

# Trade in Polarized America: the Border Effect between Red States and Blue States\*

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January 19, 2012

## Abstract

Political and cultural polarization within the U.S. has been documented in recent years, but does it cause any economic disparity in the country? We examine to what extent the “border” between Red and Blue states reduces inter-state trade. We estimate the gravity equation which is used to detect international border effects, by constructing a nonlinear GMM estimator for simultaneously overcoming the problems of cross-state price differences, endogeneity, and zero-trade flow. The border effect is robustly confirmed for 2000s, while not so robustly detected for 1990s. In 2007, the border causes trade between Red and Blue states being approximately 70% of the trade that occurs within each of these two sets of states. The emerging border effect suggests that the recent polarization in American politics and culture may have negatively impacted to the economic interstate interactions.

**Keywords:** Red states; Blue states; Gravity equation; Border effect.

**JEL Codes:** D72, F10, F15, R10.

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\*First draft: Dec 1, 2011. We appreciate comments by Yasushi Asako and seminar participants at Keio and Waseda. All errors are our own. A separate appendix is available upon request. Views expressed in this paper are those of the authors and do not necessarily reflect the official views of the Bank of Japan.

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