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IZA DP No. 13191

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of American Cities**

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## ABSTRACT

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# Dirty Density: Air Quality and the Density of American Cities\*

In this paper we study the effect of urban density on the exposure of city dwellers to air pollution using data from the United States urban system. Exploiting geological features to instrument for density, we find an economically and statistically significant pollution-density elasticity of 0.13. We also assess the health implications of these estimates and find that doubling density in an average city increases annual mortality costs by \$630 per capita. Our findings highlight the possible trade-off between reducing global greenhouse gas emissions, which is associated with denser cities according to prior research, and preserving local air quality and human health within cities.

**JEL Classification:** Q53, R11, I10

**Keywords:** air pollution, cities, density, health

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## I. Introduction

As of 2014, 54% of the world's population lived in urban areas, with this figure projected to reach 66% by 2050 (United Nations, 2015). A large body of literature has examined the consequences of urbanization and provides strong evidence that the high population densities associated with urban living lead to welfare-enhancing agglomeration effects (see Combes and Gobillon 2015, and Ahlfeldt and Pietrostefani, 2019 for a survey). However, an increase in density is also associated with congestion forces such as crime, higher rental prices and possibly higher levels of air pollution.

In this paper, we study how urban density affects the exposure of city dwellers to ambient air pollution. The direction of this relationship is theoretically ambiguous. If residents of denser cities drive less due to shorter commutes or increased road congestion, emissions per person may be lower. Indeed, previous research has shown that denser areas are associated with lower greenhouse gas emissions (see for example Glaeser and Kahn, 2010).<sup>1</sup> Conversely, a higher spatial concentration of polluters within a city and productivity-enhancing agglomeration effects resulting from increased density may both lead to greater overall pollution exposure. Previous work by Gaigné et al. (2012) and Borck (2016) studies the theoretical relationship between density and pollution formally, emphasizing that different mechanisms lead to ambiguous predictions. In this context, we estimate the relationship between density and air pollution empirically by constructing and

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<sup>1</sup> Other empirical work emphasizing the relationship between greenhouse gas emissions and urban form can be found in Norman et al. (2006), VandeWeghe and Kennedy (2007), Fragkias et al. (2013), or Lee and Lee (2014). Holian and Kahn (2015) show density can also affect electoral support for low carbon policies. See Kahn and Walsh (2015) for a review.

analyzing a novel data set that combines satellite-derived measures of Particulate Matter (PM<sub>2.5</sub>) concentration with administrative data on population density for the contiguous United States.

Studying the relationship between urban density and ambient pollution is of particular importance given the substantial adverse effects of air pollution on human health and wellbeing. The epidemiological and economic literature have documented a strong link between air pollution and various health outcomes such as life expectancy, infant mortality and emergency room visits (Dockery et al., 1993; Pope et al. 1995; Chay and Greenstone, 2003; Schlenker and Walker, 2015). According to a recent report, the estimated annual cost of air pollution in terms of mortality and ill health for all OECD countries combined with China and India, is \$3.5 trillion (OECD, 2014).<sup>2</sup> A growing body of literature has shown that air pollution also affects other aspects of human life such as labor productivity, educational outcomes and crime (Graff Zivin and Neidell, 2012; Ebenstein et al., 2016; Bondy et al., 2020) suggesting that the total cost of air pollution is likely to be even higher. As such, ambient air pollution has been a key policy issue in many countries worldwide. Given that more than 80 percent of people living in urban areas are exposed to air pollution levels that exceed the World Health Organization (WHO) guidelines, air quality is expected to remain high on the public health agenda.<sup>3</sup>

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<sup>2</sup> Recent World Bank estimates for the global costs of air pollution climb to USD 5 trillion (World Bank (2016)). While the specific figures may of course be at best rough estimates, they do point to large and economically significant global costs of air pollution.

<sup>3</sup> See <http://www.who.int/news-room/detail/12-05-2016-air-pollution-levels-rising-in-many-of-the-world-s-poorest-cities>.

Estimating the effect of urban density on air pollutant concentration is empirically challenging for several reasons, including the presence of unobserved correlated factors and reverse causality. More specifically, population densities are not randomly assigned as residents sort themselves into areas based on various characteristics including local amenities and employment opportunities. For example, many productive activities (e.g. manufacturing) can generate pollution; if residents sort themselves into areas close to these activities, a naïve OLS estimation may overstate the true effect of densities on pollution. Furthermore, empirical evidence demonstrates that pollution itself affects location decisions directly (Heblich et al. ,2016), resulting in a reverse causality problem which would bias our coefficients towards zero.

We overcome these empirical challenges by using an instrumental variable (IV) strategy, with instruments inducing exogenous variation in density without affecting pollution directly. For this purpose, we use three variables capturing geological features of US urban areas: earthquake risks, the presence of aquifers in and around urban areas and soil drainage capacity.<sup>4</sup> We complement our main empirical approach with estimates obtained using a traditional long-lag instrument, which measures urban population density in the 1880 US Census (similar to Ciccone and Hall (1996) and subsequent work) and a fixed-effect specification based on a two-period panel covering the years 2000 and 2010.

We find a positive and statistically significant relationship between city-level population density and exposure to ambient air pollution. Our preferred instrumental

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<sup>4</sup> Geological instruments for density were initially proposed in Rosenthal and Strange (2008) and have often been used in subsequent work in the agglomeration literature (see for example Combes et al. (2010)).

variable estimates suggest that a doubling of density – which is equivalent to changing population density in Houston to that of Chicago – increases PM<sub>2.5</sub> exposure by 0.73 ( $\mu\text{g}/\text{m}^3$ ). This effect, roughly equal to two-fifths of a standard deviation, is large given the substantial variation in densities between urban areas in the United States. We also estimate an exposure-density elasticity of 0.13, indicating that a 1% increase in density increases average residential PM<sub>2.5</sub> exposure by 0.13%. To put this in perspective, according to a recent survey of the quantitative literature (Ahlfeldt and Pietrostefani, 2019), the density elasticity of wages and energy use reduction are 0.04 and 0.07, respectively. Estimation using our alternative instrumentation strategy based on historical population density yields slightly larger elasticities but confirms the qualitative findings. Moreover, using a fixed-effect panel specification, we find statistically similar results to our instrumental variable estimates despite the limited longitudinal variation in density over a decade in the US.

We conduct several complementary analyses to explore the mechanism behind these findings. First, we use different specifications to explore the impact of scale effects associated with city size on the link between pollution and density. Second, we use data on the location of polluting industries to study whether local differences in sectoral composition can explain our main results. Finally, we test whether our between-city findings might be driven by the higher spatial concentration of emitters in denser cities. We find that denser locations within urban areas are indeed associated with higher pollution levels and no evidence in support of the other alternative channels. We conclude that our between-city results are likely driven by the reduced distance between sources and affected

households resulting from the higher spatial concentration of emitters in denser urban areas.

The effect of density on local air pollution concentrations is only economically relevant if it translates into significant health and well-being effects on the cities' inhabitants. We evaluate this by computing the pollution-induced mortality impacts of density following a similar analytical strategy to the one taken by the US Environmental Protection Agency (EPA) in their Regulatory Impact Analysis.<sup>5</sup> Using concentration-response functions from the literature and the EPA official figure for the Value of Statistical Life (VSL), combined with our main between-city IV estimates, we find that a doubling of population density is associated with an increase in annual mortality costs of as much as \$630 per capita. This is a large cost that highlights the importance of incorporating air quality when considering the consequences of suburbanization. Finally, as previous research suggests that compact cities are linked with lower greenhouse gas emissions, our results indicate a potential trade-off in the environmental implications of dense urban development, with increased densities associated with lower global externalities (greenhouse gas emissions) but increased local externalities (local air pollution). We conduct back-of-the-envelope calculations to evaluate the net environmental impact of population density. We find that the local air pollution costs far outweigh the global environmental benefits of density in terms of reduced CO<sub>2</sub> emissions.

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<sup>5</sup> Regulatory Impact Analysis (RIA) is used by the EPA to support the development of national air pollution regulations as required under the 12866 and 13563 Executive Orders.

Our study provides several important contributions to the existing literature and policy-making more broadly. First, to the best of our knowledge we are the first to credibly estimate the causal relationship between population density and air pollution at the city and within-city levels. The paper closest to our work is Borck and Schrauth (2019), which studies the effect of *district*-level density on urban air pollution in Germany using data from monitoring stations.<sup>6</sup> A few other previous studies have tried to estimate this relationship using partial correlations so they can only provide a causal interpretation of their results under strong assumptions.<sup>7</sup> Second, in terms of policy implications, our results indicate that despite the usual claim that denser cities tend to be more environmentally friendly, air pollution exposure is actually *higher* in denser cities. We argue that there could be a trade-off between reducing global greenhouse gas emissions and preserving the environmental quality within the city and highlight the need to incorporate the effect on air quality when estimating the impact of densification policies. Third, we use our empirical findings to derive a cost estimate, which can be used for future scholarly work on urban density and policymaking more broadly. Finally, most of the air quality literature in economics focuses

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<sup>6</sup> Our paper differs from theirs in that we use satellite-level measures of air quality which enable us to deal with endogenous selection in the location of measuring stations and to conduct both within and between city analyses. We also measure density at the city, rather than the district, level. Finally, we explicitly analyze the costs of densification in terms of mortality and its associated monetary cost. We see our papers as complementary, although the comparability of results is limited by the relatively small number of measuring stations recording data on PM2.5 in Borck and Schrauth (2019).

<sup>7</sup> Sarzynski (2012) uses a cross-section of world cities to estimate the partial correlation of demographics on pollutant emissions. They find a negative effect of density on air pollutant emissions, in line with some of the results obtained in Glaeser and Kahn (2010) for US cities. Ahlfeldt and Pietrostefani (2019) review the literature and provide cross-sectional elasticities between density and pollution using a sample of OECD urban areas. Finally, Hilber and Palmer (2014) use a panel of world cities to determine that density is negatively associated with urban air pollution concentration, with the negative estimates arising mainly from developing country cities.

on the impact of air pollution exposure on human health and wellbeing. In contrast, our paper examines the determinants of air pollution by studying how the consequences of human actions – in this case, urban form – affect air quality.

