A Tale of Four Crises: The Politics of Great Depressions and Recessions

by James Kurth

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Author’s Note: Harvey Sicherman was a firm believer in the importance of historical precedents in helping us to understand contemporary events, and some of the most delightful moments of my professional life were the discussions we had in which he shared his immense and rich knowledge of the history of international politics and foreign policy. Harvey also believed in the importance of the economic foundation of international affairs, and he consequently invited me to present my study of a succession of great global economic crises to FPRI’s study group on America and the West, and I did so in September 2010. As always on such occasions, Harvey himself greatly enriched the group discussion with his knowledge and wisdom. And as always, Harvey followed up with one of his characteristically thoughtful and personal letters, gracefully crafted to fit the particulars of the topic and the speaker. In doing so, he reminded me again of what a pleasure and an honor it was to present one’s scholarship to Harvey Sicherman, and he provided me with a memory that I still hold today of what a splendid scholar and gentleman he was.

The United States currently faces a series of challenges across a wide range of fields and theaters. These are the war in Afghanistan and the Islamist terrorist threat in much of the Muslim world, the new nuclear challenges from North Korea and Iran, the growing violence in Mexico, and the rising power of China. Each of these challenges is serious and taxing, and when they are combined they sometimes seem to be unprecedented and intractable.

However, along with these military and political challenges, there is also an especially serious and taxing economic one, and that is posed by the current global economic crisis. It is this challenge which is foremost in the minds of most Americans at the present time and which is contributing the most to the atmosphere of anxiety and discouragement which now prevails in much of the United States. And it is this economic crisis and this pessimistic spirit which makes addressing and meeting the other challenges seem to be so difficult.

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Looking at the Current Global Economic Crisis

Our current economic crisis technically began in December 2007. That is when, by most statistical reckonings, the U.S. economy first entered into recession. By the summer of 2008, it was clear to many observers that very serious economic problems were developing, particularly with the manifest collapse of the housing bubble. But in the minds of most Americans, the economic crisis really began on the weekend of September 15, 2008, with the dramatic collapse of the giant investment bank, Lehman Brothers, and the Federal bailout of the giant insurance corporation, AIG. The crisis—indeed the financial panic—rapidly spread throughout the U.S. economy and to most of the world. By now, more than three years after the current recession began, it has become so deep, so broad, and so prolonged that it has come to be called the Great Recession. And indeed, it has clearly become the greatest recession since the Great Depression itself. Moreover, one important economic indicator—the real U.S. rate of unemployment (not only those who are unemployed and still seeking work, but also those who have become discouraged and have stopped seeking, and those who are only part-time employed and are seeking more work)—has already reached depression-like levels.

Throughout the course of this Great Recession, there has been widespread public discussion of how it is similar to, or different from, the Great Depression. In this essay, we will participate in that discussion by drawing our own comparisons and contrasts between these two great global economic crises. However, it is also the case that the modern, industrial world has experienced at least two other great global economic crises, and it will be worthwhile to draw comparisons and contrasts with these also. The ensemble of four crises consists of the following: (1) the Great Depression of the 1890s (even at the time, this crisis was already called “the Great Depression.” The much more familiar economic crisis of the 1930s was really the second with that name); (2) the Great Depression of the 1930s; (3) the Great Stagflation of the 1970s (a hitherto-unknown combination of high unemployment—thus stagnation—and high inflation); and (4) our own Great Recession of the 2010s. As it happens, these great global economic crises have come along about every forty years or so.1

We will begin our discussion of our four crises by observing some general features common to all. We shall then examine each of the four in regard to some of their particular features. These will include the following: (1) the distinctive character of the crisis; (2) the competing theories purporting to

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1 On the first three crises, see Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, NY: Cornell University Press, 1986). This book provides the most comprehensive comparative analysis, as well as a complex conceptual framework, of the three previous great global economic crises (the Great Depression of the 1890s; the Great Depression of the 1930s; and the Great Stagflation of the 1970s).
explain it; (3) the consequences for the economic system and for domestic politics; and (4) the consequences for foreign policy and international politics. We will also note how economic analysts and policymakers have sometimes learned particular lessons from a crisis and have consequently responded by constructing new economic theories and policies. However, although these reforms seem to bring several ensuing decades of economic growth and prosperity, eventually the once-new theories and policies themselves have issued in a new global economic crisis.

**The Natural Progression of Global Economic Crises: The Four Seasons and the Metastasizing Cancer**

At the time of a great economic crisis, most people living through it perceive it to be a surprising and unprecedented event, which is inflicting great pain and privation that they had never experienced before. But, of course, economic crises are really just a particular phase in yet another iteration of the classic business cycle, and these cycles have been going on in modern economies for at least two centuries or since the beginning of the Industrial Revolution (or even before).

The classic business cycle consists of four phases: boom, bubble, burst, and bust. In a way, these phases can be seen as analogous to the four seasons of the year: Spring (with the freshness and vigor of new growth), Summer (when everything seems to be alive and prospering), Fall (which begins with the first frost), and Winter (when there is seemingly no lively activity at all). These four phases characterize not only the overall economy in general, but also particular sectors within it. In fact, the cycle in the general economy is usually led by a cycle in a specific leading sector (for example, the housing sector, which led the current cycle). The sectoral cycle not only leads; it often spreads its effects to the financial sector, and that sector in turn spreads the cycle to the economy as a whole. In a way, each successive phase of the cycle in the leading sector (boom, bubble, burst, and bust) metastasizes into the financial sector, and from there it further metastasizes into the general economy. Of course, if this economy is one of the leading economies within the global economy, the cycle will also spread, or metastasize, into other economies and perhaps throughout the entire world. In a sense, this process of the metastasizing of a cycle within a larger economic arena can be seen as analogous to the metastasizing of a cancer within a larger physical body.

