Debate Brief · Monetary Policy

July 2022

Resolved: The mandate of the Federal Reserve should be amended to pursue price stability only rather than to pursue price stability and full employment.

"I won't meddle with the Fed, but I will tackle high prices while guiding the economy's transition to stable and steady growth."
—President Joe Biden, *Wall Street Journal*, May 30, 2022

"Too much money chasing too few goods." –common definition of inflation

"Inflation is repudiation, deflation is assumption."
—Calvin Coolidge, Chicago, 1922

Note to Debaters and Judges

The intention behind this resolution is for debaters to consider the single mandate concept relating to the Federal Reserve versus the dual mandate concept. There are plenty of arguments for both sides. Although other ideas have been proposed over the years (e.g., five-part mandate, no mandate), we wish to be clear that judges will be trained to expect debaters to stay on topic by debating the single mandate versus the dual mandate, not these other proposals. Judges are trained to mark up debaters who stay on topic.

ABOUT THE COOLIDGE FOUNDATION

Next year marks the centennial of the presidency of Calvin Coolidge, who served from August 1923 to March 1929. The Calvin Coolidge Presidential Foundation dedicates itself to preserving the legacy and promoting the values of the 30th president. Coolidge values include civility, bipartisanship, and restraint in government, along with wise budgeting. To honor Coolidge, the Coolidge Foundation sponsors the Coolidge Scholarship and Senators Program for academic merit. We are also proud to host a national high school debate program. Our partner for debate is the Luddy Schools of North Carolina. The debate year culminates in the Coolidge Cup, an invitational tournament held each July at the President's birthplace in Plymouth, Vermont. The Foundation was formed in 1960 by a group of Coolidge enthusiasts, including John Coolidge, the president's son. The Coolidge Foundation maintains offices in Plymouth, Vermont, where it works in cooperation with the President Calvin Coolidge State Historic Site, and in Washington, D.C. at Coolidge House.

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BACKGROUND

Today Americans view the Federal Reserve, our central bank, as a kind of economic superhero. Our stock market and bond markets jump at any signal from the Fed, as in recent weeks, when the stocks moved down at the expectation of interest rate increased by the Fed, and then jolted up when Federal Reserve Chairman Jerome Powell signaled that the rate increases might not be quite so dramatic. The nation turns to the Fed not only to halt inflation but to keep the stock market bright, employment strong, and the economy booming.

This superhero role for the Fed has not always been the rule. When Congress created the Federal Reserve System in 1913, the goal was narrower: the Fed should tend a network of banks that worked together to keep the amount of money in the U.S. economy stable and to foster a “flexible dollar.” The Fed’s job was to be sure there was enough money in our economy for banks to function, but not too much money, or inflation. In the early days, the Treasury Secretary sat on the Fed’s board, different from today. To discourage inflation, the Fed could raise key interest rates, making the cost of borrowing higher. To encourage lending or to reflate, Fed could lower the same key rates. Over time, the Fed banks discovered another tool to manage the amount of money in the system. The Fed could inject money into the economy by buying government bonds and it could withdraw money from the economy (“tighten”) by selling bonds.

In the 1910s and 1920s, the young Fed was a different creature operating in a different culture than today’s. Still the early Fed did focus on inflation. And policymakers moved more dramatically, including during downturns. An example: this year, America gasped when Chair Powell announced an interest rate increase of half a percentage point, the biggest hike in two decades.[1] In 1920, the Fed leadership in one day raised the interest rate by 1.25 percentage points.[2] Interest rates for the decade set by the New York Fed, the most important member of the Fed system, ranged between 3.5% (1927) and 7% (1920).[3]

These rates are higher than rates we have seen lately. In recent years, the Fed has targeted rates in the one or two percent range.[4] But back in the 1920s, even at those higher rates, many charged that authorities at the Fed had failed to manage inflation and had created a bubble. A dramatic increase in the stock market–from around 100 for the Dow Jones Industrial Average to 381, appeared to support that claim. Especially after the stock market crashed in the fall of 1929.

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[1] Cox, J. “Fed raises rates by half a percentage point—the biggest hike in two decades—to fight inflation” *CNBC*. May 4, 2022.

[2] Grant, James. *The Forgotten Depression*. p95.

[3] Tallman and White. “Monetary Policy When One Size Does Not Fit All: Federal Reserve Banks and the Recession of 1920-1921” Rutgers University. Working paper. November 16, 2017. p6.

[4] Chang, D. “Federal Reserve Interest Rates and How They Affect You” *The Ascent*. May 5, 2022.

Then came the Great Depression of the 1930s. In the early years of the Depression, the economy at times suffered deflation, a shortage of money, and people blamed the Fed Trouble got so bad that towns invented their own money to trade with and printed it up on their own town printers. Americans blamed the Federal Reserve and the Treasury, claiming the monetary authorities hadn't done, and weren't doing, their job, supplying enough money. In addition, the 1930s period suffered ferocious unemployment, over ten percent, and sometimes 15%. We by contrast are used to joblessness of 5% or less. People in the early 1930s blamed the government's "tight" money for causing the unemployment. The Fed was reformed and made more independent in the mid 1930s. Yet further national pain came in 1937, when new rules regarding bank reserve requirements withdrew money from the system. The result was the infamous "Depression within the Depression" of 1937, when unemployment ranged in the mid-teens. Economics tend to assign blame to the Fed for the Depression's long duration.

After World War II, therefore, policymakers said "never again a Depression." They began to look to the Fed to obey a second mandate, protecting jobs. Opinion held that a Fed that kept money stable, but failed to prevent joblessness, was failing. From the late 1950s a new theory, known as the Phillips Curve, provided support for the argument that the Fed must keep its eye on jobs or growth along with money.[5] The Phillips Curve suggests that there is always a trade off in the economy: less inflation means more unemployment, and more inflation means less unemployment. So America can pick its goal–more jobs, or less inflation–but it cannot enjoy both. In this school, the Fed is the expert who decides which goal is more important, when.

