HISTORICAL EVIDENCE OF THE DIFFERENTIATED DEVELOPMENT OF REGIONS: CRITICAL FACTORS BASED ON CASE STUDIES

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ABSTRACT

There is an evidence of the uneven regional development in the course of the history. The study puts in perspective a long-term development in growth patterns and analysis several case studies in different parts of the world around the last 2000 years (ancient Greek city states, jurisdictions of the Italian medieval cities, England in 18 and 19th centuries, China and India in 20the century). The underling factors for the growth disparities are complex. However, the article provides evidence of the following ones are identified as critical ones such as the property rights definition, mobility of productive factors, social and cultural tensions, and institutional set up.

Key words:

Regional Disparities, Historical Evidence, Critical Factors, Case Studies.

INTRODUCTION

Economic performance of regions over time and their long term changes can be explained by forces and processes which are done by quantitative research in economic history (Landes 1990). Economic growth process is uneven in space and time in different regions. The observed pattern in economic growth across countries leads to the question why some countries prospered while others did not. The literature of comparative economic history tried to answer questions regarding gaps in levels of real income between regions (Clark 2007; Maddison 2001, 2005)

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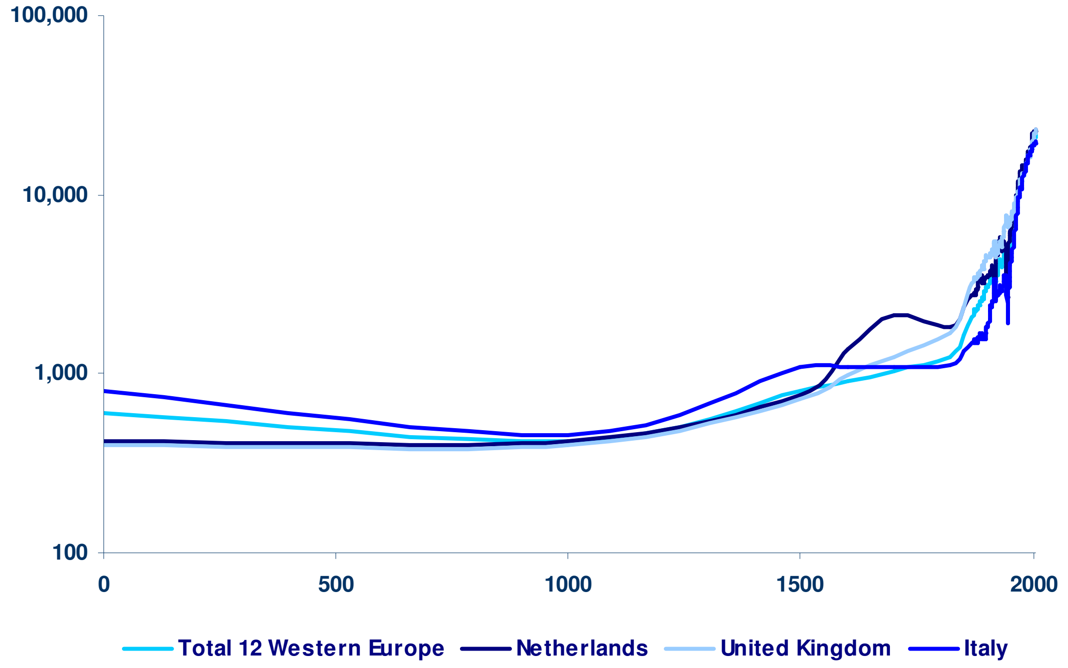
[1] *The views expressed in the article are those of the authors and do not in any way reflect the opinions of the General Secretariat of the Council of the European Union.*

Figure 1. Differentiation of the economic growth in Europe between years 0-2001 AD in Per Capita GDP (1990 International Geary-Khamis dollars)



Source: Maddison 2001,

Figure 1 shows clearly that, first, Italy under the Roman Empire was a leading figure in term of per capita GDP. After the collapse of the Roman Empire, per capita GDP converged among the Western European countries around the year 1000. The Italian city states dominated the per capita GDP between 1200 and 1500. Then, the Netherlands showed a significant increase in per capita GDP until the United Kingdom caught up due to the Industrial Revolution and thus showed the highest per capita GDP in the nineteenth century.

