

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

DARIO A. ROMERO<sup>†</sup>

JOB MARKET PAPER

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**ABSTRACT.** I investigate the effect of trade on innovation direction using an historical experiment in Spain between 1878 and 1910. I provide causal evidence on how trade movements enhanced technical direction through several channels. First, as predicted by theory, I find that trade policies that forced Spanish colonies to buy cotton fabrics during the last decade of XIXth century encouraged cotton innovation. Second, the Spanish-American war and the unexpected lost of these captive markets forced textile industrialist to enter international markets. I show that this change towards more sophisticated fabrics pushed cotton innovation towards weaving. I show that changes on relative labor effective endowments explain this result. Moreover, I observe the direct adoption of these technologies with an increase on cotton looms after 1900. Finally, I document the presence of spillover effects. Due to knowledge diffusion effects I show that the increase on cotton innovation boosted other economic sectors' development. I find a positive increase on cotton textiles related technologies, but not on sectors related with non-cotton textiles.

**JEL CODES:** F15, F63, L16, N73, O24, O32

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

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<sup>†</sup>Department of Economics, Columbia University. 1022 International Affairs Building, 420 West 118th Street, New York, NY 10027. E-mail: [dr2879@columbia.edu](mailto:dr2879@columbia.edu). I owe an enormous debt of gratitude to Suresh Naidu, Réka Juhász, Eric Verhoogen, Michel Best for numerous insightful discussions regarding this work. The paper also benefit from discussions with Silvio Ravaioli, David Rosenkranz, Felipe Netto, Haaris Mateen, Tatyana Avilova, Diego Martin, Teresa Esteban-Casanelles and seminar participants at Columbia Development Colloquium. I owe a special thanks to archive workers at the Biblioteca Nacional de España, Biblioteca de Catalunya and Arxiu Nacional de Catalunya. All remaining errors are my own.