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In This Issue

In October 2000, the Minneapolis Federal Reserve Bank hosted a conference to discuss current research on "Great Depressions of the 20th Century," including the worldwide Depression of the 1930s and Japan's and Latin America's prolonged downturns in the 1980s and 1990s. This conference, prompted in part by a special issue of the *Quarterly Review* (Winter 1999, vol. 23, no.1), aimed to bring together economic researchers to apply neoclassical growth theory and accounting to 20th century episodes of severe economic decline. The goal was to see what these modern tools of economic analysis could uncover about the causes of depressions.

What the tools uncovered is startling. The research presented at the conference generally supports the view that the primary causes of depressions are not exogenous shocks to the economy, as many have suspected, but rather misguided government policies. Exogenous shocks could cause the type of downturns normally observed in the business cycle. But, the research suggests, turning a garden variety downturn into a depression takes distorting government policies, particularly policies that affect total factor productivity. While several conference participants were skeptical of this conclusion, a majority found it plausible.

In this issue of the *Quarterly Review,* we present a revised version of one of the most influential of the conference studies, "Decades Lost and Found: Mexico and Chile Since 1980" (p. 3). In this article, the authors—Raphael Bergoeing, Patrick J. Kehoe, Timothy J. Kehoe, and Raimundo Soto—examine the experience of two Latin American countries during a period in which both suffered a prolonged slowdown in economic activity, but only one recovered, and dramatically. Using growth theory and accounting, the authors examine several often-cited explanations for these different economic performances and determine that only one cannot be discarded: a different timing of structural reforms in the two countries. The type of structural reform primarily responsible seems not to be changes in fiscal policy, which affect only factor inputs. It is, instead, changes in things like the banking system and bankruptcy laws, which affect total factor productivity. One of the Latin American countries aggressively completed reforms of this type in the 1970s, a decade before the other one even began to make them. And it was the aggressive country, the one with the more efficient government policies, that recovered relatively quickly.

The papers presented at the Minneapolis Fed conference have recently been published in the *Review of Economic Dynamics* (January 2002, vol. 5, no. 1). The study appearing here does so with the kind permission of its copyright owners, Academic Press and Elsevier Science (USA). The study does not, of course, definitively determine what causes prolonged economic slowdowns. Nevertheless, studies like this, and the others presented at the conference, seem to be part of an extremely promising area of research. Eventually, they may help us understand not only what causes economic depressions, but how to prevent them.

Arthur J. Rolnick
Editor