Credit Market Distortion, Natural Disaster and Migration

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Abstract:

This paper uses a partial equilibrium theoretical framework to study the impact of climate change induced natural disaster on labour migration in the context of a low-income country with credit market imperfection. The economic literature shows that in the event of occurrence of natural disaster, provision of government aid necessarily reduces the level of labour out-migration, thereby reducing the negative impact of emigration on the growth and development of an economy. However, in contrary to this result, this paper shows that for developing countries where the credit market is imperfect, there exists a critical level of credit market distortion beyond which a worker will migrate to a safer place in case of a natural disaster despite the presence of public assistance. This critical level of credit market distortion has been found to increase with wage rate, income from ancestral property and decrease with rate of interest. My analysis suggests that policies such as providing greater access to formal sources of credit and offering credit at subsidized rates will be effective in increasing the threshold of credit market distortion beyond which the worker will have no other option but to migrate, thereby decreasing the rate of environmental out-migration.

Keywords: Natural disaster, labour migration, partial equilibrium, credit market imperfection

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