# 12. Toward a progressive central banker

## Rogoff's model revisited

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## INTRODUCTION

In the mainstream approach to monetary policy, no assumption is perhaps more sacred than that of central bank independence (CBI). In fact, Qanas and Sawyer (2024, 565) have argued that CBI has become "conventional wisdom." It is believed that over the last four decades or so, there has been a general tendency for central banks around the world to move toward greater independence (see Crowe and Meade, 2008).

According to this view, CBI is required in order for central banks to pursue their objective unobstructed, which typically amounts to some inflation target, as inflation is still seen, despite mounting evidence to the contrary, as a monetary—or monetary policy—phenomenon. In this context, as inflation is related to demand pressures in the economy, central banks are given full independence to pursue policies that will dampen demand and in turn dampen inflation. Any interference from government is seen as likely to jeopardize this inflation mission and result in higher inflation and lower output and, therefore, in lower social welfare.

Four immediate conclusions can be reached. First, CBI is understood in a narrow sense: independence from *political* interference. There is no mention in the current literature on CBI about possible independence, for instance, from other possible sources of influence, notably from financial actors, financial interests, and financial markets—something even Alan Blinder (1999, 60) alluded to: "Central bankers are only human; they want to earn high marks—from whomever is handing out the grades … the markets provide a kind of giant biofeedback machine that monitors and publicly evaluates the central bank's performance in real time. So central bankers naturally turn to the markets for instant evaluation."

Second, inflation is seen foremost as demand-driven, and while mainstream economists recognize possible other sources of inflation (for instance, Blanchard has for a long time argued in terms of conflict inflation; see, for instance, Blanchard, 2022), these other sources are generally downplayed and given minimal importance, mainly because monetary policy is not as effective in reducing nondemand inflation.

Third, government action to lower inflation is immediately rejected in the sense that it is assumed that fiscal policy can never be a legitimate possible solution to inflation. This is in line with what Rochon and Setterfield (2008) have called "monetary policy dominance."

Finally, given the previous three conclusions, CBI must be seen as an abdication of fiscal responsibility, or as Skidelsky (2024) recently argued, the "outsourcing of macroeconomic policy from government to central bankers."

Proponents of CBI have further argued that to be effective, central banks require a special kind of central banker in order to achieve an inflation target: a conservative central banker. Indeed, according to Alesina and Summers (1993, 151), "Delegating monetary policy to an agent whose preferences are more inflation averse than are society's preferences serves as a commitment device that permits sustaining a lower rate of inflation than would otherwise be possible," which in turn is a "socially desirable goal" (152). In that sense, and citing Rogoff (1985), Hallett et al. (2009, 140) are clear: An "independent and conservative central bank will achieve lower average inflation without losses in average output."

But there is an immediate contradiction here. In considering inflation the sine qua non of central bank policy, and requiring in addition a conservative central banker, CBI ties the hands of central bankers and makes a mockery of so-called independence. In other words, central banks are not independent at all but must follow a strict regime of monetary austerity in the name of inflation, which is further seen as the only legitimate policy objective, thereby reducing the central banker to a mere technocrat. Central banks are not allowed, for instance, to make full employment a policy objective. In fact, central banks that have officially adopted a dual mandate are seen as less independent. Indeed, this observation results from the various measurements of CBI through the years, which all give high scores to a central bank's "commitment to price stability" (see, for instance, among others, Alesina and Summers, 1993; Bade and Parkin, 1988; Grilli et al., 1991; Cukierman et al., 1992; 2002; or Forder, 1999). In that sense, a central bank that commits to the possibility of defending full or high employment is seen as less committed to price stability. Rudd (2024, 180, fn. 58) makes the astute observation regarding central bank credibility, "It's more than a little telling that central bank credibility only comes up in the context of inflation control, never in the context of delivering full employment (in fact, the former seems to require that the latter be completely absent)."