**Competing Explanations for Global Economic Crises: The Four Theories and the Protracted Conflict**

Of course, the trauma inflicted by a global economic crisis generates a great effort to discover and understand its causes and its cures, its diagnosis
and its treatment. This search eventually results in not just one explanation, but in several ones in competition with each other, i.e., in a sort of thicket of theories. And as it happens, although these theories have been given different names in different crises, they actually have had a lot of continuity and consistency over time. Thus, we can distinguish four broad kinds of explanations or theories. These are (1) the free-market explanation, eventually codified into what is called the “Austrian School” of economics. Leading proponents have been Friedrich Hayek and Ludwig von Mises. This theory finds the main causes of the crisis to lie in government regulation and interventionist bureaucracies—i.e., government distortions of natural economic processes; (2) the progressive explanation, codified into the Keynesian (after John Maynard Keynes) theory of economics. This theory sees the main causes to lie in widespread underconsumption and in reckless businessmen (especially those in the financial sector); (3) the central-banking explanation, codified into the Friedmanian (after Milton Friedman) theory of economics. This theory finds the main causes to lie in the supply of money and credit; (4) the technological-innovation explanation, codified into the Schumpeterian theory (after Joseph Schumpeter). This theory finds the main cause to lie in the exhaustion of the economic growth and prosperity which had been produced by an earlier “epoch-making” technological innovation. Schumpeter began his career in Austria, before moving to Harvard in the 1930s, and this theory can be made consistent with the “Austrian School.” However, as we shall see, it can also be made consistent with a “state-directed development” theory and with the resultant set of interventionist economic policies.

Clearly, these four theories are very different in their causal explanations, and they naturally have very different implications for policy solutions. Moreover, each of their theories has been supported by particular economic interests and therefore by particular interest groups within the political process. This has given rise not only to vigorous competition (and often bitter conflict) between professional economists, but also to such competition and conflict occurring between political actors and over public policies. Indeed, when one theoretical camp decisively defeats another camp politically (and claims that it has also decisively refuted the other intellectually), the consequences can be profound and long-lasting. When the progressive Democrats defeated the free-market Republicans during the Great Depression of the 1930s, they established a political and intellectual hegemony that would prevail for more than three decades, i.e., until the next great global economic crisis, which was the Great Stagflation of the 1970s.

The Great Depression of the 1890s

Today, only professional historians know that, as early as the late nineteenth century, there was once something called the Great
Depression. However, at the time—and especially in its most acute phase, the mid-1890s—this depression was very depressing indeed. In the United States, agricultural and industrial prices fell sharply, large numbers of farms were foreclosed and farmers dispossessed, unemployment among industrial workers reached 25 percent, many banks and companies went bankrupt, and there was great political unrest. Moreover, the consequences of this depression in the domestic politics of other countries, and in international politics more generally, were profound. Indeed, some of these consequences in turn created new conditions which were the causes of the First World War.

The character of the Depression. At the time of the Great Depression of the 1890s, the primary sector in most economies (Britain was the exception) was still the agricultural one, and what happened in this sector determined the specific character of this depression. In the mid-nineteenth century, there had been a great expansion of railroads, which brought vast new regions into food production and into the global market (e.g., the United States, Canada, Australia, Argentina, Hungary, and Russia). This resulted in overproduction of agricultural commodities, a prolonged decline in their prices, and in deflation for the economy overall. The decline in agricultural prices had actually begun as early as 1873, and it continued through the next two decades, with spreading and deepening effects. Then, in 1893, there was a particularly sharp and severe further drop in prices and economic activity, which continued until at least 1896 (a sort of greater depression within the longer depression).

Deflation was the central defining feature of the depression from 1873 to 1896—joined by high unemployment from 1893 to 1896—and it had particular social and political consequences. Deflation obviously benefits creditors and hurts borrowers. It is the nature of agriculture that its producers are normally in debt, and so the primary victims of this depression also comprised the primary sector of the economy. Before long, they began to advocate all sorts of proposals to increase the money supply, which was then principally based upon the supply of gold (which had been limited ever since the California Gold Rush of 1849 had played out in the mid-1850s). New political movements formed around these monetary proposals, most prominently the Populists in the United States. Eventually, these proposals were even taken up by the Democratic Party in the United States (e.g., William Jennings Bryan’s famous “Cross of Gold” speech in 1896) and by agrarian parties in other nations.

As it happened, new gold fields were discovered almost simultaneously in several places in the mid-1890s (the Klondike and Yukon and the Transvaal or South Africa). This sharp increase in the gold supply (given the prevailing Gold Standard) meant a sharp increase in the money supply and

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thus an increase in prices and an end to deflation. This, along with recent industrial innovations, brought about renewed economic growth and prosperity, and the Great Depression of the 1890s came to an end.

**Competing explanations for the Depression.** At the time of this Great Depression and in later years, economists developed a number of competing explanations for why it occurred. Overall, we identify four major interpretations: (1) the classical-economics theory, which argued that prosperity and depression were simply natural and normal phases of the business cycle, that the painful effects of the depression would soon disappear simply through the workings of the free market, and that the best policy was simply to let the cycle run its course. (2) The Marxist theory, which took the painful effects of the depression much more seriously than the classical-economics theory, ascribed the depression to overproduction and underconsumption, and argued that these could only be eliminated with intervention by the state. As the depression which originally began in 1873 became more prolonged, this theory gained in credibility and acceptance. (3) The Kondratiev theory (named after its principal proponent, the Russian economist, Nikolai Kondratiev), which focused upon changes in the supply of gold as the main cause of changes from prosperity to depression and back to prosperity. This theory was a sort of precursor to the monetary theory of later decades, which would also focus upon the money supply. However, the Kondratiev theory had no clear policy implications, since the discovery of new supplies of gold seemed to be more a random matter of chance, than a logical matter of design. (4) The Schumpeterian theory, which focused upon the innovation of new technologies and the subsequent development of new industries as the driving force (and “creative destruction”) of economic growth and prosperity. But as these once-new industries matured or even went into decline, so too would the economy go into stagnation and even depression. In the 1890s, the long growth and prosperity that had been generated by the development of railroads and the steel industry came to an end when these sectors reached their maturity. It took another two decades for new technological innovations—this time with respect to electricity and chemistry—to develop into whole new industries. This happened in the 1890s.

**The consequences for the economic system and domestic politics.** The prolonged depression made it very difficult for most industrial companies to maintain profits or even to survive. Many responded by trying to set prices through business combinations (i.e., trusts and cartels) and to cut costs (i.e., through “scientific management”). There was also a big upsurge in European emigration, as dispossessed peasants and unemployed workers desperately sought to find a livelihood overseas.

As for the political consequences of the Great Depression, we have already noted that in the United States it brought about the Populist movement. Similar movements appeared in other nations where there was also a large mass of small farmers, who, although independent proprietors, were in great
debt and distress (e.g., Canada, Australia, New Zealand, and Denmark). However, in those nations and locales of Europe where there was a large mass of industrial workers, there was a large increase in the strength of Socialist political parties. This was soon followed by another large increase in the strength of conservative political parties or coalitions, in reaction and in response. The overall result in many European nations was the construction of two massive and polarized political blocs.