## II. Data and Descriptives

For our analysis, we combine information on air pollution concentrations, population density, demographics and geological features from several sources. We construct our dataset as a 0.01x 0.01 degrees grid over the conterminous United States territory. This grid is based on a raster of average PM<sub>2.5</sub> concentration measurements obtained by combining the Aerosol Optical Depth retrieval from the NASA MODIS instrument adjusted using ground-level monitoring station level data as detailed in van Donkelaar et al. (2015). We convert the raster into a polygon grid and use this as the skeleton of our dataset. Because the grid cell size is defined in fixed units of coordinate degrees, they vary slightly in surface depending on latitude. The average cell size is approximately 1 square kilometer and the inter-quartile range in cell size is only 0.1 sq. km.<sup>8</sup> Throughout most of our analysis, our dependent variable is PM<sub>2.5</sub> average yearly concentration, measured in 2010.

We add census population data from the US census for 2010 by spatially matching our grid cells with census-blocks. Imputation of population data to our grid cells is performed by assuming a uniform spatial distribution of populations within the census block, overlaying our polygon grid on census block-group shapefiles distributed by the US Census Bureau, and aggregating data back to our grid cells using spatial weights computed

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<sup>8</sup> We incorporate heterogeneity in cell size in our computations where appropriate.

using surface areas. We use this information to compute the grid cell level and city level density measures. We additionally incorporate data on demographic characteristics including income and education proxies, population age, housing tenure, etc.

To obtain our main instrumental variable estimates, we use three different instruments that may affect population density but not air pollution directly. We obtain variables measuring earthquake risks and the presence of aquifers from the United States Geological Survey (USGS) (also used in Turner and Duranton, 2018), and data on soil drainage quality from NRCS State Soil Geographic Data Base. We match our grid cells to the geological data using grid cell centroids to spatially impute data on aquifers, earthquake risks and soil drainage quality. An alternative instrument, used in our robustness checks, is population density data at the county level obtained from the 1880 United States census. We impute this data on our grid cells using spatial matching based on the assumption of uniform population distribution within 1880 counties. Note that, while the assumption of uniform distribution is clearly a simplification that could lead to measurement error, this should not have a substantial impact on our main estimates. Measurement error in the instruments could affect their relevance but should not generate bias in the coefficients of interest unless the measurement error itself is correlated with pollution concentration.

In our city-level analysis, we use the Core-Based Statistical Areas (CBSAs) as defined by the Office of Management and Budget. We include both Metropolitan and Micropolitan statistical areas in most of our city-level analysis. These areas are defined as an aggregation of counties based on commuting patterns around an urban core. In using these areas, we

attempt to approximate a working definition of a functional urban area. The definition of CBSAs used in this paper is based on the 2010 Census, with the associated shapefiles obtained from the US Census Bureau.

We complement our dataset with gridded data on PM<sub>2.5</sub> concentrations from ground-level monitoring stations (obtained from EPA AirData) and industrial composition at the county level from the County Business Patterns (CBP) dataset. We use the ground-level monitoring station data to validate our satellite-derived pollution measures. The scatter plot in Appendix Figure A1 shows the correlation between monitoring station measures of PM<sub>2.5</sub> concentration and concentration measures obtained using our satellite-derived data. In both cases local, measures are aggregated to the city level. The correlation is high, as expected, standing at roughly 80%.<sup>9</sup>

The dataset assembly process is illustrated using the metropolitan area (MSA) of Minneapolis-St. Paul-Bloomington in Figure 1. Top panel A shows a satellite photograph of the Twin Cities, with the Mississippi crossing the urbanized area from north-west to south-east. Panel B presents our pollution raster, with darker shades indicating higher PM<sub>2.5</sub> concentration levels. Points in panel B indicate the location of AirData measuring stations in the area, which we will use in our robustness checks. Finally, bottom panel C indicates the resolution of our population data, with polygons indicating census block groups. We spatially impute data to our grid cells and then aggregate to CBSAs to obtain our city-level dataset.

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<sup>9</sup> Sullivan and Krupnick (2018) use the same satellite-derived source of particulate matter concentration we use in this paper to complete the large gaps in the coverage of the pollution monitor network in the United States.

Before turning to the core of our empirical analysis, we first provide a series of descriptives at our two spatial scales. Table 1 provides descriptive statistics for the main variables of interest across our 4,356,408 spatial cells and our aggregated dataset of 933 cities. Panel B shows that there is substantial variation in both density and air pollution levels across the US. We can also see that population densities of US cities have increased almost fivefold since the 19<sup>th</sup> century. Annual mean PM<sub>2.5</sub> is lower for the satellite measure suggesting that ground measuring stations are located in more polluted areas. This endogenous location of measuring stations generates a measurement error problem that exists, to varying degrees, in much of the empirical literature on ambient air pollution.

To further explore the distribution of population and pollution, we provide distance gradients for both population density and PM<sub>2.5</sub> concentration in Figure 2 using data for all cities. The horizontal axis represents the distance to the CBSA population centroid and the solid line represents population density.<sup>10</sup> We observe the usual downward sloping density gradient that characterizes most cities (see for example McDonald, 1989 or Bertaud and Malpezzi, 2003). Interestingly, we observe a similar downward-sloping pattern in the dashed line representing particulate-matter pollution concentration. The fact that this line has a gentler slope is likely to be the result of the slow spatial decay of PM<sub>2.5</sub> concentrations. Similar patterns can be observed in Appendix figure A2, which is obtained using ground-based monitor measures of pollutants. Note that average PM<sub>2.5</sub>

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<sup>10</sup> The CBSA population centroid is computed by calculating the weighted average of latitude and longitude for grid-cells within a city, where weights are given by the fraction of total CBSA population in a grid-cell.

concentrations are higher when using ground-based monitoring stations because monitoring stations tend to be located in more polluted areas.

### III. Empirical Strategy

We study whether air quality is affected by urban density, from both a within-city and a between-city perspective. In the first case, the question is whether denser areas inside a city have higher pollution levels. In the second, whether inhabitants of denser cities are exposed to higher levels of air pollution on average. In both cases, our analysis focuses on estimating a regression of pollution levels on density.

When looking *within* cities the baseline estimating equation takes the form:

$$(1) \text{Ln}(PM2.5_i) = \omega \text{Ln}(Density_i) + \gamma' X_i + \alpha_c + \varepsilon_i$$

Where  $i$  indexes grid cells,  $\text{Ln}(PM2.5_i)$  is the natural logarithm of satellite-derived PM<sub>2.5</sub> concentration,  $\text{Ln}(Density_i)$  is the log of grid cell level population density,  $\alpha_c$  is a CBSA level fixed effect, and  $X_i$  is a vector of controls. All specifications include controls for latitude, longitude, and yearly averages for minimum and maximum daily temperatures<sup>11</sup>. In some specifications, we include an additional set of controls encompassing distance to water bodies, average precipitation, average soil slope, a dummy taking value 1 for coastal cities (population-weighted centroid less than 50km of a major coastline), distance to a major coastline (ocean or great lakes) and the number of power stations in the city. The CBSA level effects ensure we only exploit within-city variation. We also cluster the

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<sup>11</sup> We control for temperature as it might affect local pollution levels and population density. More specifically, temperature may affect pollution through variation in the usage of heating systems and/or various meteorological conditions (e.g. thermally induced convection) and may affect density via its affect on population location decisions (see Glaeser et al. 2001).

standard errors at the city-level to account for correlated shocks within each CBSA. In this exercise, our parameter of interest is  $\omega$ , which can be interpreted as an elasticity. For completeness, we will also report estimates when PM<sub>2.5</sub> concentration is kept in levels.

The core of our analysis focuses on obtaining between-city estimates, which are more relevant for city-wide planning policies and have been the focus of the limited literature on this topic. Our main dependent variable of interest for the between-city exercise is average population-weighted PM<sub>2.5</sub> concentration at the *city* (CBSA) level, as obtained from the satellite-derived PM<sub>2.5</sub> data described in Donkelaar et al. (2015). This is built by aggregating data from our spatial cells into city-level observations, combining satellite measures of pollution concentration with residential population counts from the census. Formally, city  $c$  population-weighted particulate concentration is given by a weighted average of grid cell level exposures<sup>12</sup>:

$$PM2.5_c^{exp} = \sum_{i=1}^{N_c} PM2.5_{c,i} \times \frac{Pop_{c,i}}{\sum_{j=1}^{N_c} Pop_{c,j}}$$

where  $PM2.5_c^{exp}$  is the dependent variable of interest,  $i$  indexes grid cells within a city  $c$ ,  $N_c$  is the number of cells within  $c$ ,  $Pop_{c,i}$  is the population on grid cell  $i$  and  $PM2.5_{c,i}$  is average yearly PM<sub>2.5</sub> concentration on grid cell  $i$ .<sup>13</sup> Note that this measure of urban air pollution is much more precise than alternative measures based on a handful of measuring stations located in selected parts of urban areas. Indeed, figure 2 shows that there is a substantial

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<sup>12</sup> The pollution exposure of individuals depends on a verity of factors including their geographical location across time and their time spent indoors/outdoors. Since we only observe the residential location, we use the above definition to measure exposure.

<sup>13</sup> Interestingly, our results are only slightly affected by taking this weighted average. Using a simple mean of PM<sub>2.5</sub> concentration within our cities has only a marginal impact on estimated coefficients.

variation in both population density and pollution concentration within cities, highlighting the need for the use of an appropriate concentration measure. Our main estimating equation is straightforward and regresses the natural logarithm of average residential PM<sub>2.5</sub> exposure ( $\ln(PM2.5_c^{exp})$ ) on the logarithm of urban population density ( $\ln(Density_c)$ ), computed by aggregating grid cell populations and areas to the CBSA level:

$$(2) \ln(PM2.5_c^{exp}) = \beta \ln(Density_c) + \gamma' X_c + \alpha_s + v_c$$

where  $X_c$  corresponds to our vector of controls,  $\alpha_s$  is state fixed-effects and  $\beta$  is our coefficient of interest which indicates how PM<sub>2.5</sub> exposure increases as a result of an increase in urban density<sup>14</sup>. This estimate is interpreted here as an elasticity, but we also provide estimates with the dependent variable in levels, since these are necessary to obtain a monetary measure of health costs as calculated by the EPA. The combination of controls and state effects used in each specification is reported in our tables.

