**Relative Ambition and the Role of Wage Secrecy in Labor Contracts**

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**Abstract:**

In this paper we study the properties of optimal labor contracts in an efficiency-wage setting with homogenous workers whose utilities depend both on their absolute and relative wages, compared to their co-workers.

Assuming that relative wages carry a two-sided effect over workers incentives, we characterize necessary and sufficient conditions for wage dispersion and wage secrecy to be part of the optimal labor contract.

We show the important role played by the extent of complementarity exhibited by the production function, and further demonstrate the robustness of our results to the incorporation of general equilibrium stability considerations.