

Reassessing the Phillips Curve

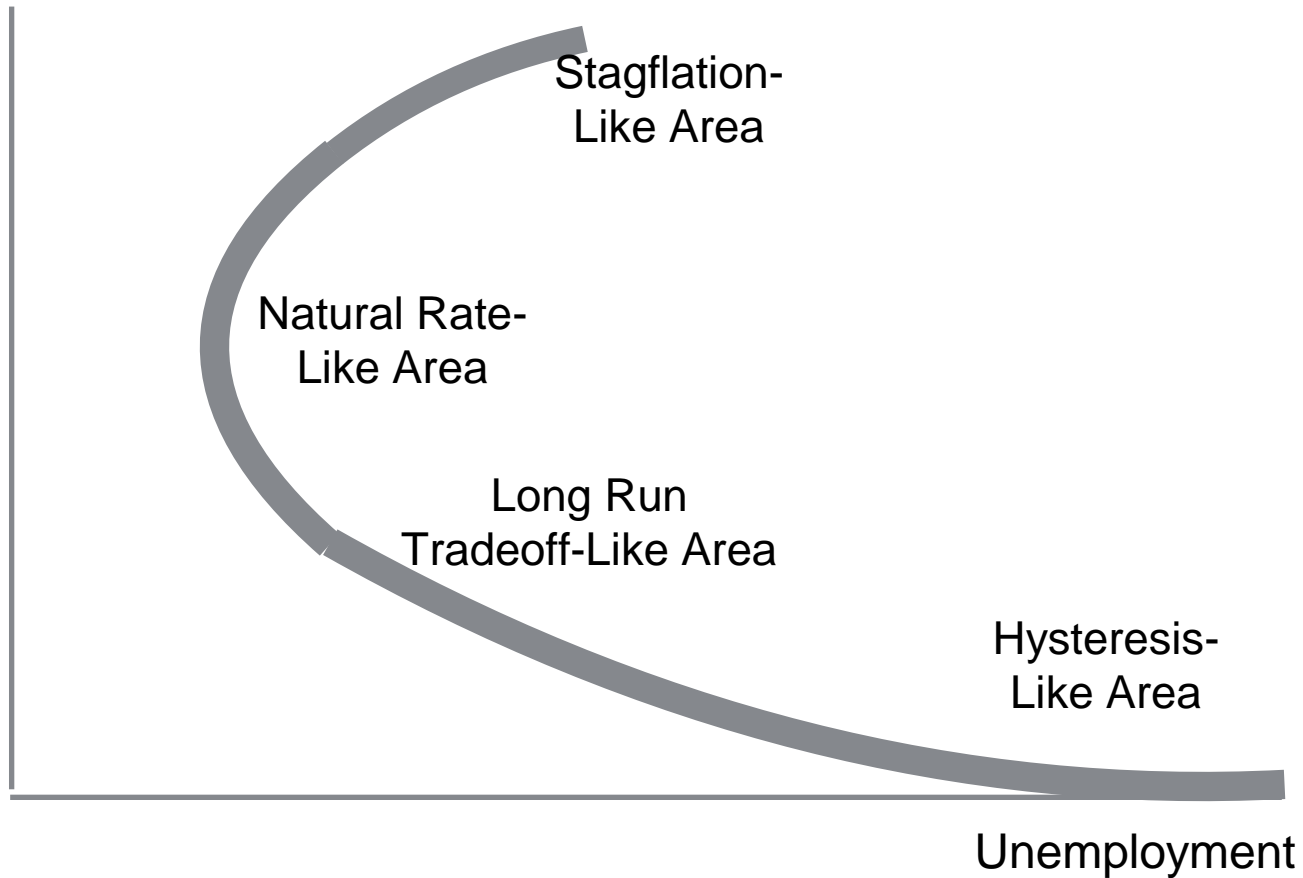
Dennis J. Snower

*Panel: Current perspectives on inflation and unemployment in
the euro area and advanced economies*

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Inflation



Theoretical Foundations (1)

