Jobless Recoveries During Financial Crises: Is Inflation the Way Out?

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This paper discusses three policy tools to mitigate jobless recoveries during financial crises: inflation, real currency depreciation, and credit-recovery policies. Using a sample of financial crises in Emerging Market economies, we document that large inflationary spikes appear to help unemployment to get back to pre-crisis levels. However, the counterpart of inflation is sizably lower real wages. Hence, inflation does not prevent wage earners as a whole from getting hit by financial crises. Interestingly, neither the change in the real exchange rate nor the change in output composition (tradables/nontradables), from output peak to recovery point, displays a statistically significant relationship with inflation or jobless recovery. This suggests that currency depreciation can help reduce unemployment only insofar as it is associated with inflation, and that jobless recovery is likely due to nominal wage rigidity. The paper also shows that measures to reactivate credit flows could be beneficial to wage earners as a whole, as measured by the real wage bill.

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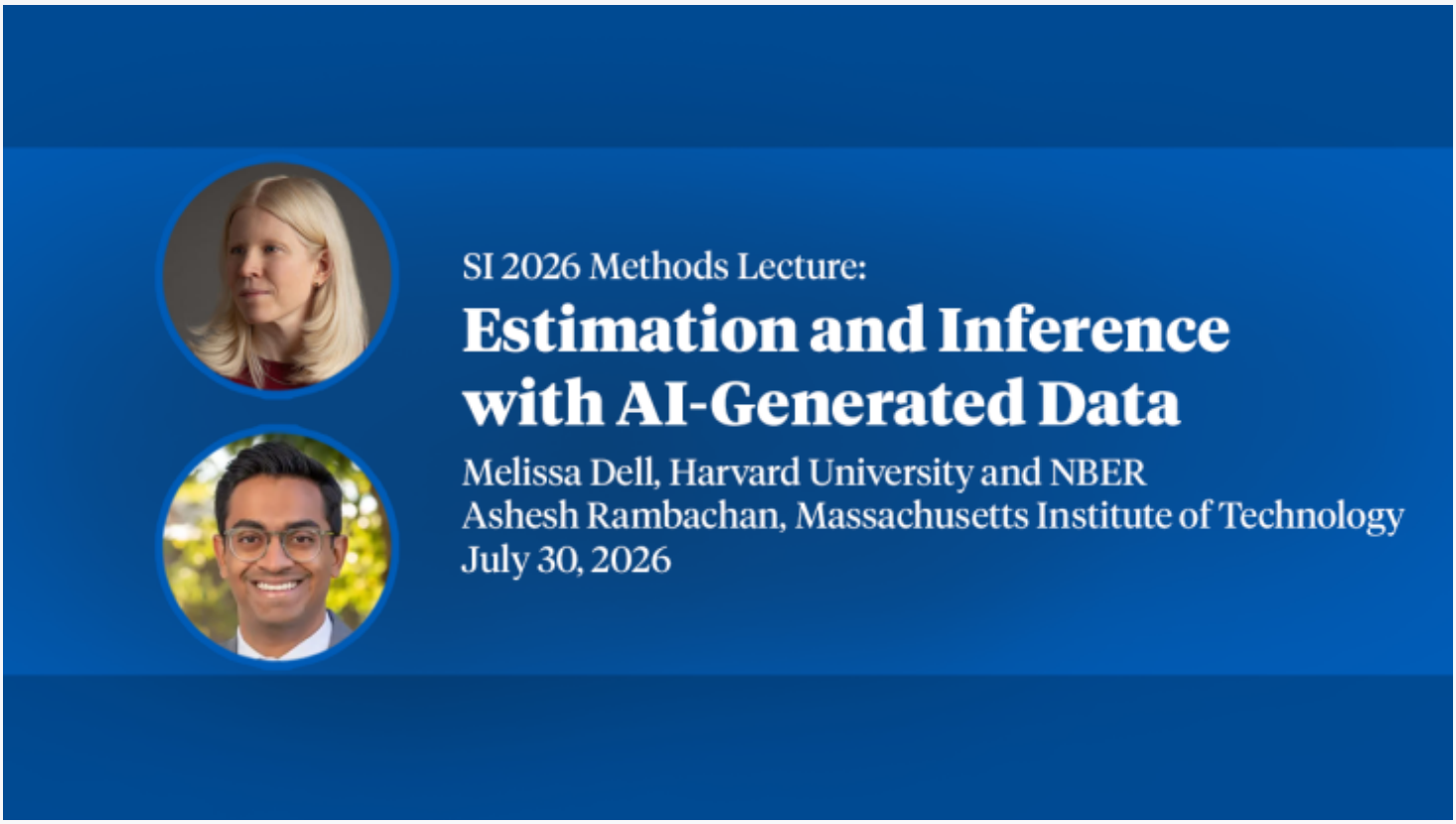


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