

# Author's Accepted Manuscript

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PII: S0304-3878(16)30094-3  
DOI: <http://dx.doi.org/10.1016/j.jdeveco.2016.11.002>  
Reference: DEVEC2105

To appear in: *Journal of Development Economics*

Received date: 4 November 2014  
Revised date: 11 November 2016  
Accepted date: 15 November 2016

Cite this article as: Martina Kirchberger, Natural Disasters and Labor Markets  
*Journal of Development Economics*  
<http://dx.doi.org/10.1016/j.jdeveco.2016.11.002>

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# NATURAL DISASTERS AND LABOR MARKETS

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November 2016

## 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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\*I am indebted to Stefan Dercon and Doug Gollin for their support, generous time, and many helpful discussions. I would like to thank two anonymous referees and the editor for very helpful comments and suggestions. I am grateful to Alexei Abrahams, Orazio Attanasio, Silja Baller, Roman Birke, Steve Bond, Matt Collin, Jonathan Colmer, Banu Demir Pakel, Dave Donaldson, Eric Edmonds, Marcel Fafchamps, James Fenske, Christian Helmers, Radha Iyengar, Guy Michaels, Gaia Narciso, Carol Newman, Manasa Patnam, Simon Quinn, Ferdinand Rauch, Chris Small, Måns Söderbom, Francis Teal, Gerhard Toews, Tony Venables, Eric Verhoogen, and participants at many seminars for helpful comments and discussions. I would especially like to thank John Strauss for granting me access to the GPS data of the IFLS survey; Kathleen Beegle and Roald Euller for help with data-related questions; and David Rogers, David Benz, and Luigi Sedda for their help with GIS-related questions and data. Finally, I am extremely grateful to Dr. Sutopo Purwo Nugroho from the Indonesia Disaster Management Board and Mrs. Bana Bodry from Indonesia Statistics for providing me access to various datasets and GIS maps. I acknowledge funding from the AXA Research Fund. Most of this work was done while I was at the University of Oxford and at Columbia University, and I greatly appreciate the support from those institutions. All potential errors are my own. An earlier version of this paper, circulated under the same name, investigated the effects of earthquakes using the entire sample of earthquakes in Indonesia. This version replaces earlier versions. I look forward to receiving your comments via [martina.kirchberger@tcd.ie](mailto:martina.kirchberger@tcd.ie).

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