The causal interpretation of the coefficient of interest in both cases requires variation in density to be exogenous to other determinants of air pollution. Urban density is shaped by a host of factors ranging from sectoral specialization, locational amenities, access to employment opportunities and, potentially, air quality itself. This is problematic because some of these factors could very well affect pollution directly, therefore becoming confounders in the regression equations above. While controlling for other determinants of pollution or state effects may help, there is no guarantee that all confounders have been accounted for.

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<sup>14</sup> We do not control for total urban population in our main specification but conduct a separate analysis to account for the role of city size on the link between pollution concentration and density in section V. Controlling for population in our main specification barely affects our coefficients of interest.

We overcome this problem by using an instrumental variable strategy that employs three different instruments to induce credibly exogenous variation in density. For this purpose, we use geological variables from the USGS measuring earthquake risks and the presence of aquifers in and around urban areas, and data on soil drainage quality as instruments for density. We think of these instruments as modifying the cost of density in a given urban area, or even within the urban area itself. This is similar to the effect of planning restrictions shaping local densities and therefore would help identify  $\beta$  as the policy parameter of interest in the between-city analysis.

Before we discuss our instruments in detail, it is useful to go through the randomization thought experiment, focusing specifically on the between city case. Ideally one would want to randomize urban density across cities, for example by randomizing maximum height restrictions or zoning regulations. Even if this were possible – it is not – the result is likely to affect a multitude of different urban outcomes, through static effects on the city and migration within the urban system. These factors will, in turn, collectively influence urban air pollution. We argue that despite the reduced-form nature of this type of exercise (where a multitude of potential mechanisms could be in operation simultaneously), this is the policy parameter of interest. Densification policies by city governments are likely to have a large set of impacts on urban structure and, more broadly, across the city system. The goal of our empirical analysis is to estimate the average effect of density on air pollution exposure. The variation in density we use for estimation is not induced by planning policy decisions but rather by other density shifters relating to the

physical and historical environment of cities. However, we expect estimates obtained from these induced variations to remain relevant for planning policy.

### **Instrumental Variables**

Our main empirical analysis uses three geological features as instruments for population density.<sup>15</sup> More specifically, we use the fraction of the urban footprint with aquifer presence, a measure of average earthquake risks and an estimate of soil drainage quality. The rationale for the aquifer variable is that new dwellings in the periphery of urban areas need either to connect with the municipal network or to directly connect with an underwater source. As the cost of connecting to the municipal network is increasing in the distance to other connected dwellings and the fact that the option of the underwater source is only available if there is an aquifer where the dwelling is located, implies that cities with more land over aquifers can sprawl out further and contain more sparse development and lower densities. Importantly, it is unlikely that the presence of underground aquifers affects air pollution directly, hence we expect the orthogonality condition to be satisfied. This instrument is motivated by the work in Burchfield et al. (2006) which reports that aquifers in the urban fringe are associated with urban sprawl.

The rationale for our earthquake risk instrument is the expectation that the risk of an earthquake might influence building regulations, construction practices and the space between buildings, thus also affecting urban density. We also expect this instrument to

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<sup>15</sup> A similar strategy is followed in Rosenthal and Strange (2008), Combes et al (2010) and Duranton and Turner (2018).

satisfy the exogeneity condition, once we condition for distance to sea, latitude and longitude, and state fixed effects.

Finally, the soil drainage quality variable is expected to affect land suitability for building at different densities. In fully urbanized land, a significant fraction of rainfall is drained through drainage networks and sewage systems (Konrad, 2003). However, at lower densities, soil drainage capacity is important to avoid stagnant water and, possibly, floods. In addition, because high drainage soils are composed of relatively large particles, which leave substantial empty spaces between them, it is not ideal for the laying down of heavy infrastructure, thus penalizing high-density development.

As a complement to the empirical strategy above, we introduce an alternative instrumental variable based on historical population as recorded in the 1880 US census. This period took place before much of the technological revolutions in transportation that affect air pollution this day and would also precede current patterns of industrial location. Moreover, because the persistence of buildings from the late XIX century could affect urban density today, we expect the relevance condition to be satisfied. The use of historical population instruments for density was initially proposed by Ciccone and Hall (1996) and has often been used in the literature on agglomeration economies since (see for example Combes et al. (2008)).<sup>16</sup>

Formally, our IV estimates for the between-city analysis are obtained following the standard two-stage least squares procedure (2SLS) as follows:

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<sup>16</sup> A description of the intuition behind both the population lag and geological instruments and their limitations can be found in Combes and Gobillon (2015).

$$(3) \text{Ln}(\text{Density}_c) = \delta'Z_c + \gamma_z'X_c + \theta_s + u_c$$

$$(4) \text{Ln}(\text{PM2.5}_c^{\text{exp}}) = \beta \text{Ln}(\widehat{\text{Density}}_c) + \gamma'X_c + \alpha_s + v_c$$

where  $Z_c$  is our vector of instruments and  $\delta$  represents a conformable vector of first-stage coefficients. All other variables defined as above. Throughout our analysis, we provide results for different specifications, including or excluding controls and state fixed effects. We follow the same strategy to obtain our within-city estimates, replacing grid cells as the unit of observation and controlling for CBSA effects.

## IV. Results

### a. Within-City Estimates

We first focus on the results of our within-city analysis. Baseline estimates of equation 1 obtained using OLS are reported in Appendix table A1. The coefficient is positive and significant across specifications, indicating an elasticity of 3.6% when including both CBSA fixed effects and the full set of controls. This implies that doubling population density in a grid cell leads to a 3.6% increase in PM<sub>2.5</sub> concentration.

Turning to our instrumental variable results, we first provide estimates for the first-stage coefficients in table A2 in the Appendix. The F-statistics for a joint significance test of the three coefficients indicates our instruments are not weak, which has two important implications. First, it indicates that the relevance condition is satisfied. Second, it motivates the empirical strategy used in the between-city analysis below. The logic behind the use of these instruments is based on their impact at the micro-level. For instance, when we say aquifers affect density by reducing the need to connect to municipal water networks and

allowing for sprawl, we are using a within-city rationale, even if the instrument is later used in a between-city analysis. The relevance of our instruments within-city is reassuring because it clarifies why they may be relevant across cities.

The IV estimates for our within-city analysis are reported in Table 2. The elasticity estimates, reported in the first row, are substantially larger than those obtained under OLS, indicating a bias towards zero in our baseline estimates. This bias is consistent with reverse causality, with pollution levels affecting the distribution of population within cities.<sup>17</sup> In our preferred specification in column 4, we find an elasticity of roughly 0.2, indicating that a 1% increase in population density in a grid cell increases PM2.5 concentration by 0.2%. The results above provide robust evidence for the relevance of our instruments, but our core interest and the policy-relevant investigation is in the relationship between population density and pollution exposure in the context of our between-city analysis which is presented in the next section.

## **b. Between-City Estimates**

As a preview to our baseline results, Figure 3 provides graphical evidence on the cross-sectional relationship between city-level particulate concentration and population density where the vertical axis measures  $PM2.5_c^{exp}$  and the horizontal axis measures the logarithm of density at the city level. Clearly, there is a strong positive relationship between

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<sup>17</sup> Recent evidence on population sorting within cities in response to pollution can be found in Heblich et al. (2016).

both, as indicated by the regression line overlaid on the figure.<sup>18</sup> One potential concern when interpreting this figure is that denser cities may have higher levels of air pollution exposure, not because they are dense, but rather because they are populous. To illustrate that the urban scale is not driving the correlation observed in figure 3, we regress  $PM2.5_c^{exp}$  on a fourth-degree polynomial of population. We then obtain the residuals of this regression and plot them against log density. The corresponding scatter plot is provided in Figure A4. We observe the relationship between  $PM2.5_c^{exp}$  and density is largely preserved after this procedure, indicating that the observed correlation is not driven mechanically by city size. We conduct a more detailed analysis of the role of city-scale in section V.

Table 3 provides baseline estimates of equation 2, obtained using ordinary least squares. The top panel of the table provides estimates of the elasticity of pollution with respect to population density. The bottom panel reports coefficients of a specification in which the  $PM2.5$  concentration variable is kept in levels. Different specifications, displayed in columns, adding fixed effects and additional controls as indicated in the table. In all cases, our unit of observation is the CBSA. Our preferred estimates are those for which the full set of controls and state fixed effects are included in the estimating equation. Focusing on the top panel, our baseline results indicate an elasticity of 0.073, significant at the one percent level. This suggests that a 1% increase in density would result in a 0.07% increase in average residential  $PM2.5$  exposure. As discussed above, these estimates can be biased by confounders or reverse causality.

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<sup>18</sup> A non-parametric depiction of this relationship using population density bins is provided in Figure A3 in the Appendix.

Before proceeding to the IV results, we first provide estimates of our first-stage regression in Appendix Table A3. These result from estimating equation 3, using our geological variables as instruments. We observe that across specifications our instruments are jointly significant, as indicated by the F-statistics reported in the table foot, which lies consistently around 20. Both the aquifer and soil drainage instruments have the expected signs, given that both aquifer presence and high-quality soil drainage predict low-density development. Note that the expected sign for the aquifer instrument is different for the between and within city analysis. In the within-city analysis, we expect the sign of the first stage to be positive, as residents are likely to sort into locations where aquifers are present. In contrast, we expect to see a negative sign in the between-city analysis, as cities with more land over aquifers can sprawl out further and contain more sparse development and lower densities. Finally, the coefficient on earthquake risk is harder to interpret. The effect of earthquakes on the risk of collapse may not be increasing in building heights, as different buildings will have different resonances and therefore be affected differently by different types of earthquakes.

