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Comment on Anthony J. Venables: European integration: A view from geographical economics

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This very stimulating paper discusses the location of industry, income differentials across regions, and the distribution of city sizes across Europe. Where industry locates will be determined by (economic) geography, broadly defined. As barriers to mobility of goods, capital, and labor between countries are lowered, the relative attractiveness of different locations will change. The author makes a wonderfully pedagogical overview of the driving forces behind industrial location. To put my comments into perspective, one may note that the author is one of the driving forces behind the renaissance for economic geography (see, for instance, Krugman and Venables, 1995; or Fujita, Krugman and Venables, 1999) whereas I have mostly been on the consumer side of economic geography. This comment will thus present a few tangential thoughts on the empirical parts of the paper that may be of interest to other consumers of this literature.

The first empirical section deals with the location of industry and how the regional specialization of industry develops across Europe. The paper makes a comparison with the US and notes that European countries are much less specialized in terms of their industry composition of production. Nevertheless, we have seen a slow increase in the degree of specialization in Europe. The author poses the question why this increased specialization has taken so much time. One reason is the presence of sunk capital costs. Each production location is associated with costs that are only to a limited degree recoupable if production is relocated. Venables notes that:

> "This argument alone seems insufficient to account for the slowness of the change, and there are few sectors where sunk costs are so large and capital so durable that this would support decades of persistence." (p. 155)

I am inclined to agree with this assessment, but it would indeed be interesting to see more evidence by following particular industries.

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Take the automotive industry for instance; it has seen considerable restructuring in terms of who owns what over the past few decades but many production locations remain. The issue of brand names tied to national origins has been offered as one explanation for the geographical stickiness of production. The automotive industry can also serve as a reminder that, although we have had integration over many years, the determination to complete the inner market is only fairly recent and relates to the 1992 program. Goldberg and Verboven (2004) provide a close look at market integration in the car market over the past few decades—it would be interesting to complement such studies with work on the production side.

As another explanation for the low specialization in relation to the US, Venables notes that it may be different to start from a situation with several clusters rather than with a clean slate—thus, maybe we should really expect less geographical concentration of a particular industry in Europe than in the US, also in the long run. A consequence that is not really spelled out in the paper is that it may be the case that many clusters can be supported in existing industries, but that new industries will be much more concentrated. A market economy really sees an amazing amount of creative destruction, not only in terms of firms but also in terms of products. A hundred years ago there was no car manufacturing to speak of in Europe—if it were created today, would it be much more concentrated?

The second empirical section examines income differentials across countries and regions in Europe. Venables shows how being further away from the "core" of Europe (proxied by the distance to Luxembourg) is correlated with having lower per capita incomes. That a great deal of variation in income can be "explained" by a few geographic variables is of course somewhat disconcerting for policy makers; it is hard to move Sweden closer to Luxembourg. Barring that we must ask: how do we become an outlier? Here I want to offer two thoughts. One regards the role of institutions; there is a well known debate regarding the role of institutions versus geography in economic development (see, for instance, Rodrik, Subramanian and Trebbi, 2002; and Sachs, 2003) with a focus on development in the tropics. More recently, researchers have tried to make progress in understanding the link between geography and institutions; for instance Acemoglu and Johnson (2005) examine how trade affected the wealth of different groups and thereby their political influence in Europe 1500-1850. Here, I offer it as a thought since institutions are re-

markably absent in much of the more recent discussion on economic geography in Europe, even though at one level, we believe them to be exceedingly important. To take an example, lower trade barriers to the EU may be important for incomes in the new EU members from Eastern Europe, but a huge effect is also to be expected from the greater institutional stability brought about by EU membership. As an example, remember that Greece, Portugal and Spain were dictatorships just a few decades ago. Arguably, the increased institutional stability is more important than lower trade barriers.

The second thought regards the really long run. Davis and Weinstein (2002) examine population density in different regions across Japan from 6000 BC to today, finding remarkably stable population patterns. I do not know of any similar European studies but it would be nice to include a long-run perspective and take a particular interest in Sweden, which has been relatively poor until very recently. An indication of great stability is that many of the large cities of Europe were relatively large already in Roman times.

The last empirical section of the paper indeed examines the distribution of city sizes and finds that the relation known as Zipf's law for city sizes does not hold across Europe, whereas it holds across the US. Since Zipf's law for cities can be shown to hold because of mobility, we can speculate about the future size distribution of cities in a Europe with greater labor mobility. This is an exciting exercise. In terms of what to expect, it may be interesting to compare how Zipf's law fares within European countries—Soo (2005) examines Zipf's law across many countries and indeed it appears that, on average, it fares much worse also *within* European countries than it does in the US. This is consistent with the stylized fact that labor mobility across European regions, but within the same country, also seems low in Europe as compared to the US (see, for instance, Decressin and Fatás, 1994).

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