Moreover, the notion of a conservative central banker—and of central bank independence more generally—only makes sense within the context of a specific transmission mechanism of monetary policy, which rests on the well-known New Consensus model (Qanas and Sawyer, 2024). In other words, the conservative central banker only makes sense within the context of a transmission mechanism that follows a mainstream account of inflation (Marshall and Rochon, 2024).

This chapter is divided into the following two sections. In the next section, we wish to question the demand-pull nature of inflation as well as the monetary policy transmission mechanism, concluding that in each case, the reality behind the veil is quite different from what is assumed by neoclassical economics. If inflation is not considered related to excess demand, then what does this mean for monetary policy, and in turn for central bank independence? In the following section, we argue that given the conclusions reached in the previous section, there is therefore no need for a conservative central banker, which then opens the door to a different kind of central banker with a different kind of economic and social mission—that is, a progressive central banker.[1]

Given the word restriction in this chapter, it is impossible to fully flesh out our arguments. But we hope that we can offer a glimpse into the research we have been carrying out in the last five years on this very important topic (see Rochon and Vallet, 2022a, 2022b, 2022c; Marshall and Rochon, 2024).

## 1. THE CONSERVATIVE CENTRAL BANKER AND THE TRANSMISSION MECHANISM OF MONETARY POLICY

The mainstream theory of the transmission mechanism of monetary policy relies on two very specific relationships, namely the economic argument of aggregate demand and the communication-expectations argument.

With respect to the economic argument, changes in interest rates are meant to influence aggregate demand via the consumption and investment decisions, which are considered interest-sensitive. Indeed, higher interest rates are claimed to lower consumption and investment, which in turn lowers aggregate demand and raises unemployment. From there, higher unemployment through a Phillips curve relationship is said to lower inflation. Hence, an elastic aggregate demand curve and the time-honored Phillips curve are at the heart of mainstream monetary macroeconomic policy. Indeed, without them, and more specifically without a Phillips curve, there can be no mainstream monetary policy. This much has been acknowledged. According to the NBER (2019), "The relationship between inflation and the unemployment rate is a key input to the design of monetary policy" (see also Hooper et al., 2019).

[1] For a full criticism of the notion of CBI, see Marshall and Rochon (2024).

However, in both instances, the relationship embedded in these curves is tenuous at best. For instance, with respect to aggregate demand, or the IS curve, Cynamon et al. (2013, 13) have argued clearly that

> The transmission mechanism from monetary policy to aggregate spending in new consensus models relies on the interest sensitivity of consumption. It is difficult, however, to find empirical evidence that households do indeed raise or lower consumption by a significant amount when interest rates change. Some authors have generalized the link to include business investments (see Fazzari et al. [2010] and the references provided therein), but a robust interest elasticity of investment has also been difficult to demonstrate empirically.

Sharpe and Suarez (2014, 1), from the Federal Reserve Board, have made a similar claim: "A large body of empirical research offers mixed evidence, at best, for substantial interest-rate effects on investment. [Our research] find[s] that most firms claim their investment plans to be quite insensitive to decreases in interest rates, and only somewhat more responsive to interest rate increases."

This echoes a much earlier warning by Arestis and Sawyer (2003, 5), who write that "it is a long and uncertain chain of events from an adjustment in the interest rate controlled by the central bank to a desired change in the rate of inflation"—a clear nod to Keynes's warning that there existed "several slips between the cup and the lip."

For his part, Krugman (2018) reaches a similar conclusion: "It's a dirty little secret of monetary analysis that any direct effect on business investment is so small that it's hard even to see it in the data. What drives such investment is, instead, perceptions about market demand." While some would argue that interest rates could still, at least indirectly, influence these so-called perceptions, this would certainly deny the first argument above.

Kopp et al. (2019, 4) reach the same conclusion. According to the authors, there "appears to be little unexplained component of business investment beyond the expected demand effect. Other factors, such as reductions in the cost of capital, thus appear to have played a relatively minor role."

