smoke typically indicates some kind of fire... and I smell a lot of smoke. Let’s look at a few possible cycles in human history.

Sequential Muddling

In [A Much-Needed Crisis](#) I shared some of Neil Howe’s comments on the SIC final panel. Neil’s theory of cycles says we are now in a “Fourth Turning.” It will hurt but ultimately give way to better times.

I’m widely known as the “Muddle Through” guy. I don’t discount the severity of our problems or the pain they will cause, but I also think we’ll find solutions. That position displeases both optimists and pessimists but in my experience, it’s usually been right.

Cycles are the reason muddle-through works. We have both good and bad times, but sequentially. Any forecast for *only* positive or *only* negative outcomes is always wrong. We get both, one after the other.

The real mystery is their timing. This is where Neil Howe's framework helps. His 80-year cycle still leaves a lot of uncertainty and plenty of room for variation, but the bands are a bit tighter.

A few months ago, I sent *Over My Shoulder* members (whom you should [definitely join](#), by the way) an [excerpt](#) from Neil's forthcoming book. I will review it in more depth when it's published but here's a quick taste.

"When did America's most recent Fourth Turning begin? I reckon about 2008, with the eruption of the Global Financial Crisis--just as the previous Fourth Turning was triggered by the Great Crash of 1929, about 80 years before.

"Before 2008, the old Third-Turning America, while not in robust health, still functioned. In the mid-2000s, most voters still read the same news and trusted their government, the two parties still conferred on big issues, Congress still passed annual budgets, and most families remained hopeful about the nation's future.

"Then came the GFC, the rise of populism, and the pandemic. These were three hits that a healthy democracy could have withstood but that caused ours to buckle and give way, revealing pillars and beams that had been decaying for decades.

"When will America's Fourth Turning end? Not until the early 2030s. Yet beware: History teaches that, before it ends, the nation must undergo a phase transition and experience a mood of national urgency, probably involving national conflict, on par with that of earlier Fourth Turnings—the era of the Great Depression and World War II; the era of the U.S. Civil War; or the era of the American Revolution. By the time it's over, the old American republic will disappear. And a new American republic, as yet unrecognizable, will take its place."

Neil says this with high confidence because it's a cycle that happened before, repeating itself for at least the last 500 years and not just in the US. And he's not the only one who sees it, although others see different rationales for their version of cyclical history.

Mutual Loathing

George Friedman has a somewhat different cycle theory, explained in his book *The Storm Before the Calm*. In his view, the US has a pattern of political shifts roughly every 50 years and wider social/institutional changes about every 80 years.

These cycles date back to the nation's founding. This decade they are coinciding for the first time, putting us in a uniquely turbulent period. George updated his view in an April report. He thinks the sheer intensity of our divisions is accelerating events.

“Looking at history, what is striking is that in previous cycles, the social issues tended to subside a bit before terminal economic issues took over. In 1980, as economic issues dominated, the intense social issues of race and sexual culture in the 1970s had subsided somewhat. In 1932, the social aspects faded with the death of Huey Long and the onset of the Great Depression. The strength of the Ku Klux Klan subsided, and social issues linked to immigration gave way to economic concerns.

“The intensity of the ongoing social issues is striking. Issues that are moral, religious and cultural are still tearing at the American system. Bank failures, and the reality that caused them, are compounding instead of overtaking these old events. Significantly complicating the situation is the 80-year institutional cycle. The synchronization of the end of this cycle and the socio-economic cycle is a first in U.S. history. Questions about the relationship between federal institutions like the Supreme Court and Congress compound the normal distrust between the public and institutions.

“Nothing about this process is mechanistic, but there are patterns in how we live and govern ourselves. The failure of social issues to lessen, the intensification of economic issues, and the extreme intensity of the friction between federal institutions are markedly different from patterns in the 20th century with the election of Franklin Roosevelt and Ronald Reagan. Both of them transitioned effectively from social and economic crises that were distinct. **But the rage and mutual loathing of today – and their failure to recede – are odd, particularly when the institutional issue, which neither Roosevelt nor Reagan had to deal with, is included. The degree and type of rage and contempt today’s American public has for other members of the public are different.**”

(*Over My Shoulder* members can [read George’s full letter](#). If you aren’t one, [join us here](#).)

Note George says all this for different reasons than Neil Howe, but they reach ominously similar conclusions. More ominously, both of these gentlemen foresee events culminating in the late 2020s and perhaps into the early 2030s.

But there’s a possible third cycle at work, too.

“The Dark Side of Meritocracy”

Back in 2020 I [wrote](#) about Peter Turchin’s “elite overproduction” theory. I find this fascinating because it’s not an economic theory at all. Turchin is a zoologist who was studying why insect populations rise and decline in particular spots. He noticed some patterns that seem to apply in the human world, too. He has a new book on the way which I will read with great interest. *The Atlantic* recently published an excerpt.

