

Neighborhood Effects: Evidence from Wartime Destruction in London*

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April 3, 2024

Abstract

We use the German bombing of London during the Second World War as an exogenous source of variation to provide evidence on neighborhood effects. We construct a newly-digitized dataset at the level of individual buildings on wartime destruction, property values, and socioeconomic composition in London before and after the Second World War. We develop a quantitative spatial model, in which heterogeneous groups of individuals endogenously sort across locations in response to differences in natural advantages, wartime destruction and neighborhood effects. We find substantial and highly localized neighborhood effects, which magnify the direct impact of wartime destruction, and make a substantial contribution to observed patterns of spatial sorting across locations.

JEL CLASSIFICATION: F16, N9, R23

KEYWORDS: Agglomeration, Neighborhood effects, Second World War, Spatial Sorting

*Redding and Sturm thank Princeton University and the European Research Council (ERC) for financial support, respectively. We are grateful to the London Metropolitan Archives (LMA) for sharing the London County Council (LCC) bomb damage maps and to the British Library of Political and Economic Science (BLPES) at LSE for sharing the New Survey of London Life and Labor maps. We thank Raj Chetty, John Friedman, Rebecca Diamond, Cecile Gaubert, Peter Larkham, Enrico Moretti, Esteban Rossi-Hansberg and conference and seminar participants at the American Economic Association, Autònoma Barcelona, Barcelona Urban Conference, Berkeley, Central European University, Chicago-Princeton spatial conference, CURE Philly, International Growth Center (IGC), Harvard Opportunity Insights, Lyon PPCR workshop, NYU, Paris Sorbonne, Paris Science Po, Stanford CHS conference, Tel Aviv, Trinity College Dublin, UEA Toronto, University College London, Yale, and World Bank for helpful comments. We also would like to thank T. Wangyal Shawa for his help with the GIS data. We are grateful to Grace Alster, Charoo Anand, Horst Bräunlich, Kaan Cankat, Melissa Carleton, Fraser Clark, Iain Bamford, Dennis Egger, Josephine Gantois, Daniela Glocker, Rony Hacoheh, Gordon Ji, Ashok Manandhar, Chris Shaw, Lucas Skrabal, Max Schwarz, Tom Threlfall and Florian Trouvain for outstanding research assistance. The usual disclaimer applies.

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