With respect to the Phillips curve, the prognosis is also not very encouraging. It has generally been recognized that the Phillips curve has gotten much flatter over the last four decades or so, with the general consensus that it weakens monetary policy and the transmission mechanism, as the Phillips curve is crucial to an inflation-targeting regime. Echoing an argument we made above, Bullard (2019) claims clearly that "U.S. monetary policymakers and financial market participants have long relied on the Phillips curve—the correlation between labor market outcomes and inflation—to guide monetary policy."

But this relationship has been questioned on empirical grounds. For instance, Claudio Borio has recently argued that "the response of inflation to a measure of labour market slack has tended to decline and become statistically indistinguishable from zero. In other words, inflation no longer appears to be sufficiently responsive to tightness in labour markets" (Borio, 2017, 2).

According to Gordon (2018, 427), "The slope of the short-run inflation–unemployment relationship has flattened"—a statement that has been confirmed by multiple other authors and may in fact represent an emerging consensus among scholars of central banks. For the Bank for International Settlements (2015, 74), "various inflation drivers have been shaping the inflation process in ways that at times have been difficult to fully understand. The heightened uncertainty has naturally carried over to inflation forecasting." Solow (2018, 423) concurs, "The slope of the Phillips curve itself has been getting flatter, ever since the 1980s, and is now quite small. … There is no well-defined natural rate of unemployment, either statistically or conceptually."

If further evidence is needed, former Federal Reserve governor herself, Janet Yellen (2019), reached a similar conclusion: "The slope of the Phillips curve—a measure of the responsiveness of inflation to a decline in labor market slack—has diminished very significantly since the 1960s. In other words, the Phillips curve appears to have become quite flat."

The same sentiment was expressed by Mary C. Daly, former president of the Federal Reserve Board of San Francisco (see Daly, 2019): "As for the Phillips curve … most arguments today center around whether it's dead or just gravely ill. Either way, the relationship between unemployment and inflation has become very difficult to spot."

If this interpretation is correct, then it carries important implications for monetary policy, as it unequivocally undermines completely the need to use monetary policy to fight inflation, and de facto the need for an independent central bank and with that, a conservative central banker. In other words, it suggests that monetary policy is impotent or ineffective in fighting inflation (Rochon, 2022), and because of this, central banks must resort to multiple increases in interest rates—read 11 in the post-COVID era. What this all means is that while perhaps the cumulative effect of 11 increases in rates may eventually slow down economic activity, it will do little to bring inflation down, as the causes of inflation are elsewhere and not related to demand pressures.[2]

For instance, in a recent report, Bernanke and Blanchard (2024) are very clear that the causes of the postpandemic inflation had little to do with traditional demand-push variables but were related to increases in commodity goods, such as oil due to the war in Ukraine, and transportation bottlenecks.

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[2] We would further argue that in most cases, inflation is cost-pushed rather than demand-pull, and that this does not only apply to the postpandemic era.

In other words, inflation post-COVID-19 was not a monetary phenomenon, which in turn raises questions about the recent increases in interest rates.

Similarly, a recent report from the Federal Reserve Bank of San Francisco (2022) indicates that at best, demand forces accounted for only 30 percent of the overall inflation rate in the post-COVID era, leaving a large component, 70 percent, explained by supply-side variables—again unrelated to demand.

In the end, CBI is advocated because it is assumed that it delivers lower inflation. But what does the evidence say? In other words, do countries with more independent central banks have lower inflation? The verdict is at best mixed: Forder (1999, 25) concludes that given the problem with the measurement of CBI (see Marshall and Rochon, 2024, for a discussion), "this agreement is, in the relevant sense, an illusion." In an older study, Pollard (1993, 34), at the time an economist at the Federal Reserve Bank of St Louis, reached a similar conclusion. In asking, "Are there economic benefits to be gained from having an independent central bank?" she writes, "Unfortunately, the empirical and theoretical studies surveyed do not provide clear answers. … In general, they find no evidence of a positive correlation between output growth amid central bank independence." As for the relationship between CBI and inflation, "they do not provide evidence of causality."

More recently, Rossi et al. (2021) argue that "overall there is only a weak causal link from independence to inflation, if at all. … Central bank independence has no clear effect on inflation."