“All human societies experience recurrent waves of political crisis, such as the one we face today. My research team built a database of hundreds of societies across 10,000 years to try to find out what causes them. We examined dozens of variables, including population numbers, measures of well-being, forms of governance, and the frequency with which rulers are overthrown. We found that the precise mix of events that leads to crisis varies, but two drivers of instability loom large. The first is popular immiseration—when the economic fortunes of broad swaths of a population decline. The second, and more significant, is elite overproduction—when a society produces too many superrich and ultra-educated people, and not enough elite positions to satisfy their ambitions.”

Stop there for a second. Let me make two points: first, the perceived economic injustice and what Turchin calls “immiseration” can be *relative*. On an absolute basis, what we call “poverty” in the US and the developed world is seen as abundance in much of the developing world. I have traveled to 65+ countries, 15 in Africa, and I have seen real poverty and destitution. That doesn’t change the perceived inequality many people feel. Perception leads to its own reality.

Second, an educated population is definitely good. But inevitably some will have more education than others and begin thinking it entitles them to privileged positions. They then become frustrated when such positions don’t appear. Back to Turchin:

“These forces have played a key role in our current crisis. In the past 50 years, despite overall economic growth, the quality of life for most Americans has declined. [JM comment: this is *relative* quality of life. I look forward to discussing with Peter, perhaps at a future SIC, as to whether the *absolute* quality has not improved and vastly so!]

“The wealthy have become wealthier, while the incomes and wages of the median American family have stagnated. As a result, our social pyramid has become top-heavy. At the same time, the U.S. began overproducing graduates with advanced degrees. More and more people aspiring to positions of power began fighting over a relatively fixed number of spots. The competition among them has corroded the social norms and institutions that govern society.”

In other words, societies progress to a point where they have too many aspiring elites, who then foment social disorder. He says this tends to happen about every 50 years. And yes, I can see the similarity of the time cycle with George Friedman’s views. Continuing:

“Compared with 50 years ago, far more Americans today have either the financial means or the academic credentials to pursue positions of power, especially in politics. But the number of those positions hasn’t increased, which has led to fierce competition.

“Competition is healthy for society, in moderation. But the competition we are witnessing among America’s elites has been anything but moderate. It has created very few winners and masses of resentful losers. It has brought out the dark side of meritocracy, encouraging rule-breaking instead of hard work.

“All of this has left us with a large and growing class of frustrated elite aspirants, and a large and growing class of workers who can’t make better lives for themselves.”

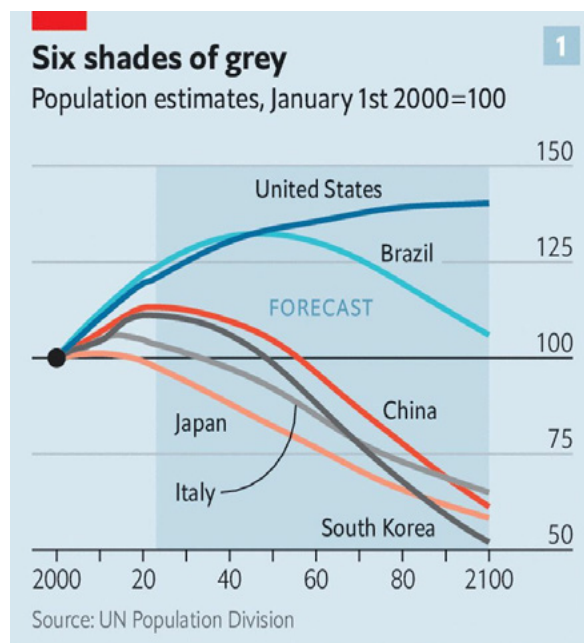
What happens, according to Turchin, is that frustrated elites become “counter-elites” who then persuade non-elite groups to join them in attacking the ruling class. Something like this arose following the Civil War as defeated Southern elites lost their positions. Then it happened again in the 1930s as the Great Depression destroyed so much wealth. The 1970s saw similar instability. Roll forward another 50 years and here we are.

When three top thinkers – Howe, Friedman, and Turchin – all see a crisis brewing in the next decade for entirely different reasons, we have to pay attention. But note also: all three foresee an *end* to the crisis as well. They aren’t doomsayers. They are recognizing patterns and correlating them with current events.

The Over-Production of Elites in China

It’s not just in the US and the developed world. A similar situation is developing in China. My friend, China/Asia expert Lyric Hughes Hale, wrote a fascinating piece this week called [Paper Tiger](#) (which [OMS subscribers](#) again read first):

In a stunning reversal, about a quarter of young Chinese cannot find jobs. This employment malaise says something about the youth of both countries who have lost their most precious possession, a vision for their future. Xi Jinping reacted yesterday in the *People’s Daily* by telling Chinese young people to “eat bitterness” not once but five times. His exhortations are as likely to be successful as telling a depressed patient to buck up. The children of this divorce will surely suffer, as the world becomes inexorably older.



