

# The Case for a Populist Central Banker\*

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## Abstract

We present a general equilibrium optimizing model in which we study the joint effects of centralization of wage setting and central bank conservatism on economic performance. Several striking conclusions emerge. In relatively centralized labor markets employment and output are decreasing, and inflation is initially increasing and then decreasing, in the degree of central bank conservatism. A radical-populist central banker who cares not at all about inflation (alternatively, who is not conservative) maximizes social welfare. Economic performance is not U-shaped in the degree of centralization of the labor market, in contrast to conventional wisdom. *JEL Classification Numbers: E5, J5. Key Words: Central Bank Conservatism, Centralization of Wage Setting, Credibility, Inflation, Unemployment.*

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