## 1.1 Expectations and All That

The above discussion should make clear that the economic rationale for CBI rests on a model that finds little empirical support. It is in this sense that, in practice, the theoretical argument to fight inflation rests more formally on the informational or expectational channel, according to which actual inflation depends heavily on expectations of inflation in the near future. In other words, inflation is what we expect it to be. The argument is that "a government announcing an inflation target combined with strong beliefs that an independent central bank can and will achieve the target engenders an expected rate of inflation close to the target rate and makes achievement of the target rate easier" (Qanas and Sawyer, 2024, 568–9). In choosing an inflation target, central banks want to "anchor" expectations around the chosen anchor.

But reliance on this channel has been questioned, more notably by Rudd (2022, 35), who argues that "the inclusion of expected inflation has occurred with minimal direct evidence, next-to-no examination of alternatives that might do a similar job fitting the available facts, and zero introspection as to whether it makes sense to use the particular assumptions or derived implications of a theoretical model to inform our priors."

Rudd's results, however, are certainly controversial and certainly go against the grain of an established consensus, as most studies in fact point to a strong role played by expectations. For instance, Hazell et al. (2022), while confirming the irrelevance of the Phillips curve, confirm that expectations have played a significant role in anchoring expectations and hence in the decrease of inflation in the 1980s and its stability in the past three decades.[3]

But the question of inflation expectations itself depends on the underlying transmission mechanism, which we have argued above is faulty on empirical grounds. In the mainstream story, the expectations story begins with the public's trust of central banks and their credibility in fighting inflation by raising rates. If, say, workers believe central banks will fight inflation and bring it back to target, then expectations will be anchored around that target, and wage demands should be consistent with the overall inflation target. In other words, workers are preoccupied with their anticipated real wage and will only demand higher nominal wages consistent with a constant real wage. In this sense, central banks must somehow convince workers and unions of their commitment to fighting inflation (the credibility issue) and anchor the public's inflation expectations. Indeed, according to Rudd (2024, 180), "By gaining a reputation for maintaining inflation at some specific (low) level on average—so the story goes—people come to expect that this level will prevail and so feel free to divert their attention to other matters of more pressing concern to them."

But we are back to the question of bringing inflation back to target, which rests again in the mainstream model, on the transmission mechanism: Central banks are seen as credible only if they raise interest rates sufficiently, which will then slow down economic activity and bring inflation down. The expectations story itself depends on the Phillips curve! Hence, both the economic (New Consensus) and the informational (expectational) channels break down, as both depend on an assumed transmission mechanism that is weak empirically.

3 In an important criticism of that specific paper, however, Rudd (2024, 182, fn. 64) argues that "an important shortcoming of the Hazell et al. (2022) study of the 1980s inflation experience is its use of a variant of the new-Keynesian Phillips curve that does not allow for changes in trend inflation and that is only valid if inflation is typically close to zero."

## 2. ROGOFF's MODEL ON THE CONSERVATIVE CENTRAL BANKER CRITICIZED THROUGH AN INSTITUTIONALIST APPRAISAL: HOW TO PROMOTE A PROGRESSIVE CENTRAL BANKER MODEL

The previous section focused narrowly on the link between the transmission mechanism of monetary policy and the need for a conservative central banker to ensure that correct policy is made to achieve the central bank objective of low inflation. Yet, as we argue above, there is considerable doubt about the empirical validity of this model, and if this is correct, it raises questions about why we need a conservative central banker, and indeed, why we need an independent central bank.

Before understanding the main features of Rogoff's model, it is worth defining what conservative means and how it is at odds with a progressive institutionalist approach.[4]

(1) Conservatism refers to individuals' "attitude" (Vallet, 2016) that can be understood only in relation to the nature and the framework of institutions: The type of central bankers' "attitude" relates to the role of central banks as institutions serving a society. Indeed, central bankers—and central banks as institutions—are supposed to be the agents of a principal (a polity) because their single objective (and their associated skills, as experts) is to achieve price stability (in an asymmetric mode: Inflation is perceived as worse than deflation). In this model, the principal is alleged to have the same preference shared by the different components of society: to fight inflation. As Rogoff argues, "Society can sometimes make itself better off by appointing a central banker who does not share the social objective function, but instead places 'too large' a weight on inflation-rate stabilization relative to employment stabilization" (Rogoff, 1985, Abstract, 1169).