The consequences for foreign policy and international politics. Of course, all these pressures, disruptions, and changes produced by the Great Depression had to also issue in consequences for the international arena, and these turned out to be profound. Very quickly, national governments adopted policies of protectionism (Britain was the only exception) and promoted ideologies of nationalism. These would at least provide a relatively secure and orderly market within the national territory, in the midst of all the competition and chaos in the global market. But it soon became evident that most national territories were too small to provide an adequate market for the nation's production or to provide all the raw materials necessary to supply the nation's industries. Thus, the policies of protectionism and nationalism were soon followed by policies of colonialism and imperialism, issuing in such phenomena as "the New Imperialism," "the scramble for Africa," and the division of China into spheres of influence held by the European powers and Japan.

Of course, in order to defend its national territory, a nation would need to have a strong army, and to secure its colonial possessions, it would need to have a strong navy. This required a large increase in military spending and in weapons procurement (which also benefitted the distressed steel industry and the new chemical industry), and this could be justified by promoting an ideology of militarism and navalism, which was a natural partner for the ideology of nationalism. But, of course, with several great powers each engaged in these great increases in the size and strength of their armies and navies, the result was a series of arms races, of which the most ominous and momentous were the Anglo-German naval race and the Russo-German competition in the size of their armies.

Finally, the Great Depression of the 1890s brought about a great transformation in the global balance of power. On the eve of that depression, there were three great powers which were established ones and which were, more or less, interested in maintaining the status quo. These were Britain, France, and Austria-Hungary. Each already possessed a large colonial or multiethnic empire. There were also four rising great powers, which wanted either to acquire a new empire or to expand one it already had, and which were therefore interested in revising the status quo. These were the United States, Germany, Russia, and Japan.

By the end of the Great Depression of the 1890s, the global balance of power had been substantially changed. Each of the rising powers was now a good deal stronger in relation to the status quo power or powers that it was
challenging someplace in the world. This was especially true of the United States in relation to Britain, of Germany in relation to both Britain and France, and of Russia in relation to Britain. The Great Depression had impacted all of the great powers, but in terms of the relative power among them, it left the established powers weaker and the rising powers stronger than they had been before. This was a major transformation in the global balance of power. Of course, several of the rising powers soon began to conflict with each other, i.e., Germany versus Russia, and Russia versus Japan.

The Great Depression of the 1930s

The Great Depression—which began in the Fall of 1929 with the stock market crash on Wall Street, then spread to the rest of the U.S. economy, and then spread to the rest of the world—of course presents the paradigm, the archetype, of what a great global economic crisis can really be.³ Most of the severe effects of this Great Depression continued right down to the end of the 1930s, until they were superceded by the very different, but certainly severe, effects brought about by the beginning of the Second World War. Indeed, the war itself can be seen as a direct consequence of the Great Depression.

The character of the Depression. By the time of the Great Depression of the 1930s, industry or manufacturing had become the primary sector in several advanced economies (the most important being the United States, Britain, and Germany, and with industrial exports also being a crucial part of the economies of Japan, France, and Italy), and what happened in this sector determined the specific character of this depression.

However, the economic crisis actually began in the financial sector of the United States. During the 1920s, there was a classic cycle of boom, bubble, burst, and bust in this sector, first in real estate (especially in Florida) and then in the shares of industrial companies in the New York stock market.⁴ The burst and bust in industrial stocks soon spread to industrial companies themselves, with resulting declining production, declining prices but still sticky wages, and thus declining employment. Unemployment thus became the central defining feature of this Depression, with deflation also being very important (as in the earlier Great Depression of the 1890s, where it had been the central defining feature).⁵

³There is, of course, a large library of books on the Great Depression of the 1930s. A comprehensive and global account is given by Charles P. Kindleberger, The World in Depression, 1929-1939 (Berkeley, CA: University of California Press, 1973).
Because industry was the primary sector in the most important economies, large-scale unemployment meant that there were large numbers of unemployed industrial workers concentrated in major cities near their former places of employment. This concentrated mass of workers could readily be organized into social movements and political parties which were supposed to bring relief to their suffering. Thus, the early 1930s were characterized by a great upsurge in the strength of labor unions in the United States, of Socialist parties in much of industrial Europe (with Britain again being an exception), and even of the Communist Party in Germany.

As the Great Depression unfolded in the United States during the 1930s, there was a period of apparent recovery from 1933 to 1937, which coincided with the first Roosevelt administration and which was popularly ascribed to the policies of its New Deal. However, in 1937 there was another sharp fall in production and employment—a sort of secondary depression within the longer depression. Thus, the Great Depression did not really end in the United States until about 1940, when rearmament and military spending finally brought about an increase in industrial production and employment.

**Competing explanations for the Depression.** At the time of the Great Depression or in later years, economists developed a number of competing explanations for why it occurred. Overall, we can once again identify four major interpretations: (1) The classical-economics or Austrian-School theory, whose arguments were, and continue to be, that the depression had originally begun simply as yet another normal phase in the business cycle, but that its effects were greatly exacerbated by the interventionist policies of first the Hoover administration and then the Roosevelt administration. In this interpretation, the New Deal actually made the Great Depression even greater. (2) The Keynesian theory (and also the ongoing Marxist theory), which ascribed the depression to overproduction and underconsumption and argued that these could only be eliminated through intervention by the state; for Keynesians, this was to take the form of fiscal policy and deficit spending. (3) The Friedmanian theory, which focused upon the sharp shrinkage of the U.S. money supply (in its terms, “the Great Contraction”) in the early 1930s. The Friedmanians argued that this contraction was greatly exacerbated by the incompetent (often non-interventionist) policies of the Federal Reserve system; in this interpretation, the Federal Reserve actually made the Great Depression even greater. (4) The Schumpeterian theory, which focused upon the maturity and at least temporary stagnation of the once-new industries that

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7 Milton Friedman and Anna Jacobson Schwartz, *The Great Contraction, 1929-1933* (Princeton, N.J.: Princeton University Press, 2008). This edition includes several new essays, including one by Ben Bernanke, the Chairman of the Federal Reserve, which nicely reveals the limitations of his theoretical (more accurately, ideological) framework.
had earlier generated the long growth and prosperity from the late 1890s to the late 1920s. These were the electrical and chemical industries and the more recent automobile and radio industries. It took another two decades—i.e., the period of the Great Depression and the Second World War—for new technological innovations—this time with respect to aviation and television—to develop into whole new industries, and also to provide a second wind and new expansion for the automobile industry. This happened by the late 1940s, bringing renewed growth and prosperity to the most advanced industrial economies of the time.

