

Panel on the Fed's Dual Mandate

Federal Reserve Bank of Cleveland

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In ancient days (that is, before 1994)



- The Fed said nothing, and said it cryptically.
- Of course, nobody in 1913 was thinking about what we now call “monetary policy.” Rather, the FRA was...
- “An Act To provide for the establishment of Federal reserve banks, *to furnish an elastic currency*, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”
- No mention of either inflation or employment.

The Federal Reserve Reform Act of 1977 (*not* Humphrey Hawkins, 1978)



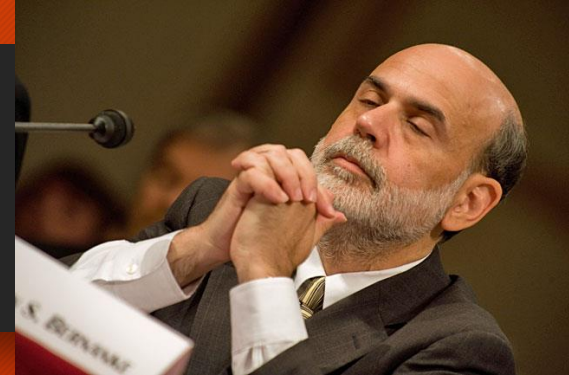
- The 1977 Act amended the original FRA by explicitly directing the Federal Reserve to “maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”
- Of course the Employment Act of 1946 had (vaguely) committed the entire USG to pursuing “conditions under which there will be afforded useful employment for those able, willing, and seeking to work.”

Until the mid 1990s (and beyond)...



- The “maximum employment” part of the dual mandate took a distant back seat to the “stable prices” part.
- Volcker and Greenspan barely mentioned the dual mandate. But look at what Greenspan *did* more than what he *said*.
- In my famous/infamous Jackson Hole speech in August 1994, I pointed out that “The charge given by the Congress to the Federal Reserve ... calls upon us to pursue both maximum employment and stable prices.” The unemployment rate then was 6%; I *hinted* that *maybe* it could go lower.
- This set off a press furor. Example: Robert Samuelson in Newsweek, Sept. 1994: “Alan Blinder bombed in Jackson Hole... Blinder lacks the moral or intellectual qualities needed to lead the Fed.”

What about numbers?



- Congress put no numbers on “stable prices” or “maximum employment.”
- Neither Volcker nor Greenspan wanted numbers.
- But Bernanke believed in inflation targeting, which requires a number—at least for “stable prices.” It took years, but the FOMC eventually adopted a 2% target.
- “Maximum employment” was trickier, since the Fed can’t choose the number. It interpreted the phrase as getting to the natural rate of U.
- BTW, Bernanke also believed in more Fed communication in general. He uttered the phrase “dual mandate” often.