CHAPTER SEVEN

DIFFERENCES AMONG INDIVIDUAL COUNTRIES

WE HAVE observed previously that economic fluctuations, in particular cyclical movements, are not very regular. In this connection it would seem worth while to analyze the differences among fluctuations occurring in different surroundings, particularly the differences among the movements in different countries. To these differences this chapter is devoted. We may deal first with systematic differences.

TRENDS

Some references to differences in trend have been made before in chapter ii. It was noted there that the rate of population increase and the rate of capital formation differ among countries. Mainly as a consequence of these factors, the trends in production and in the position of the various countries in international competition show great differences. Thus, in the United Kingdom and France the rate of development after the middle of the nineteenth century was relatively slow, whereas in Germany and the United States it was quite rapid. After the first World War, the rate of development in Japan and the U.S.S.R. was much faster than in other countries.

CYCLES

Differences in cyclical patterns may exist in various respects. We have already mentioned that the period of the cycle in the United States is usually only half that in European countries. Even if the natural period of the United States short cycle were not exactly one-half the European cycle, the various links between economic phenomena in different countries would have

tended to synchronize important declines in Europe with declines in the United States. The tendency toward synchronization of cycles would lead to simple numerical relations among the period in one country and those in other countries.

There are some systematic differences among countries in the amplitude also. In general, countries with a strong trend also show a tendency to a large relative amplitude. But within one country the period of the greatest relative amplitude is not associated with the period of the sharpest upward trend. More nearly the contrary is true. The sharpest cyclical fluctuations have been observed in the period from 1919 to 1939, when the general development showed rather a period of stagnation. In the years before 1914, business cycles were very moderate in countries such as France and the Netherlands, where the upward trend was relatively weak. In the commodity sphere practically no cyclical movements could be observed in the Netherlands. Only a slight influence of cycles was found in the financial sphere and in certain series strongly related to foreign countries, such as shipping, while a weak effect could also be observed in investment. The influence of the directly affected industries on all other industries was small, however, partially because investment goods were imported to a large extent.

Differences among various countries in the degrees of damping can hardly be observed (with one or two exceptions to which reference is made below). As long as economic events in the various countries are closely interrelated, a pronounced difference in the rate of damping would hardly be conceivable. If such a difference existed, the cyclical movements in various countries would have to show an ever increasing ratio in their amplitudes. If this ratio assumed proportions of any consequence, it would imply either that the cyclical movement in some of the countries would almost completely disappear or that in other countries it would assume an intolerable magnitude. In a period of active international competition such a situation is hardly conceivable.

Certain countries that isolated themselves from the rest of the world and adopted a policy toward cyclical stabilization did, however, succeed in remaining untouched by crises occurring

in other countries and even by world crises. Thus the U.S.S.R. was hardly affected by the depression of 1929–32 and Japan only to a minor extent; similarly, the crisis of 1937–38 hardly touched Germany.

Phase differences in the cycles in various countries have been quite common; often the cycle in one country preceded that in another one. At different times different countries acted as the origin of cyclical movements and particularly of crises. It is apparent from the description of crises of the past that at some times the origin was to be found in the United States, at other times in the United Kingdom, and sometimes in Germany. Also, the origin of a certain crisis was often situated in some peripheric country or in more than one country at the same time; obviously, countries with very active economic life provided the origin of a crisis more often than did other countries. The very important crisis of 1929 originated in the United States, with the Stock Exchange crash initiating the downward movement. But there were very many other weak spots, for instance, in agricultural countries and in Germany. France and also the Netherlands were affected by this crisis only very much later.

SEASONAL PATTERNS

Various countries have also considerable differences in their seasonal patterns, due in particular to differences in climatic conditions. It is understandable, for instance, that the seasonal movement in unemployment in the building industry is much greater in Sweden than in Australia (see Fig. 30). Differences in the dividend payments between the United States and Europe provide an interesting example of differences in the conventional seasonal pattern. In Europe, dividends are normally paid once a year, as against quarterly payments in the United States.