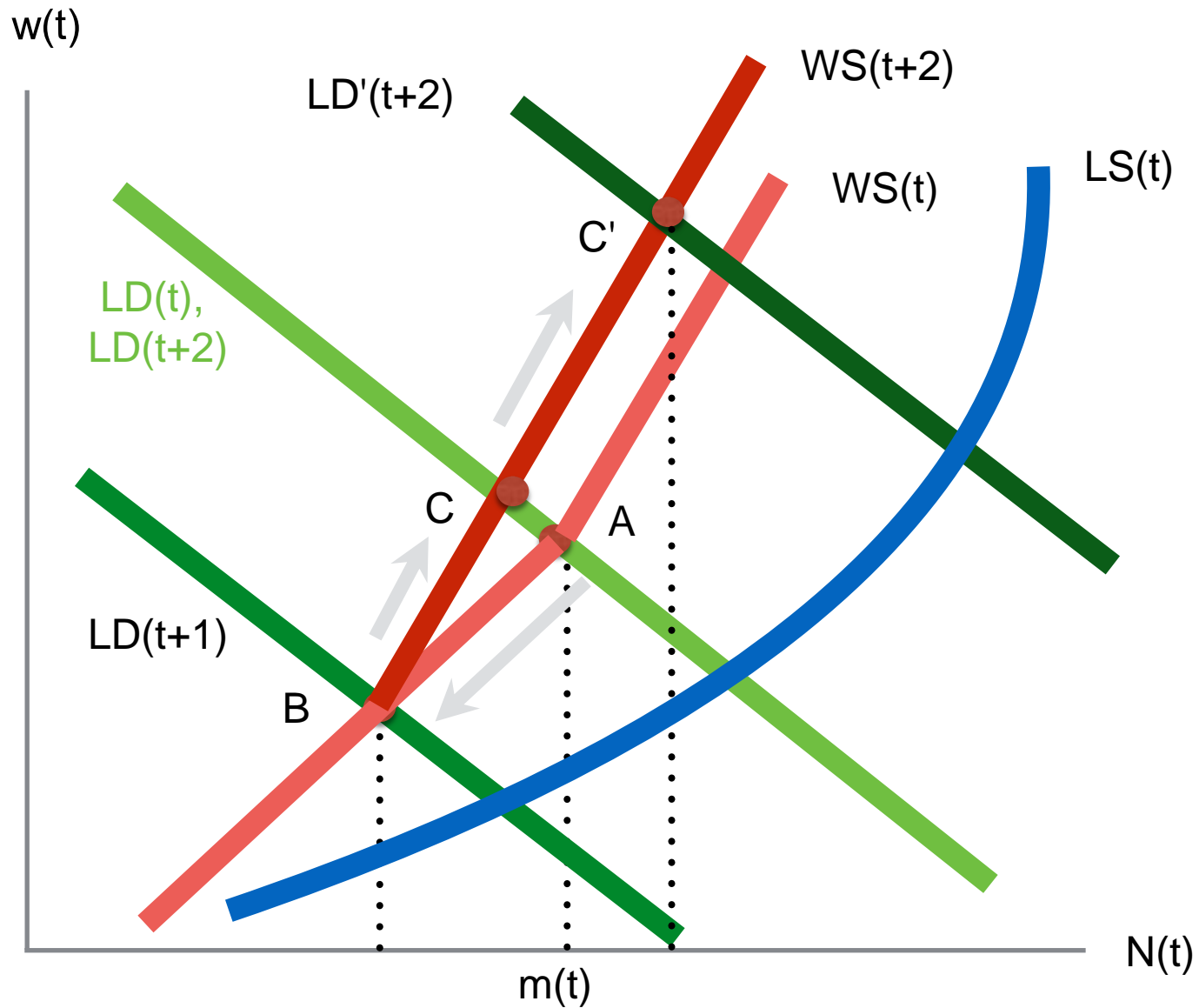
- Discounting, employment cycling and labor smoothing (e.g. Graham and Snower (2004))
- Hyperbolic discounting (Graham and Snower (2008, 2013))
- Labor turnover and growth (Snower and Tesfaselassie (2015))
- Inequality aversion (Ahrens and Snower (2013))
- Increasing returns (Snower and Vaona (2008))

Theoretical Foundations (2)

