Effects of Financial Crises on Labour Productivity, Capital and Employment

Nicholas Oulton and María Sebastiá-Barriel

We examine the hypothesis that capacity can be permanently damaged by financial, particularly banking, crises. A model which allows a financial crisis to have both a short-run effect on the growth rate of labour productivity and a long-run effect on its level is estimated on 61 countries over 1955-2010. A banking crisis as defined by Reinhart and Rogoff reduces the long-run level of GDP per worker, and also that of capital per worker, by on average 1.1%, for each year that the crisis lasts. The long run, negative effect on the level of GDP per capita, 1.7-1.8%, is substantially higher.