

ARTÍCULO PARA EL DEBATE CIENTÍFICO

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Is the wage rate the real anchor of the inflation targeting monetary policy framework?

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“Two souls abide, alas, within my breast, and
each one seeks for riddance from the other.”
Goethe ([1808] 2014).

“Fallacies do not cease to be fallacies
because they become fashions.”
Chesterton ([1935-1936] 2012).

Abstract

Numerous central banks (CBs) focus on controlling the nominal interest rate (i) to sway the price level and meet the inflation target (π^o) nowadays (Taylor, 1993; Bernanke *et al.*, 1999; Woodford, 2003). The i is taken to be the anchor for a low and stable rate of inflation in an open economy model. Yet, some analysts, orthodox and heterodox alike, have challenged this belief arguing that CBs turn to the exchange rate (e) channel and adopt it as a second policy tool with the aim of meeting π^o (Svensson, 1999; Hüfner, 2004). The purpose of this paper is to show that the veritable anchor of inflation is

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neither i nor e , but the wage rate and the unit labour costs (ULC). We conduct econometric analyses based on data from a set of inflation targeting countries. The main empirical findings support our hypothesis regarding the higher importance of wages and the ULC *vis-à-vis* i and e in the determination of the CPI.

Keywords: Wages, unit labour costs, income distribution, inflation targeting, monetary policy.

JEL Classification: E24, E25, E31, E52.

Resumen

En la actualidad, varios bancos centrales (BCs) centran su política monetaria en el control de la tasa de interés nominal (i) para lograr su objetivo de inflación (π^o) (Taylor, 1993; Bernanke *et al.*, 1999; Woodford, 2003). Se concibe a la i como el ancla que hace posible una tasa de inflación baja y estable en un modelo de economía abierta. Esta hipótesis ha sido cuestionada por economistas ortodoxos y heterodoxos con el argumento de que los BCs utilizan el canal del tipo de cambio (e) como un segundo instrumento de política para alcanzar π^o (Svensson, 1999; Hüfner, 2004). El objetivo de este artículo es demostrar que la verdadera ancla de la inflación estriba en la tasa de salarios y los costos laborales unitarios (CLU), no en la i ni en e . A este efecto, con datos de países que operan con políticas de objetivos de inflación, realizamos un análisis econométrico, cuyos resultados empíricos apoyan nuestra hipótesis.

Palabras clave: salarios, costos laborales unitarios, distribución del ingreso, objetivo de inflación, política monetaria.

Clasificación JEL: E24, E25, E31, E52.

INTRODUCTION

Price stability, that much-coveted policy objective eagerly pursued by many an inflation-targeting central bank (CB), occasionally chased after even with ludicrous doses of bigotry, is nowadays thought out as the upshot of a monetary policy framework where an explicit or an implicit inflation target—specific or within a narrow range—is the monetary authority’s paramount concern, and the nominal interest rate its policy operating target. Most importantly—at least for the present study—the central bank’s nominal interest rate is also taken to be the anchor securing both price stability and a supply equilibrium level of output which corresponds to a zero output gap and to a non-accelerating inflation rate of unemployment.

Over the last decades, several prominent central banks (CBs), including the U.S. Federal Reserve, the European Central Bank, the Bank of England, and the Bank of Japan, among many others, have abandoned the explicit handling

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