More broadly, this first trait of conservatism is praised as a way to avoid the time-inconsistency problem, resulting in a lack of credibility of elected politicians who would be "lax" toward inflation, preferring (inefficient and disturbing) discretionary policies.

(2) It is worth understanding that the "conservative attitude" praised both by the community of central bankers and by society is legitimate, since it

[4] The latter aligns with John R. Commons's concept of "reasonability" forged during the American Progressive Era (1890–1920). "Reasonability" consists here in designing institutions and public policies serving the common good according to the needs democratically expressed by a people.

relates to the worship of "tradition" and to the belief in a natural order ruling the dynamics of society (the neutrality of money). We can derive from this that:

- This attitude aligns with free-market ideas (the invisible hand order). There is no legitimate power (authority) other than that of markets (Wright Mills, 1956, 497).
- A polity sustained and ruled by human decisions (discretionary policies in particular) is denied: The legitimacy of public institutions is built on laws and rules, and human beings must comply with these rules (Wright Mills, 1956, 487).
- Leaders holding a "conservative attitude," such as central bankers, have no real social responsibility but that of following rules: They are alleged to have no direct impact on economic decisions (neutrality of money).
- However, those holding the "conservative attitude" gain the status of "moral entrepreneurs" (Becker, 1963), with the associated rewards: For central bankers, the rewards are central bank independence and the hope of having a successful career, as agents rewarded by the principal.

## 2.1 An Indictment of the "Conservative Attitude" Model in Three Questions

(1) Do central bankers "successfully" serve the people (Dietsche et al., 2018)?

As mentioned earlier, Rogoff rests on the principal–agent model with people's homogeneous preferences (Rogoff, 1985, 1177), and with no relations of power and no information asymmetry. Rogoff also assumes that a given people looks for public policies dedicated to inflation and employment only (trade-off), with no other concerns: "The social loss function … depends on deviations of employment and inflation from their optimal (socially desired) levels" (Rogoff, 1985, 1173).

By contrast, it can be argued that a society must be appraised through its differences, including minorities: There are not one but several—and unequal—preferences among the people. In light of this, it is worth considering that the existence of differing—and sometimes contradictory—preferences leads to the acknowledgment of conflictual preferences within a given society, and thus to abandon the notion of general interest as the main objective of monetary policy. In particular, since economies are characterized by different sectors and markets with heterogeneity, it is likely that representatives of these sectors would not choose the same type of central banker. Even for those advocating a "conservative" central banker, they would not share the same definition—and therefore degree—of conservativism (Waller, 1992). More broadly, it is useless to envision a society characterized by the aggregation of differentiated preferences to determine a single collective objective. Likewise, this implies the acceptance of social conflicts, since they are the outcome of people's preferences exposed in the public space. Indeed, democracy consists of the acceptance and regulation of social conflicts through the devising of appropriate institutions and policies (Touraine, 1994).

The implication of this statement for monetary policy is clear: Monetary policy cannot meet all economic and political demands, and some people's expectations are necessarily ignored or pushed aside. In other words, not only are central bankers not able to determine objectively or scientifically which monetary policy would fit all—as a sort of "social compromise"—but monetary policy is consistent with the idea of winners and losers. As a result, inflation relates to social conflicts and does not have the same meaning and impact, depending on social groups.

This is why Rogoff's framework is questionable, since it rests on the statement that "it can be entirely rational for society to structure its central bank in such a way that the monetary authorities have an objective function very different from the social welfare function" (Rogoff, 1985, 1187). With respect to this quotation, the second criticism emerges.

(2) Do central bankers "really" serve the people (Johnson, 2016; Dietsche et al., 2018)?