RANDOM MOVEMENTS

Differences in random movements are due mainly to the different significance of agriculture, compared to the entire economy, in the various countries. In a country like the United Kingdom, this significance is quite limited; in India it

is preponderant. It is understandable, therefore, that the economic series for the latter country show many more irregular movements than those for the United Kingdom. Individual deviations in the behavior of large enterprises or of individual markets will, further, produce random movements of much greater relative importance in a small country than in a large country. A large order for ships or for railroad rolling stock or the flotation of a loan by a large corporation will have a considerable influence on the economy or the capital market of a country of the size of the Netherlands, whereas in the United States its relative influence will be much smaller.

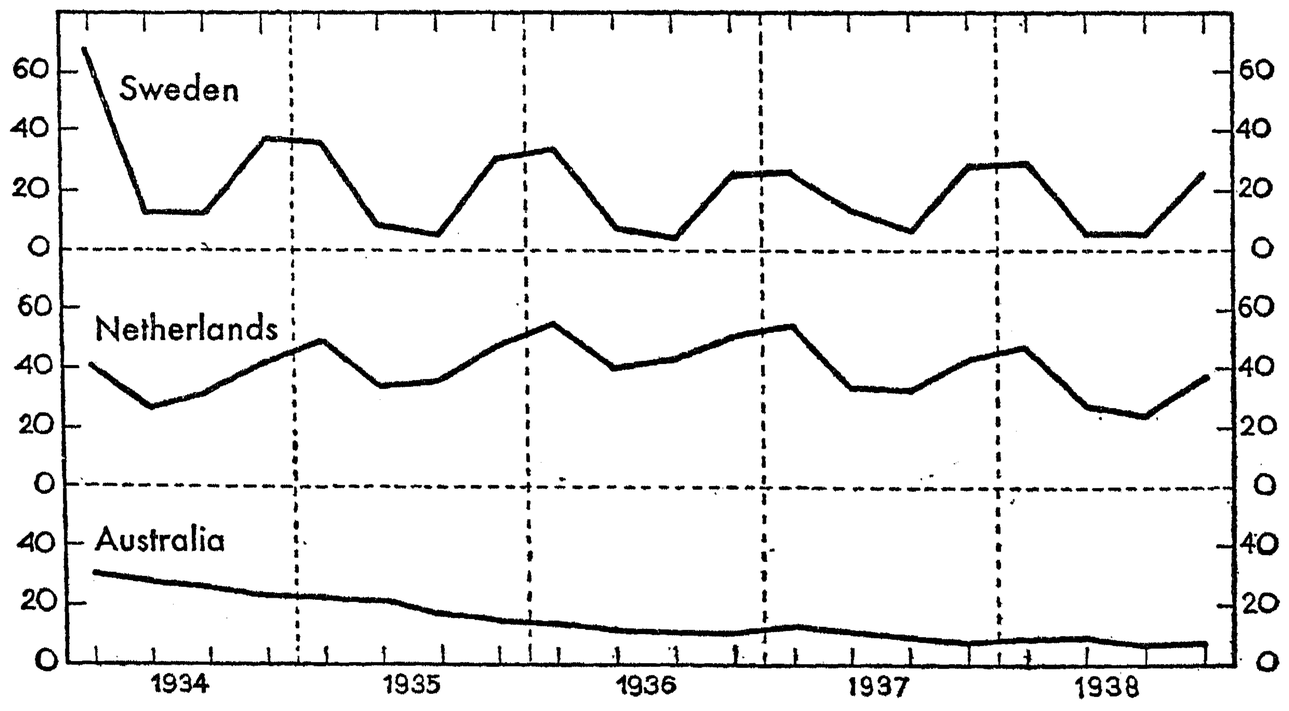

FIG. 30.—Unemployment in the building industry in three countries at different degrees of latitude.

