Externalities of extreme natural disasters on local tax capacity

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Publication Date: Wednesday, 14 of July 2021 Abstract
This paper studies the impact of extreme weather events on the local tax revenue across Colombian municipalities. We follow a two-step approach to evaluate to what extent a municipality's tax revenue depends on natural disasters taking place both locally and in its trade partners. In the first step, we estimate a gravity model of bilateral trade and construct a trade flow matrix allowing us to measure the strength of the economic relationships between cities. To do so, we build a novel dataset describing the inter-city trade flows for road transported goods in Colombia for the period 2015–2019. In the second step, we use spatial models to estimate the externalities of extreme weather events. Our results reveal that natural disasters in the destination cities increase the tax revenue in the origin city. We provide evidence of the capacity of trade to mitigate the negative effects of natural disasters.

Fuente: https://www.banrep.gov.co/en/externalities-extreme-natural-disasters-local-tax-capacity