While looking back on the world economic history, it becomes clear what contributes towards economic growth and what does not: The accumulation in the stock of knowledge has been largely irreversible while the economic growth can be clearly reversible. The same applies to the decline of political economic units as well as entire civilizations (North 1981). Thus, it is clear that knowledge and technological advance are only necessary condition; however themselves they are not yet sufficient for economic growth. It is the successes and failures in human organization that account for the progress and retrogression of societies.

REVIEW OF LITERATURE

The literature on the economic growth and regional disparities in the past is numerous. The Table 2 summarizes the some of it.

Table 1. Examples of the studies curried on regional growth disparities

Authors	Title	Regions	Time Period	Objective
Ahrend, Rudiger	Understanding Russian Regions' Economic Performance During Periods of Decline and Growth - An Extreme Bound Analysis Approach	Russia	1993 - 2004	This article uses extreme-bound-type analysis to revisit the determinants behind widely differing economic growth in Russian regions
Akita, Takahiro	Interregional Interdependence and Regional Economic Growth in Japan: An Input-Output Analysts	Japan		This paper examines the sources of regional economic growth in Japan by using an extended growth-factor decomposition method based on an interregional input-output model
Allen, Robert C.	Progress and Poverty in Early Modern Europe	Europe	1500 - 1800	This paper shows in a simple model the factors responsible for success and failure in the early modern economy
Allen, Robert C.	Economic structure and agricultural productivity in Europe, 1300 - 1800	Europe	1300 - 1800	Estimates of employment structure, agricultural output, and agricultural labour productivity are developed for the leading European countries
Blum, Ulrich Dudley, Leonard	Standardized Latin and Medieval Economic Growth	Western Europe	High Middle Ages	This paper presents historical evidence on the information-technology hypothesis providing economic growth based on urban demographic growth
Cabrera-Castellanos, Luis F	Convergence and Regional Economic Growth in Mexico: 1970-1995	Mexico	1970 - 1995	This paper studies absolute and conditional convergence (alfa and beta-convergence too,) in Mexico over the period 1970-1995
Caniëls, Marjolein C.J.	Knowledge Spillovers and Economic Growth – Regional Growth Differentials across Europe	Europe		This paper aims at implementing concepts from geography into a technology gap model and thereby broaden the understanding of knowledge spillovers
Doppelhofer, Gernot Cuaresma, Jesús Crespo Feldkircher, Martin	The Determinants of Economic Growth in European Regions	255 European regions	1995 - 2005	This paper tries to evaluate the robustness of determinants of economic growth in a new dataset of 255 European regions in the 1995-2005 period
Huang, Jr-Tsung Kuo, Chun-Chien Kao, An-Pang	The Inequality of Regional Economic Development in China between 1991 and 2001	China	1991 - 2001	This paper measures the unequal development of the regional economies in China and investigates the primary factors leading to the inequality
Kose, M. Ayhan Otrok, Christopher Whiteman, Charles H.	International Business Cycles: World, Region, and Country-Specific Factors	60 countries		The paper investigates the common dynamic properties of business cycle fluctuations across countries, regions, and the world
Morris, Ian	Economic Growth in Ancient Greece	Greece	1300 - 300 BC	This paper tries to document economic growth by drawing on archaelogical evidence as well as literary
Paci, Raffaele Saba, Andrea	The Empirics of Regional Economic Growth in Italy. 1951 - 1993.	Italy	1951 - 1993	The paper examines Italian regional growth over the post-war period and describes the evolution of disparities in regional economic growth
Pamuk, Sevket	The Black Death and the origins of the 'Great Divergene' across Europe, 1300 - 1600	Europe	1300 - 1600	This study makes use of the recently compiled real wage evidence for different parts of Europe and the eastern Mediterranean to gain further insights into this period
Prados de la Escosura, Leandro	Inequality, poverty, and the Kuznets curve in Spain, 1850 - 2000	Spain	1850 - 2000	This paper shows that economic rather than political forces appear to dominate inequality trends in Spain. Inequality evolution fits a Kuznets curve
Quah, Danny T.	Regional convergence clusters across Europe	Europe		This paper asks if nation-state, macro factors and physical-geography spillover effects help explain the observed distribution dynamics across European regions
Schulze, Max-Stephan	Patterns of growth and stagnation in the late nineteenth century Habsburg economy	Austria and Hungary	1870 - 1913	This paper examines the economic performance of the Habsburg economy compared to other European economies and answered the question to which extent the Habsburg economy was subject to stagnation
Tabellini, Guido	Culture and institutions: Economic development in the regions of Europe	69 regions in 8 European countries		This paper tries to answer the question whether culture have a causal effect on economic development
Zanden van, Jan	Wages and the standard of living in Europe, 1500 - 1800	Europe	1500 - 1800	This paper studies the geographical patterns of silver and grain wages and their development over time

