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In This Issue

The Great Depression of the 1930s was a watershed for both economic thought and economic policymaking. It led to the belief that market economies are inherently unstable and to the revolutionary work of John Maynard Keynes. It helped change views on the efficacy of stabilization policy, bank regulation, and government social programs. Its impact on conventional economic wisdom is still apparent today.

Yet today—more than 60 years later—economists and policymakers are still studying and debating what caused this catastrophic economic event. Although many explanations have been suggested for the deep economic decline between 1929 and 1933, not one has been uniformly convincing. Moreover, most of the Depression research has been focused on that decline. Not much attention has been paid to the unusual years immediately following, 1934–39, during which the U.S. economy experienced an extremely slow recovery.

This issue of the *Quarterly Review* takes a new look at both parts of the Great Depression.

First, Harold L. Cole and Lee E. Ohanian examine "The Great Depression in the United States From a Neoclassical Perspective" (p. 2). These researchers use the modern framework of neoclassical growth theory to systematically organize the facts of the 1930s. In doing so, Cole and Ohanian provide new insights about the uniqueness of the period. Cole and Ohanian then apply neoclassical theory to see if the conventional economic shocks that have been used to explain run-of-the-mill, postwar business cycles can help explain the facts of the Great Depression—both its deep decline and its slow recovery. While Cole and Ohanian find that conventional shocks fall far short of a satisfactory explanation, their work provides a useful structure for further research.

Also in this issue, Edward C. Prescott, a leading developer and proponent of neoclassical growth theory, offers "Some Observations on the Great Depression" (p. 25). Prescott says that Cole and Ohanian's work in this issue has changed his views on the Great Depression, and he predicts that their version of the facts will influence the direction of macroeconomic research. Prescott conjectures that ultimately the Depression will be explained by industrial and labor market policies of the period.

The work published here does not definitively explain what caused the Great Depression. It does, however, convincingly demonstrate what factors are not fully responsible, and it points future research in what very well could be the right direction.

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Editor