As an additional check on the suitability of our instruments, we modify equation 2 and estimate the effect of our instruments on variables measuring the presence of fossil fuel power stations, and on the Wharton index of land use regulation (Gyourko et al. 2008). In the case of power plants, the concern is that geological characteristics (e.g. earthquake risks) could affect the location of power plants across cities and these could, in turn, affect PM<sub>2.5</sub> pollution directly. Estimates for these balancing tests are provided in Table A4. In columns 1 and 2 we use, respectively, the number of oil and power plants in each city as outcome

variables. Columns 3 and 4 use dummies indicating the presence of at least one plant of each type instead. Reassuringly, the coefficients on our estimates are always insignificant at the 5% level, with only one coefficient being weakly significant in one specification. The joint significance test statistics for the instruments never reject the null of joint insignificance, with F-statistics between 0 and 2 in all columns. When considering land use regulation, the concern is that it could simultaneously be affected by air pollution and correlated with our instruments. The results for these balancing tests are reported in table A5.<sup>19</sup> We can see that once we include state effects or the full set of controls (columns 2 to 4), we cannot reject the null of all instrument coefficients being jointly not significant (see F-statistic provided in the table foot). Only the earthquake risk variable remains marginally significant and this is not wholly surprising, as we would expect certain building regulations to be more stringent in areas with high earthquake risk. Having provided further evidence on the validity of our instruments in the context, we now turn to our main results.

Table 4 presents the results of our main IV estimation. The first row reports estimated elasticities, and the second reports estimates obtained with PM<sub>2.5</sub> exposure measured in levels. We provide results using different specifications, with our preferred specification including both state dummies and a full set of controls (third column). Our estimated elasticity is now 13% and is statistically significant at all conventional levels. This indicates that a 1% increase in density will increase average residential PM<sub>2.5</sub> exposure by

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<sup>19</sup> Results provided only for the set of CBSAs that could be matched to the WLUR city definitions.

0.13%.<sup>20</sup> This is slightly larger than our baseline estimate, indicating a positive bias under ordinary least squares. This can be rationalized by reverse causality, as air pollution may lead to lower equilibrium densities if households sort spatially in response to it. Estimates when using the PM<sub>2.5</sub> exposure variable in levels indicate that a doubling of population density will increase particulate matter concentration by 0.73  $\mu\text{g}/\text{m}^3$  ( $1.047 \times \ln(2)$ ). This is a substantial effect as the cross-sectional standard deviation in density in our sample is 2.2 ( $\mu\text{g}/\text{m}^3$ ).<sup>21</sup> Overall, our results show that denser cities are, at least in terms of PM<sub>2.5</sub> exposure, worse environments than more sprawled out cities.

### c. Robustness

In this section, we provide a series of additional estimates to highlight the robustness of our between-city results to i) the sets of selected geological instruments, ii) first difference estimation based on a two-period panel covering the years 2000 and 2010, iii) using an alternative IV strategy based on a historical density instrument, and iv) using population-weighted densities as our main variable of interest.

We begin with Appendix Table A6, which provides alternative estimates obtained by sequentially excluding one of our geological instruments for density. All reported estimates are pollution-density elasticities and our preferred specification continues to

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<sup>20</sup> It is worth noting that this elasticity is close to the elasticity of 12.4% reported in Ahlfeldt and Pietrostefani (2019) using a different sample of cities. In Borck and Schrauth (2019) the estimated elasticity for PM<sub>2.5</sub> in German districts is in the 0.03-0.07 range, although imprecisely estimated. The authors argue this is a consequence of the fact that the network of measuring stations for this pollutant in German cities is recent and incomplete.

<sup>21</sup> This is a key parameter for our mortality estimates (see section VI).

include state effects and the full set of controls (column 3). For the first row of estimates only aquifer presence and soil drainage capacity are included as instruments. In the second row, only earthquake risk and aquifer presence are used as instruments. Finally, in the third row only drainage capacity and earthquake risk are used as instruments. Estimates for all instrument pairs are positive and significant, as expected. Moreover, estimates in the first and third row of table A6 are very close to those reported in table 4. We also conduct an overidentification test to evaluate whether our instruments identify the same parameter of interest. We cannot reject the null of exogeneity, which lends further support to the validity of our geological instruments.<sup>22</sup>

Next, we turn to a complementary research strategy using a two-period panel for the years 2000 and 2010. The CBSA definitions used in the cross-sectional analysis above were created in 2008, so no appropriate boundaries are available for the 2000 census. We therefore need an alternative definition of the urban area, that does incorporate changes in the extent of urban areas over this decade. For this purpose, we use the definition of commuting zones (CZ) described in Fowler et al. (2016), which draws on commuting data from the census and the American Community Survey (ACS) to delineate these zones. We use this source because it provides methodological consistent delineations for 2000 and 2010 and incorporates changes in the surface of urban areas.<sup>23</sup> Using our CZ panel, we estimate the following regression equation:

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<sup>22</sup> When estimating the model with state effects and controls the p-value of the test is 0.25.

<sup>23</sup> We match 2010 with 2000 commuting zones by taking the 2000 CZ with the closest population-weighted centroids. To ensure the match indeed captures the same city, we limit the distance between centroids to under 20km. This limits our sample to 460 commuting zones.

$$(5) \text{Ln}(PM2.5_{ct}^{exp}) = \beta \text{Ln}(Density_{ct}) + \gamma X_{ct} + \eta_s \times \delta_t + \alpha_c + \varepsilon_{ct}$$

where  $c$  is now an index for commuting zones,  $\alpha_c$  is a CZ fixed effect, and  $X_{ct}$  includes our standard set of controls (coordinates, and average minimum and maximum temperatures) interacted with a time dummy. In our preferred specification, we also include the term  $\eta_s \times \delta_t$  capturing state-specific trends in density and pollution concentration. Panel A of Table 5 reports our elasticity estimates which are positive and significant, taking a value of 0.1 in our preferred specification, roughly 4/5 of our IV estimates above. We interpret these results as providing further evidence of the positive link between particulate concentration and urban density, perhaps pointing at slightly smaller effects than those reported in table 4. That being said, we continue to put our emphasis on our IV estimates as it is unlikely that longitudinal changes in density are exogenous in equation 5.

We also obtain estimates of the effect of density on  $PM_{2.5}$  concentration using the historical density IV instead of our geologic variables.<sup>24</sup> Panel B1 in Table 5 reports the 2SLS estimates. We continue to observe positive and significant elasticities throughout. When using the historical instrument, however, the elasticity is larger than before, reaching 24% in our preferred specification. This is almost twice the size of the estimate obtained using our geological variables. We interpret this coefficient with care, given that we expect older cities to have other urban features that could be correlated with the 1880 population and with current air pollution such as a different urban layout, older infrastructure and older

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<sup>24</sup> Because some of the current US counties were not covered in the 1880 census, the number of observations is restricted to 920 out of our original 933 CBSAs.

central heating systems. Importantly, they also tend to be associated with larger populations. With that caveat in mind, it is still reassuring that the qualitative findings are the same using this alternative instrumentation strategy. In Panel B2 we use all of four instruments together and our estimates continue to be positive and significant at all conventional levels. The elasticity estimate is now 0.2 which is still larger than our preferred estimates from table 4 but lower than the ones presented in Panel B1.

Finally, we consider an alternative definition of our density variable, by computing population-weighted population densities in each city. Population-weighted densities are used in Glaeser and Kahn (2004) and Rappaport (2008). In our case, these result from taking a weighted-average of the grid cell level population densities within a city, with weights given by the fraction of the population of each grid cell. This variable can be interpreted as an estimate of the average population density faced by residents in each city (Glaeser and Kahn, 2004). We report estimates of a modified version of equation 2 where we use the logarithm of this variable as our measure of density. OLS and IV estimates of the resulting elasticities are provided in Appendix Table A7.<sup>25</sup> The results show positive and significant elasticities in all specifications, indicating that our main qualitative result does not depend on how we measure density. The elasticities are in this case almost five times as large as those using the conventional density variable, which is consistent with the main estimates being driven by high concentrations of polluters within cities.

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<sup>25</sup> Both the aquifer and soil drainage instruments have insignificant effects on this alternative measure of density. This is not surprising given that these variables would affect the extensive rather than intensive margins of urban development – they affect where building is possible/desirable rather than the intensity of that development. IV estimates in Table A7 are obtained using our historical and earthquake instruments only.

## V. Discussion

We have shown above that denser cities are linked with worse air quality and in this section we discuss the possible underlying channels behind our reduced-form findings. We posit that four main channels can theoretically explain our results: (1) population scale-effects, (2) the composition of economic activity, (3) different transportation modes, and (4) spatial concentration of polluters in denser areas. We explore each of these possible channels below.

We begin by exploring whether our findings arise because denser cities are simply larger. If city-wide effects lead larger cities to have higher pollutant concentrations, then this could operate as a mechanism linking density to air quality. We consider two specifications to control flexibly for the total CBSA population when estimating the relationship between density and air quality. In this way, we hope to purge any density-induced changes in the total population, as well as any remaining confounders related to city size.

We start by including a fourth-degree polynomial in population in our specification and re-estimate the density – concentration elasticity. Results are provided in the top panel of Table 6. We observe that the elasticity of interest is approximately 20 percent *larger* after controlling flexibly for population, and not statistically different from the point estimate reported in Table 4. These results suggest nonlinear scale-effects are not driving our results. We explore this possible channel further by including the logarithm of the population as an instrumented variable in a specification using both, geological and historical instruments.

The resulting elasticities are reported in the bottom panel of Table 6. Again, we find that the coefficient of interest is larger than the one obtained when using all instruments but excluding the logarithm of the population (see Panel B2 of Table 5). From these exercises, we conclude that our results are not driven by population-scale effects.

As highlighted above, a second possible mechanism linking density to pollution concentration could exist if the sectoral composition of different cities varies with their density. A substantial amount of PM<sub>2.5</sub> pollutant emissions is produced by manufacturing and other industrial activities. If agglomeration forces for these industries are relatively more pronounced than in other sectors, then this could explain the relationship between density and PM<sub>2.5</sub> concentration. To explore this possibility, we test whether observed differences in sectoral composition can be explained by density. We conduct three different exercises for this purpose. First, we compute the fraction of total employment devoted to manufacturing in each CBSA, by aggregating data from the County Business Patterns dataset for 2010. We substitute this variable as the outcome variable in equation 4, and estimate the effect of density on this measure of industrial composition by using our geological IVs. Results are provided in panel A of Table 7. In columns 1 and 2, we vary the set of included controls. In column 3, we include the logarithm of the CBSA population as an instrumented variable, and add the log of 1880 population density as an instrument. In all three columns, we observe small and insignificant effects of population density on the fraction of manufacturing employment.