METHODOLOGY

The methodology we use in this paper is a qualitative, evidence-based approach. Qualitative research focuses on the analysis of unstructured information to gain insights into people's behaviours, value systems and culture. In contrast to quantitative research, qualitative research does not solely rely on data and statistics. Qualitative research always includes multiple ways of observing and explaining social phenomena. Qualitative research can serve better in almost all social science investigations.

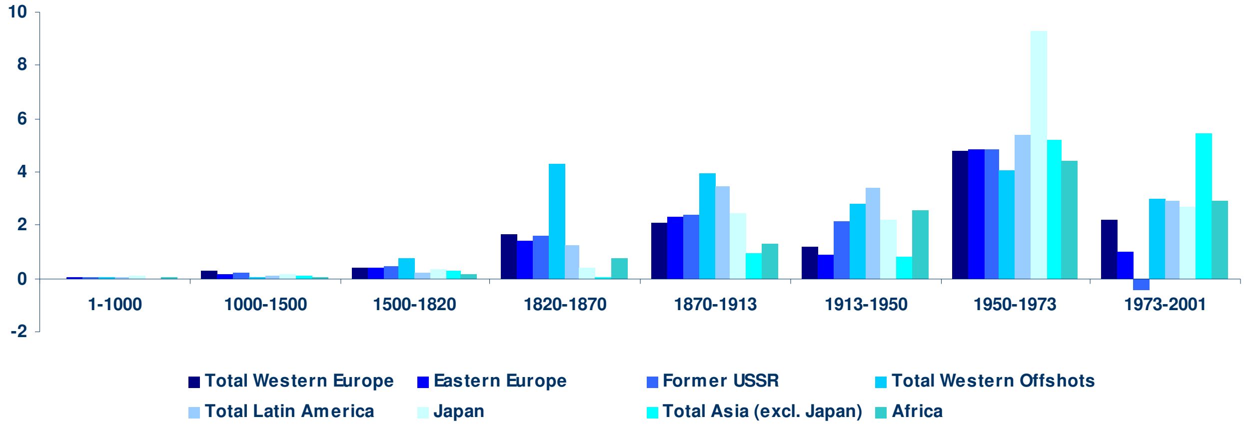
In our case, we use a case-study approach to examine historical economic growth in different regions to analyse the factors influencing the economic development in different regions. To investigate further their importance and contribution towards economic growth, we need to distinguish between these factors. Economic historians have been trying to explain the unequal economic performance and territorial disparities most often by indicators of capital, investment, saving, productivity and some socioeconomic variables, such as education. However, even though these studies succeeded in explaining economic growth for a country over time, these studies have not been able to fully explain uneven growth and disparities for several countries. In fact, society, social, cultural and institutional factors define the basic structure of economic activity. We will focus on these non-economic factors in the analysis of our case studies.

We face several problems in our analysis. First, and foremost, almost no data is available for regional economic growth for the regions we observe in our case studies. Data on economic growth is only available on a country level for the past 2000 years (Maddison 2009). Moreover, non-economic factors, such as property rights, social and political instability, economic freedom, democracy and legal, social and regulatory frameworks, are difficult to quantify, even more difficult when they are applied to regions in the Ancient Greece or to Italian medieval cities.

RESULTS OF THE EMPIRIC EVIDENCE

By looking at the economic development of regions, specific patterns and disparities as well as convergence and divergence processes can be observed (see Maddison 2001 for the next examples). However, the operative forces have varied between time and places. The figure below shows the leading region in terms of GDP growth rate in different time periods. Between 1820 and 1913 the Western Offshots were leading. After that Latin America showed the highest growth rates. Between 1950 and 1973, Japan showed a significant growth and since 1973 the Asian countries, excluding Japan, show the highest growth rates.