Rogoff neglects two critical issues associated with democracies:

- Is it fair to give such a degree of power to (nonelected) central bankers, whose individual choices seem to be more valued than a people's social choices (which are evolving over time for several reasons)? It is doubtless that the legal framework accompanying central bank independence compels these institutions to communicate (including communication to the lay people officially) and to rest on transparency (Aslam et al., 2022), mitigating central bankers' capacity to impose their preferences on society through the control of their power. However, is this framework effective under the hypothesis of information asymmetry, involving that some people do not understand monetary policy and do not even understand what central banks really do?
- Are central bankers closer to some social groups than others? It should not be the case, as "agents" serving a principal comply with the rule that "in every phase of our work and decision making, we consider the well-being of the American people and the prosperity of our nation" (Yellen, quoted in Dietsche et al., 2018, 1).

A large body of literature has documented well both the distributive nature of monetary policy and the existence of "revolving doors" between central bankers' careers in central banks and those in the banking and financial sector. According to Mishra and Reshef (2019, 379), there is a positive and significant relationship between work experience as central bankers and work experience in finance. Between 1970 and 2011, of 193 observations, 19.5 percent of central bankers worked in the financial sector before serving as central bank governor (for comparison, 29.2 percent worked in international organizations, and 47.4 percent had already held a position within the central bank). The move from the financial sector to central banks is fast: 38.5 percent of central bankers who have left the financial sector have been hired the same year in a central bank. Symmetrically, there is a significant change when central bankers leave their positions: After their term, of 64 observations, 25.4 percent start a position in the financial sector (in comparison, 29.4 percent in international organizations, 5.8 percent keep a position within the central bank, 4 percent in politics). This situation applies to every type of country; high-income, middle-income and low-income countries (Mishra and Reshef, 2019).

Rogoff himself acknowledges this de facto rule consisting of giving more legitimacy to central bankers close to the financial and banking sector: "The model is certainly consistent with the fact that central bankers are typically chosen from conservative elements of the financial community" (Rogoff, 1985, 1179). Moreover, "one incentive that the head of the central bank might have for holding down inflation is that he can thereby improve his standing in the financial community, and thus earn greater remuneration upon returning to the private sector" (Rogoff, 1985, 1179–80).

(3) Have central bankers been trapped into the "inflation obsession model" associated with their conservative "attitude"?

We argue in this section that the increasing financialization of the world economy since the 1980s has challenged Rogoff's model. At the onset of the 1980s, when financialization gained ground, financialization was perceived as a good opportunity to achieve noninflationary growth, as expected in Rogoff's model. The latter, consistent with monetarism, rested on the idea that financial investments would result in capital mobility around the world, based on savings and not credit. All in all, this new framework would have helped central banks and central bankers in their mission to serve the common good through low inflation targets.

But it did not work like this, with four shortcomings exposed here:

- Monetary aggregate targets largely used in the 1980s became ineffective over time, since financialization disturbed the predictability of the link between banks' actions and their use of their reserves at the central banks. The problem is that Rogoff's model rests on the usefulness and reliability of monetary aggregate targets (Rogoff, 1985, 1170).
- Central banks tried to create a new nexus with finance in order to control and to benefit from it. Inflation-targeting regimes originated against this backdrop: The objective of these regimes was to reinforce the predictability of inflation through inflation forecasting and forward guidance without relying on intermediate monetary targets. With greater predictability, financial markets would be aligned with central banks' policies, leading to controlled and smooth dynamics of the economies. However, inflation-targeting regimes indirectly participated in the rise of finance, in the sense that they gave credence to the possibility of the "safe" spread of financialization: "Because central bankers increasingly saw stability expectations in financial markets as a reflection of their own credibility, they encouraged the formation of such expectations and thereby created a veritable stability illusion" (Wansleben, 2023, 178–9).
- The rise of finance has de facto enlarged central banks' missions toward the necessity to supervise financial activities. However, this framework has not prevented major global financial crises from arising, threatening the whole economy and compelling central bankers to question or even abandon the conservative model. Large-scale implementation of quantitative easing programs exemplifies this.
- The conservative model has been associated with the valuation of "hawkishness," the requested "attitude" of the milieu to fight inflation. However, this challenges the capacity of central banks to promote diversity of managers within their inner organizations. As public institutions embodying a given society, central banks should be aware of this issue. Nevertheless, with the conservative model valuing hawkish central bankers, several biases have been related to it. In particular, since hawkishness has been tied to a maleness in the field—not from an essentialist perspective but with respect to "attitudes"—the conservative model of central banker tends to reinforce the mismatch between power and authority existing at the expense of female central bankers (Vallet, 2024). Although it has been shown that female central bankers are sometimes more conservative than men (Masciandaro et al., 2023), the relative lack of a large number of women in the field prevents central banking from being diversified: As a result, female central bankers' hawkishness seems more an