The consequences for the economic system and domestic policies. As in the earlier Great Depression, so too in this one, industrial companies responded by trying to set prices through business combinations or cartels. Indeed, this was the principal purpose of the Roosevelt administration’s famous National Recovery Administration (N.R.A.), which was later dismantled by the U.S. Supreme Court.

This time, there was no upsurge, but actually a decline, in emigration, because the centrality of unemployment and the power of labor unions caused high barriers to be raised against immigration into the industrial nations. With the earlier escape valve of emigration now closed off, unemployed and desperate workers turned even more to political action to solve their problems.

However, it would take several years of depression before the actions of industrial workers began to radicalize domestic politics. For the first three or so years of the depression—indeed during the period when it was descending into its depths—the effects upon domestic politics were rather modest and conventional. Since the 1920s had largely been a period of prosperity, the democratic or liberal political systems of the time were governed by political parties or coalitions which were moderate and centrist. Then, when the Depression began, there was indeed a change of government, with the opposition party taking over, but this was merely a change from one moderate party to another one. Thus, where the moderate Right or conservative parties had been in power, they were indeed rejected by anxious voters, but they were replaced with moderate Left or liberal and social-democratic parties (e.g., the United States and France). Conversely, where the moderate Left or liberal and social-democratic parties had been in power, they were rejected by the voters, but they were replaced with moderate Right or conservative parties (e.g., Britain, Germany, and Japan). As for the dictatorial major powers, there was a comparable development. Italy was already a Fascist dictatorship, but Benito Mussolini’s policies became even more fascist; the Soviet Union was already a Communist dictatorship, but Joseph Stalin’s policies became even more communist (e.g., the Five-Year plan and forced collectivization of agriculture).

The evolution of depression politics in the United States is, of course, of particular interest to Americans. In the presidential election of 1932,
Roosevelt had run on an economic platform that was actually quite moderate, one plank of which was a balanced budget for the Federal government. Then, when he came into office, he was confronted with a number of crises, such as a widespread run on the banks, and he responded with a series of emergency economic measures, the famous “Hundred Days.” But most of these measures merely expanded, popularized, and institutionalized interventionist economic policies which had already been undertaken by the preceding Hoover administration. The New Deal (or what later was called the First New Deal) included the N.R.A., the Agricultural Adjustment Administration (A.A.A.), banking reforms, particularly the Glass-Steagall Act and the Securities and Exchange Commission (S.E.C.), the Public Works Administration (P.W.A.), the Works Progress Administration (W.P.A.), and the Civilian Conservation Corps (C.C.C.). The broad scope and the nearly simultaneous enactment of these economic measures certainly made them seem to be radical in the minds of many Americans at the time. However, for each of these reforms, there were already precedents operating in the United States.

Indeed, the First New Deal was so moderate that it did not go very far in solving the central problems of the Great Depression, particularly industrial unemployment or its companion, rural poverty. By 1934, political leaders and movements were emerging which proposed economic policies which were much more radical than those of the First New Deal; the most formidable of these new leaders was Huey Long.

Roosevelt knew that he had to respond to this radical threat before the 1936 presidential election, and the result was the Second New Deal. Its principal measures were the Social Security Act and the Labor Relations (or Wagner) Act, both of 1935. More generally, the Second New Deal included a substantial increase in the centralization and the power of the Federal government (“the Administrative State”). When, in 1937, the U.S. Supreme Court made its famous switch (from overturning the Roosevelt administration’s economic measures to accepting them), it allowed the Second New Deal to stand, and America has been operating within its structures ever since.

As it happened, a similar move to more radical policies or even more radical regimes also occurred elsewhere in 1933 and after. The most momentous and notorious shift occurred in Germany, where a moderate conservative government was replaced by the radical—while purportedly merely a more conservative—Nazi regime. A similar radical shift toward more extreme conservatism also occurred in Japan, culminating in a militarist regime. And in France, the parties of both the Right and the Left became more extreme, resulting in a serious polarization of French politics and the weakening of the Third Republic. Thus, by 1936, the major powers (with Britain again being the exception) either were governed by radical regimes or were experiencing

\[8\] Schlesinger, The Coming of the New Deal, 1933-1935, volume II of The Age of Roosevelt; Shlaes, Forgotten Man.
severe political turmoil, all of which would have been unimaginable to ordinary people, or even to most political analysts, in 1929, only seven years before.

The consequences for foreign policy and international politics. Of course, all these changes, radicalization, and turmoil produced by the Great Depression had to also issue in consequences for the international arena, and these turned out to be very profound indeed. Very quickly, national or imperial governments again adopted policies of protectionism (e.g., the Smoot-Hawley Tariff of 1930 in the United States, “Imperial Preference” in Britain in 1932, and the similar “Colonial Pact” in France). After all, the United States possessed a large continental territory, and Britain and France possessed vast territories in their empires, and these would at least provide a relatively secure and orderly market, in the midst of all the competition and chaos in the global market. However, the situations of Germany, Italy, and Japan were very different. They possessed neither large national territories nor vast imperial ones. Their territories were too small to provide an adequate market or to provide all the raw materials necessary to supply the nation’s industries. Thus, their own policies of protectionism and nationalism were soon followed by policies of military aggression and ideologies of national expansion, so that they might acquire the requisite large territory or “economic space,” issuing in such phenomena as Germany’s “Grossraumwirtschaft” in Eastern Europe, Japan’s “Greater East Asia Co-prosperity Sphere,” and Italy’s “New Roman Empire” in North and East Africa.

Of course, in order to acquire and defend its new economic space, a nation would need to have a strong army and, in the case of Japan’s and Italy’s overseas possessions, a strong navy too. This required a large increase in military spending and in weapons procurement (which also benefitted the distressed steel and chemical industries), which could be justified by promoting an ideology of militarism, which was a natural partner for the ideology of national expansion.9

The democratic political systems, which also happened to be already-established continental or imperial powers (i.e., the United States, Britain, and France) were much slower to see the advantages of military spending and weapons procurement, than were the authoritarian political systems—and “have-not” powers (i.e., Germany, Japan and Italy). However, the persistent military aggression of the dictatorial powers eventually drove the democratic ones to undertake their own programs of military spending. But, of course, these rearmament programs came very late—too late, as it turned out, for France, and almost too late for Britain and the United States. The democratic systems had large numbers of voters who had other priorities in the midst of their economic distress, and they had not yet come to realize (as had

John Maynard Keynes) that military spending could actually provide the deficit spending that Keynesianism prescribed and that it could actually help to bring an end to the Great Depression.