Figure 2. Rate of regional growth of the world GDP, 1-2001 AD (annual average compound growth rates)

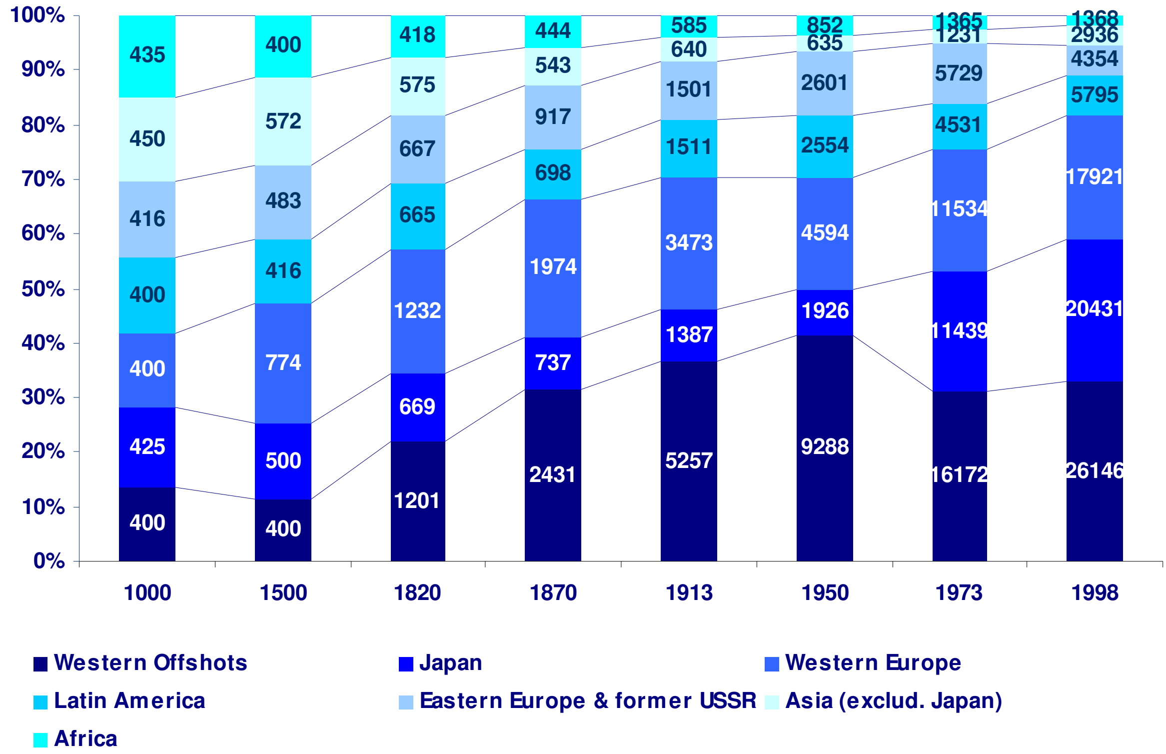


Source: Maddison 2001, 2009

Economic leadership of regions in Europe changed over time, First, North Italian city states take over the leading role in Europe due to Mediterranean trade. Later, Spain and Portugal showed significant economic growth due to geographical advantage of being located at the South-West of the Mediterranean Sea and trade with the Americas and Asia. The Netherlands were the leader in the 17th century and England was the leader in the 19th century. Europe was lagging behind China, India and other parts of Asia around the year 1000 in terms of GDP. The dichotomy between China and Western Europe is also one of the best documented in the economic history. Both regions were among the most advanced 2000 years ago and economic development was rather similar until the 5th century. While Europe declined in the 7th century by the Arab capture of parts of Europe which resulted in a halt of the European trade in the Mediterranean, China experienced a significant growth process between the 10th and 13th century. After that progress, per-capita income of China stagnated. On a macro level, Europe overtook China in the 14th century as an economic leader which was then overtaken by the US at the end of the 19th century.

This interregional disparities in per capita income was smaller in the past than today. The slow growth in per capita income in the developing countries is responsible for this gap which emerged in the past 160 years (Figure 3).

Figure 3. Disparities in the wealth distribution (levels of per capita GDP in years 1000-1998)
(1990 international dollars)



Source: Maddison 2001

The divergence in the wealth distribution processed during the past 1000 years in terms of per capita GDP. Around the year 1000, income was almost equally spread across the regions. The situation changed dramatically in the year 1998. Africa, Asia, Eastern Europe and the former USSR contribute less to the overall per capita GDP.