In a 1978 law, the Full Employment and Balanced Growth Act, lawmakers codified such Phillips Curve thinking, and the expansion of the Fed's purview, formalizing a dual mandate: the Fed must manage money with an eye to economic growth, especially jobs. This 1978 law, called Humphrey-Hawkins after its sponsors, Senator Hubert Humphrey of Minnesota and Representative Augustus Hawkins of California, worked on the Phillips Curve assumption that tight money caused unemployment, which can be the case. Employers who can't borrow can't build out their companies and hire less. One feature of the Humphrey-Hawkins law is the requirement that the Fed Chair testify before Congress twice a year and report on the Fed's progress. Lawmakers have since used the Humphrey-Hawkins testimony as opportunity to grill the Fed chair on not only inflation, but the entire economy. Over time therefore there has been slippage in the definition of the Fed's job, so that today Americans believe the Fed is *responsible* for unemployment.

Some argue that the Fed has trouble handling too many responsibilities, and note that the Fed does not always do a good job. After all, Congress never gave, and constitutionally cannot give, the Fed control of taxes or much of regulation, factors important in creating "more goods," or strong growth. In other words, through Humphrey-Hawkins, we are assigning the Fed responsibility without authority. Critics note that the Phillips Curve rule of tradeoffs on which

[5] "Phillips Curve" Encyclopedia Britannica. Accessed June 13, 2022.

the Fed's job is based doesn't always hold: In the 1970s, both unemployment *and* inflation raged. This situation, nicknamed "Stagflation," meant that people had trouble paying for gas, food, and buying houses. (See the Misery Index Chart in the Appendix of this brief). Economists have long offered a simple alternate definition for inflation that differs from the Phillips Curve: "too much money chasing too few goods." They point out America can tame inflation in two ways: by reducing the money, or increasing the goods–through growth and prosperity. The former, they posit, should be the Fed's job. The latter job indeed falls to Congress and the executive branch.

What has been the record since Humphrey-Hawkins became law? One of Mr. Powell's predecessors, Fed Chairman Paul Volcker, basically ignored the second mandate and raised interest rates to unprecedented levels, over a long period, from the late 1970s well into the 1980s. The Volcker era was painful.

Consider the example most important to American families: buying a home. Today we regard an interest rate of 5% on a home purchase high. Then interest rates stayed well above 10%, thanks to Chairman Volcker's rigor. That meant that families could afford a house with one fewer bedroom than they expected. The economy and unemployment recovered, but again, very slowly. Angry carpenters sent Chairman Volcker pieces of wood as symbols of what they were not building because they could not afford to support their businesses.

What else changed? In the early 1970s, Congress and the executive branch tried plenty of short-term fiscal fixes. For example, President Nixon ordered temporary price controls on the theory he could stop a vicious cycle of inflation by blocking price rises for a while. That didn't work, for when the price controls were lifted, inflation exploded again. Economist Milton Friedman likened the price controls to putting a top on a cooking kettle. For a while, you keep the steam in, but then the pot explodes. While some price controls were dropped, others, such as those on gas, stayed in place. The federal government wanted to help consumers. But the price controls did not help. The price controls, along with foreign embargos, led to gas shortages and now famous images of American families queuing in their cars for gas.[6]

From the late 1970s on, Presidents and Congress began to take a different approach from short-term fiscal fixes. They decided to try to take long-term fiscal steps to give business the confidence they could produce and sell ("more goods"). In a law known as the Steiger Amendment, lawmakers halved a key tax on "goods makers"–companies–the capital gains tax. Presidents Jimmy Carter and Ronald Reagan also pushed through deregulation, which also made business's life easier. President Reagan led income tax cuts. The result of Chairman Volcker's monetary work and the fiscal work of the other two branches of government eventually was to reduce unemployment and see the economy expand. Taken together the

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[6] Knittel, Christopher. "The Political Economy of Gasoline Taxes: Lessons from the Oil Embargo" Tax Policy and the Economy. 28:1. 2014.

moves of Volcker at the Fed, Presidents and Congress, staged a boom in the stock market that commenced in the early 1980s and hasn't yet ended.

One reason we assign so much authority to the Fed these days may be that Americans have given up on Congress to do its share of the work–fostering the creation of "more goods" and jobs. Returning the Fed therefore to the old single mandate could force Congress to shoulder its share of the load, fostering the creation of more goods. Congressman French Hill of Arkansas recently introduced legislation to abolish the second mandate and require the Fed to focus on money alone. (Congressman Hill's legislation is in your packet.) President Biden has also alluded to the notion that inflation comes first for the Fed, by saying, in a recent *Wall Street Journal* article (included in this packet) that "The Fed has a primary responsibility to reduce inflation."

But others interpret history's record differently. They spotlight the Great Depression and another period, the period of the financial crisis of 2008. They note that after this most recent crisis, the Fed pumped unprecedented quantities of money into the system. The Federal Reserve Chairman in the period, Ben Bernanke ("BURR-nan-key") told America he was taking the lesson of the Great Depression to heart and would not permit a repeat of tight money's pain. Bernanke and his successors, Janet Yellen ("YELL-en"), kept interest rates far lower than any point in modern history. Inflation did not ensue, at least not in some of the official numbers. The stock market did however rise dramatically, just as it had in the 1920s. After a dark period, employment also recovered. As a result–or so the argument–mortgage interest rates never did rise as high as 1970s levels as in the 2010s, and Americans could continue, for example, to buy more and better houses.

