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NATURAL DISASTERS AND LABOR MARKETS

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ABSTRACT

While it is clear that natural disasters have serious welfare consequences for affected populations, less is known about how local labor markets in low-income countries adjust to such large shocks. Combining data from the Indonesia Family Life Survey, the DesInventar database, the US Geological Survey, and district-level employment indicators, this paper explores how a large earthquake in Indonesia affected labor market outcomes, in particular the evolution of wages across sectors. I find that the earthquake had a positive effect on wage growth for workers who were employed in the agricultural sector at baseline. I propose two mechanisms for this result: a higher growth rate of the price of rice and a downward shift in the supply of workers in the agricultural sector. I show that evidence mainly supports the latter: labor shifted out of the agricultural sector into the construction sector, raising the marginal product of labor in agriculture.

Keywords: Local labor markets, natural disasters, aid, reconstruction.

JEL Classification: J20, Q54, O10.

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