INCIDENTAL EVENTS

The preceding pages dealt with systematic differences in the economic movements among the various countries. At certain times, incidental events affecting some, but not all countries may also be of great significance. The value of these events consists in that they occasionally provide the student with the equivalent of an experiment, so rare in the social sciences.

It is not our intention to attempt anything like a complete catalogue of incidental differences in the economic movements in various countries. Much interesting material on this subject will be found in national periodic economic reviews and in various monographs. However, we do want to mention certain

striking divergences in economic development that lead to certain important generalizations. Instances of this character are possible particularly when the origin of the divergence is not too complicated, e.g., when only one or a few factors are different between the two countries compared. Such situations have occurred a number of times in the period between the two wars, as various countries followed different exchange-rate policies. One of the least complicated of these cases is provided by a comparison of Norway and Denmark in the years 1923–29 either with the other western European countries or, if one prefers, with the other Scandinavian countries. Both Norway and Denmark appreciated their currency considerably in the years 1924–26, bringing them back to par by 1926, from 50 and 60 per cent of par, respectively. This policy implied for these countries an unusually severe process of deflation: prices of imported materials fell heavily in terms of crowns and dragged all other prices along. The comparison of the curve of industrial production in the two countries with that of other countries is particularly interesting. While the world cycle developed rather smoothly during this period, production in Norway and Denmark showed a sharp decline and continued at a considerably lower level for a number of years. Figure 31 gives an impression of the influence of the exchange-rate policy on activity in Norway and Denmark.

Similar comparisons may be made for the period after 1931, when many countries successively depreciated their currencies with respect to gold, either by abandoning the gold standard or by choosing a new lower parity. The first major country to depreciate was the United Kingdom in 1931, followed immediately by a number of the dominions and by the Scandinavian countries. In 1933 the United States followed, in 1934 Czechoslovakia, in 1935 Belgium, and finally in 1936 the still remaining members of the so-called "gold bloc," France, Switzerland, and the Netherlands. Comparisons concerning economic developments in this period must be made with great caution. The period was in many respects disturbed, and a great variety of measures of economic policy was superimposed on the more "normal" economic forces. It is sometimes pos-