Lately, our politicians have leaned on the Fed to operate in yet further areas: doing what it can to slow Climate Change and secure race or gender diversity. Stanford economist John Cochrane has joked that these days the Fed has not a Dual Mandate but a Quintuple Mandate: it must keep money steady, rescue the country in financial crises, sustain employment, help to prevent global warming, and help to reduce social inequities.

In our debate, we will argue both sides of the single mandate issue.

COOLIDGE CONNECTION:

The Federal Reserve system was established by Congress in 1913, when Coolidge was a lawmaker in the state of Massachusetts. The Fed was therefore still a young institution when Coolidge ran for vice president in 1920 and became President in 1923. Three events from the period of Coolidge's life relate to our debate on the Single Mandate, two of which may support "aff" and one of which can support "neg."

The first is the Fed's and government's response to the strong inflation and unemployment that followed World War I. Fearing inflation would expand yet further, the Fed tightened dramatically, doubling interest rates. That tightening did cause unemployment, and a sharp downturn. But authorities believed that a quick purge would free businesses to recover and that they would rehire soon. That proved the case, and the downturn went by so fast that this downturn is known as "The Forgotten Depression."

When they were elected President Harding and Vice president Coolidge made some moves that are also relevant to our Single Mandate debate. Harding and Coolidge didn't turn to the Fed to foster prosperity. Rather, they asked Congress to do that work and approve radical long-term tax cuts to help business and individual. Lawmakers have often used instant tax cuts to increase growth – President Richard Nixon cut some levies temporarily. The difference then was that the Harding-Coolidge rate cuts were sustained and designed for the long-term. After Harding passed away suddenly, Coolidge continued the campaign. Evidence suggests that the long-term commitment of Harding and Coolidge won business trust; the 1920s boomed.

Third, the Fed and the Treasury in the 1920s operated with an eye to international monetary challenges, and may have kept interest rates lower than they should have in order to help the United Kingdom recover from World War I. The stock market rose dramatically. At the last minute, in August 1929, the Fed put on the brakes and raised the interest rate to six percent. Some argue that Fed ineptitude and inattention to Americans' basic concerns therefore caused the market crash of 1929, and gave us the Depression that came after.

In this tournament, we're asking you to debate whether the Federal Reserve should return to its single mandate of pursuing price stability, or keep its current dual mandate of pursuing price stability and achieving full employment. Other ideas for triple, quadruple, and quintuple mandates have even been proposed over the years—introducing additional goals of pursuing things such as climate stability and reducing inequity. Although those proposals might make for interesting debates, too, what we're looking for you to wrestle with is in this tournament is the core idea of the traditional single mandate versus the status quo of a dual mandate.

KEY TERMS

Federal Reserve System – The Federal Reserve, also known as "the Fed." It is the central banking system of the United States. The Federal Reserve System is a system of 12 central banks across the country that execute the country's monetary policy.

Maximum Sustainable Employment – The first part of the dual mandate is the maximum amount of employment that can be achieved without causing unhealthy inflation. The Federal Reserve seeks to maximize employment in a natural manner, as it is impossible for absolute maximum employment to occur. This means, broadly speaking, that everyone who wants a job, has a job. To be considered unemployed, one must fit three characteristics: 1) not working, full time, part time, or temporary 2) available to work 3) actively looking for work, typically in the last four weeks. The Federal Reserve, for example, would not seek to ensure that college students and retirees are employed. Additionally, a small amount of unemployment is necessary to prevent inflation.

Monetary Measures and **Fiscal Measures** – Monetary Measures are actions relating to banking, credit, or money supply, the purview of the Fed. By contrast, Fiscal Measures are actions relating to tax and government spending, the purview of Congress and the President.

Price Stability – The second part of the dual mandate is keeping the price of goods and services stable. Price stability is the absence of excess inflation or deflation. When prices are stable, economic growth is made possible through economic planning. If prices are not stable, consumers and investors will be less willing to create long-term plans with their capital. Additionally, stable prices lead to a more efficient economy since prices will only need to change to reflect supply and demand and not the purchasing power of the dollar.

Inflation – Inflation occurs when the general price level of goods and services increases and the purchasing power of the dollar is reduced. Likewise, deflation is when the general price level falls and the purchasing power of currency increases. The Federal Reserve targets an inflation rate of 2% per year. A low amount of inflation is considered an indicator of a healthy economy. Too much inflation leads to a loss in economic growth as consumers are forced to pay more than the past for the same amount of goods and services.

Inflation's Vicious Cycle – When inflation occurs mainly due to the *expectation* that prices will continue to rise. As a result, consumers demand higher wages in an attempt to maintain their standard of living. This leads to a cycle of inflation as the factor of rising prices induces a desire for higher wages, and higher wages causes inflation and induces rising prices.

Stagflation – Stagflation is an economic condition in which an economy is experiencing slow economic growth and high unemployment, accompanied by rising prices. Economies experiencing stagflation combine stagnant growth alongside inflation, hence the name. Stagflation, which America experienced in the 1970s, is the best argument that the Phillips Curve does not always hold. See the Misery Index at the bottom of the brief.

Unemployment – Unemployment occurs when those seeking jobs are unable to find work. The rate of unemployment is often considered a key economic indicator. Higher unemployment signals poor economic conditions while extremely low unemployment may signal that an economy is overheated.

Federal Funds Rate – The target interest rate set by the Federal Reserve is the federal funds rate. This is the interest rate at which the Federal Reserve recommends banks borrow and loan their money to each other overnight. It is a part of the FOMC's monetary policy and influences both long and short-term interest rates on things such as mortgages, loans, etc.