Finally, the Great Depression of the 1930s again brought about a great transformation in the global balance of power. On the eve of that Depression, there were once again three great powers which were established ones and which were interested in maintaining the status quo. These were the United States, Britain, and France, which, as we have noted, already possessed a large continental or imperial territorial realm. There were also once again four rising great powers, which wanted to acquire new continental or imperial territories and which were therefore interested in revising the status quo (hence the term, “Revisionist powers,” which was applied to them at the time). These were Germany, Japan, Italy, and the Soviet Union.

By the end of the Great Depression of the 1930s (and the beginning of the Second World War), the global balance of power had already been substantially changed. Each of these rising powers was a good deal stronger in relation to the status quo power or powers that it was challenging someplace in the world. This was especially true of Germany but also of Italy and the Soviet Union in relation to both Britain and France, and it was true of Japan in relation to both Britain and the United States. The Great Depression had impacted all of the great powers, but in terms of the relative power among them, it left the established (and democratic) powers weaker and the rising (and authoritarian) powers stronger than they had been before. This was a major transformation in the global balance of power. Of course, two of the rising powers would eventually conflict with each other in the most titanic military struggle in history, i.e., the war between Nazi Germany and the Soviet Union.

The Great Stagflation of the 1970s

A third great global economic crisis began in the late 1960s with the onset of serious inflation in the United States. It would spread and deepen during the course of the 1970s, until it came to an end in the early 1980s with the end of inflation in the United States. This crisis was certainly not a third great depression, but it also was not simply a great inflation. Rather, it was a perplexing combination of both high and prolonged inflation and high and prolonged unemployment. Thus, its hybrid and unique name, the Great Stagflation. And for many Americans today, this had been the only great global economic crisis that they had experienced, prior to the new crisis that we are experiencing now.

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The character of the Stagflation. By the time of the Great Stagflation of the 1970s, the advanced industrial economics contained a number of core sectors. However, it was the energy sector (closely connected with two other leading sectors, i.e., automobiles and aviation) that became the primary economic sector determining the specific character of this crisis (demonstrated by the two “oil shocks,” which occurred in 1973-1974 and 1979-1980).

However, this economic crisis actually began with the prior profligacy of U.S. fiscal policy in the late 1960s, when the Johnson administration turned to massive budget deficits as the way to finance the Vietnam War. This soon produced rising inflation in the United States and declining confidence in the U.S. dollar in the global currency market. Faced with runs on the dollar that had become very destabilizing by 1971, the Nixon administration was driven to abandon a “fixed” exchange rate for the dollar (which had been crucial to the Bretton Woods global economic system, which the United States had established after the Second World War) and to adopt a “floating” exchange rate. This meant an immediate devaluation of the dollar and provided another cause for even more inflation. Finally, with the oil shock of 1973-1974, which quadrupled oil prices, and the oil shock of 1979-1980, which doubled them again, inflation in the United States and in most other major economies reached double-digit levels (18 percent in the U.S. in 1980). Inflation thus became the central defining feature of the Great Stagnation, with unemployment also being very important (as in the Great Depression of the 1930s, where it had been the central defining feature).

Like its obverse, deflation, inflation benefits some economic interests (most obviously, debtors) and hurts others (most obviously, creditors). However, there is one massive group which historically has been harmed by inflation, and that is the middle class, or at least those people within it who are savers and who rely upon their savings for their future livelihood. Since middle-class people normally are more politically active and have a greater sense of political efficacy than lower classes, they could readily organize to pressure political parties to bring relief to their suffering. Thus, the late 1970s were characterized by a great upsurge in the strength of political groups promoting conservative economic policies. By 1980, such groups had actually taken over the leadership of the conservative parties in the United States (the Republicans, led by Ronald Reagan) and Britain (the Conservatives, led by Margaret Thatcher).

Competing explanations for the Stagflation. At the time of the Great Stagflation, economists developed a number of competing explanations for why it occurred. Of these, we will once again identify versions of our ongoing four interpretations: (1) the classical-economics or Austrian-School theory, which, of course, focused upon the profligate economic policies of the Johnson and Nixon administrations and, more generally, upon irresponsible government disruptions of normal market operations and adjustments. (2) The Keynesian theory, which had the hardest time coming up with a convincing
explanation for the crisis, since it had been designed to combat depression and had almost nothing to say about combating inflation. Moreover, by the late 1960s, the governments of most advanced countries had fully adopted and institutionalized Keynesian economic policies, and these obviously had not prevented the crisis from occurring. Indeed, the other theories actually blamed these Keynesian policies for being the central cause of the crisis. (3) The Friedmanian theory, which focused upon the politicized management and consequent great expansion of the money supply, especially in the United States during the late 1960s and early 1970s. The Friedmanians argued that this expansion had been exacerbated by the reckless policies of the Federal Reserve system, and that the Federal Reserve had actually made the great inflation even greater. But of course, the Friedmanians directed their greatest criticism and scorn at the Keynesians and their deficit spending. (4) The Schumpeterian theory, which once again focused upon the maturation of once-new industries, which had generated the long growth and prosperity from the late 1940s to the late 1960s; in this case, these were the automobile, aviation, and television industries. It would take another two decades—i.e., the period of the Great Stagflation and then into the 1980s—for new technological innovations to develop into whole new industries; these were the computer and telecommunications industries. This had largely happened by the mid-1980s, bringing renewed growth and prosperity to the most advanced, new information-age, economies of the time. These developments would ultimately culminate in the Internet and in the high-tech boom of the 1990s.

The consequences for the economic system and domestic politics. The primary economic sector in the Great Stagflation was energy, and it was in this sector where the consequences of the crisis were greatest. Indeed, there was a great transformation and redistribution of economic power in the global oil industry, with the control of oil production and prices passing from a cartel of Western oil corporations (the “Seven Sisters”) to a cartel of third-World oil producers (OPEC), which was led by Saudi Arabia. Enormous wealth was suddenly transferred—and continues to be transferred—from Western consuming nations to Middle-Eastern producing nations, and this produced both lower Western consumption of Western products—thus stagnation—and higher Western prices for oil-based products—thus inflation. In this sense, it was the dramatic changes in the oil sector that gave this particular great economic crisis its distinctive character and name.