Clearly, not all manufacturing activities are the same, and it is still possible that changes in composition within the manufacturing sector would lead to differences in PM<sub>2.5</sub>

concentration across cities. To explore this possibility, we use data on industrial composition from CBP, combined with data on PM2.5 emission intensities by the International Standard Industrial Classification (ISIC) sector obtained from Shapiro and Walker (2018). We then compute, for every city, the variable

$$\text{Ln}(\text{CompPM2.5}_c) = \text{Ln} \left( \frac{\sum_{i=1}^{N_I} \frac{\text{emp}_{ic}}{\sum_{i=1}^{N_I} \text{emp}_{ic}} \text{IntPM2.5}_i}{\sum_{i=1}^{N_I} \text{emp}_{ic}} \right),$$

where  $\text{IntPM2.5}_i$  is the intensity measure obtained from Shapiro and Walker (2018) and  $\frac{\text{emp}_{ic}}{\sum_{i=1}^{N_I} \text{emp}_{ic}}$  is the fraction of employment from city  $c$  dedicated to industry  $i$ . The variable will take relatively high values in cities that specialize in industries producing large quantities of PM2.5 pollutant emissions. We replace  $\text{Ln}(\text{CompPM2.5}_c)$  as the outcome in equation 4 and estimate the effect of density on this variable. The resulting elasticities are reported in panel B of table 7 and are positive but small, between 2 and 7 percent, and mostly not significant at conventional levels. We conclude that, while there may be a small positive effect of density on the local intensity of PM<sub>2.5</sub> polluting industries, this is unlikely to explain our results.<sup>26</sup>

To test the robustness of our findings for sectoral composition, we also construct an alternative measure of industrial-composition emission intensity based on the PM<sub>10</sub> intensities reported in Levinson (2009).<sup>27</sup> Using these intensity measures we compute

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<sup>26</sup> An alternative specification of our main estimating equation which includes  $\text{Ln}(\text{CompPM2.5}_c)$  as a control leads to essentially the same density-concentration elasticities as those reported in table 4 (available upon request).

<sup>27</sup> These are based on the World Bank's Industrial Pollution Projection System (IPPS) which reports emission intensities for 4 level 1987 SIC codes. We convert these into 2-digit NAICS 2007 intensities using the crosswalk between 1987 SIC codes and 2002 NAICS codes, combined with the crosswalk between the 2002 and 2007 NAICS codes.

$\ln(\text{CompPM10}_c)$  calculated as above, and study how this variable is affected by density. Results are provided in Panel C of Table 7. In this case, the elasticity of interest is insignificant across specifications, and *negative* after we control for log population. To sum up, the coefficients in column 6 indicate that potential differences in industrial composition resulting from differences in densities across cities cannot explain the reported effect of density on PM<sub>2.5</sub> pollutant exposure.

Emissions from transport, in particular from commuter flows, can also have an impact on local pollutant concentration. That being said, a large body of previous research indicates there is *less* driving in denser areas (see for example Duranton and Turner 2018 and Stevens 2017). While some of the effects reported in this literature are rather small, the main message of these studies is that denser cities are associated with lower emissions from transport. As a result, it is unlikely that changes in driving can explain our findings.

The mechanisms discussed above are unlikely to explain our results. Yet there is one remaining mechanism that relates to the spatial diffusion of pollution. A higher spatial concentration of activity will translate into higher pollutant concentrations in the air because polluters are close to each other, something we observe very clearly in our within-city results. One potential implication of our estimates is that this physical effect appears to dominate over other, potentially opposing, economic mechanisms. Furthermore, our results suggest that even if emission per capita might be lower in cities (as discussed in Glaeser and Kahn, 2010), the concentrations of residents in close proximity increases individual exposure to pollutants. As a result, dense environments will face additional health costs associated with pollution concentration.

## VI. Health Implications and Costs

In this section we assess the mortality impacts and economic costs of air pollution-induced by density, based on our estimates.<sup>28</sup> Our analytical strategy is very similar to the approach taken by the US EPA in their Regulatory Impact Analysis (US Environmental Protection Agency, 2012) and consists of the following two steps. First, we relate changes in pollution concentrations – due to changes in population density – with mortality Concentration-Response functions (C-R functions). Second, we estimate the associated economic costs by multiplying the mortality effect by the Value of Statistical Life (VSL).

C-R functions link pollution exposure ( $PM_{2.5}$ ) to mortality incidence rate ( $y$ ) and are most commonly estimated using a log-linear form as follow:

$$y = B \times e^{\beta * PM_{2.5}} \quad \Rightarrow \quad \ln(y) = \alpha + \beta * PM_{2.5}$$

Where  $\ln(y)$  is the natural logarithm of  $y$ ,  $\alpha = \ln(B)$ ,  $\beta$  is the coefficient of interest which measures the estimated average effect of  $PM_{2.5}$ , and  $B$  is the incidence rate of  $y$  when  $PM_{2.5}=0$ .<sup>29</sup> Defining  $y_0$  as the baseline mortality incidence rate, we can write the relationship between changes in PM ( $\Delta PM$ ) and mortality incidence rate ( $\Delta y$ ) as:

$$\Delta y = y_0 - y_1 = B(e^{\beta PM_{2.5_0}} - e^{\beta PM_{2.5_c}})$$
$$\Delta y = B \times e^{\beta PM_{2.5_0}}(1 - e^{-\beta(PM_{2.5_0} - PM_{2.5_c})}) = y_0 \left(1 - \frac{1}{\exp(\beta \times \Delta PM_{2.5})}\right)$$

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<sup>28</sup> It is important to highlight that the mortality costs of density that we present here represent only a fraction of the total cost to human health and wellbeing. Air pollution is also adversely linked with other health and economic outcomes (such as hospital admission and worker productivity) which are very costly.

<sup>29</sup>  $B$  can also be interpreted as a vector of covariates which may affect mortality and defined as:  $B = B_0 \times e^{\beta_1 x_1 + \dots + \beta_n x_n}$  where  $B_0$  is the incidence of  $y$  when all covariates in the model are zero, and  $x_1, \dots, x_n$  are other covariates.

Multiplying the mortality incident rate by the relevant population yields the change in the incidence of mortality which is our prime objective.<sup>30</sup>

We follow Fowlie et al. (2019) and rely upon two influential studies that estimated mortality Relative Risks (RR) in the US. The first paper is a follow-up examination of the Harvard Six Cities study by Lepeule et al. (2012) which documents a significant statistical association between PM<sub>2.5</sub> and mortality. Using a Cox proportional hazards model the authors found an RR of 1.14 (CI 95% [1.07,1.22]), implying that a 10- $\mu\text{g}/\text{m}^3$  annual increase in PM<sub>2.5</sub> is associated with a 14% increased risk of all-cause mortality. The second paper by Krewski et al. (2009) is a large cohort study that used a random-effects Cox model to estimate the C-R function among the US population. The authors found a mortality RR of 1.06 (CI 95% [1.04,1.08]) which is smaller than in Lepeule et al. (2012) but still highly significant.

Using the above C-R functions and our estimates from table 4, we analyze what would be the impact of doubling density in an average US county. To put this in perspective, this is the equivalent of changing population density in Houston to that of Chicago and as a result increasing annual PM<sub>2.5</sub> concentration by 0.73  $\mu\text{g}/\text{m}^3$ . Our analysis suggests that the annual per capita mortality costs of doubling density, using the high and low C-R functions from Lepeule et al. (2012) and Krewski et al. (2009) in conjunction with the EPA VSL recommended estimate of \$7.4 million (\$2006), are \$630 and \$281, respectively. The former estimate is large and equivalent to between 17 and 39 percent of

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<sup>30</sup>Importantly, since most epidemiological studies report the relative risk (RR) for a given  $\Delta\text{PM}$  and not  $\beta$ , we convert RR into  $\beta$  by using the fact that RR is simply the ratio of the two risks which yield the following relationship:  $\beta = \ln(\text{RR}) / \Delta\text{PM}$

the estimated agglomeration effect on productivity for a worker earning the average wage in 2010.<sup>31</sup>

As prior research suggests that compact cities are linked with lower greenhouse gas emissions, we also compare our cost estimates with expected benefits resulting from reduced CO<sub>2</sub> emission in denser cities using a back-of-the-envelope calculation. For this purpose, we build on the carbon cost-saving calculations in Ahlfeldt and Pietrostefani (2019). Using the elasticity of energy consumption with respect to density, applying a conversion factor of 25 tons of CO<sub>2</sub> per kilowatt-hour and a social cost of carbon of \$43, we find that doubling density leads to a cost reduction of \$52.1 per capita.<sup>32</sup> If we restrict the costs of carbon to mortality effects only, then the benefits from doubling density amount to only \$47.3, based on the upper bound estimate from Carleton et al. (2018). While these figures are only suggestive, it is worth noting that they are both substantially smaller than our estimates of the mortality costs of doubling density attributed to PM<sub>2.5</sub>. Therefore, comparing the environmental global benefits and local costs of density, our calculations indicate that the costs far outweigh the benefits.

Finally, we estimate the annual mortality costs of doubling density for each CBSA in the US separately. To do that, we use the Benefits Mapping and Analysis Program

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<sup>31</sup> According to Combes and Gobillon (2015), studies on the static benefits of agglomeration economies on productivity yield an estimate range between 0.04 and 0.05 when using an empirical strategy similar to the one used in our analysis. Taking the mid-point of that range – and allowing for some extrapolation – doubling density would result in an increase of  $0.045 \times \ln(2)$  for average wages. Individual average wages in the US in 2010 were 52,384 USD, which yields an approximate figure of \$1633 difference resulting from a doubling in population. Reported ratios result from estimating our mortality effects and dividing by this figure.

<sup>32</sup> To obtain this cost per capita estimate, we multiply the elasticity of 0.07 times  $\ln(2)$  (doubling density), times the CO<sub>2</sub> emissions per Kilowatt hour, times the social cost of carbon.