Humphrey-Hawkins Full Employment Act – A law enacted by Congress in the late 1970s. It amended the Employment Act of 1946, which directed the federal government to pursue "maximum employment, production, and purchasing power." The Act had many components, but for the purpose of our debate, what matters is that it codified Fed responsibility for not just monetary stability but also jobs and growth. The law also required that the Fed twice a year submit a report to Congress on its work. In practice, this semiannual trip to Capitol Hill by the Fed Chairman gives Congress an opportunity to grill the Fed chair.

Money supply – The money supply is all of the currency and other liquid assets in an economy on any given day. It is approximately all of the assets that can be used as cash circulating in an economy.

Creditor – A creditor is an individual or entity that loans money to another individual or entity with the understanding that it will be repaid in the future.

Debtor – A debtor is an individual or entity that borrows from another individual or entity with the understanding that it must repay the debt in the future.

Mortgage Interest Rate – The mortgage interest rate is the amount which a borrower must pay the lender in addition to the principal (initial) amount of the loan. It is the amount of interest that is charged on the loan used to purchase a piece of property.

Basis Point – One basis point is equal to 1/100th of 1%, or 0.01%. It is the unit that is commonly used to denote changes in financial figures such as an interest rate. Basis point terminology allows for easier discussion of small percentage point amounts. "25 basis points" is equal to one-quarter of one percent, or 0.25%. "100 basis points" is equal to one percent, 1%.

Percentage Point -- When interest rates go up from 1% to 2%, they double, or rise by 100%. But they rise by 1 percentage point. In general discussion we tend to talk about percentage points.

Paul Volcker – American economist who served as the Chair of the Federal Reserve from 1979 to 1987. In 1980, with the country facing high inflation, he raised the fed fund rate to 20% (higher than it had ever been). This "Volcker Shock" is credited with ending high inflation, although it led to unemployment as well, and even recession.

"Too much money chasing too few goods" – When the amount of money in an economy increases, overall demand for goods and services increases more rapidly than the production capacity of the economy. This leads to rising prices. Economists sometimes describe this situation as "too many dollars chasing too few goods" or "too much money chasing too few goods."

AFFIRMATIVE ARGUMENTS

1. At a time when Congress is so undisciplined in spending, the Fed needs to be able to focus exclusively on price stability.

Despite having a revenue of $4.05 trillion in 2021, the federal government spent $6.82 trillion, i.e., much more than it brought in. In fact, in 2021 it spent roughly 30% of the entire country's GDP of $22.39 trillion. Congress spends money too easily, and some argue that too much government expenditure can drive inflation.[7] If government spending is going to be such a major force creating inflation, then we need an institution such as the Federal Reserve to focus on controlling inflation. Other goals might be nice to ponder, but having more than one goal hurts the Fed's ability to be effective at achieving the most important thing, which is price stability.

> Government Spending in the United States increased to 44 percent of the GDP in 2020 from 35.7 percent in 2019.
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> Source: U.S. Bureau of Economic Analysis

As laid out in Article I, Section 9, Clause 7 and Article I, Section 8, Clause 1 of the Constitution, Congress has the exclusive power of the purse. This means that Congress can spend however they choose too, including on fiscal policies that can affect employment levels. Rather than depending on the Federal Reserve to moderate both prices and employment levels, Congress should pursue its own political policies as they see fit, and leave the Federal Reserve to moderate only prices. Since Congress is already crafting policy that influences both price level (indirectly) and employment level (directly), the Federal Reserve needs to be able to focus on that which they can directly control.[8]

By keeping inflation down, the Federal Reserve can leave room for Congress to pursue policies that affect employment levels without fear of overheating the economy.

2. The dual mandate is too contradictory and thus too hard to carry out in practice.

To give the Fed the job of pursuing both the goal of stable money and strong employment is to ask it to engage in a constant balancing act, when in fact there might be times when aggressively pursuing one goal over another is best for the country in the long term.

Take for example "The Forgotten Depression" of the 1920s. After World War I, America suffered from terrible inflation. Prices for food went up even faster than they are moving up today. We were also facing an economic downturn. What to do? The Fed drove interest rates very high to get price stability. That drove America into deeper recession, and drove

[7] Varadarajan, Tunku. "How Government Spending Fuels Inflation" AEI. February 18, 2022.
[8] Shelton, Judy. "Congress Needs to Rein In a Too-Powerful Federal Reserve" *Wall Street Journal*. September 1, 2021.

unemployment up past 10 percent in many places. Within a year, however, we achieved price stability and prosperity, and America recovered and moved into the "Roaring 1920s." Because the Fed could focus exclusively on price stability—there was no dual mandate in effect at that time—the Fed could take aggressive but swift action. Today we barely even remember this depression. It is known to historians as the Forgotten Depression.

We should not assume that just because the Fed can maintain price stability, it would be effective in achieving maximum employment at the same time. As economist John E. Baiden writes,

> "In particular, although the Federal Reserve can determine and achieve the long-run average rate of inflation in keeping with its mandate of price stability, the level of maximum sustainable employment is not something that can be chosen by the Federal Reserve because no central bank can control the level of real economic activity or employment over the longer run. …[M]onetary policy can certainly help improve the maximum sustainable employment of the economy by maintaining low and predictable inflation"[9]

3. Inflation may be a problem, but it is Congress's job as well as the Fed's to fix it.

Given that inflation is "too much money chasing too few goods," the Fed can take care of only one side of the axiom. The second part, the goods, should be the work of Congress, or Congress and the executive.

History suggests short term fixes such as those pursued by Presidents Nixon or Ford and Congress don't work well. But long-term commitments by Congress to make the economy friendlier for business encourage business to make long-term commitments to growth: producing more goods. Strong employment is the result.

4. It is more important to guard against high inflation than it is to fear high unemployment.

The Fed's dual mandate should be amended because price stability and maximum employment are not co-equal goals. Price stability is much more important than maximum employment. Think of it this way: having a job does not matter if your wages buy fewer and fewer goods.