Such a great economic crisis would, of course, have great consequences for American domestic politics. The political structures which were established and the policy lessons which were learned in the aftermath of the previous great economic crisis, the Great Depression (especially the Second New Deal and Keynesian fiscal policies), now proved incapable of solving, or even understanding, the new crisis. A long period ensued when U.S. politics was caught between old structures and policies which had been discredited and new ones which had not yet been adopted; this was the famous political
“malaise” of that time. Finally, in the late 1970s, new (or renewed) kinds of economic conservatives came to power in the Republican Party. They were inspired by a renewed ideology of the free market, while actually practicing the rather different Friedmanian theory of proper management of the money supply by the Federal Reserve. This reinvented Republican Party then came to power in the White House and the U.S. Senate in the election of 1980 and proceeded to carry out what it called “The Reagan Revolution” based upon its economic project.

The Great Stagflation also impacted the domestic politics of most other major powers. The political changes in Britain closely paralleled (and even led) the changes in the United States, and in West Germany there was a similar but less pronounced shift from a social-democratic government to a conservative one. In France, there was initially a shift in the opposite direction, but within a couple of years the Socialist government gave up on much of its progressive economic program and had to make do with relatively conservative economic policies. Overall, however, it can be said that the domestic-political consequences of the Great Stagflation were much less radical than those of the Great Depression. Perhaps a main reason for the difference is that the mass political actors in the later crisis were middle class, while those in the earlier crisis were at first working class, and then middle class, who organized in fearful reaction to the organized working class. When middle-class people engage in political activity by themselves, they normally are not very radical, either in their programs or in their methods.

The consequences for foreign policy and international politics. The Great Stagflation did have very important consequences for the international arena, but they had little in common with the international consequences of the earlier great global economic crises, the two Great Depressions. In a sense, one of the most important features of the Stagflation was a number of non-events. There was no significant revival of policies of protectionism, colonial acquisitions, military spending, and weapons procurement, and of ideologies of nationalism, militarism, and navalism. Perhaps the most interesting non-event is that, when the U.S. economy was reeling from the Arab oil embargo of 1973–1974, no one seriously proposed that the U.S. military seize the vast and vital oil-producing facilities concentrated in the Eastern Province of Saudi Arabia.

Of course, the earlier militant policies and ideologies had led directly to the unprecedented disasters of the First and Second World Wars, and none of the great powers wanted to come anywhere close to anything like that. And of course, by the 1970s, there were no longer great powers in the earlier sense; there were two superpowers (the United States and the Soviet Union), and there were about five nations which were only major powers (Britain, France, West Germany, Japan, and China). These major powers were not so major that they could engage in substantial and consequential initiatives in foreign policy.
Given the fact that there were now only two superpowers, rather than several (or seven) great powers, any transformation in the global balance of power would have to occur at that high level. And the Great Stagflation did bring about some redistribution of power between the United States, which was the established or status quo power, and the Soviet Union, which was the rising or revisionist one. By the end of the Stagflation in the early 1980s, the Soviet Union appeared to be substantially more powerful and threatening in relation to the United States than it had been on the eve of the crisis in the late 1960s. Part of this change was because the Soviets were large exporters of oil and natural gas, and they had benefitted from the great increase in energy prices. However, most of the change was due to the great wave of Soviet military and political expansion in the Third World which occurred during 1975-1979, in the immediate aftermath of the U.S. debacle in Vietnam and the rest of Indochina; this expansion had almost nothing to do with the global economic crisis.

The important international consequences of the Great Stagflation unfolded in a quite different arena than the traditional balance of power. They were the result of the massive shift in wealth to the Middle-Eastern oil producers, especially to Saudi Arabia and Iran. The consequences in Iran occurred soonest. The rapid inflow of oil money destabilized the Iranian economy and political system, while empowering the emerging Shiite revolutionary movement, which then took power in 1979. This was one major cause for the revival of Islam at that time, and especially of its political version, Islamism. The consequences in Saudi Arabia matured a little later, but they have been at least as profound. The massive and sustained inflow of oil money greatly empowered the Wahhabi religious establishment there, and enabled it to vigorously promote its extreme version of Sunni Islam in a wide range of countries around the world. The Saudi and Sunni dynamic has been an even more important cause than the Iranian and Shiite one for the revival of Islam and Islamism.

The Great Recession of the 2010s

The Great Recession of the 2010s, of course, needs no introduction. We are all intimately familiar with it, and we now meet it every day. But it is useful to look at where it came from and how it got here.11

The character of the Recession. During the 1990s and 2000s, the financial sector in the United States began to grow at a substantially greater rate than the rest of the American economy. Part of this was because the Clinton administration, responding to vigorous lobbying by the American

11 A comprehensive overview of the Great Recession is provided by Roger Lowenstein, The End of Wall Street (New York: Penguin Press, 2010).
banks, undertook a systematic dismantling of the Depression-era legislation (e.g., the Glass-Steagall Act of 1933), which limited the size and risk-taking of banks; because the George W. Bush administration followed this up with very light enforcement of what financial regulation remained; and because the Federal Reserve during both administrations almost always pursued policies which were friendly to the largest banks. The expansion of the financial sector was also partly due to the innovative and complex financial instruments (e.g., mortgage-backed securities, collateralized debt obligations, and credit default swaps) that had become technically possible with sophisticated computer programs, a logical product of the maturing of the information age in the 1990s. The consequence was that by the early 2000s, the financial sector was the primary economic sector in the United States. The same was certainly true in Britain (where finance—the “City of London”—had been the most powerful sector for almost a century), and banks also comprised a major sector in several other Western European nations (e.g., France, Germany, Italy, and Spain). This primacy of the financial sector has substantially determined the character of our current Great Recession.

During the 2000s and led by the largest American banks, the financial sectors of the major Western nations passed through the classic cycle of boom, bubble, burst, and bust, especially in regard to the real-estate and securities markets. In particular, the U.S. cycle in the 2000s was very similar (but on a much larger scale) to the U.S. cycle in the 1920s. Since finance almost always provides the credit—a kind of lifeblood—that the rest of the economy needs, a burst and bust in the financial sector historically has inflicted bigger and longer damage on the rest of the economy, than has a burst and bust in some other sector. But when finance itself is the primary economic sector, a burst and bust there is especially devastating. This is a principal reason why this particular recession has become the Great Recession.

