



Does medieval trade still matter? Historical trade centers, agglomeration and contemporary economic development[☆]



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ABSTRACT

This study establishes a link between medieval trade, agglomeration and contemporary regional development in ten European countries. It documents a statistically and economically significant positive relationship between prominent involvement in medieval trade and regional economic development today. The analysis indicates that a long-lasting effect of medieval trade on contemporary regional development is transmitted via its effect on agglomeration and industry concentration. Further empirical analyses show that medieval trade positively influenced city development both during the medieval period and in the long run; they also reveal a robust connection between medieval city growth and contemporary regional agglomeration and industry concentration. This research thus highlights the long-run importance of medieval trade in shaping the development of cities as well as the contemporary spatial distribution of economic activity throughout Europe.

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1. Introduction

There is ample evidence that trade is an important determinant of both long- and short-run economic development. However, most of the existing literature focuses on the impact of 19th-century trade on market integration or the “Great Divergence” (e.g., Galor and Mountford, 2008; O’Rourke and Williamson, 2002; Pascali, 2013), or on the impact of contemporary, Post-World War II trade activities on recent economic growth and development performance across countries (Dollar and Kraay, 2003; Frankel and Romer, 1999). There are few studies (e.g., Acemoglu et al., 2005) considering the effect of cross country trade in periods earlier than the 19th century. In this study, the authors investigate the impact of early modern long-distance overseas trade for institutional developments and the pre-industrial development process across European countries.

Hence, until now there has been no study exploring the long-lasting effects of trade and commerce in European cities during the

High and Late Middle Ages. The importance of medieval trade for the development of cities and regions in the Middle Ages and the following centuries is widely accepted. Apart from this, no research has acknowledged the fact that medieval trade might also have long-term influences on regional development persisting until today; this despite the fact that medieval trade, through its potential impact on agglomeration and spatial concentration of industry, could have led to path-dependent regional development processes resulting in developmental differences surviving over the centuries.

The aim of this study is to provide evidence that medieval trade, as a result of its impact on agglomeration, has caused differences in regional development that remain visible today. It therefore provides a new explanation for the uneven distribution of economic activity and significant spatial concentration of industries throughout Europe (e.g., Chasco et al., 2012; Koh and Riedel, 2012; Roos, 2005). It also contributes to the understanding of the still puzzling persistent differences in regional economic development (Becker et al., 2010; Maseland, 2012 or Tabellini, 2010). Furthermore, the study offers an additional explanation for the rapid central European urbanization process that began during the Middle Ages, has continued until today and led to the so called “Rise of the West” (Bosker et al., 2013). Why was the urban development in central Europe since the Middle Ages not characterized by a reversal of fortunes and periods of stagnation like that in the Near and Middle East? Bosker et al. (2013) highlight the role of local participative political institutions. I aim to show that medieval commercial activities also constitute an important cornerstone of this development. Finally, this study contributes to a

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growing literature reporting on the persistence and path-dependent nature of spatial equilibria and city growth processes (Bosker et al., 2007; Bleakley and Lin, 2012; Davis and Weinstein, 2002; Davis and Weinstein, 2008; Michaels and Rauch, 2014; Miguel and Roland, 2011 and Redding et al., 2011).

To establish a link between medieval trade, agglomeration and contemporary performance I link the typical characteristics of medieval trade and cities to the determinants of agglomeration suggested by New Economic Geography (NEG) and agglomeration economics (e.g., Glaeser et al., 1992; Krugman, 1991). In a second step, based on studies combining NEG, endogenous growth models, and the theory of path-dependence, I propose a positive connection between agglomeration, industrial concentration and contemporary development. The underlying idea is the following: While medieval trade activities clearly reflect the effect of the determinants of medieval trade like e.g. location fundamentals and second nature geography on development, I argue that trade activities themselves had a significant additional effect through their direct influence on agglomeration patterns.

Afterwards, I test the causal chain from medieval trade through agglomeration and on to contemporary regional economic development by using rich regional and city level data sets and a wide range of empirical methods. In this empirical investigation I use three variables to capture medieval trade activities. First, based on several historical sources and trade route maps, I construct a dummy variable identifying cities that were important centers of trade during the medieval period. Second, I calculate a variable that shows the distance between each region or city and the closest of these trade cities. This variable allows me to test whether trade activities lead to the emergence of spatial core-periphery patterns as implied by theoretical considerations. Third, I compute a variable reporting the number of centuries a city can be considered to be an important trade city.