"overconformism" to the existing—male-dominated—culture. These female central bankers serve their careers, neither women as a social group nor the transformation of the social group of central bankers.

## 2.2 Toward a New Model of Progressive Central Banker

At odds with the conservative model of central banker, we put forth the necessity to design a new model, resting on progressive features. Progressivism is not a mere ideology but refers on the opposite to the willingness of public institutions to implement a "program for action" (Gendzel, 1999, 208) consistent with the aforementioned criterion of "reasonability," whose aim is to fulfill the major needs of a given society. Following Touraine's aforementioned framework of democracy, these needs are the outcome of regulated social conflicts. Accordingly, progressivism refers to a process, namely a long-term trend moving a society both upward and forward in reference to its major needs. Progress is compatible neither with the idea of an equilibrium nor with a stable self-organization of the economy: It is more consistent with the idea of an evolving but coherent order, framed by public institutions.

In the case of central banks, progressivism could be promoted in three steps:

(1) To acknowledge that central banks are institutions exerting a "structural power" (Strange, 1994), namely the power to "shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises, and (not least) their scientists and other professional people have to 'operate'" (Strange, 1994, 318).

Indeed, central banks have the power to "shape" the economy and society (Helleiner, 2005, 2), since they affect credit, indebtedness, and exchange rates through their interest rate policy. In sum, central banks' "structural power" corresponds to "the ability to gain by rewriting the rules of the game" (Cohen, 1977, 54). In other words, central banks can and should be involved in the fulfillment of a society's major needs. It is doubtless that such a role requires democratically and constitutionally defining what these major needs are in order to prevent central banks' "structural power" from being captured by political and economic actors. This is consistent with the necessary regular control and assessment of people over monetary policy in particular (Rochon and Vallet, 2022a). However, the acknowledgment of central banks' "constitutionalized" "structural power" oriented toward the major needs of a society has the objective of broadening the fields of action of these institutions.

In light of this, although we emphasized that each society has its own major needs, it appears that in today's capitalism, climate change is the most burning issue and the major concern. For that reason, we will use this example in our following demonstration.

First, the fight against climate change must rest on institutions capable of changing the rules of the game, such as central banks. Central banks are already impacted by climate change in fulfilling their actual mission, through several channels: new risks affecting financial stability and price stability (Bolton et al., 2020); public debt management (Monnet, 2021a; Van't Klooster, 2022); and external political pressures related to global agreements (such as Accords de Paris) (Tooze, 2021; Jabko and Kupzok, 2024). It is nevertheless worth stressing that these impacts are not exogenous but endogenous: For instance, as financial regulators, central banks can exert their "structural power" in lowering or increasing some risks through their decisions (Dafermos, 2022; Kedward et al., 2020).

Second, central banks can use their "structural power" to fight climate change to promote an "allocative green credit policy" (Kedward et al., 2022) and to redesign their asset purchasing programs, depending on the environmental impact (Abiry et al., 2022; Ferrari and Landi, 2024). Doing so, central banks would play a role not only in regulating socioenvironmental conflicts related to inflation but also in preventing them through proactive action.

