

**EXISTENCE AND STABILITY OF WAGE
UNEMPLOYMENT DILEMMA IN A
DEVELOPING COUNTRY : The Case of Ghana**

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I. Introduction

A number of issues have come to mind since the publication of our paper on the relationship between wage changes and unemployment in Ghana (1) Most of the issues arose because of Lazar and Donner's paper on the Canadian Phillips curve. (2)

One issue that is subject to controversy is whether or not a trade-off between money wage inflation and unemployment exists in the long-run. Current thinking on the issue suggests two possibilities. The first possibility is that there is no trade-off at all in the long-run. The second possibility is that the trade-off that exists in the long-run is on a considerably worse terms than in the short-run. The first of the possibilities is based on the assumption that in the long inflation becomes fully anticipated.

Finding the existence of a trade-off can be meaningful only to the extent that its magnitude can be predicted with a reasonable degree of accuracy. If no quantifiable trade-off exists, then the authorities may be groping in the dark in their attempts to control the economy. To support a case that a trade-off exists which offers policy makers a choice between unemployment and wage-inflation, it is necessary to show a relationship that is stable.

The focus of this paper then is to examine within the limits of available statistics whether in fact a trade-off between wage-inflation and unemployment exists in Ghana. We also examine the terms of this trade-off and examine the stability of the PC curve. This is with a view to considering the applicability of the Friedman-Phelps hypothesis (3, 5) which basically asks whether inflationary expectations affect wage behaviour in such a manner as to produce a PC curve that is vertical in the long-run.

Section II of this paper specifies the model to be used. The empirical results are in section III. The summary and policy implications are in section IV.

II. The Model

We start with a simple model which is really the original bi-variate relationship posed by Phillips (5), referred to later as PC.