The Economist

Source: The Economist

Few realize that by the end of this century America's population could exceed China's. The rate of population decline matters in terms of GDP growth. In general, we overestimate China's resources and economic strength. As I have been saying for many months now, the country is not going to recover from the Zero-Covid lockdowns quickly, or perhaps ever. Closing down a resilient economy for weeks is one thing, but closing down a planned economy for years is another. It is clear that Chinese consumption has already flattened out this year, and that China has gone back to its old ways of depending upon export-driven growth. This was okay when the rest of the world was growing, which it is not right now.

To Lyric's point, this came into my inbox today (from a very trusted anonymous source):

Last December, more than 200 million people in China contracted COVID-19 in 20 days. This time, [a new] wave is spanning several months, owing to the differences in people's immune backgrounds, such as antibody levels... The current surge is caused mainly by a highly infectious subvariant of Omicron called XBB.1.5, first identified in India last August. According to Nanshan Zhong, a prominent respiratory physician in China, as many as 65 million people could become infected per week by the end this month. This is the first major reinfection wave that China has seen since the central government dropped all its COVID-19 control measures in December, prompting a widespread Omicron outbreak.

That could be a problem. But back on the long-term demographic challenge, *Time magazine* has some good thoughts.

.... [this] underscores a twin economic challenge that China is facing—an aging population and young people unable to find work who are expected to care for them. By 2035, around 400 million Chinese people will be aged 60 and over, or some 30% of the population. Last year, deaths outnumbered births for the first time since 1961, further graying the nation's demographic balance.

Meanwhile, the ratio of workers to dependents is growing even more unfavorable as an estimated 228 million members of China's baby boom generation from 1963-72 will retire over the decade. Last year, China had 2.26 working-age people supporting each senior—but that is forecast to drop to 1.25 by 2042. It promises to unleash an unprecedented burden on young people,

... whose parents will expect to be cared for in their old age. But as Lyric and *Time* note, the higher paying jobs just don't exist.

China, with an even more acute problem of elite overproduction, has always been subject to revolts. Chinese leadership recognizes this, and a top down, tightly controlled planned economy will have to deal with its own crisis cycle. The fact that China is going through its own existential problems at the same time as the US and the developed world is more than a tad disconcerting/troubling. And our misguided national policies towards China are not helping. (Note: this applies to both Trump and Biden!)

Turchin has highlighted a third cycle of overproduction of elites, that is showing up across the globe. But there's yet a fourth cycle to consider.

The Debt Supercycle/The Great Reset

I've been writing about the "Debt Supercycle" for over 20 years. The concept was originally developed by the *Bank Credit Analyst*, referring generally to a lot of things, including money velocity, bank liquidity, and interest rates. Tony Boekh and Martin Barnes expanded that initial work. Conversations with them were seminal in my own development of what I call The Great Reset.

Essentially, the Debt Supercycle is the decades-long growth of debt from sustainable levels to a point where bond markets rebel and the debt must be restructured, or austerity or tax increases are imposed to bring the debt back to manageable proportions.

I have written about this a great deal over the decades, and will not belabor the point today, other than noting I too see this culminating in the latter part of this decade.

Four different ways of looking at historical economic and social cycles, but all pointing to a crisis later this decade. Let's re-read a quote from that letter on sandpiles and critical states:

What makes one avalanche much larger than another has nothing to do with its original cause, and nothing to do with some special situation in the pile just before it starts. **Rather, it has to do with the perpetually unstable organization of the critical state, which makes it always possible for the next grain to trigger an avalanche of any size.**

The four different ways of looking at cycles all point to an increasing "critical state" in societies across the world. It doesn't matter which of them is the primary force, or even what "needle" eventually pops the balloon. The crisis will still look the same if you are in the path of the avalanche.

Cycles, patterns, whatever you call them, they're real. They are built into our very existence like night and day. The most important thing about cycles is *they don't stop*. The wheel keeps turning. If it's in a bad place, just wait. Better times are surely ahead. Even better? Get prepared for both the crisis and the incredible prosperity that will inevitably follow it. We can do it together.

Nashville, Cancun, Memphis, Dallas, Europe and Paris

There has been an uptick in people asking me to speak live. That was my normal until COVID. Now perhaps it is coming back. I miss speaking so I welcome the opportunities. Just ask and we can work it out.

I will be in Nashville for a private conference next week. Then Shane and I will be in Cancun where my son Henry is getting married and I'm his best man. Then we will be at Freedom Fest in Memphis July 12-16, speaking several times and meeting with friends and clients. If you are there, I would love to meet you. We will be in Dallas in early August and the plan is then we travel to Europe in early September but with the focus on being at Charles Gave's 80th birthday September 9 in Paris. I am open to speaking opportunities. (It is also Gavekal's 25th anniversary.)

Add a lot of writing, reading and research, and suddenly my formerly slow summer is now packed. That's good. Puerto Rico has had an exceptionally cooler last 18 months, but somebody noticeably turned up the dial this last week. It's still not as hot as Dallas.

And with that I will hit the send button. Enjoy the summer with me by spending some time with family and friends, and of course reading my letters. Thank you for letting me be part of your life!

Your thinking about cycles analyst,



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