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BEYOND FUNCTIONAL UNEMPLOYMENT: INSTITUTIONAL DISCIPLINE, CLASS POWER, AND THE PHILLIPS CURVE IN NEOLIBERALISM

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The systematic flattening of the empirical Phillips curve since the 1980s, extensively documented by Mishkin (2007), Ball and Mazumder (2011), Blanchard (2016), and Stock and Watson (2020), has generated an unresolved theoretical debate. The mainstream interpretation attributes this flattening primarily to credible monetary policy anchoring inflation expectations, preserving the structural stability of the unemployment-inflation trade-off. Post-Keynesian conflict-inflation perspectives offer an alternative: the flattening reflects institutional transformations under neoliberalism that weakened workers' bargaining power, fundamentally altering the wage-setting process rather than merely anchoring expectations.

The central research problem is therefore: do observed inflation-unemployment relationships in advanced economies arise from structurally stable demand-side mechanisms, or are they contingent outcomes of distributional conflict mediated by specific institutional configurations? The answer carries direct implications

for whether the unemployment rate can be treated as a reliable instrument for inflation control.

This paper pursues three articulated objectives. First, it formally endogenizes the wage-setting parameters of the conflict-augmented Phillips curve framework of Summa and Braga (2019, 2020) as functions of workers' institutional bargaining power, theorizing how neoliberal institutional transformations (union decline, labor market deregulation, erosion of social protections) reshape the inflation-unemployment relationship. Second, it empirically tests, via wavelet coherence analysis, whether inflation-unemployment co-movement appears as a continuous structural pattern or as an episodic phenomenon across 20 advanced economies from 1980 to 2024. Third, it identifies the dominant transmission channels behind observed co-movement, distinguishing between labor cost dynamics and external commodity price shocks.

The theoretical framework builds on the conflict-augmented Phillips curve (CAPC) of Summa and Braga (2019, 2020), itself grounded in the Kaleckian tradition of conflict inflation. In this approach, capitalists set prices as a markup over unit labor costs; inflation emerges from the distributional struggle over income shares, with unemployment functioning as a disciplinary device over labor (Kalecki, 1943). The CAPC demonstrates that an inflation-unemployment trade-off persists in long-run equilibrium without requiring expectational errors, provided workers retain limited but positive bargaining power.

The central theoretical contribution of this article is to endogenize the wage-setting parameters as functions of a workers' institutional bargaining power index (B), synthesizing union organization, legal protections, and structural insecurity in the sense of Setterfield (2005, 2006). It is formally shown that declining bargaining power: (i) flattens the Phillips curve slope by reducing the sensitivity of wage aspirations to unemployment; (ii) shifts the curve downward by compressing autonomous wage claims; and (iii) weakens nominal wage pass-through. Under this framework, inflation-unemployment relationships do not constitute universal structural trade-offs but contingent outcomes of historically specific institutional configurations, snapshots of a balance of class power, not invariant features of technology or preferences.

The empirical investigation covers 20 advanced economies from 1980 to 2024 using quarterly data on core inflation (CPI excluding food and energy), unemployment rate, unit labor costs (ULC), and commodity price inflation (WBCPI). The central method is wavelet coherence analysis, following Aguiar-Conraria and Soares (2014), which decomposes bivariate relationships in time-frequency space, revealing when and at which cyclical horizons variables co-move without imposing parameter stability or uniform dynamics across scales.

The analysis proceeds in three stages. First, baseline wavelet coherence identifies time-frequency domains of significant co-movement between core inflation and unemployment, testing whether coherence appears continuously or episodically. Second, partial wavelet coherence, which isolates the residual relationship between two variables after conditioning on a third, is applied sequentially conditioning on ULC and commodity prices. If apparent Phillips curve coherence predominantly reflects wage-cost dynamics rather than autonomous demand pressure, coherence should attenuate substantially under ULC conditioning. Third, cross-country comparison tests whether coherence patterns and their temporal evolution align with documented institutional differences across Anglo-Saxon, Continental European, Nordic, Southern European, and Japanese groups.

The results are consistent across countries and specifications in supporting the institutionally mediated distributional conflict interpretation.

i- Across all 20 economies, coherence between core inflation and unemployment emerges as isolated islands in the time-frequency plane rather than as continuous structural bands. This pattern is difficult to reconcile with models positing stable, time-invariant parameters linking labor market slack to inflationary pressure.

ii- Conditioning on unit labor costs collapses residual inflation-unemployment coherence across most countries and frequency scales, indicating that baseline Phillips coherence predominantly reflects wage-cost co-movement and

distributive conflict rather than autonomous demand pressure transmitted via unemployment gaps.

iii- Conditioning on commodity price inflation produces additional but typically smaller attenuation relative to the ULC effect. This asymmetry reinforces the interpretation that inflation under neoliberalism has operated primarily as an institutionally mediated wage-bargaining phenomenon, with unemployment fluctuations exerting negligible independent influence once labor-cost channels are isolated.

iv- Coherence patterns and their temporal evolution align with documented institutional differences across country groups. Stronger baseline coherence in Anglo-Saxon economies during the 1980s-1990s corresponds to early and aggressive labor market deregulation in those countries. Widespread coherence flattening during the 2000s-2010s across both Anglo-Saxon and Continental European groups supports Baccaro and Howell's (2011) thesis of a common neoliberal trajectory in industrial relations. The episodic re-emergence of coherence in the 2020s, during the post-pandemic inflationary surge, suggests that latent distributional conflict can be reactivated when cost pressures intensify sufficiently to overwhelm institutionally weakened worker resistance.

The evidence supports reconceptualizing Phillips curve patterns as contingent outcomes of distributional conflict under changing institutional regimes, rather than as stable trade-offs amenable to unemployment-based disinflation. The consistent absence of continuous inflation-unemployment coherence across all studied economies and institutional settings suggests that treating Phillips curve parameters as deep structural features is problematic; these relationships are better understood as historically and institutionally specific outcomes of wage-setting dynamics and class conflict.

Palavras-chave: phillips curve; conflict inflation; bargaining power; wavelets; neoliberalism.