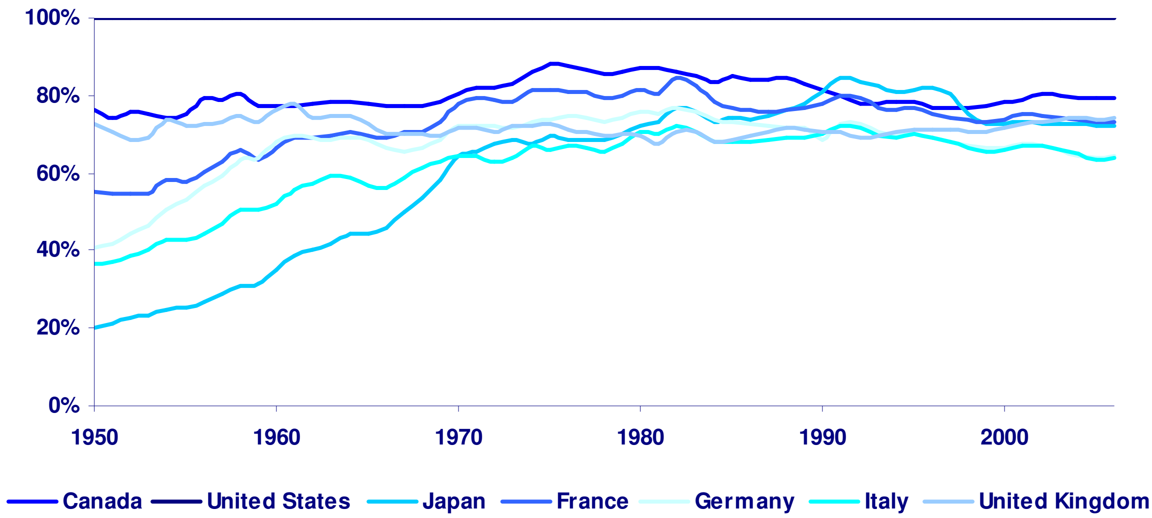
Though the global long-term picture is one of divergence, there has also been catch-up among countries since the 1950s. Japan has shown a significant catch-up with the advanced capitalist group and Europe has shown a catch-up with the US after World War II.

Moreover, at the end of 1980s it seemed to be rather likely that Japan would certainly surpass the US in income per capita by the year 2000 due to the enormous growth rates in Japan back then. However, Japanese economic growth slowed down as Japan approached the US level of per capita income.

Another example of an extraordinary resurgence and a significant catch-up with the advanced capitalist group is the economic development of some 15 Asian economies between 1973-2001. This catch-up in economic terms can be compared to the development of Japan 50 years ago. This is an example of conditional convergence as regions lagging behind have the opportunity to attain faster growth than countries operating at the technological frontier (Maddison 2005, 2007). According to Maddison (2001), these Asian countries mobilized and allocated resources efficiently and improved their human and physical capital to adapt and assimilate appropriate technologies from Western countries.

The convergence process among developed countries can be demonstrated (Figure 4). While some countries such as France and Britain have grown along parallel tracks, Argentina, a former relatively wealthy country, was not able to keep up with the pace (Cameron and Neal 2003, Clark 2007, North 1981).

Figure 4. Convergence process in the past 50 years among developed countries. GDP (per capita as a share of US Level



Source: Maddison 2009

CASE STUDIES

The following historical case studies demonstrate the divergences in the regional development in the past.

