

Abstract:

What are the driving forces behind technological progress in the long-run, as the economy transitions from a traditional agrarian state to a modern industrial one? We propose a theory according to which institutional features are an important determinant of the long-run growth rate of technology. At the same time, favorable geographical characteristics, such as suitability for agriculture, can give particular regions an important head-start in making this transition. We test our theory using historical urbanization data from early modern Europe and find a positive and highly statistically significant effect for both channels. Most interestingly, we find that the two effects substitute for one another as growth-promoting institutions seem to be more important for regions that are less suitable for agriculture. We also discuss how our findings connect with the existing literature on the rise of Europe.