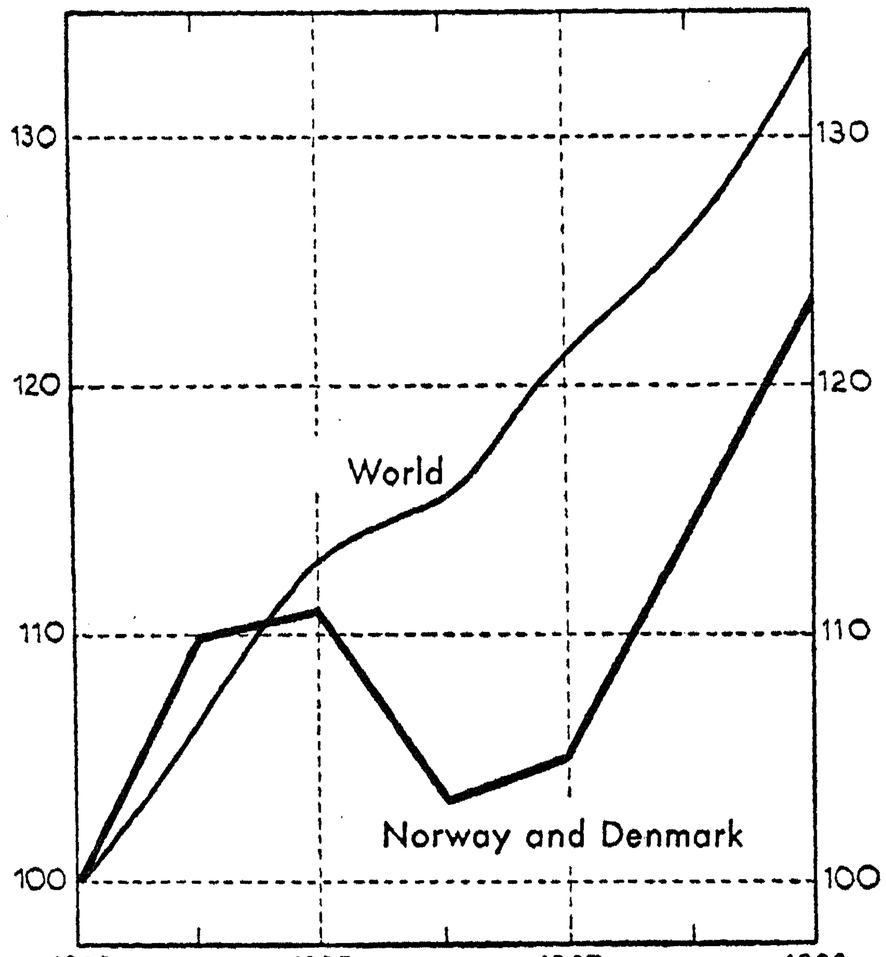

FIG. 31.—Industrial production in Norway and Denmark, compared with industrial production of the world as a whole in the period after the appreciation of the Norwegian and Danish crowns.

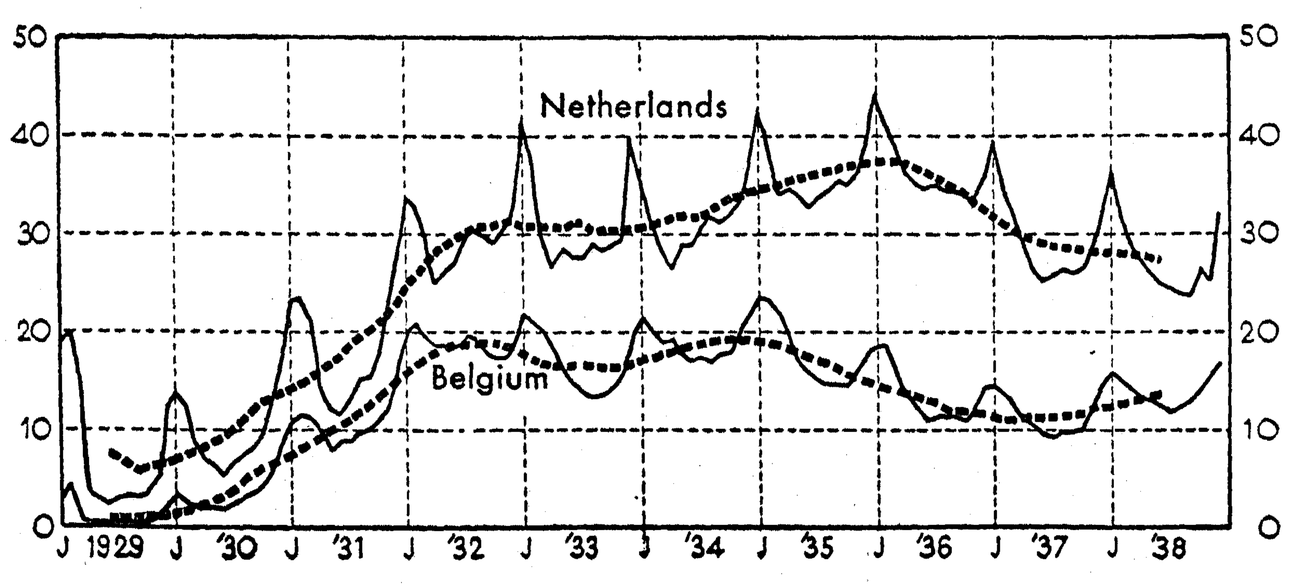

FIG. 32.—Unemployment (in per cent) in the Netherlands and Belgium during the great depression (1929–36). (March, 1935: devaluation of the Belgian franc. October, 1936: devaluation of the Netherlands guilder. *Solid line:* monthly figures; *dotted line:* twelve months' moving average.)

sible to eliminate the influence of these various measures by comparing data for a number of countries in a similar position.[1] At this stage we deal only with the descriptive part of the movements; therefore, we give without further comment a diagram indicating the unemployment figures for the Netherlands and Belgium (Fig. 32), with an indication of the dates at which the exchange-rate policy was changed.