Case 1. Ancient Greek city-states Athens and Sparta

Regions / Countries under comparison	**Ancient Greek city-states Athens and Sparta**
Time period	**490 - 338 BC**
Population	**Athens 430 BC: 300.000 (180.000 citizens, 50.000 metics, 70.000 private slaves) Sparta 430 BC: 250.000 (15.000 citizens, 80.000 Perioikoi, 155.000 public slaves)**
Historical Situation	**Athens and Sparta were city-states which stretched over exceptionally large areas. The systems of government of the two city-states differed significantly: Athen's government was in the hand of many, Sparta in the hands of a few; in legal affairs all citizens in Athens were treated equally; public honors were conferred because of personal merits (majority principle, principle of equality before the law, principle of meritocracy, principle of personal liberty). Athen's goal: maximize the wealth and eternal glory of the city in an environment of self-restrained individual liberty Sparta's goal: survival as it was constantly threatened by other cities, well-being of an individual did not matter Athen: public sector: the government performed all the tasks that are carried out by contemporary governments in the public sector; private sector: exchange environment with market-determined prices, markets worked efficiently and contributed significantly to the economy Sparta: public sector: unlike Athens, Sparta lacked of the two most important sources of revenues (silver mines and a developed tax system), public revenues and expenditure were kept to an absolute minimum; private sector: Spartans were not allowed to engage in land transactions to accumulate wealth, no import-export activities**
Research Question	**What is the nature of the relationship between morality and growth promoting institutions? Why did only Athens become the main economic power in ancient Greece? Which of the two ancient Greek economies performed best in economic terms? The geographical hypothesis suggests that Sparta should perform better. However, why did Athens grew faster than Sparta?**
Characteristics observed	**Athens and Sparta faced different geographic conditions and took different approaches to achieve an effective defense system and a solution to economic problems. Athens focused on the economic objective while Sparta emphasized the defensive capabilities of the state. Thus, both city-states adopted different institutions and different systems of morality to secure efficient operation.**

Reasoning	**Athens adopted an organization to increase the incentives in productivity and to facilitate the necessary imports.** **Sparta had the advantage of being rich and focused on incentives to achieve a strong military supremacy for defense purpose of all citizens and the ruling oligarchy.** **The differences in the structure and performance were mainly driven by the differences in the organizations.** **Athen's economy had the following institutions: Private property rights, direct democracy, taxation system, courts, market driven production and distribution, strong naval fleet** **Sparta adopted a series of laws to suppress the natural urging of human beings to amass wealth, citizens lost their economic independence and were attached for their survival to the city-state.** **Athen's moral norms based on: ethos, based on virtue and justice for the consequences of the Athenians themselves and the city, ready to sacrifice one's life to defend the principles of Athenian democracy, least priority to wealth, be industrious, altruist and live in honor, stand up for the laws of the city, observe the norms of fairness in economic transactions.** **Sparta's moral norms based on: sacrifice for the well-being of the city-state, trained to follow while serving for the army, have love and pride for their country, support constitutions, however, no justice, no work ethic, no altruism, no fairness in economic transactions.**
Outcome of the Case Study	**Efficiency of institutions depends on their design as well as the integrity of the people who operate within them.** **Athens and Sparta infused moral norms which were compatible with the nature of the institutions.** **Moral norms are endogenous in such a manner that they emerge naturally according to the main objective of the society.** **Institutions which support economic growth are: property rights for individual liberty, direct democracy as it is consistent with the maintenance of property rights, state institutions operated by citizens, exchange economy with a market system, money, law and order.** **Institutions emerge with a set of moral norms simultaneously to guarantee the efficient operation.**

Source:

This case study is based on Bitros and Karayiannis (2006), Morris (2004).

Case 2

Republic of Venice and Genoa in the late medieval period

Regions / Countries under comparison	**Republic of Venice (Late 7th century AD - 1797) and Genoa in the late medieval period**
Time period	**late 11th century - 16th century**
Population	**45,000 inhabitants in 1050 to over 110,000 in 1330 (Venice was the largest and richest city in northern Italy)**
Historical Situation	**The "classic financial revolutions" with the financial innovations of Venice and Genoa in the 14th and 15th century which have developed many of the features that were found later on in the Netherlands, England and United States. Genoa, Venice and Florence developed large commercial and financial centers with small domestic economies. The economic rivalry between Venice and Genoa was the cause of repeated warfare. The economic rise of Venice was based on the expansion of trade along the Mediterranean and beyond. What is crucial to this expansion was an active financial market. Venice is often described as having the stronger economic and political model. Venice government had a strong and stable government, able and willing to interfere with the economy.**
Research Question	**What was the structure of the financial markets? What was the main difference between Venice and Genoa? What were the institutional foundations of the Venetian financial market? Why did merchants mobilize their savings into risky overseas trades? How did Venice achieve a well-functioning financial market? Explaining the scope, scale, and diversification of the Venetian financial market?**
Characteristics observed	**Overseas trade usually exhibits a commitment problem as the merchant could flee with all the capital entrusted to him or misreport the gains from the venture.**
Reasoning	**The Venetian financial market enabled diversification across trade centres and merchants over time. Merchants also diversified by investing in other merchants' ventures. The Venetian state generated economic rents, verifiable information and punishment capabilities to avoid the commitment problem. Exclusive commercial privileges, protective convoys, and staple rights in Venice made the commerce more profitable. Non-Venetians were denied access to its lucrative trade. Colonial governors abroad and various public officials gathered necessary information to verify merchants' accounts. Administrative controls and legal sanctions provided the means to reward honest merchants.**
Outcome of the Case Study	**The Venetian institution for contract enforcement was a public-order, reputation-based institution which supported the Venetian financial market. In mixed institutions such as Genoa's, commitment is achieved through the interaction of public coercion and private reputation with legal sanctions and exclusion from privately generated rents. Venice's strength lay in its capacity to mobilize financial and human resources more effectively than its competitors.**