High inflation cripples an economy. That is appropriately the focus of the Federal Reserve. High

[9] Baiden, John E. *Inflation Targeting: Why the Value of Money Matters to You*. Xlibris Corporation. 2012.

unemployment, on the other hand, can be viewed as more of a humanitarian issue.[10] Although high unemployment is not good for the economy either, the issue of employment is much more a matter of personal decision. At various points in their lives, people might choose to work more, less, or not at all. Perhaps one spouse in a household chooses to leave the workforce to focus on raising children; or an individual leaves the workforce to care for an elder parent for a period of time; or a person decides to change careers and take some time off to pursue additional education or training. Employment policy can *try* to account for the difference between a person who wants to work and can't find a job, and a person who for the time being does not wish to work for whatever reason, but this relies on samples and estimates. Economists cannot get into the minds of individuals as they make week-to-week and month-to-month decisions about work.

Job creation is the function of businesses operating in the free market. The role of the Fed should be to guard against that which will destroy individuals' wealth: inflation.[11] Quoting Congressmen French Hill and Byron Donalds, "Americans work hard to fund their savings accounts and we cannot allow the government to discount the hard work that went into each earned dollar."[12]

As Tom Wilson, chief executive officer of insurance giant Allstate, writes in Forbes: "Long-term job creation is the result of businesses taking risks, inventors creating and individuals working hard. Jobs don't appear because of the magic wand of monetary policy. Even if monetary policy can create short-term jobs, we should not let the Fed decide how much wealth to take from savers and people on fixed incomes to increase employment."[13]

"Inflation spreads faster than a flu virus. It has ballooned several times since 1940. In 1972, for instance, annual inflation was 3.3%; two years later, it was 11%."

"Since the financial crisis of 2009, the Fed has pumped trillions of dollars of excess reserves into the banking system in an effort to create employment growth. Those reserves are now lying idle, like a latent virus, that will eventually find their way into circulation and send inflation soaring."

Source: Wilson, Tom. "Maintaining America's Prosperity Requires A Single Fed Mandate" *Forbes*. April 24, 2012.

5. Having multiple mandates leads to a partisan Federal Reserve.

Price stability is not a particularly partisan goal. It is not a "political football" over which fighting occurs. Employment, on the other hand, does show up in partisan platforms, with people on both sides putting forth ambitious proposals or trying to influence the Fed. On the political left,

[10] Furman, Jason. "Even in a Hot Economy, Wages Aren't Keeping Up With Inflation" *Wall Street Journal*. April 12, 2022.

[11] Barro, Josh. "Right Now, Inflation Matters More than Unemployment" *Very Serious*. April 12, 2022.

[12] Hill, French, and Byron Donalds. "Congress should reassess the Fed's dual mandate and focus exclusively on inflation" *The Hill*. April 5, 2022.

[13] Wilson, Tom. "Maintaining America's Prosperity Requires A Single Fed Mandate" *Forbes*. April 24, 2012.

there have been calls for "the right to a job" and the right to "a living wage."[14,15]

Even before Humphrey-Hawkins became law and the dual mandate more official, Presidents regularly succeeded in bullying the Fed into lower interest rates. President Lyndon Johnson sought to scare Fed Chairman William McChesney Martin, and he apparently succeeded, for inflation began to threaten the country by the end of the 1960s. In the 1970s, Fed Chairman Arthur Burns worried about inflation. Burns wanted to tighten the money supply (i.e., keep interest rates higher), but President Nixon wanted lower interest rates and ultimately cajoled and scared Burns into keeping interest rates lower. Burns and the Fed used the employment level as cover, saying that they were protecting the economy, instead of admitting that they were keeping interest rates lower to please President Nixon.

"[A]l the Fed's money mischief is possible because it is not restricted to a single mandate focused on nominal stability. Restrict the range, and you manage the mischief."

Source: Salter, Alexander. "It's Time to End the Fed's Dual Mandate" AIER. June 7, 2020.

People argue that President Trump bullied Federal Reserve Chairman Powell into keeping interest rates low in order to maintain a "hot" economy during his Presidency—something the Fed might have been better prepared to push back against if it had just a single mandate. The dual mandate has made the Fed subject to partisan pressure, when it is supposed to be protected from such influence. As one analyst put it, the dual mandate has "transformed the Fed from a monetary watchdog into an instrument of social policy."[16]

6. A single mandate leads to more predictable policy, and predictability is good.

If the Federal Reserve were to be oriented towards the singular goal of price stability, its actions would be more predictable for those involved in the economy. This would lead to greater consumer and investor confidence as they would be able to more accurately set their expectations for how the actions of the Federal Reserve would impact the economy in the future.

According to the economist Robert Higgs, regime uncertainty is "a pervasive lack of confidence among investors in their ability to foresee the extent to which future government actions will alter their

In *Reflections on the Revolution in France*, Edmund Burke writes that the problem with an unstable political order is "No one generation could link with the other: Men would become little better than the flies of a summer."

Burke places immense value on a stable regime, saying, "To avoid therefore the evils of inconstancy and versatility, ten thousand times worse than those of obstinacy and the blindest prejudice, we have consecrated the state."

[14] Sokol, Ronald. "The Right to a Job?" New York Times. October 11, 2007

[15] Bernstein, Jared. "The Living Wage Movement—Viewpoints" Economic Policy Institute. March 4, 2002.

[16] Schiff, Peter. "The Duel over the Dual Mandate" *Business Insider*. November 24, 2010.

private-property rights."[17] By confining the Federal Reserve's mandate to only that of price stability, investors will not be as worried that Federal Reserve action could impact their investment ability and will be confident about what policy will be in the future.

