Canst Thou Beggar Thy Neighbour?
Evidence from the 1930s

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Abstract

Do currency devaluations depress trading partners’ output? I address this question through the lens of a classic episode: the currency devaluations of the 1930s. From 1931 to 1936, the biggest economies in the world successively left the gold standard or devalued, leading to a depreciation of their currency by more than 30% against gold. First, I estimate the causal effect of these devaluations on aggregate variables, across countries. Devaluation stimulated output, trade, and prices in countries that devalued, relative to countries that did not. Second, I lay down a multi-country model to translate this relative effect into an absolute one. In the model, two parameters are essential to discipline the impact of trade on output: the international elasticity of substitution among foreign varieties, and the pass-through of the exchange rate to international prices. Hence, I turn to new product-level trade data, and estimate an elasticity between 2 and 4, and a pass-through of about 0.4. Finally, I use the empirical moments from cross-country and trade data to estimate the model. Counterfactual experiments indicate that the effect of a foreign devaluation on the output of countries that did not devalue was modest: beggar-thy-neighbour effects were small.

Keywords: beggar-thy-neighbour, devaluations, Great Depression, trade elasticities

JEL codes: F14, F31, F41, N10

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