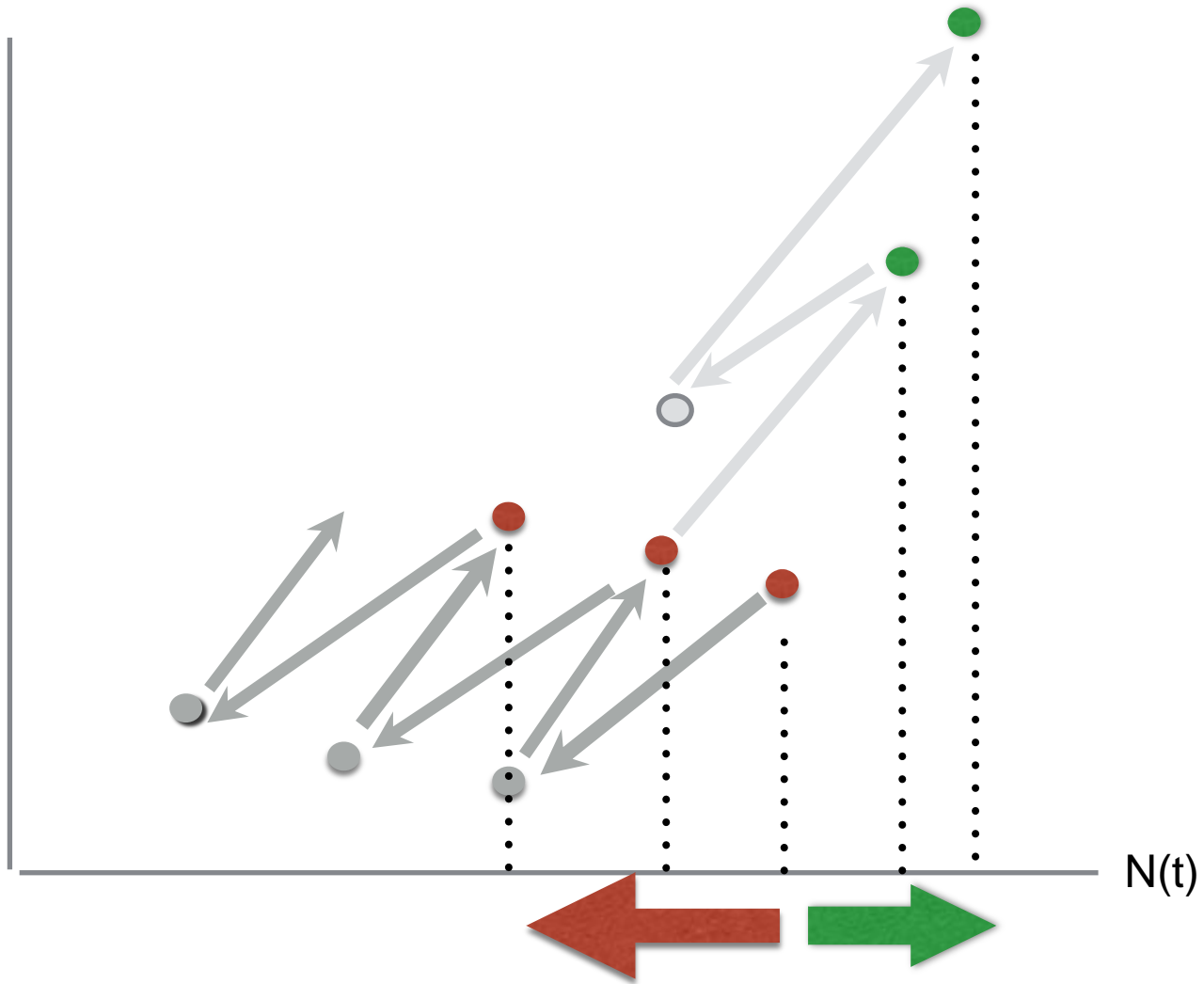
- Nominal wage negotiation rigidities ((Holden (2003))
- Gift exchange (Vaona (2012))
- Departures from rational expectations, permanent nominal rigidities (Akerlof, Dickens and Perry (1996, 2000))
- Zero lower bound on nominal interest rates (Coenen, Orphanides and Wieland (2004))
- Nominal tax rigidities
- State-dependent nominal rigidities (Benabou and Konieczny (1994), Konieczny (1990), Kuran (1986), Naish (1986))

