La marginalità dei disoccupati di lunga durata e il loro ruolo di *no inflation fighters*: la controversia della Curva di Phillips

The longer, the weaker? Incorporating long-term unemployment in a non-linear Phillips curve

A recent explanation of hysteresis in unemployment refers to long-term unemployed as a cause of downward wage rigidity, since they are detached from the labour market and therefore they are *no good inflation fighters*. The evidence on stagnating inflation during the post-crisis employment recovery has been commonly called *missing inflation*. Therefore, the debate on the Phillips curve has regained significant traction. Based on the above-mentioned interpretation of hysteresis some scholars tried to provide a new estimation of the NAIRU incorporating short-term unemployed uniquely or taking into account the relative weight of unemployment duration. This essay is situated within this line of inquiry as it investigates whether the conclusion that long-term unemployment is less relevant for the inflation path than the short one depends on the assumption of linearity in the Phillips curve. The thesis I want to test is whether the lower effect of long-term unemployment on wage dynamics comes from not considering the convexity of the Phillips curve. Indeed, the phenomenon of long-term unemployment spreads in correspondence to a very high total unemployment rate, when the Phillips curve is flat. By contrast, no appreciable differences between short and long-term unemployment in affecting nominal wage would appear when convexity is considered. To shed light on this issue, I make use of data of 25 countries provided by OECD and AMECO for the 1970-2016 period. As a first step, I propose a linear version of the Phillips curve in which short- and long-term unemployment rates are jointly used to verify whether it is possible to distinguish their effects in the wage-setting process. To this propose, a Wald test is implemented and it rejects the hypothesis that the coefficients of these two variables are statistically different. Then, as I observe that the elasticity of nominal wages to the total unemployment rate is higher when this latter is below 5% I impose a convex shape to the relationship. To test my hypothesis of no significant difference between short and long-term unemployment in wage dynamic, I also make use of a dummy variable referred to the very high incidence of long-term unemployment. Our findings indicate that once convexity in the Phillips curve is proved, no relevant difference between long and short-term unemployed in wage-setting exist.