Further, the unpredictability of multiple mandates enables the Fed to elude responsibility. Some of our most important monetary scholars have argued this in the case for the single mandate. One is Stanford Professor and former undersecretary of the Treasury John Taylor. According to Taylor, the Fed has "too many goals blur responsibility and accountability." He cites the Fed's unconventional strategy for stimulating the economy, known as quantitative easing, as an example of a policy that was justified based on the Fed's dual mandate. Too much inflation can cause unemployment. Taylor argues, "[S]uch interventions often have the unintended consequence of leading to higher unemployment."[18]

Having a single mandate makes the future actions of the Federal Reserve clearer and more predictable. This leads to greater certainty and more confidence in the economy. A dual mandate forces the Federal Reserve to complicate their monetary policy.

[17] Higgs, Robert. "Regime Uncertainty: Some Clarifications" Mises Institute. November 19, 2022.
[18] Taylor, John. "End the Fed's Dual Mandate And Focus on Prices: John B. Taylor" *Bloomberg*. September 16, 2011.

NEGATIVE ARGUMENTS

1. Productive employment is essential to economic prosperity, so it is appropriate that it be part of the Federal Reserve's mandate.

The two goals are more complementary than critics give credit. As the Federal Reserve Bank of St. Louis explains,

> "The Fed's goals of maximum employment and price stability are generally complementary. An economy with low and stable inflation provides economic conditions that are friendly to business planning, saving, and investing, which results in a growing economy. A growing economy needs workers to produce goods and services."

Productive employment is a goal that deserves to be held in equal standing with price stability. An individual's employment is important to how he or she experiences his or her daily existence. It is central to a person's self-worth and self-esteem. As former Brookings Institute senior fellow Alice Rivlin testified, "The objective of economic policy—including monetary policy—should be a rising standard of living for most people over the long run. That means maximizing sustainable economic growth and productive employment."[19]

> "Federal Reserve chairman Jerome Powell plans to address sky-high inflation by hiking interest rates — acknowledging that doing so will suppress wages and worker power. It's a response that will force workers to bear the brunt of the inflation crisis."
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> Source: Rock, Julia. "To Fight Inflation, the Fed Is Declaring a War on Workers" *Jacobin*. June 13, 2022.

2. Pursuing a goal of *only* price stability is tantamount to class warfare against the poor.

When the only goal of the Fed is to pursue price stability, the Fed is, in a sense, serving the interests of the rich. It is irresponsible and unjust for such a powerful entity as the Fed to be used to serve only people with money.

Inflation is good for debtors and bad for creditors (i.e., lenders). "Poor" people tend to be debtors; "rich" people tend to be creditors. People with lower incomes and family wealth are the ones who must take out loans for college, loans for cars, and loans for homes. People with higher incomes and family wealth can often pay for college out of pocket, purchase cars with cash, and either do not need loans for their home at all or can obtain relatively short (e.g., 10-year) and inexpensive mortgages instead of relatively long (e.g., 30-year) and expensive mortgages when buying their home because they can make such a hefty down payment. For poorer people, the occasional bout of high inflation is actually helpful. Assuming their wages rise along with the prices of goods and services, the inflation wipes out a little bit of their debt

[19] Rivlin, Alice. "The Case for Preserving the Federal Reserve's Dual Mandate" Brookings Institute. May 8, 2012.

because they can pay their pre-defined loans in newer, more easily obtained dollars.[20] Richer people, who tend to be lenders, get paid back in cheaper dollars that do not buy as much.

When we put the Federal Reserve in charge of price stability alone—and give it no other goal to pursue at least part of the time (the way the dual mandate does)—it takes away these occasional periods of high inflation that help the poor. Indeed, even under a dual mandate it is possible for the Fed to ignore its responsibility to help workers by

3. We should be less worried about inflation, and more worried about *stagflation*—and a Fed with a dual mandate can better respond to that type of crisis.

As bad as it is to have high inflation, stagflation—which is high inflation accompanied by stagnation in the jobs and the production of goods—is worse. Figure 1 shows high inflation and high unemployment occurring simultaneously in the 1970s in the United States.

Figure 1. Inflation and Unemployment (1960-1989)

Note: Red line is US consumer price index annual rate (%); green line is the unemployment rate (%).
Source: Federal Reserve Bank of St. Louis; also "Stagflation" Sunshine Profits. Accessed June 13, 2022.

When crises such as stagflation emerge, it is critical that the government be able to take action to prevent mass unemployment. That action might come in the form of lowering interest rates, providing emergency liquidity, or serving as a lender of last resort (as we saw in the 2008

[20] N.b. If the loan is at a fixed rate, then inflation helps the debtor. If the loan is at a variable ("floating") rate, and interest rates rise along with the inflation, then inflation does not help the debtor, as the effect of the "cheaper money" might be more than counteracted by the rising interest rate.

financial crisis). As a report from the Congressional Research Service argues, "[minimizing] unemployment is a valid statutory goal since it is influenced by monetary policy in the short run, and discretion is desirable to respond to unforeseen economic shocks."[21]

Under a dual mandate, if stagflation were to occur, the Fed would have a full range of action available, from tightening the money supply to easing it. By contrast, under a single mandate, if stagflation were to occur, arguably the Fed would only have the option of taking a neutral or tightening stance.[22]

4. Switching from a dual mandate to a single mandate would send a message of uncertainty.

The mandate of the Federal Reserve was last changed from a single mandate to a dual mandate almost half a century ago, in 1978.

To revisit such a core policy lever of the government would be a major change and should not be undertaken without clear reasons and a strong consensus. Doing otherwise could send a message to the public that would scare them about the economy. Consumers and workers might rationally assume that experts believe that the economy is in trouble, which could cause them to change their purchasing and saving behaviors drastically, and perhaps to an unwarranted extent that becomes a self-fulfilling prophecy of an economic downturn.