Figure 33 also shows a remarkable divergency for the same period in a comparison of Sweden and Finland. For both countries two indices of production are shown, one relating to industries operating primarily for the home market, the other

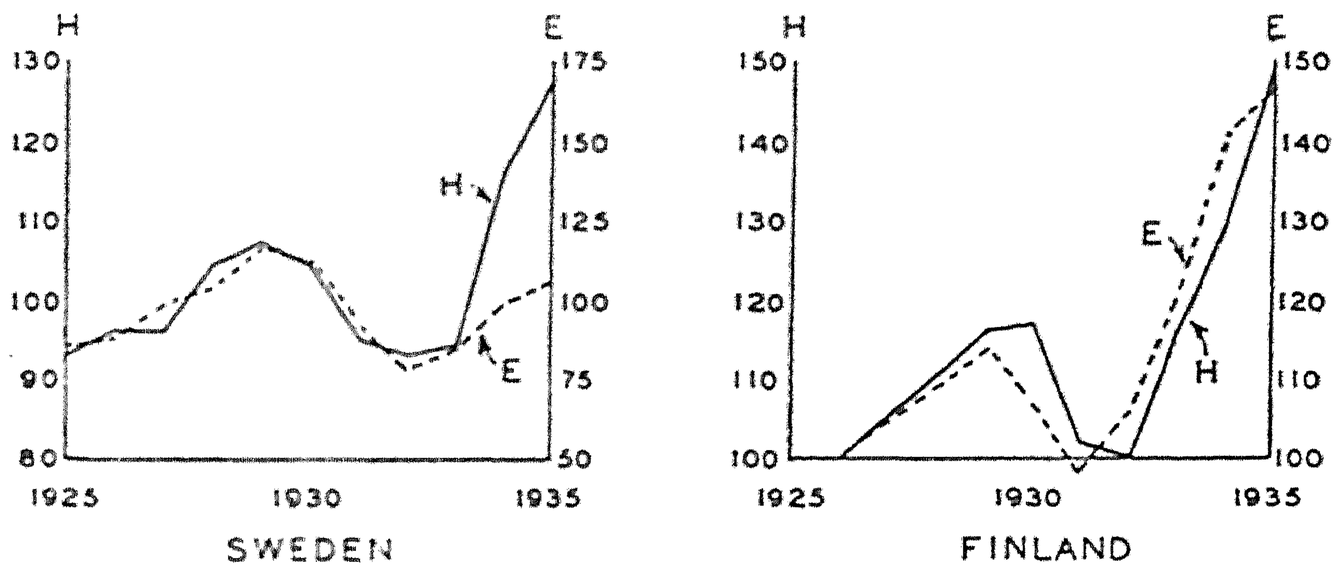

FIG. 33.—Indices of the production for the home market (*H*) and for export (*E*) in Sweden and Finland. Scales have been selected so that the two curves *H* and *E* coincide as closely as possible in the period 1925–32 (bases of indices: Sweden, 1925–30 = 100; Finland, 1926 = 100).

to industries producing primarily for export. The scales of the two curves have been chosen in such a way that they coincide as closely as possible for the period 1925–32, when there was no business-cycle policy of any consequence. It will be seen from the diagram that on this basis in Sweden production for the home market increased much more after 1933 than production for exports. This should probably be attributed to the measures taken by the Swedish government to stimulate activity such as public works and measures to raise the purchasing power of the farmers. No such difference in development can be seen in Finland, where much less was done in the nature of public works and where, on the contrary, the increase in exports was the cause of the general improvement after 1933.

1. Cf. Fig. 53, *infra*.