Road Maintenance and Local Economic Development Evidence from Indonesia’s Highways

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This paper estimates the local welfare impacts of road maintenance investments. We instrument road quality exploiting Indonesia’s two-step budgeting process for allocating funding to local road authorities. Using comprehensive data on road quality from 1990-2007, we find that better roads help manufacturers create new jobs, enabling worker transitions out of informal employment, and increasing wages. In terms of cost of living, road quality reduces perishable food prices but also raises housing prices. We estimate the elasticity of household welfare with respect to road quality to be 0.16 and the benefit/cost ratio for road maintenance investments to be 2.8.