DOES WAGE INDEXING MATTER?

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Abstract

The Rogoff (1985) proposition that it is socially optimal to delegate monetary policy to a central banker that is more inflation averse than society has been widely accepted and implemented in practice. However, there is a literature that argues that if there is an inflation-averse monopoly union in the economy, it is optimal to delegate monetary policy to an “ultra-liberal” central banker, that is, a central banker that is interested only in output. In this paper, we examine whether introducing wage indexing into the later models has any effect on the optimal degree of central bank conservativeness.

Keywords: central bank independence, wage indexing, monopoly union

JEL Classification Numbers: E24, E52, E58, J51

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