

# AN EMPIRE LOST: SPANISH INDUSTRY AND THE EFFECT OF COLONIAL MARKETS AND TRADE ON INNOVATION

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JOB MARKET PAPER

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**ABSTRACT.** I study the effect of trade barriers on innovation direction using an historical experiment on the textile industry in Spain at the end of the XIXth century. I provide causal evidence on how, trough several channels, trade movements enhanced biased technical improvements. First, after Spain effectively forced their colonies to buy manufactured cotton goods in 1891, I observed an increase on innovation destined to create cotton textiles. Second, after the Spanish-American war and the unexpected lost of these captive markets, I find a change inside the cotton industry towards weaving innovation. After the 1898 war, and with the already installed capacity, cotton industrialist were forced to enter and compete in the international markets that demanded more sophisticated fabrics. I show that the changes on the intermediate goods relative prices, that each one of these shocks represented, explain the type of innovation developed. Finally, I show that these new incentives on innovation translated directly into the adoption of new mechanized tools in the sector. In particular, I find evidence of an increase on cotton looms used in Spain after 1900.

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**KEYWORDS:** Directed Technical Change, Trade, Induce Innovation, Colonialism

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