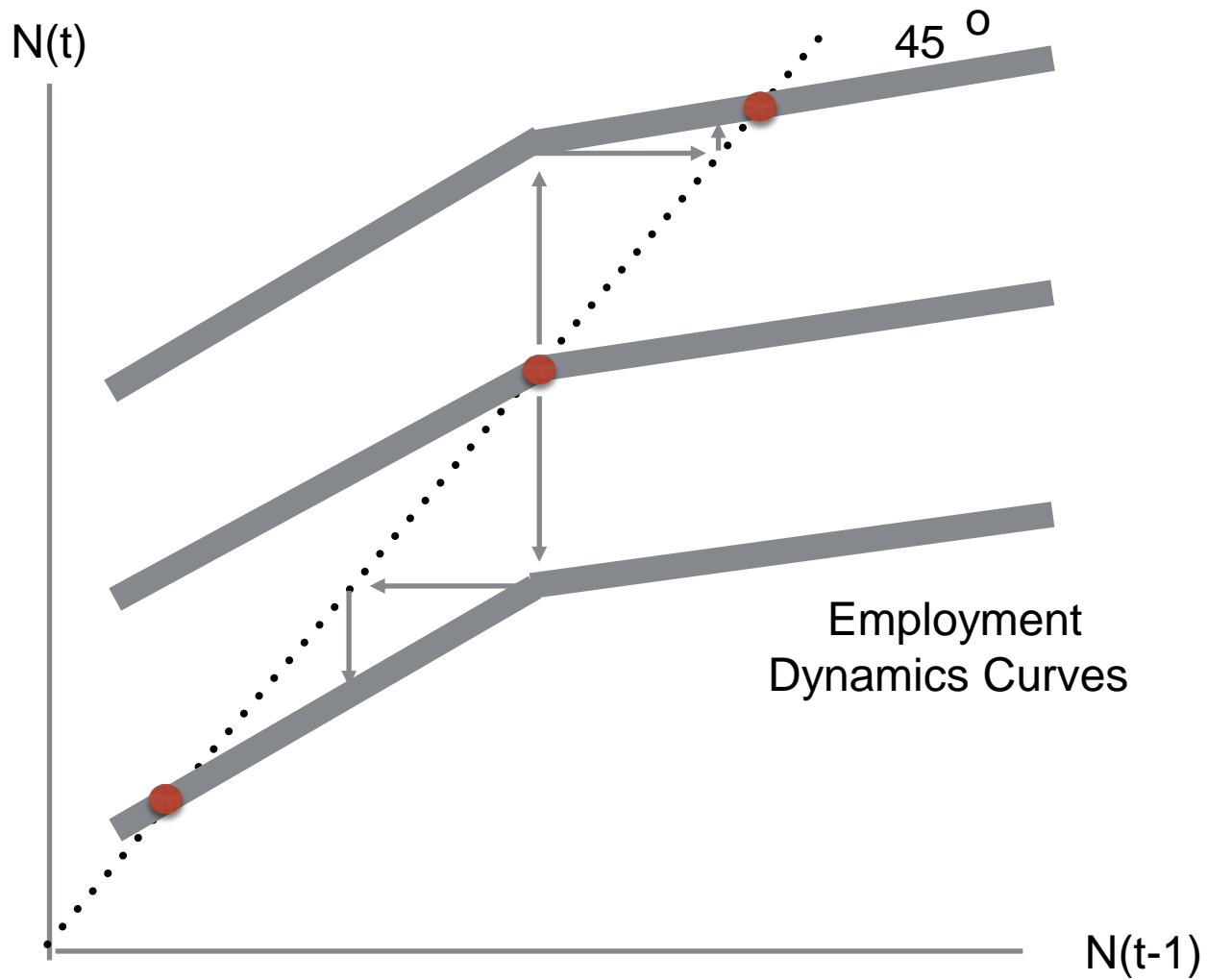
Asymmetric Persistence of Unemployment

- **Asymmetric union wage adjustment**
- **Insider membership asymmetry:** In a downturn insiders lose their insider status immediately, whereas in an upturn entrants gain insider status gradually. Thus a downturn has a stronger effect on the insider workforce.
- **Asymmetric employment risk:** In an upswing insiders face little employment risk, while in a downswing the risk may be significant. Thus they have more incentive to push their wages up in an upswing than reduce them in a downswing.
- **Wage setting asymmetry:** Under seniority employment, senior insiders may keep their wages constant, allowing juniors to be laid off, whereas in an upswing they raise their wages.



$w(t)$







Inflation