Source:

This case study is based on Fratianni, M., F. Spinelli (2006), Gonzalez de Lara (2008), Pezzolo (2006).

Case 3

Industrial Revolution in England, compared with the rest of the world

Regions / Countries under comparison	**Industrial Revolution in England, compared with the rest of the World**
Time period	**late 18th century and early 19th century**
Population	**6m in England**
Historical Situation	**The coincidence of major population growth and improved trade prospects with raw material producers leads to a transformation of the economy.** **Actually, England was only little ahead of the United States and the Netherlands in 1850. Thus, the question arises why the Industrial Revolution took off in England and not in any other country. Moreover, England's technology advances were supply driven which means they are due to the demands and incentives of the society. England experienced a long, peaceful history which was dating back to 1200.** **The area around the Yangzi Delta in China was similarly developed as northwestern Europe in terms of commercialization, commodities, land, labor, market-driven growth and fertility.**
Research Question	**Why did the Industrial Revolution take place in England which had only around 6 million in population?**
Characteristics observed	**Population growth occurred at an unprecedented rate.** **The living standard of the Western World was found nowhere else in the world.** **Industry and service sector replaced the agricultural sector in its significance.** **The Western world became and urban society with increased specialization, division of labor and interdependence.** **Continuous technological change became the norm.**

Reasoning	**The acceleration of the rate of innovation was due to better specified property rights which improved factor and product market. The increased market size induced greater specialization and division of labor but also increased transaction costs. These transaction costs were lowered by organizational changes with the consequence of lowering the cost of innovation and thus raising the rate of return on innovation.** **Some researchers (Pommeranz 2000) see the source of the Industrial Revolution in two geographic accidents: coal and colonies. Up to the Industrial revolution, all countries had to produce resources and were close to its natural limits. Thus, new sources of resources were needed to make the Industrial Revolution happen. England had coal reserves close to population centers and massive, largely empty areas in North America. Thus, geographic advantages rather than innovative potential explain the Industrial Revolution in England.** **However, another explanation (Clark 2007) refers to the social evolution in England which had a biological basis driven by an institutionally stable society of private property rights. People in England responded differently to market incentives. Population growth was faster in China and Japan than in England. Thus, Malthusian constraints operated much more tightly in England. Moreover, the demographic system gave less reproductive advantage to the wealthy than in England. Thus, England's advantage lay in a rapid cultural diffusion of the values of the economically successful throughout society in the years 1200-1800.**
Outcome of the Case Study	**There are several reasons why the Industrial Revolution happened in England. These reasons include ecology, government, culture, low interest rates as well as different belief systems in England. Moreover, England's geographical advances as well as its colonies, slave trade and the stable political situation.**

Source:

This case study is based on Cameron and Neal (2003), Clark (2007), North (1981).

