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Labour Reallocation and Productivity Dynamics: Financial Causes, Real Consequences

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Abstract

We investigate the link between credit booms, productivity growth, labour reallocations and financial crises in a sample of over twenty advanced economies and over forty years. We produce two key findings. First, credit booms tend to undermine productivity growth by inducing labour reallocations towards lower productivity growth sectors. A temporarily bloated construction sector stands out as an example. Second, the impact of reallocations that occur during a boom, and during economic expansions more generally, is much larger if a crisis follows. In other words, when economic conditions become more hostile, misallocations beget misallocations. These findings have broader implications: they shed light on the recent secular stagnation debate; they provide an alternative interpretation of hysteresis effects; they highlight the need to incorporate credit developments in the measurement of potential output; and they provide a new perspective on the medium- to long-run impact of monetary policy as well as its ability to fight post-crisis recessions.

Keywords: Labour reallocation, productivity, credit booms, financial crises, hysteresis**JEL Classification:** E24, E51, O47[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2711258_code1109023.pdf?abstractid=2711258&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2711258_code1109023.pdf?abstractid=2711258&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2711258_code1109023.pdf?abstractid=2711258&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2711258_code1109023.pdf?abstractid=2711258&mirid=1&type=2)

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