

Big Debt Cycles

By John Mauldin | October 4, 2025



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Debt is a curse that can also be a blessing, depending on how the borrower uses it. Sadly, human nature seemingly ensures we often use debt unproductively—and not just as individuals. Governments have their own special way of using debt to buy benefits (and votes?) today that future generations will pay for.

I have said in these letters for some years that we are headed toward a global sovereign debt crisis. I just see no way around it. We've delayed the day of reckoning many times in many ways, but we can't postpone it forever.

Today I'm beginning a series of letters on Ray Dalio's newest book, [How Countries Go Broke](#). In his usual systematic way, he describes the process by which societies create credit, then misuse it, and ultimately liquidate it. As Ray shows through historical examples, it's a repeating process that typically takes about 80 years to unfold. Like me, Ray expects a sovereign debt crisis. Unlike me, he is a little bit more comfortable beginning to put dates around it.

Ray's "Big Debt Cycle" is a subset of the larger "Big Cycle" of history he described in earlier books, and which I described in two 2023 letters ([Part 1](#), [Part 2](#)). I find these ideas fascinating because they resemble those of others like Neil Howe, Peter Turchin, Martin Gurri, and George Friedman. Despite different starting points, they all conclude a crisis period is either approaching soon or already underway.

I highly recommend reading [How Countries Go Broke](#). You will learn a lot about debt, central banking, and how the economy works. You'll learn far more from the book itself than you will from my summary and comments. This may take a few weeks but it's important.

Today we'll start at the beginning and see how far we get.

Debt Feels Good

You'll get more value from Dalio's book (or any book, really) if you know a little about the author's perspective. Ray comes at this not as a historian or economist, but as a successful investor. Specifically, he is a *trader*. What do traders do? They look for patterns and find ways to exploit them.

Some of you do this yourselves. You watch a given market and observe that certain conditions often lead to buying or selling opportunities. Typically, a "set-up" opens the door, then a "trigger" is your signal to act. The debt cycle Ray describes works similarly: One thing leads to another... and another, and another. This isn't a new idea, but Ray's approach is a lot more practical than trying to decipher the vagaries of the Kondratiev Cycle (among scores of possibilities), like many were doing in the 1980s.

Before going further, we need to keep some foundational concepts in mind.

The first is the difference between *money* and *credit*. Money is a widely accepted medium of exchange. You give it to someone else in exchange for whatever goods or services you want to buy. At that point, the transaction is over. You each fulfilled your agreement. Also important: The money pre-existed the transaction. The dollars, yen, gold, bitcoin, or whatever you used were already there before you made your deal.

Credit isn't money. It is a *promise to deliver money* in the future under defined conditions. Any two parties can create credit. It's easy: You give me something now, I agree to give you money next year. New credit just came into existence. Dalio says this simplicity is why credit tends to be overused and eventually gets out of hand.

The second key point: **Credit is naturally cyclical**. Dalio explains why early in the book.

"Credit is the primary vehicle for funding spending and it can easily be created. Because one person's spending is another's earnings, when there is a lot of credit creation, people spend and earn more, most asset prices go up, and most everyone loves it. As a result, central governments and central banks have a bias toward creating a lot of credit.

“Credit also creates debt that has to be paid back, which has the opposite effect—i.e., when debts have to be paid back, it creates less spending, lower incomes, and lower asset prices, which people don’t like.

“In other words, when someone (a borrower-debtor) borrows money (called principal) at a cost (an interest rate), the borrower-debtor can spend more money than they have in earnings and savings over the near term.

“But over the long term, this requires them to pay back the principal plus interest, and when they have to pay it back, it requires them to spend less money than they have. This dynamic is why the credit/spending/debt-paying-back dynamic is inherently cyclical.”

I’ve made a similar point by describing debt as “future spending pulled forward in time.” Debt lets us have our cake now and pay for it later. Eating cake is more fun than paying for cake. Debt thus front-loads pleasure and defers pain.

The swings between those two extremes are a repeating pattern because memories fade or people think “this time is different.” Then they make the same mistakes again.

Cycles Within Cycles

Dalio’s debt cycle consists of smaller cycles within a larger one. What he calls “The Short-Term Debt Cycle” resembles what most of us think of as “the business cycle.” It’s not quite the same but close enough for our purposes.

These periods begin with an environment where credit is readily available, due to both market forces and central bank responses to the previous cycle. Low inflation and slower economic activity produce low real interest rates. This encourages borrowing and investment in new production.

Inflation and growth then rise, as do asset prices (stocks, real estate, etc.) until they become too high relative to inflation rates and the return on other investments. A slowdown follows, everything reverses, and the cycle begins again. These cycles usually last about 3–9 years, so they occur fairly regularly, but they’re still hard to predict precisely.

Dalio’s insight is that these short-term cycles build on each other. The bottoming process at the end of each cycle liquidates *some* debt, but not all of it. Dalio explains (my emphasis):

“Because credit is a stimulant that creates a high, people want more of it, so there is a bias toward creating it. **This leads debt to rise over time, which typically leads to most of the short-term cyclical highs and lows in debt to be higher than the ones before.** These add up to create the long-term debt cycle, which ends when it becomes unsustainable.”