As with our three previous great economic crises, it is also useful to identify the central problem or dynamic, which does so much to define the specific character of the crisis. In our previous crises, this was successively deflation, unemployment, and inflation. However, when we ask this question about our current crisis today in 2011, we see that we do not yet have one clear and distinct answer. Certainly, many Americans—including most working-class voters and Democratic elected officials—think that unemployment is the central problem. (I myself think that, ultimately, and at least for the United States, high and prolonged unemployment will have the greatest political and social consequences.) However, this is not the view of many other Americans. Most middle-class voters and Republican elected officials think that the growing government deficits and debt will produce high and prolonged inflation, and that this is the central problem. And a few Americans—princi-

pally found within the financial sector and among some economists—think that deflation could become the central problem. In short, at the present time in the United States, there is some important part of the population which thinks that the central problem of one of the previous great economic crises—but not of the other two—is once again the central problem of our current crisis. This very inability of political actors to agree about what is the central problem is itself a major factor producing political stalemate, and one that, since the November Congressional elections, could produce a political crisis, which would greatly compound the economic crisis.

One of the reasons why it has been so difficult to identify the central problem of this economic crisis is that it is distinguished by an unprecedented amount of debt, and that this debt is in both the private sector (including both businesses and consumers) and the government sector of the economy. At the beginning of the Great Depression of the 1890s, there was a lot of private debt, but not much government debt. At the beginning of the Great Depression of the 1930s, neither the private nor the government sectors had a lot of debt. At the beginning of the Great Stagflation of the 1970s, there was a lot of government debt, but not much private debt. But at the beginning of the Great Recession of the 2010s, both the private and the government sectors were heavily in debt.

This latter reality helps to explain the specific character of our current crisis. The heavily-indebted business sector does not receive or does not even request credit, which is necessary to sustain or add to employment—thus unemployment. The heavily-indebted government sector will be tempted to “monetarize the debt”—i.e., to print money to manage its debt—thus inflation. Finally, the heavily-indebted consumer sector, which is now having difficulty in meeting its interest payments, has reduced its consumption (a serious problem for the business sector) and will be tempted to default on its debt (a serious problem for the financial sector). This heavy burden on the economy of consumer debt would become even heavier—and potentially devastating—if the real cost of that debt were increased, i.e., because of deflation. It will probably take a couple more years before one of the contending candidates for the status of the primary problem of the Great Recession of the 2010s comes out on top. But whichever it is, it will probably be deeply rooted in the problem of debt. And at the very center of that debt, there will be, for the first time, the problem of the sovereign debt of the U.S. government itself.

Competing explanations for the Recession. Not surprisingly, several competing explanations have already been put forward for why this Great Recession has occurred. Of these, we will once again identify versions of our ongoing four interpretations: (1) the classical-economics or Austrian-School theory, which ascribes the crisis to government regulation

and intrusive bureaucracies. Along with other kinds of free-market conservatives, this approach focuses specifically upon the profligate housing policies and guarantees of Fannie Mae, Freddie Mac, and the Federal Housing Administration (F.H.A.) from the late 1990s to the present. It also condemns the low-interest and easy-credit policies of the Federal Reserve during 2001-2005, along with the massive Federal bailouts from 2008 to the present of the largest (purportedly “too big to fail”) American banks, at the expense of the rest of the economy. (2) In contrast, the Keynesian or progressive theory ascribes the crisis to the unregulated free market and reckless bankers, both greatly exacerbated by the hands-off economic policies of the George W. Bush administration. Its solution, of course, is a new great leap forward in progressive regulatory legislation and the alleviation of the recession by deficit spending in the good old Keynesian way. (3) The Friedmanian theory, which has had the hardest time coming up with a convincing explanation for the crisis. This is because it had been designed to have the Federal Reserve manage the money supply; in an era when finance was the primary sector of the U.S. economy and when the Federal Reserve had unprecedented power and prestige, this was exactly what the Fed had done during the 2000s. This obviously did not prevent the crisis from occurring. The embarrassment of the Friedmanians is compounded by the fact that the leading Friedmanian of his generation is Ben Bernanke, who has been Chairman of the Federal Reserve throughout the crisis. Consequently, the Friedmanians have been reduced to blaming the crisis on particular, and presumably accidental, mistakes by bankers and regulators. (4) The Schumpeterian theory, which has had no prominent exponent in the United States thus far in this crisis. However, by this interpretation, the underlying cause of the crisis was the maturation by 2000 of the computer and telecommunications industries (thus the burst and bust in high-tech stock prices that year). The U.S. economy should have then developed new industries, based upon recent technological innovations in, for example, applied biology and clean energy. Instead, because of the leading role of the financial sector in the U.S. economy, the innovative spirit and investment capital went not into new and productive technologies and industries, but into old and speculative areas such as real estate and financial products.

However, although the Schumpeterian theory is now disregarded or unknown in the United States, there is one country where it is now being vigorously implemented, even more vigorously in the midst of the global economic crisis than it was before. That country is China. There, in the same way that the Roosevelt administration did in America in the 1930s (and also in the true Keynesian way), the state authorities have channeled massive investments into constructing a vast infrastructure of highways, railroads, airports, and dams, which will substantially increase the productivity of the overall Chinese economy. But also, in the true Schumpeterian way,
they have channeled large investments into developing a clean-energy industry, which they expect will become the leading such industry in the world.\textsuperscript{14}

The consequences thus far for the economic system and domestic politics. We have seen in previous great economic crises that business firms came under great pressure with respect to their profits or even their survival, and that combinations or cartels were a common response. Something comparable has occurred in the current crisis. Since this crisis has been centered upon the financial sector, we would expect that it would be banks and other financial institutions that have been most in danger of failure (i.e., have had a solvency crisis, and not merely a liquidity crisis), and that a move to some kind of financial combination would be the result. And of course, this has been the case, with the Federal Reserve and the FDIC presiding over and assisting a wave of mergers and acquisitions for commercial banks, both big (e.g., Wachovia) and small (several hundred regional or local banks), and for investment banks (e.g., Bear Stearns and Merrill Lynch). Of course, one of the most remarkable—and controversial—features of this crisis is how the Federal Reserve judged almost all of the really big banks to be “too big to fail,” and therefore it has bailed them out with a wide array of measures, at great cost to many other Americans (e.g., taxpayers and savers). In any event, the concentration of American bank deposits and bank assets in the four largest American commercial banks (i.e., Citigroup, Bank of America, J.P. Morgan Chase, and Wells Fargo) is now even greater than it was at the beginning of the dramatic financial crisis in September 2008.

Of course, an economic crisis of this magnitude has already had consequences for domestic politics, and these bear similarities to the initial political phase of previous crises, especially the Great Depression of the 1930s. As we have noted about that time, the first political consequence was that the ruling, and established, political party was replaced by the opposition, but still established, political party. This has also been the case during the Great Recession in the United States (from a Republican President to a Democratic one), Britain (from a Labour government to a Conservative-led one), Japan (from a conservative government to a Democratic-led one), and several smaller European nations.

