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Monetary policy and structural change: an introduction

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Going as far back as David Hume, (neo)classical theory is based on the assumption that money is neutral in the long run. Stated differently, the growth of the money supply has no lasting effect on output or employment, although the growth of the money stock will inevitably lead to a general increase in prices, or inflation, prompting Friedman to argue that inflation is 'always and everywhere a monetary phenomenon.'

In some versions of the mainstream, in what can be labeled 'imperfectionist' models, changes in the money supply may have short-term effects on the real economy, provided economic agents suffer from 'money illusion'. In terms of policy, this means that central banks do not have any impact on real variables in the long run, although changes in the rate of interest may have some short-term effects.

In more recent New Consensus models, which recognize some features of endogenous money, the relationship between money and inflation is no longer direct. Rather, it goes from monetary *policy*, through some mechanisms, to inflation. This indirect mechanism relies on some predictable and well-behaved IS and Phillips curves. Yet, in the long run, monetary policy is still neutral, prompting Lavoie (2004: p.16) to refer to these models as "old wine in a new bottle."

In the heterodox tradition of endogenous money, in contrast, monetary policy can have both short- and long-term effects on real variables, although these effects may be asymmetrical. A policy of low interest rates may not have large labour market effects for instance, akin to pushing on a string, but may have important asset price inflation effects. However, persistently higher interest rates may have the predictable labour market effects, and lead to higher unemployment. In this sense, post-Keynesians tend to minimize

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the importance of monetary policy for fine-tuning the economy, arguing that it may be an inefficient way of regulating economic activity.

This point was well put by Lavoie (1996: p.537): "It then becomes clear that monetary policy should not so much be designed to control the level of activity, but rather to find the level of interest rates that will be proper for the economy from a distribution point of view. The aim of such a policy should be to minimize conflict over the income shares, in the hope of simultaneously keeping inflation low and activity high."

As a result, monetary policy becomes about income and wealth distribution, hence Rochon and Setterfield's (2007, 2008, 2012) interest rate rules. In turn, this undermines completely the mainstream role of monetary policy, and shows the limits of monetary policy in general, and certainly in times of crises.

MONETARY POLICY IN CRISIS

With the COVID-19 crisis, as during the global financial crisis of 2007–8, a great deal of emphasis has been placed on central banks to help prevent further economic collapse. Indeed, once interest rates were pushed to their zero lower bound with limited success, central banks were forced to show the continued relevance of monetary policy, and unconventional policies were devised for this purpose. According to Lavoie (2014: p.229), this amounted to a "desperate attempt by monetary authorities and some economists still adhering to monetarism to demonstrate that monetary policy is always effective", what we called elsewhere Hail Mary economics (see Rochon and Vallet, 2019).

Indeed, in an extent rarely seen in their contemporary history, central banks were pushed into purchases of a large amount of assets, particularly government bonds, in order to preserve economic and financial activities and to restore confidence. Even though this role already gained ground with the global financial crisis of 2007–8, it has taken a new dimension with the COVID-19 crisis.

Although there are some voices among economists warning of the alleged side effects associated with these policies (inflation, moral hazard, speculation), a large consensus among the profession emerged that these policies were required – as well as massive fiscal stimulus.

Such debates on the alleged side effects of monetary policy exemplify that money is not neutral, and that monetary policies impact the economic and social dynamics of societies. This is in line with the "structural power" exerted by central banks (Strange, 1994): these institutions influence the structure and functioning of economies and societies. More broadly, "structural power" is consistent with the idea that central banks play a crucial role in the long run with respect to the functioning of democracy and the whole social process underpinning the evolution of societies. In short, central banks' "structural power" involves "structural change".

Consequently, the acknowledgement of such a causation opens new doors for academic research on central banking and monetary policy. Indeed, central banks' ability to durably shape economies and societies is consistent with new research focusing on new channels of monetary policy transmission mechanisms: interest rates, financial, banking, and distribution channels in particular. Likewise, the articulation between monetary and fiscal policies is challenged. More broadly, new research devoted to the possible new mandates for central banks have interestingly emerged. New mandates imply that central banks should take into account new concerns such as environmental issues, income distribution, gender, and maybe more.

Finally, acknowledging the existence of the above-mentioned causation suggests that we should question the limits of monetary policy: should central banks be the 'only game in town'? Are central banks' power bounded? Since central banks are not-elected democratically institutions, should their power be bounded?

THIS SYMPOSIUM

The purpose of this special issue on monetary policy and structural change is to analyze the long run, structural impact of monetary policy.

Since structural change refers to the lasting transformation of societies at large, several analyses in sociology, in history or in political science have focused on the role central banks play in the long run with respect to the functioning of democracy and of the whole social process underpinning the evolution of societies.

Therefore, the purpose of this symposium is to explore how monetary policy and central bank policies overall can have lasting effects on economic activity, and the structure of such activities.

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