This means the short-term cycles grow increasingly more tenuous as the Big Debt Cycle progresses. Dalio explains:

“The capacity to take on more debt is different early in the Big Debt Cycle when debt burdens are lower and there is more potential for debt/credit to be able to fund highly profitable endeavors than it is later in the Big Debt Cycle when debt burdens are higher, and lenders have fewer productive options...

“In that early stage, it is easy to borrow—even to borrow a lot—and pay it back. These early short-term debt cycles are primarily driven by the previously described availability and economics of borrowing and spending, and also a lingering cautiousness brought about by memories of the pain of the most recent time when money was tight.

“Early in the Big Debt Cycle, when debts and total debt service are relatively low in relation to incomes and other assets, increases and decreases in credit, spending, debt, and debt service are primarily determined by the previously described incentives with less risk. But late in the Big Debt Cycle, when debts and debt service costs get high relative to income and the value of other assets that can be used to meet one’s debt service obligations, the risks of default are higher.”

Let’s stop here for a quick note. Default risks grow as the Big Debt Cycle progresses, but something else grows, too: government and central bank efforts to keep the credit flowing. These work for a while but make the ultimate crisis even worse. Dalio will have more to say on that later.

Resuming (emphasis mine):

“Also, late in the Big Debt Cycle, when there are a lot of debt assets and liabilities relative to income, the balancing act of trying to keep interest rates high enough to satisfy lender-creditors without having them too high for borrower-debtors becomes more challenging. That’s because one person’s debts are another’s assets and both must be satisfied. **So, while short-term debt cycles end because of the previously described economic considerations, long-term debt cycles end because the debt burdens are too great to be sustained.**

“Said differently, because it is more enjoyable to borrow and spend, if one isn’t careful, debt and debt service can grow like a cancer, eating up one’s buying power and squeezing out other consumption. This is what makes the long-term Big Debt Cycle.”

Note: It is too easy to read some of Ray’s quotes and think about private debt. Because it does describe that well. But that is not the current problem. Today’s excesses are more about public and sovereign debt, mostly in the US, but it is the same problem all over the developed world.

Dalio shows how this same Big Debt Cycle pattern recurs across history and all around the world. Americans may have built a bigger bubble but at the core, we're not doing anything new. Every cycle creates unsustainably large amounts of debt *relative* to the amount of money and other assets in existence at that time.

Dalio says it well: "A debt crisis occurs when there have been more promises made than there is money to deliver on them."

Stages of Grief

The short-term debt cycles get worse and worse until finally one of them is so bad, it ends the Big Debt Cycle, too. What triggers this?

Dalio says the main factor is the central bank's ability to turn the cycle around. In the initial stages, they can force enough money and credit into the economy to reverse the depressed/disinflationary state and generate more growth. But eventually debt grows so overwhelming that this no longer works. Dalio critically describes it this way:

"The Big Debt Cycle moves from sound/hard money and credit to increasingly loose money and credit to a debt bust that leads to a return to sound/hard money and credit brought about by necessity."

"More specifically, at first there is healthy borrowing by the private sector that can be paid back; then the private sector overborrows, has losses, and has problems paying it back; then the government sector tries to help, overborrows, has losses, and has problems paying it back; then the central bank tries to help by 'printing money' and buying the government debt, and has problems paying it back, which leads it to monetize a lot more debt if it can (i.e., if the debt is denominated in a currency that it can print)."

He then breaks this process into five stages, describing each in turn.

1. The Sound Money Stage:

"When net debt levels are low, money is sound, the country is competitive, and debt growth fuels productivity growth, which creates incomes that are more than enough to pay back the debts. This leads to increases in financial wealth and confidence."

As this stage begins, money is "sound" in the sense that it's both widely accepted as a medium of exchange *and* has some kind of hard value that makes it a storehouse of wealth. This ends as people create too much debt relative to the value of the real things that give money its value.

2. The Debt Bubble Stage

"When debt and investment growth are greater than can be serviced from the incomes being produced."

3. The Top Stage

“When the bubble pops and there is a debt/credit/market/economic contraction.”

The situation worsens quickly when a sufficient number of borrowers find their income can no longer service their debts. Dalio explains:

“When the bubble pops, a self-reinforcing contraction begins so the debt problems spread very quickly, like an aggressive cancer, so it is very important for policy makers to deal with it quickly, either to reverse it or to guide the deleveraging to its conclusion. ***In most cases, the debt contraction can be temporarily reversed by giving the system a heavy dose of what caused the debt problem—i.e., by creating more credit and debt.***”

Read that last sentence carefully. A debt contraction can be *temporarily* reversed by... doubling down on what caused the problem in the first place. Kind of like using Jack Daniels to cure a hangover (right, like you've never done that! 😊). Obviously, this is not a great solution, but it does buy some time.

4. The Deleveraging Stage

“When there is a painful bringing down of debt and debt service levels to be in line with income levels so that the debt levels are sustainable.”