(BenMAP) which is typically used by the US EPA in its Regulatory Impact Analysis. The program is based on the same methodology explained above (including the C-R function from Lepeule et al. 2012) but also accounts for the variation in the age structures and pollution levels across cities. The results are displayed in Appendix Figure A5. As we can see from the map, the largest costs of increasing density in terms of pollution-induced mortality occur in the largest US cities.

## **VII. Conclusions**

Air pollution is one of the typical congestion forces discouraging households from moving to large, polluted cities. In this paper, we report estimates of the elasticity of air pollution with respect to urban density between cities. Using spatial data on PM<sub>2.5</sub> pollutant concentration, we estimate this elasticity to be between 0.1 and 0.25, with a preferred estimate of 0.13. Our instrumental variable estimates indicate that a doubling of density increases PM<sub>2.5</sub> concentration in roughly half of a standard deviation. This is a large effect because densities vary widely between urban areas in the United States. For example, the Washington DC and Atlanta metro areas both have a population of roughly 4.5 million inhabitants, yet the density in Atlanta is half that in the federal capital. The CBSA corresponding to San Francisco has a density almost three times larger than Atlanta.

Our results highlight the need to incorporate the effect on air quality when discussing suburbanization, densification policies and the environmental aspects of urban planning. Importantly, we provide estimates of pollution-induced costs of density which

can be used in the context of cost-benefit calculations when evaluating the desirability of these policies.

With our estimates, we also highlight the important distinction between local and global pollutants, the nature of the externalities they generate, and the trade-offs involved in policies trying to address them. A usual point raised by planners, policy makers and economists, is that denser cities tend to be more environmentally friendly as they produce lower levels of carbon emissions per person. Even if this is indeed the case, it does not necessarily mean that denser cities provide a better environment for their inhabitants. We have shown that air pollution exposure is actually *higher* in denser cities, indicating that there could be a trade-off between reducing a city's carbon footprint and preserving the environmental quality within the city.

Finally, a large and growing literature has provided overwhelming evidence on the adverse effects of air pollution on human health and wellbeing. In contrast, this paper studies the determinants of air pollution itself. While the former literature is necessary to understand the magnitude of the problem, studies such as ours are necessary to evaluate suitable solutions.

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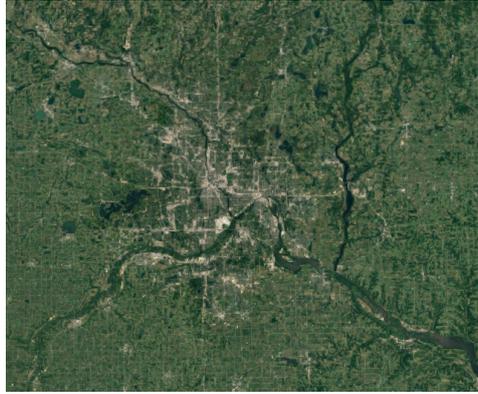
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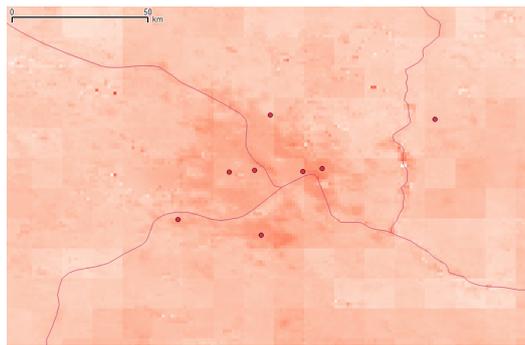
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# Figures

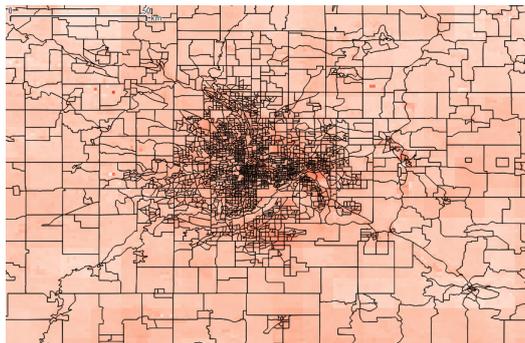
FIGURE 1  
DATASET ASSEMBLY



(A) SATELLITE VIEW OF MINNEAPOLIS & ST. PAUL



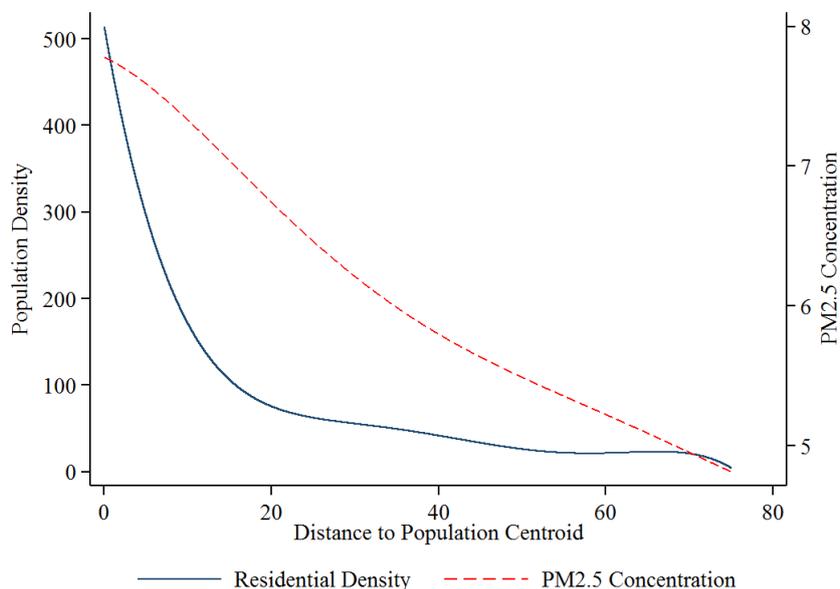
(B) SATELLITE-DERIVED PM2.5 RASTER & MONITORING-STATION LOCATIONS



(C) CENSUS BLOCK POPULATION DATA RESOLUTION

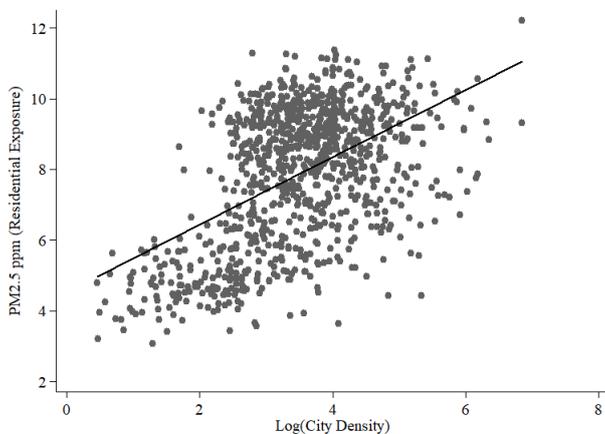
*Notes:* The panels illustrate the dataset assembly process with the city of Minneapolis. **Top-panel A** displays a satellite image of the urban core at the MSA of Minneapolis-St. Paul. **Centre-panel B** displays our pollution raster (shades of gray), ground-based monitors (points) and rivers (lines). **Bottom-panel C** overlays the census block group spatial units, at which we observe population and other demographics.

**FIGURE 2**  
**POLLUTION AND DENSITY GRADIENTS INSIDE CITIES**



*Notes:* Horizontal axis represents to distance to the CBSA population-weighted centroid. Vertical axes correspond to population density (left axis) and satellite-derived PM2.5 concentration (right axis). Lines obtained by estimating 5th degree polynomials over grid-level data. Blue line corresponds to population density and red line to PM2.5 concentration.

**FIGURE 3**  
**PM2.5 EXPOSURE V. DENSITY SCATTER**



*Notes:* Vertical axis represents PM2.5 average residential exposure (in  $\mu\text{g}/\text{m}^3$ ), as obtained from the satellite-derived measures. Horizontal axis represents the natural logarithm of population density. The points represent 933 CBSAs (metro and micropolitan areas). The black line is estimated by OLS using the underlying data.

# Tables

Table 1: Descriptive statistics

	Mean	Std. dev.
<b>A. Spatial Cells</b>		
PM2.5 average (satellite data)	5.90	2.54
Population Density	63.35	334.48
Earthquake risk (3 cat.)	0.69	0.47
Aquifers (2 cat.)	0.28	0.45
Population density in 1880	8.95	66.55
Minimum dist. to water (km)	55.62	49.42
Latitude	38.5	5.11
Longitude	-98.7	14.82
Gridcell Area	1.0	0.07
<hr/>		
Observations	4,356,408	
<hr/>		
	Mean	Std. dev.
<b>B. Cities</b>		
PM2.5 spatial average (satellite)	6.98	2.21
PM2.5 residential-weighted (satellite)	7.84	1.94
PM2.5 (monitoring stations)*	9.11	2.75
Population Density	55.08	78.47
Earthquake risk (3 cat.)	0.61	0.48
Aquifers (2 cat.)	0.28	0.39
Population Density in 1880	11.54	12.96
Minimum dist. to water (km)	53.40	42.43
Latitude	38.0	4.92
Longitude	-91.8	13.00
Gridcell Area	1.0	0.07
<hr/>		
Observations	933	

*Notes:* Descriptive statistics for our within and between city samples. Panel A presents mean and standard deviation for a set of key variables of interest. Panel B presents statistics for these variables after aggregating at the city (CBSA) level. \* only 546 cities have PM<sub>2.5</sub> monitoring station data.