"To change the language of the law to imply that the Fed's only concern should be inflation would send a misleading signal to a public rightly concerned with jobs and growth, as well as inflation. It would imply that inflation is [a] serious current threat to American prosperity, which seems to me unwarranted."

Source: Rivlin, Alice. "The Case for Preserving the Federal Reserve's Dual Mandate" Brookings Institute. May 8, 2012.

Thus, even if there are good reasons to simplify the Fed's mandate and revert to a single mandate, we must recognize that emerging from a three-year pandemic in which confidence in public experts and policymakers is at an all-time low and polarization at an all-time high, now is not an appropriate time for the U.S. to change the mandate of the Fed.

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[21] Labonte, Marc. "Changing the Federal Reserve's Mandate: An Economic Analysis" Congressional Research Service. August 12, 2013.
[22] Ibid.

5. In the U.S., the dual mandate has been working.

Since the adoption of the dual mandate in 1977, the U.S. economy has, in sum, working well. We have not experienced another Great Depression of the 1930s, nor a return of the stagflation of the 1970s. All of the worst economic times since 1977 are attributable to other types of shocks, not monetary mismanagement. Pandemic-related events notwithstanding, inflation and unemployment have both been low and favorable for many years in the U.S.

In the 1990s, we lowered interest rates below those hawks wanted. No great inflation resulted, and employment grew. After the financial crisis of 2008, the Federal Reserve flooded the U.S. economy with money. Prices did not rise as some expected and employment eventually returned. In the 2010s and up to 2020 and covid, the nation had both easy money and strong employment.

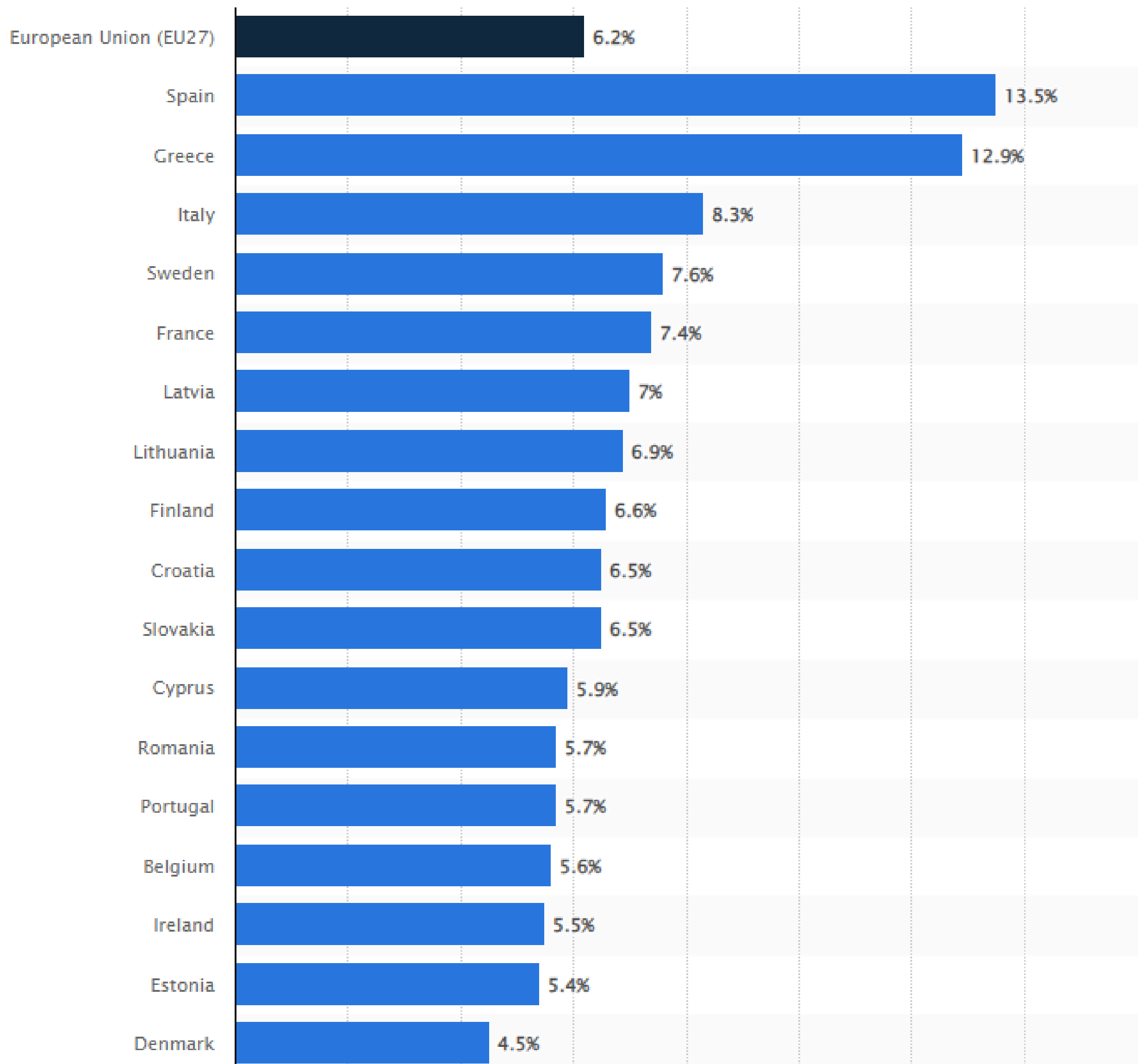
6. Elsewhere, countries with single mandates that focus just on price stability have had times in which they have faltered.