(2) To take into account new monetary policy transmission channels and, more broadly, new challenges for central banks, such as climate change. Progressivism in central banking is thus required, compelling central banks to question their traditional framework: "Authorities have abandoned the predominant focus on inflation that was characteristic of the 'Great Moderation.'" Responsibilities have been broadened, not just in the area of financial stability, where central banks now conduct (or at least contribute to) macroprudential regulation. Authorities have also departed radically from what political economists call "hard-money policies" (Wansleben, 2023, 208).

Progressivism in the age of climate change necessitates a reconsideration of Rogoff's concept of social loss function associated with a trade-off between optimal levels of employment and inflation. On the one hand, central bankers should acknowledge the existence of new concerns and new trade-offs by extension. There are always evolving concerns and trade-offs depending on changing people's preferences. On the other hand, in a world characterized by uncertainty and not only risk, it could be impossible to devise a social loss function. This implies a move from prevention to precaution, justifying central banks' proactive "programs for action."

Central banks should be controlled and assessed through this new line. It is not a matter of mere credibility: It is a matter of trust and social responsibility (Rochon and Vallet, 2022c). It is nevertheless certain that central banks should not be the only game in town, implying a move from monetary dominance to fiscal dominance. Against this backdrop, central bankers' conservatism, associated with central bank independence, is an outdated model: A new type of policy mix should be designed to enable states and central banks to frame new plans fighting climate change (Bartsch et al., 2020; Braun and Downey, 2020; Monnet, 2021b). If we acknowledge the idea that central banks are already de facto involved in the fight against climate change, and since ecological transition is complex and multidimensional, the so-called trade-off in favor of mere slow and stable inflation should be rejected because of its inoperability.

(3) Central banks should be deemed "embedded institutions," namely institutions capable of regulating economic activities in the name of the common good of a given society. As institutions alleged to serve a society, central banks must reproduce themselves as specific entities in relation to a given context and therefore must contribute to a culture and history. In relation to our definition of progress, it should be kept in mind that history proves that central banks' missions and concerns have evolved over time (Goodhart, 2011; Scialom, 2022). Recent literature has put forth the idea that as "embedded institutions," central banks should be directly involved in the fight against climate change, as they were against other combats—including inflation—in a different historical period (Van Tilburg and Simić, 2021).

To that aim, new missions, new mandates, and new personnel working in central banks should be envisioned: Diversity in central banks is a social good (Haldane, 2016) and is mandatory to match the forthcoming global challenges such as climate change (Vallet, 2020). Diversity within central banks' inner organization—meaning new skills and profiles—goes along with more active central banks toward climate change (Dafermos et al., 2021).

Consequently, central bankers should have in mind the issue of central banks' social responsibility (Rochon and Vallet, 2022c). Along with their structures, central banks display properties that are more than the sum of the properties of their internal components. The acknowledgment of this is key to managing the complexity of information efficiently: The adherence of central banks' members to these properties, embodied in the culture of the institution, is decisive for not only the institutional organization but also the institution itself (Vallet, 2021). In light of this, a central banker should not be preoccupied only with inflation but with a plurality of topics related to the promotion of the society's common good they are supposed to serve (see Rochon et al., 2025, forthcoming). Their progressivism should be assessed through their ability to move away from the sole focus on inflation to consider other factors structurally affecting the dynamics of a society. It is not a mere matter of adapting their standard reaction function but a matter of democratically serving a society.

## CONCLUSION

The institutional analysis of central banks enables us to understand that central banks have kept evolving over time (missions, status, type of central bankers, type of attitude, and so forth). With forthcoming new types of challenges, central banks have to redesign their governance. For that reason, Rogoff's model of conservative central banker seems to be outdated and even counterproductive.

However, maybe Rogoff himself did not want to set his model in stone when he designed it, since he maybe left the door open to promote a new model for central bankers, depending on the societal context: "Although society does want the central bank to place a large weight on inflation rate stabilization relative to employment stabilization, society will not (in general) want the weight to be infinite" (Rogoff, 1985, 1187).

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