Table 2: Within-City – 2SLS Estimates

	Log(PM2.5) – Elasticities			
Log(Pop. Dens.)	0.147*** (0.055)	0.083*** (0.022)	0.317*** (0.047)	0.213*** (0.042)
Observations	4306842	4306842	4306842	4306842
	PM2.5			
Log(Pop. Dens.)	0.694*** (0.210)	0.520*** (0.115)	1.089*** (0.152)	0.671*** (0.126)
Add. Controls	No	Yes	No	Yes
State-FE	Yes	Yes	No	No
City-FE	No	No	Yes	Yes
F-Stat	12	25	15	10
Obs.	4325515	4325515	4325515	4325515

*Notes:* Estimates from grid-cell level 2SLS specifications. Dependent variable in the first row of estimates is the natural logarithm of PM2.5 concentration. Dependent variable in the second row of estimates is PM2.5 concentration. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. Columns 2 and 3 include state fixed effects. Columns 3 and 4 include CBSA fixed effects. The specifications in columns 2 and 4 add a set of additional controls as detailed in the text. Standard errors clustered at the city level in parenthesis. \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

Table 3: Between-City Baseline Estimates

	Log(PM2.5) - Elasticities		
Log(Pop. Dens.)	0.085*** (0.007)	0.078*** (0.007)	0.070*** (0.007)
Observations	933	933	933
	PM2.5		
Log(Pop. Dens.)	0.578*** (0.054)	0.535*** (0.046)	0.471*** (0.047)
Add. Controls	No	No	Yes
State-FE	No	Yes	Yes
Obs.	933	933	933

*Notes:* Baseline OLS Estimates. City-level regressions. For the first row of estimates, the dependent variable is the natural logarithm of PM2.5 exposure as defined in the text. The dependent variable for the second row of estimates is this variable in levels. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. The specifications in columns 2 and 3 add state effects. The specifications in column 3 add a set of additional controls as detailed in the text. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

Table 4: Between-City – 2SLS Estimates

	Log(PM2.5) – Elasticities		
Log(Pop. Dens.)	0.149*** (0.034)	0.158*** (0.023)	0.137*** (0.026)
Observations	933	933	933
	PM2.5 (Exposure)		
Log(Pop. Dens.)	1.239*** (0.250)	1.235*** (0.167)	1.062*** (0.186)
Add. Controls	Yes	Yes	Yes
State-FE	No	Yes	Yes
F-Stat	21	19	20
Obs.	933	933	933

*Notes:* Reports IV estimates of the effects of log density on PM2.5 exposure. The unit of analysis is the city (CBSA). For the first row of estimates, the dependent variable is the natural logarithm of PM2.5 exposure as defined in the text. The dependent variable for the second row of estimates is this variable in levels. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. The specifications in columns 2 and 3 add state effects. The specification in column 3 adds a set of additional controls as detailed in the text. F-statistics for joint significance of the geological instruments in the first-stage reported in the table foot. Robust standard errors in parentheses. \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 5: Robustness - Panel and Historical IV

	Log(PM2.5) - Elasticities		
<b>A. Panel Estimates</b>			
Log(Pop. Dens.)	0.121*** (0.009)	0.075** (0.033)	0.105*** (0.034)
Comm. Zone FE	No	Yes	Yes
Year	Yes	Yes	Yes
State-Year FE	No	No	Yes
Obs.	920	920	920
<b>B1. Historical Instrument</b>			
Log(Pop. Dens.)	0.383*** (0.045)	0.257*** (0.032)	0.248*** (0.029)
F-stat (Historical)	55	39	46
<b>B2. All Instruments</b>			
Log(Pop. Dens.)	0.312*** (0.035)	0.225*** (0.024)	0.217*** (0.023)
Controls	Yes	Yes	Yes
State-FE	No	Yes	Yes
F-stat (All instruments)	24	21	23
Obs.	920	920	920

*Notes:* Dependent variable is the natural logarithm of PM2.5 exposure as defined in the text in all specifications. In Panel A, we report panel estimates of the density-pollution elasticity. Sample is based on a two-period panel using the time-varying definition of commuting zones in Fowler et al. (2016) for 2000 and 2010. All columns include year effects. Columns 2 and 3 include CZ effects and column 3 includes state-year interactions. In Panels B1 and B2 we provide cross-sectional IV estimates of the density-pollution elasticity. In panel B1 the density variable is instrumented using historical density from the 1880 census. In panel B2 this variable is added to the three geological variables to instrument for density. All specifications in panels B1 and B2 include latitude, longitude and average maximum and minimum temperatures as controls. The specifications in columns 2 and 3 add state effects. The specifications in column 3 add a set of additional controls, as detailed in the text. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1 \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

Table 6: Controlling Flexibly for Population

	Ln(PM2.5) - Elasticity		
Control for Polynomial in Population	0.257*** (0.063)	0.205*** (0.040)	0.167*** (0.041)
F-Stat	14	12	12
Obs.	933	933	933
	Ln(PM2.5) - Elasticity		
Instrument for Ln(Population)	0.745*** (0.130)	0.440*** (0.141)	0.369*** (0.090)
Add. Controls	No	No	Yes
State-FE	No	Yes	Yes
F-Stat 1	19	22	23
F-Stat 2	51	42	10
Obs.	920	920	920

*Notes:* 2SLS estimates obtained by modifying our main between-city specification. The dependent variable is the natural logarithm of population-weighted PM2.5 concentration as defined in the text. In the specifications reported in the top panel, we control for a 4th degree polynomial in CBSA population. To obtain estimates in the bottom panel, we include the logarithm of CBSA population as an instrumented variable and add in the log of 1880 population density as an instrument. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. The specifications in columns 2 and 3 add state effects. The specification in column 3 adds a set of additional controls, as detailed in the text. F-statistics from first-stage(s), reported in the table foot. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1

Table 7: Density and the Composition of Polluting Economic Activities

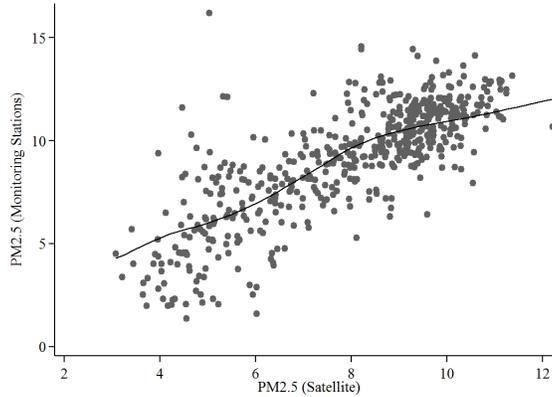
	Fraction of Manufacturing Employment		
	(1)	(2)	(3)
<b>A. Employment Composition</b>			
Log(Pop. Dens.)	-0.014 (0.012)	0.002 (0.014)	0.031 (0.036)
	Log(PM2.5 Intensity)		
<b>B. Composition of Polluters (PM2.5)</b>			
Log(Pop. Dens.)	0.052 (0.032)	0.070* (0.037)	0.026 (0.103)
	Log(PM10 Intensity)		
<b>C. Composition of Polluters (PM10)</b>			
Log(Pop. Dens.)	0.032 (0.121)	0.047 (0.145)	-0.478 (0.456)
Add. Controls	No	Yes	Yes
State-FE	Yes	Yes	Yes
IV for Log(Pop)	No	No	Yes
Obs.	933	933	920

*Notes:* Panel A reports 2SLS estimates of the effect of density on the fraction of CBSA employment working in manufacturing. Panel B reports 2SLS estimates of the effect of density on the PM2.5 pollution intensity composition at the city level as derived from Shapiro and Walker (2018). Panel C reports estimates of the effect of density on PM10 pollution intensity composition as derived from Levinson (2009). All specifications include state effects. Columns 2 and 3 include the full set of controls, as detailed in the text. Column 3 adds the logarithm of CBSA population as an additional instrumented variable and the 1880 average population density as an additional instrument. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1

# Appendix

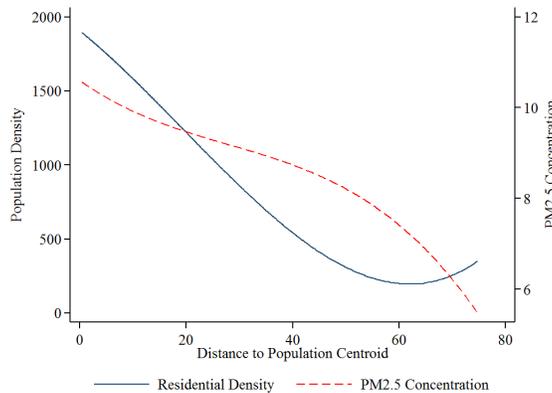
## Figures

Figure A1: Satellite-derived vs. Ground-based PM2.5 Concentration



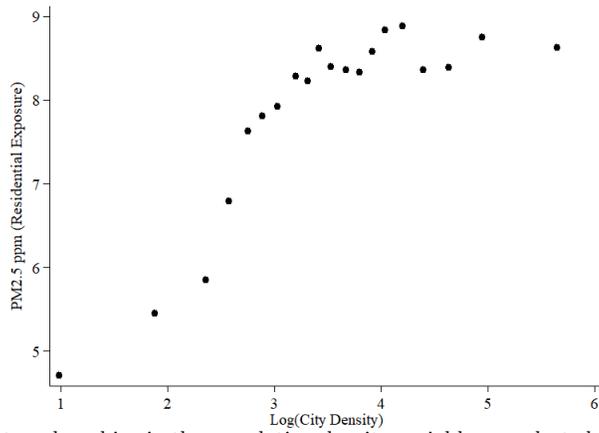
*Notes:* Horizontal axis represents population-weighted PM2.5 concentration (in  $\mu\text{g}/\text{m}^3$ ) from satellite-derived measures. Vertical axis represents average PM2.5 concentration from ground-based monitoring stations. Correlation between both variables is 0.8. The points represent 546 CBSAs (metro and micropolitan areas), having at least one ground-monitor within their boundaries. The black line is estimated as a local linear regression with Epanechnikov kernel.