The deleveraging stage gets ugly as lenders desperately try to convert their debt holdings into some kind of real money. This is where we see “bank runs,” both figurative and sometimes literal. Remember, your checking and savings accounts are *loans* from you to the bank. We saw as recently as 2022 with the Silicon Valley Bank episode how quickly confidence can collapse.

This stage is also when rescue efforts become increasingly futile, and then desperate.

“Often in this deleveraging stage of the cycle, there is a ‘pushing on a string,’ a phrase coined by policy makers in the 1930s. It occurs late in the long-term debt cycle when central bankers struggle to convert their stimulative policies into increased spending because savers, investors, and businesses fear borrowing and spending and/or there is deflation, so the risk-free interest rate that they are getting is relatively attractive to them. At such times, it is difficult to get people to stop saving in ‘cash’ even when interest rates go to 0% (or even below 0%).”

Worse, as people realize how bad the problems are, they naturally reduce their spending. But Dalio reminds us that one person's spending is another person's income. This makes the situation even worse.

The endgame is some kind of debt resolution, which can take many forms. Defaults, restructuring, and devaluations are all on the table. Dalio shows how it's possible to do this in a way that minimizes everyone's pain (more on that in a coming letter). But by this point, the capacity to make good decisions is greatly diminished, so deleveraging often occurs the hard way.

I think there will be more than just restructuring and devaluations when the crisis actually gets going. In the US and UK and other advanced economies, it is going to be a combination of painful spending cuts and increased taxes. **Everything** will be on the table. And I can guarantee you won't be happy with most of it. (One of the few guarantees I feel comfortable with writing about in an investment newsletter.)

5. The Big Debt Crisis Recedes

"When a new equilibrium is reached, and a new cycle begins."

The final stage may sound like some kind of relief, but the work isn't over. Lenders who just experienced major losses in the deleveraging are naturally reluctant to lend again. They have to be encouraged, **which happens only when the government and central bank take serious action toward restoring their lost credibility.**

This will be even more true in our current cycle, given that the government is both the largest debtor and positioned to dictate the deleveraging process. I don't know how this will unfold, but it has the potential to go very badly.

I'll stop there since I've given you a lot to chew on. Next week we'll look at what Dalio says about central bank policy in the Big Debt Cycle—what they usually do and what they *should* do. Which is, unfortunately, rarely the same thing.

The Inner Circle

Over the last six months, we first polled readers about their interest in being part of a more exclusive "Inner Circle" of my readers. We were rather overwhelmed with the positive response.

We are in the process of interviewing and selecting members, but from some of my recent travels I have learned on numerous occasions that not everyone who would like to be in this new group actually clicked on the link in their email inviting them to start the process.

We can correct that. If you click on this [Inner Circle link](#) you can put in your name and email address, answer a few questions, and then one of the management team will get back to you. As the webpage notes, our first meeting will be in New York on November 10–11. I would love to see you there.

Lost in Transcription

Last week I mentioned I had recently recorded a different type of podcast with my friend David Bahnsen. Some readers asked for a transcript. I actually prefer transcripts because I can read faster than I can listen.

As a reminder, in this podcast I basically assumed an old role, that of investigating a new money manager, probing to find out what makes them different from the literally tens of thousands of choices available. I asked the hard questions so that you can get insight into the philosophy that drives what I think is one of the most successful wealth management services in the country.

There is a reason that they have grown tenfold in the past 14 years—not just outstanding results, but some of the best customer service and the ability to take small clients right on up to the largest family offices and provide the services tailored to meet their needs. You can [watch the podcast here](#).



[Click here to view podcast](#)

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For the thousands of you who watched the video, or if you are looking for a different approach to managing your wealth, and if you would like to talk with a representative of The Bahnsen Group you can do so by [clicking here](#).

I also recommend you subscribe to David's *Dividend Café*, which is a daily must-read for me that not only keeps me up with market news, but gives me the philosophical understanding about what's happening, helping me separate the true signal from the noise. You can [subscribe to Dividend Café here](#).

Birthdays, Atlanta, New York, and Tulsa

While you are reading this on Saturday, October 4, I will be turning 76. On Sunday I fly to Atlanta to talk with a potential longevity clinic partner. The next scheduled trip is to New York for the Inner Circle gathering on November 10, then Tulsa for Thanksgiving, but I'm sure there will be other quick trips.

Reading Dalio reminds me of the other writers who are talking about the same endpoint but from different perspectives. And then I put that in the context of my latest grandson (Stetson) being born in late November. What world will he and his currently 9 fellow grandkids grow up in? In one sense, it is a good time to grow up. By the time all but my oldest grandkids reach adulthood, the debt cycle/crisis will have passed and even with the obvious difference in technology, it will be more like growing up in the '50s and '60s. Even with all the unrest, those generations really prospered.

The counter to that is my kids will go through a *fin de siècle* crisis in what should be their most productive years. It will make for an interesting Thanksgiving.

And with that I will hit the send button. You have a great week and spend more time with friends and family.

Your fascinated with cycles and grandchildren analyst,



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