

RECOMMENDED READ: Principles for Navigating Big Debt Crises – by Ray Dalio

Ray Dalio presents a unique way to understand debt crises - walking the reader through the conditions that allow them to happen, the catalysts that start the panic, and what the policy response has been. Written in simple language, it offers an account of each of these extraordinary times, free from the dry technicalities without losing the nuances of each of the cases.

The book first presents an overview of the nature of national debt, making clear that debt on its own is not bad. While being over indebted causes crises, having too little can bring forward its own set of problems arising from missed opportunities.

The crises are split into two groups, those that see lower inflation during the periods of crises, and those that see inflation rise (or even experience hyperinflation) during periods of stress. This difference is mostly a result of the extent to which a country issues debt in foreign currencies – a common feature of developing nations.

A useful feature of the book is the aggregated data. The author presents the average change in key economic signals from all of the significant debt crises over the last 100 years. These are used as road maps, charting the archetypal path that economies take during these periods - from boom, through depression, to recovery.

The book is a balanced presentation between what economic theory dictates central banks should do in times of crises, and what practical experience would suggest. When these two views differ, this is normally a result of either the speed in which central banks act, the message they portray to the market, or unique political obstacles that present themselves.

Each crisis will be different from the last, but there are features consistent in all. The book not only offers a wealth of information on past crises, but a framework from which to think clearly in times of panic.