Figure A2: Pollution and Density Gradients Inside Cities: Monitoring Stations



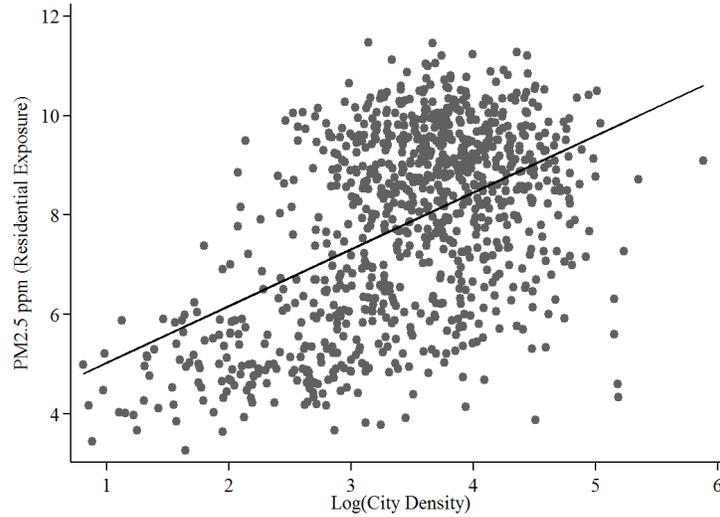
*Notes:* Horizontal axis represents to distance to the CBSA population-weighted centroid. Vertical axes correspond to population density (left axis) and average ground-monitor PM2.5 concentration (right axis). Lines obtained by estimating 5th degree polynomials over grid-level data. Blue line corresponds to population density and red line to PM2.5 concentration.

Figure A3: Non-Parametric PM2.5 Exposure v. Density



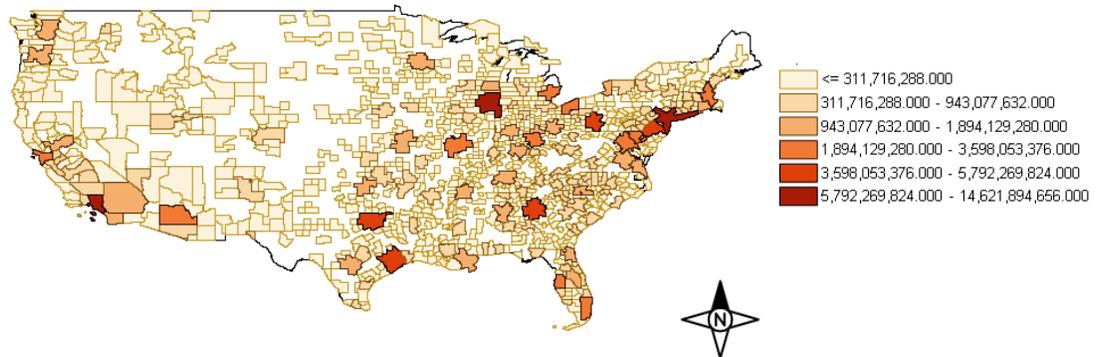
*Notes:* Bin scatter where bins in the population density variable are selected to have the same number of CBSAs. Vertical axis represents average PM2.5 average residential exposure (in  $\mu\text{g}/\text{m}^3$ ), as obtained from the satellite-derived measures. Horizontal axis represents the natural logarithm of population density. The points represent 933 CBSAs (metro and micropolitan areas).

Figure A4: **Population-Adjusted PM2.5 Exposure v. Density Scatter**



*Notes:* Vertical axis represents *population-adjusted* PM2.5 average residential exposure (in  $\mu\text{g} / \text{m}^3$ ), as obtained from the satellite-derived measures. Horizontal axis represents the *population-adjusted* natural logarithm of population density. Population-adjustment amounts to regressing the variable in question on a fourth degree polynomial of population, obtaining residuals and adding the variable mean to re-centre the resulting variable at the original average. The points represent 933 CBSAs (metro and micropolitan areas).

Figure A5: Mortality Cost Estimates by CBSA



*Map is in WGS1984 Geographic Coordinates.  
No scale bar available.*

This map was created on 03 July 2019 at 15:17:37 using the US EPA BenMAP-CE 1.4.4 software system including DotSpatial mapping components.  
For more information see <https://www.epa.gov/benmap>

## Tables

Table A1: Within-City Baseline Estimates

	Log(PM2.5) – Elasticities			
Log(Pop. Dens.)	0.052*** (0.003)	0.046*** (0.003)	0.046*** (0.003)	0.036*** (0.002)
Observations	4306842	4306842	4306842	4306842
	PM2.5			
Log(Pop. Dens.)	0.281*** (0.016)	0.260*** (0.015)	0.242*** (0.014)	0.207*** (0.012)
Add. Controls	No	Yes	No	Yes
State-FE	Yes	Yes	No	No
City-FE	No	No	Yes	Yes
Obs.	4325515	4325515	4325515	4325515

*Notes:* Grid-cell level regressions (OLS). Dependent variable is the natural logarithm of PM2.5 concentration. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. Columns 2 and 3 include state fixed effects. Columns 3 and 4 include CBSA fixed effects. The specifications in columns 2 and 4 add a set of additional controls as detailed in the text. Standard errors clustered at the city level in parenthesis. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

Table A2: Within-City First-Stage Coefficients

	Log-Density			
Soil Drainage	-0.097*** (0.034)	-0.175*** (0.030)	-0.024 (0.022)	-0.072*** (0.021)
Earthquake Risk	0.420*** (0.083)	0.526*** (0.088)	0.297** (0.133)	0.341** (0.140)
Aquifer	0.310*** (0.109)	0.041 (0.105)	0.656*** (0.109)	0.341*** (0.097)
Add. Controls	No	No	No	Yes
State-FE	Yes	Yes	No	No
City-FE	No	No	Yes	Yes
F-Stat	12	25	15	10
Obs.	4325515	4325515	4325515	4325515

*Notes:* Grid-cell level regressions (OLS). Dependent variable is the natural logarithm of PM2.5 concentration. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. Columns 2 and 3 include state fixed effects. Columns 3 and 4 include CBSA fixed effects. The specifications in columns 2 and 4 add a set of additional controls as detailed in the text. Standard errors clustered at the city level in parenthesis. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

Table A3: First-Stage (Geological Instruments) - City Level

	Log(Density)		
Earthquake Risk	0.210*** (0.057)	0.302*** (0.081)	0.243*** (0.075)
Aquifer	-0.220** (0.091)	-0.141 (0.110)	-0.229** (0.104)
Soil Drainage	-0.187*** (0.040)	-0.276*** (0.050)	-0.318*** (0.053)
Add. Controls	No	No	Yes
State-FE	No	Yes	Yes
F-Stat	21	19	20
Obs.	933	933	933

*Notes:* City-level regressions. The dependent variable in all columns is the log of population density at the city (CBSA) level. F-statistics for joint significance of the geological instruments reported in the table foot. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. The specifications in columns 2 and 3 add state effects. The specifications in column 3 add a set of additional controls as detailed in the text. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

Table A4: Balancing - Power Stations

	N. Oil Plants	N. Coal Plants	Dummy Oil	Dummy Coal
Soil Drainage	-0.009 (0.064)	0.262 (0.183)	-0.008 (0.017)	0.029* (0.016)
Earthq. Risk	0.008 (0.046)	-0.040 (0.503)	0.002 (0.026)	-0.041 (0.029)
Aquifer	0.034 (0.103)	0.304 (0.275)	0.033 (0.039)	-0.031 (0.040)
Add. Controls	Yes	Yes	Yes	Yes
State-FE	Yes	Yes	Yes	Yes
F-Stat	0	2	0	2
Obs.	933	933	933	933

*Notes:* City-level regressions of instruments on variables measuring the presence of oil and coal power stations. All specifications include the full set of controls and state effects. The dependent variables are the number of stations of each type in columns 1 and 2, and dummies taking value 1 if any station is present on columns 3 and 4. F-statistics for joint significance of the geological instruments included in table footer.

Table A5: Balancing - Wharton Index

	LUR Index	LUR Index	LUR Index	LUR Index
Soil Drainage	-0.134** (0.053)	-0.053 (0.058)	-0.025 (0.050)	-0.073 (0.055)
Earthquake Risk	0.223*** (0.070)	-0.027 (0.073)	0.169* (0.092)	0.178* (0.093)
Aquifer	0.587*** (0.126)	-0.013 (0.116)	0.176 (0.118)	0.090 (0.128)
Add. Controls	No	Yes	No	Yes
State-FE	No	No	Yes	Yes
F-Stat	9	0	2	2
Obs.	485	485	485	485

*Notes:* City-level regressions of instruments on Wharton Land Use Regulation Index (Gyourko et al. 2008). All specifications include latitude, longitude and average maximum and minimum temperatures as controls. Columns 2 and 5 include additional controls as outlined in the text. Columns 3 and 4 include state effects. F-statistics for joint significance of the geological instruments included in table footer.

Table A6: Robustness: Instrument Pairs

	Log(PM2.5)		
Log(Pop. Dens.)	0.094** (0.038)	0.157*** (0.026)	0.129*** (0.025)
Log(Pop. Dens.)	0.302*** (0.048)	0.199*** (0.040)	0.180*** (0.037)
Log(Pop. Dens.)	0.100*** (0.038)	0.151*** (0.022)	0.123*** (0.023)
Add.Controls	No	No	Yes
State-FE	No	Yes	Yes
Obs.	933	933	933

*Notes:* 2SLS Estimates in each row obtained by excluding one of the geological variables when instrumenting for density: First row excludes earthquake risk, the second excludes soil drainage capacity, and the third aquifer presence. Dependent variable is the log of population-weighted PM2.5 concentration. All specifications include latitude, longitude and average maximum and minimum temperatures as controls. State effects added in columns 2 and 3. The specifications in column 3 add additional controls, as detailed in the text. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1

Table A7: Robustness: Population-Weighted Densities

	OLS		IV	
Log(Weighted Pop. Dens.)	0.054*** (0.010)	0.078*** (0.007)	0.558*** (0.129)	0.530*** (0.091)
Add. Controls	Yes	Yes	Yes	Yes
State-FE	No	Yes	No	Yes
F-Stat			11	11
Obs.	933	933	920	920

*Notes:* Estimated elasticities of PM2.5 concentration and population-weighted population density. Dependent variable is the natural logarithm of PM2.5 concentration in all specifications. Columns 1 and 2 estimated via OLS. Columns 3 and 4 estimates using our historical and earthquake instruments. All specifications include our full set of controls. The specifications in columns 2 and 4 add state effects. F-statistics for joint significance of the geological instruments in the first-stage, reported in the table foot in columns 2 and 3. Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1