Abstract

We investigate the role of industrial structure in labor productivity growth in U.S. cities between 1880 and 1930. We find that increases in specialization were associated with faster productivity growth but that diversity only had positive effects on productivity performance in large cities. We interpret our results as demonstrating the importance of Marshallian externalities. Industrial specialization increased considerably in U.S. cities at this time, partly as a result of improved transportation, and we estimate that this brought significant gains in labor productivity. The American experience suggests that wider economic benefits of transport infrastructure investment in developing countries could be important.