Case 4

China and India at the end of the 20th century

Regions / Countries under comparison	China and India at the end of the 20th century
Time Period	1980 - 2006
Population	China: 980m (1980), 1.3bn (2006), India: 680m (1980), 1.1bn (2006)
Historical Situation	Before 1980, economic growth in China and India was relatively slow. Since 1980, economic growth in both countries has increased significantly, dramatically in China and more modestly in India. China overtook India within a couple of years after the economic reform and now has a higher income per capita Both countries embarked several economic reforms which led to deregulation and liberalization, opened up their economies to international trade and attracted foreign investments. Consequences include a growth in private enterprises, a large inflow of FDI, an increased volume of foreign trade. China reformed earlier and more aggressively than India. China began reforming its closed, centrally planned, non-market economy in 1978 while India always had a large private sector and functioning markets with, however, rigid market controls until some smaller reforms at the beginning of the 1980s. The political environments stay rather divergent in both countries. India continues to have an open participatory, multiparty democracy, while China has an authoritarian, one party regime, though it is liberalizing.
Research Question	What factors underlie the differences in growth between China and India? Can India match China's growth performance?
Phenomena observed	Both countries experienced a take-off in growth beginning around 1980, with a rise in income being much more marked in China than in India. Life expectancy increased in India and China, most striking is the rapid improvement in population health in China between 1950 and 1975.
Reasoning	Economies with a higher than expected level of trade, a high investment rate, high level of bureaucratic quality, high life expectancy, high ratio of working-age to total population, and that are not located in the tropics and are initially poorer, tend to have higher rates of economic growth. The major source of the rise in predicted growth rates is the large rise in life expectancy; the second major source is the increased openness of both economies; the third source is the level and growth rate of working-age share of the population. The rise in bureaucratic quality and the change in form of industrialization as well as investment rates have only little impact. Rising income levels have a negative impact on economic growth rates as economic growth in one period tends to increase initial income in the following period and moderation of future growth rates.

Outcome of the Case Study	**Economic growth in China and India is relatively immune to worldwide growth shocks that affected other countries as purely domestic factors can explain their growth. Capital accumulation is the most striking factor for the difference in growth as the investment-to-output ratio is higher in China than in India.** **China's growth is much due to rapid growth in investment and capital accumulation. This leads to increased labor productivity and per capita income as well as falling capital productivity and profit rates. This raises the question about the sustainability of China's economic growth. Moreover, China faces social pressure as unemployment is growing. Thus, China needs to continue growing fast while India needs accelerate growth.** **The sources of the Chinese economic growth can be summarized as follows:** **education, opening to foreign trade, increasing share of private sector activity, movement of labour from agricultural to non-agricultural activities, and urbanization. In all these areas the performance of the Indian economy has not been as good as that of the Chinese economy.** **China exhibits an explosive growth in the industrial sector which is a result of China's willingness to lower its trade barriers and attract FDI inflows. India's characteristic is the rapid expansion of the service-oriented sector and not the more traditional way of expansion through low-wage manufacturing.**

Source:
Bosworth and Collins (2008), Herd and Dougherty (2007), Felipe, Lavina and Fan (2008), Wang and Yao (2001), Srinivasan (2004), Bloom et al. (2006)

CONCLUSIONS

The evidence provided for in this study demonstrates the uneven regional economic growth in the past. The question is therefore, what are the critical factors behind it. The facts put forward above suggest the multifactor nature of the regional disparities.

What is important out of the research made is that there are structural factors which underline the long term economic advantage.

Social, cultural and institutional factors define the basic structure of economic activity. Economic activity can never be considered without these influencing factors in the society.

The importance of these factors becomes clear whenever disparities continue to exist even though mobility of economic and technological factors increases. Disparities in economic development in European Union are good example and suggest that local, immobile social and institutional factors are the reasons for regional disparities.

The case study on the Industrial Revolution in England has shown that the constellation of social and cultural factors in England leads to the emergence of the Industrial Revolution in England and not in any other country in Europe or somewhere else in the world. England was not far ahead in terms of property rights, technology or other institutional factors. Thus, the difference which leads to the Industrial Revolution must lie in other factors.

Examples of the structural factors are well-defined property rights and the absence of social and political instability, economic freedom and the presence of free market institutions, democracy and an adequate legal, political and regulatory framework. Society's polarisation and the degree of social conflict may impede economic progress.

Institutional and legal factors are important as they contribute to the reorganization of the production forms, through reduction of transaction and production costs, the definition of incentives structure and the changes of social participation.

The above conclusions show the particular importance of the structural factors for the regional economical competitiveness. The process of globalisation offers new perspective to the regions. The regional success is arguable dependent on the ability to offer favourable framework for the economic agent to act. The difficulty lays in the fact that majority of the structural factors are reversible and depend to the public choice in the region.

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