The US Interstate Highway and Market Access

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Abstract

Market access has become a key term in the new economic geography, reflecting how desirable a location is based on it's trade costs and simultaneously capturing the effects of forward linkages, backward linkages, and competition. This literature has flourished since Krugman (1991) and has rich roots in location theory. The market access equation is similar to gravity trade models and emerges from microfoundations. A key parameter is the trade cost between regions. Using detailed data on the highway's construction this paper explores the impact from the US Interstate on market access and key economic outcomes such as income, employment, and wages on a regional level. Arguing the timing of completion of various segments is influenced by factors exogenous to economic performance such as weather, geography, legal matters, politics, construction coordination difficulties, and ..., this paper attempts to identify a causal effect by looking closely at when market access improves for certain regions over other regions. This can have dramatic effects as firms locate operations accordingly and influence the location decisions of future firms, leading to outcomes that depend on the history and timing of events. Similar counties that received incidental highway access are compared to counties that did not receive access, and similar counties that both received incidental highway access at different times are compared. The goal of this paper is to contribute novel high-quality spatial data while utilizing the models from the new economic geography literature to examine the impact of building roads. Specific attention is paid to the model developed by Eaton and Kortum (2002) as in Donaldson and Hornbeck (2016), Alder (2017), Storeygard (2016), Morten and Oliveira (2018), Allen and Arkolakis (2014), Frye (2016), ...

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