The results of the empirical estimations provide strong evidence for a significant relationship between medieval trade and contemporary regional economic performance. Furthermore, a detailed empirical investigation on city level shows that medieval trade activities are robustly positively associated with city development both during the medieval period and in the long run. Therefore, the observed path-dependent development process of European cities is partly rooted in the persistent effect of medieval trade activities. Moreover, I also find that the effect of medieval trade on contemporary regional development can be explained by its influence on agglomeration patterns. This is shown by the fact that medieval trade activities are strong direct predictors of today's spatial distribution of economic activity.

Importantly, I show that the results are robust to the inclusion of many geographic, political, economic and historical covariates of development and medieval trade, as well as different samples, data sets and medieval trade measures. I also show that a bias arising from unobserved heterogeneity is unlikely as the results hold also when considering only regions that were historical urban centers. Even among this homogeneous group, historical urban centers that were also hubs of medieval trade show a higher contemporary GDP per capita than urban centers that were not important in medieval trade.

The remainder of the article proceeds as follows. First, I theoretically establish the link between medieval trade, agglomeration and present-day economic development. Afterwards, I introduce and discuss the most important variables and data and explain the empirical setting. Next, I conduct the empirical analysis and interpret and discuss the results in detail. Finally, I conclude and summarize the main findings.

2. Theoretical considerations and related literature

It is a well-established idea that trade was a decisive factor for the development of medieval cities and the revival of city

growth during the period of the so-called “Commercial Revolution” (e.g., Lopez, 1976; Cantoni and Yuchtman, 2014). History provides many examples of cities owing their importance primarily to their function as centers of trade, such as the German cities of Nuremberg (Nicholas, 1997), Frankfurt (Holtfreich, 1999), Cologne (King, 1985) or the Polish city of Gdansk.¹

Using concepts developed by NEG (Krugman, 1991) and agglomeration economics, one can explain why medieval trade was important for the rise of cities in medieval Europe. This is achieved by linking the characteristics of medieval trade and trade cities to second nature (man-made) causes of agglomeration like knowledge spillovers (e.g., Glaeser et al., 1992; Henderson et al., 2001). In medieval times, the economy, especially the urban economy, was characterized by a high degree of regional specialization (e.g., Postan et al., 1952 or Pounds, 2005). For instance, the Southern German cities that became important trade centers in the later medieval era specialized in textiles (Barchent et al.) and paper production. The different regions exported what they specialized in—or had a comparative advantage in, e.g., due to natural resources—and imported what they did not have themselves. This specialization of trade cities in a particular industry or sector gave rise to the existence of technological (non-pecuniary) externalities like Marshall-Arrow-Romer (MAR) externalities (Marshall, 1890; Romer, 1986) or Porter externalities.²

A second important characteristic of medieval trade cities was the comparatively high variety of goods that were available. Those assortments of goods were available first at the local markets, then at the large trade fairs in the Champagne region and other important trade cities (such as Frankfurt, Cologne, Ulm, etc.), and then, in the late medieval age, in the branches and kontors of the Hanseatic League and trading companies (“super-companies”) like the Fugger in Augsburg.

The latter two in particular also supplied luxury goods and exotic commodities from the Far East, as long-distance trade was reestablished at the beginning of the Late Middle Ages. I can consider this high variety of goods as an important demand-side driven agglomeration force, as it makes a city more attractive to settle in.

Additionally, the large variety of goods and prospering industry gave rise to the self-reinforcing circular causation caused by backward and forward linkages and lead to agglomeration and core-periphery patterns in NEG models (Krugman, 1991; Ottaviano and Thisse, 2004). These forward and backward linkages constitute the virtuous circle that generates agglomeration and uneven spatial distribution of population and economic activity.³

However, the main argument of this paper is that medieval trade had significant consequences for economic development today. Reassuringly, the self-reinforcing nature of the described agglomeration and concentration processes implies a path-dependent process of city development. This path-dependent development process resulted in differences in concentration of economic activity and population that remain evident today. Cities that were involved in medieval trade activities over a sufficient period of time became locked onto a superior development path by comparison to other cities without that history. This is a typical characteristic of processes caused by increasing returns or positive feedback (David, 2007). Several studies (e.g., Bosker et al., 2007 and Davis and Weinstein, 2002, 2008)

¹ Obviously, there are exceptions to this story, i.e. cities and regions becoming large and important agglomerations without having been important centers of medieval trade. Some of these exceptions are discussed in detail in Appendix C.1.

² Nicholas (1997) additionally points to the fact that over the course of the Middle Ages the industry dominating in a city, e.g. the textile industry, increasingly diversified. This intra-industry diversification could be an additional channel through which technological externalities could have arisen.

³ For these arguments to hold, it is crucial that the medieval markets showed a certain degree of integration and that I actually observed a urban-rural wage differential. Evidence on these aspects is provided in Appendix C.2.1.

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