On the other hand, certain governments which were in power when the crisis began are not only still in power, but in some ways they have even more political authority than they had before. This seems to be true of China, India, Brazil, and perhaps Russia. As it happens, these four nations comprise the famous BRICs, i.e., the most prominent of the emerging or rising economies; their economies have continued to grow during the Great Recession which is afflicting the most advanced economies. And as it also happens,

\textsuperscript{14}James Kurth, “Pillars of the Next American Century,” \textit{The American Interest} (November/December 2009), pp. 4-13.
each of these four countries has taken decisive government actions (e.g., infrastructure projects, fiscal policy, or monetary policy) in order to maintain their economic growth.

We also saw in the previous economic crises that eventually (normally about two or three years after the crisis began) more extreme or radical political movements arose, again especially in the Great Depression of the 1930s. For the most part, we have not yet entered into this political phase. For example, the unemployed in the United States have not made any move toward a new political movement. Probably this is because they are now not only disconnected from the economic system, but also from each other and from the political system as well.

However, there have indeed been the beginnings of a new political movement among those in the middle class who are most concerned with the current problem of government deficits and debts and the potential problem of inflation, and that, of course, is the Tea Party Movement. This political phenomenon has a good deal in common with movements of the aggrieved middle class or small proprietors in previous great economic crises, after these had been underway for a couple of years.

The rise of new political movements will probably continue as it becomes even more clear to more people that the old, now-established solutions to past economic crises are not effectively working to solve this one (Keynesian and fiscal policy from the Great Depression of the 1930s, and Friedmanism and monetary policy from the Great Stagflation of the 1970s). The continuing and prolonged failure of established economic theories and policies almost certainly will produce a desperate search (or at least a search among the desperate) for new theories and policies, which will be implemented by new or reinvented political parties, and even perhaps by new political regimes.

The consequences thus far for foreign policy and international politics. In our three previous global economic crises, nations adopted protectionist trade policies quite quickly (e.g., the Smoot-Hawley Tariff, which the United States adopted in 1930, only a year after the stock-market crash in the Fall of 1929). However, it normally took a few more years for the other kinds of foreign policies, particularly strategic and military ones, to emerge out of the crisis-era political processes.

In our current crisis, a few nations have taken a few moves toward protectionist policies, but overall and thus far protectionism has not yet become a major feature of the crisis. In this sense, the crisis is more like the Great Stagflation of the 1970s, than the Great Depressions of the 1890s and the 1930s. The main explanation for the difference is probably the elaborate structure of international economic institutions (i.e., the International Monetary Fund, the World Trade Organization, and the World Bank—each of which embodies the lessons learned from the protectionism of the Great Depression of the 1930s—along with the European Union). Moreover this structure of
international economic institutions continues to be supported by the vast network of multinational corporations and banks that insist upon maintaining an open global economy. Thus, policies of protectionism and ideologies of nationalism have not reappeared, and certainly not the associated policies of regional economic blocs or colonial expansion and ideologies of imperialism and militarism.

Indeed, in a way similar to the initial military policies of the democratic powers during the Great Depression of the 1930s, most of today’s democratic powers (i.e., those in the European Union and also Japan) are now reducing their already small defense budgets, in response to the fiscal pressures of the Great Recession. As for the United States, the Obama administration is under great pressure from not only the Democrats in Congress but also Tea Party Congressmen both to reduce the defense budget and to wind down the U.S. military operations in Afghanistan concurrent with the complete U.S. military withdrawal from Iraq.

However, in a way similar to the military policies of the authoritarian powers during the Great Depression of the 1930s, China and Russia—who are now both authoritarian powers and also great ones—are increasing their defense budgets. The case of China is, of course, especially interesting and important. For more than a decade, the extraordinary growth of the Chinese economy has been matched by a substantial growth in Chinese military spending and modernization of the People’s Liberation Army (PLA), especially of the People’s Liberation Army Navy. The Chinese government has continued this military expansion during the Great Recession. Given China’s great industrial capacity—including giant steel and ship-building industries—and given the Chinese government’s great willingness to use state spending to maintain a buoyant national economy in the face of the global recession, this recession-era policy of expanding the military is one which very much fits China’s contemporary economic conditions and is very much to be expected.

We can therefore already begin to discern that this Great Recession will bring about a transformation in the global balance of power, one that will have similarities with the transformations brought about by the previous global economic crises. Today, as in the past, there are several established or status quo great powers. It is reasonable to say that these are the United States, Japan, and—grouping together the major, but diminished, powers of Britain, France, and Germany—the European Union. (These three powers correspond to what were sometimes called in the 1970s the “Trilateral” economies.) There are also the “BRIC” economies: China, Russia (although it is not so clear that it is indeed rising), India, and Brazil. At the present time, there is a good deal of evidence from the course of the current Great Recession that, when it eventually ends, the rising powers will be stronger in relation to the established powers than they were when the recession began in 2008.
Conclusion

The United States came out of the Great Depression of the 1890s stronger than it had been before, so strong that it soon went on to become a recognized great power. Eventually, that strength would enable it to become the primary beneficiary of the Allied victory in the First World War. A good case can be made that the U.S. economic strength had been facilitated by the prevailing economic theory of the time, i.e., the free-market or classical theory.

By the early 1940s, the United States had come out of the Great Depression of the 1930s stronger than it had been before, so strong that it once again became the primary beneficiary of the Allied victory in the Second World War, and one of two superpower states. A good case can be made that the U.S. economic strength had been facilitated by the prevailing economic theory of the time, i.e., the Keynesian theory.

By the mid-1980s, the United States had come out of the Great Stagflation of the 1970s stronger than it had been before, so strong that it was again the victor in the Cold War and the sole superpower. A good case can be made that the U.S. economic strength had been facilitated by the prevailing economic theory of the time, the Friedmanian theory.

How will the United States come out of the Great Recession of the 2010s? It is not at all obvious that it will come out stronger than it was before. Moreover, the three previous prevailing economic theories now seem to be more part of the problem, than part of the solution.

The theory that would best illuminate our path out of our current fog would be the fourth theory that we have been discussing, the Schumpeterian theory. Today, however, there are no Schumpeterians prominent in America. Rather, they now seem to be most prominent in China. In any event, the great power that follows a Schumpeterian lamp out of the depressing gloom will be on its way to becoming the greatest power in the world.