Exchange Rate Pass-Through around the Gold Standard Exit: Evidence from the Japanese Cotton Spinning Industry, 1930–1939[†]

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Abstract: This paper examines exchange rate pass-through (ERPT) in Japan's cotton spinning industry, the country's leading export sector, over 1930–1939. Using a monthly panel of destination-level export and import data drawn from the cotton-spinning trade reference (Menshi Bōseki Jijō Sankōsho), I compare price, quantity, and value adjustments across the boundary of the de facto yen bloc. Two features stand out. First, yen-denominated export prices rose only partially relative to the size of the depreciation, consistent with incomplete pass-through and pricing-to-market behavior. Second, the upward movement in export quantity and value began before the 1931 monetary regime changes, and a difference-in-differences comparison detects no differential pass-through between yen-bloc and non-yen-bloc destinations. Taken together, the evidence suggests that, the gold-standard exits were not the direct and proximate cause of the subsequent expansion of cotton-yarn exports, and that pass-through was a broadly common phenomenon rather than a bloc-specific one. These within-industry observations raise a modest question about the common reading—prominent in the prior literature—that the depreciation following the gold-standard exit and the associated export expansion were the central reason why the impact of the Great Depression was comparatively mild in Japan.

Keywords: Exchange rate pass-through; Pricing-to-market; Cotton spinning industry; Gold standard; Interwar Japan.

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