

Recession and Depression

by George Friedman - April 20, 2020

A recession is an essential part of the business cycle. Among other things it culls the weaker businesses and redistributes capital and labor for better uses. It is painful but necessary and it ends as it began, as a function of a healthy economy.

Depressions are not economic events; they are the result of exogenous forces such as wars or disease. Depressions are not a necessary culling but a byproduct of the savage destruction of these external forces, which not only disrupt but destroy vast parts of humanity and decency, along with the economy. Therefore, the question of whether we are now in a depression or recession is not an academic question but the single most important question that humanity faces. We will recover from a recession. We will recover from a depression as well, but it will take much longer and involve far more pain.

Depressions are economic events not created by economic forces. Therefore, measuring the depth of a depression by economic measures alone is insufficient. The measure of a depression is the extent to which it will destroy the hopes and dreams of a generation, making what had been in easy reach inconceivably far away, and taking successful people and reducing them to penury. Like many things, the face of depression is readily recognized even if it is difficult to quantify. Among other things, if for example an economy were to contract by 30 percent, recovering from that by, say, a 4 percent growth rate would not be a triumph but a confirmation that we would be beginning to climb out of depression.

The United States emerged from its last depression in World War II, so it has been almost a century since we have experienced one, and the one that we experienced arose from war and was solved by war. World War I created a massive depression in most of Europe. Germany was particularly savaged by the Treaty of Versailles, but Britain, Russia and Poland were also wrecked in different ways. The cause of the depression was that over four years at least 20 million Europeans, for the most part the next generation, had died. For four years the economy was focused on building weapons and ammunition. Shell-shocked soldiers came home to shell-shocked nations, an industrial plan irrelevant to anything but war, and the thanks of their fellow citizens. They did not come back to the futures they had imagined, but then those who did not go to war had their futures shattered as well.

Economists like to point to periods during the 1920s when the economy grew, but sporadic growth does nothing to affect my definition of depression. The term “lost generation” came about to refer to the cynical intellectuals who arose in the 1920s, but it more accurately describes, for example, the soldier who had hoped to own a shoe store but now found himself in a country where shoes were no longer bought but only mended.

This was not unique to any one country, save the United States, which fought for only a year and came home to a country able to produce the engines of war and the men who manned them, and all the food that could be imagined. For the most part their dreams were kept alive, for a while. But the persistence of the European depression meant that the U.S. could not resume its role as exporter. Instead, Europeans who had jobs at lower wages than the Americans undersold American products in the U.S. Washington’s response was a tariff on European goods that changed the structure of global trade, and added the United States to the list of casualties. I won’t trouble you with the details of the American depression. One of the characteristics of the greatest generation was that, having gone through the depression, they saw World War II as their great hope.

Depressions become a political event. There are those who do well in such times and want to preserve the depression. There are others too rich or poor to know that there is a depression underway. And there are those politicians who either invoke ancient ideology irrelevant to the moment, pretending to know what to do and figuring that no one will notice that they don’t, and a few who know that in a crisis the people will rally to those who actually care and plan.

One of these latter politicians was Lenin. Russia was utterly shattered. The leaders didn’t care. Lenin did and knew what to do. He famously said that you can’t make a pie without breaking the crust. To speed things up, he ordered bakeries to bake only crusts for breaking, forgetting the pie.

But there was little to be done with Russia.

In Germany, a leader emerged who recognized that unemployment was the heart of the problem and presented fascism as the solution, along with something vital: someone to blame. He nationalized the economy while leaving business in place, and nominated the Jews as the villains, to wild applause.

These are the people who come out of depressions. The successful are monsters; the decent can't control the forces that depressions unleash. Roosevelt's New Deal helped some but didn't change the reality. World War II offered the greatest stimulus package of all time. Depressions create desperate people hungry for everything — above all, some hope for a future. Hitler and Lenin were one kind of leader; Roosevelt and the other European leaders were another kind. In the end, the solution was not found by the Federal Reserve but the military.

World War II did not end the depression, save for in the United States. Europe was once again in depression. China and Japan were ruined. When I was a child, the words "Made in Japan" brought laughter and the expectation of cheap and trashy goods. The solution came because the Americans feared the Soviets and created aid packages for allies and the right to sell cheap goods to the U.S. The skilled workers of Eurasia were either led into a generational depression by the Soviets or into recovery by the Americans. Again, depressions and the possibility of war went hand in hand.

The coronavirus crisis has similarities to war. The state mobilizes the people heedless of consequences. The workforce, or a large part of it, is diverted from its work. Schools are closed. Most of all, we are afraid. Even the question of how the virus began has hints of retaliation assigned to it. The enemy is death, in this case from the virus. We duck and cover, and in a war, the rule is that there is no price too high to be paid for victory.

But victory in war and victory against the coronavirus are very different. This leads us to ask what victory in this case should look like. The virus should go away, on its own or from a vaccine. And the world should return to what it was. Yet the problem of war and depression is that the world doesn't go back to what it was. It is very different, and in its mildest form it causes the survivors to change their dreams — but most important they will still have dreams. They will not have to abandon their right to dreams.

So those are the questions of the moment. First, will the virus be defeated or go away? If it remains, will we accept the permanence of the new disease or will we conduct a war that will transform the world in unknown ways? Second, is this like the depression after World War I, a global crisis? We

Americans do not control how the world will react to the choice we have made, and decisions by Canada or Italy could affect how we live.

For what it is worth, I don't think we have reached the depression point. I don't think the numbers show it yet, and the despair of depression is not here yet. But some part of the world may have reached that point, and depression spreads its claws. The urgency on vaccines and openings I think reflects a sense of fear of reaching the breaking point, but as I have written in [my book about the United States](#), we are a uniquely inventive people, and this is in the end a technical problem.

Still, it is useful to bear in mind the past. When we look at the first half of the 20th century, the economy was a prisoner of war, and contrary to the histories of the time, it was not economic theory that defined things. But the political systems made the decision on the price to be paid, and the price was enormous in terms of death. In all of this equation, the dark reality is that solving this without accepting death will be difficult — unless the medical profession has an emergency mode.

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