Consider the contrast Europe provides. The European Central Bank focuses on inflation. The European Central Bank is closer than the U.S. Fed is to a single mandate: "our job is to maintain price stability," reads the ECB website.[23] As Willem Thorbecke writes of the period leading up to 2000, "seven of the eleven countries under the jurisdiction of the European Central Bank, which has adopted inflation targeting, have unemployment rates exceeding 10 percent."[24]

More recent data show that many European countries are now below 10 percent unemployment, but that the rates of many large countries (and of the European Union as a whole) still remains significantly higher than the May 2022 U.S. rate of about 3.6%. See Figure 1 for a table of unemployment rates of selected European countries.

[23] "Our price stability objective and the strategy review" European Central Bank. Accessed June 16, 2022.
[24] Thorbecke, Willem. "A Dual Mandate for the Federal Reserve" The Jerome Levy Economics Institute. 2000.

Figure 1. Unemployment Rates of European Countries



Source: Statista. Accessed June 15, 2022.

APPENDIX A: Full Text of House Resolution 7209

H.R. 7209 is a bill introduced by Rep. French Hill (AR-02) and Rep. Byron Donalds (FL-19) in the U.S. House of Representatives. The bill would amend the mandate of the Federal Reserve. The full text of the bill is shown below.

117TH CONGRESS
2D SESSION

H. R. 7209

To amend the Federal Reserve Act to remove the mandate on the Board of Governors of the Federal Reserve System and the Federal Open Market Committee to focus on maximum employment.

IN THE HOUSE OF REPRESENTATIVES

MARCH 24, 2022

Mr. HILL (for himself and Mr. DONALDS) introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To amend the Federal Reserve Act to remove the mandate on the Board of Governors of the Federal Reserve System and the Federal Open Market Committee to focus on maximum employment.

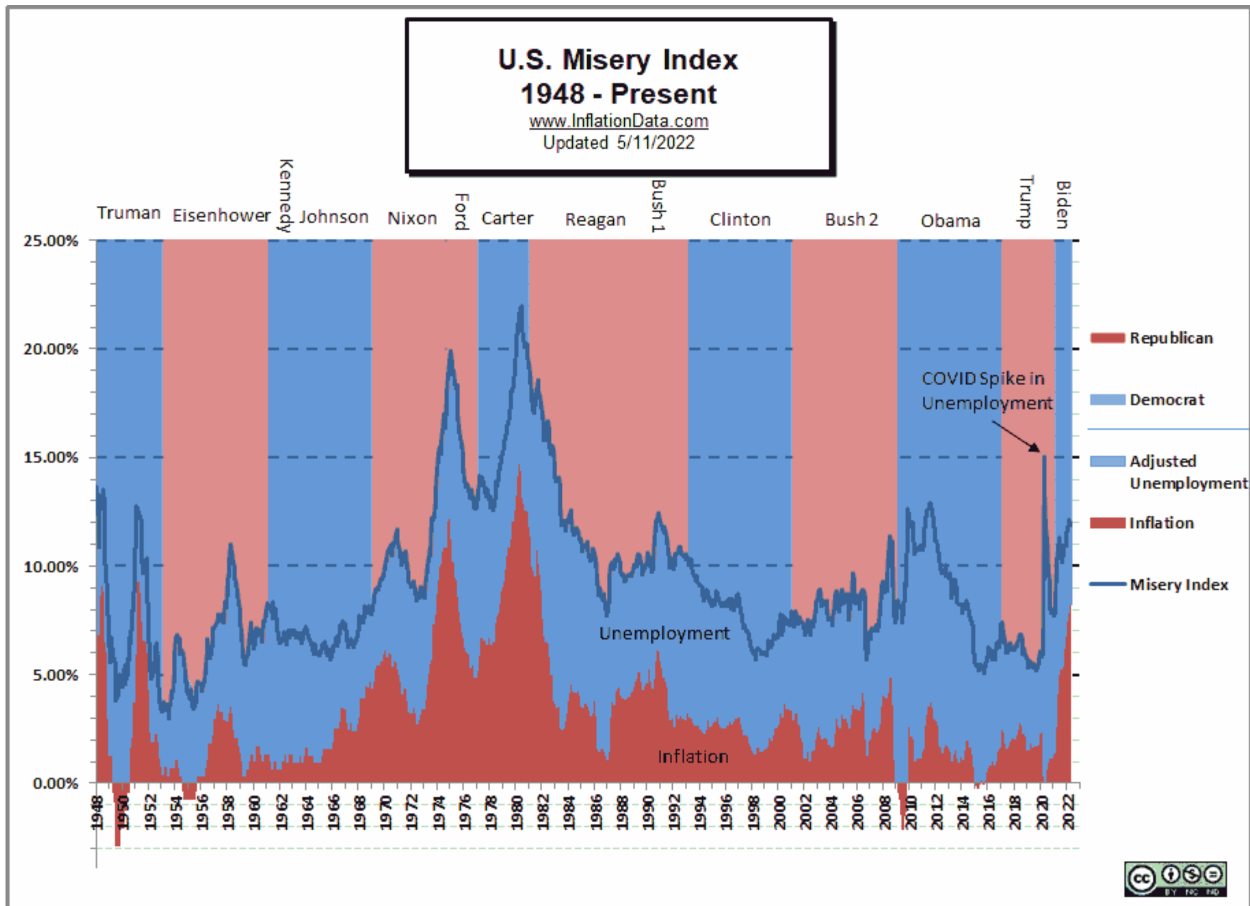
1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE.**
4 This Act may be cited as the "Price Stability Act of
5 2022".

2

1 **SEC. 2. REMOVAL OF DUAL MANDATE.**
2 Section 2A of the Federal Reserve Act (12 U.S.C.
3 225a) is amended by striking "maximum employment, sta-
4 ble prices," and inserting "stable prices".

APPENDIX B: The Misery Index

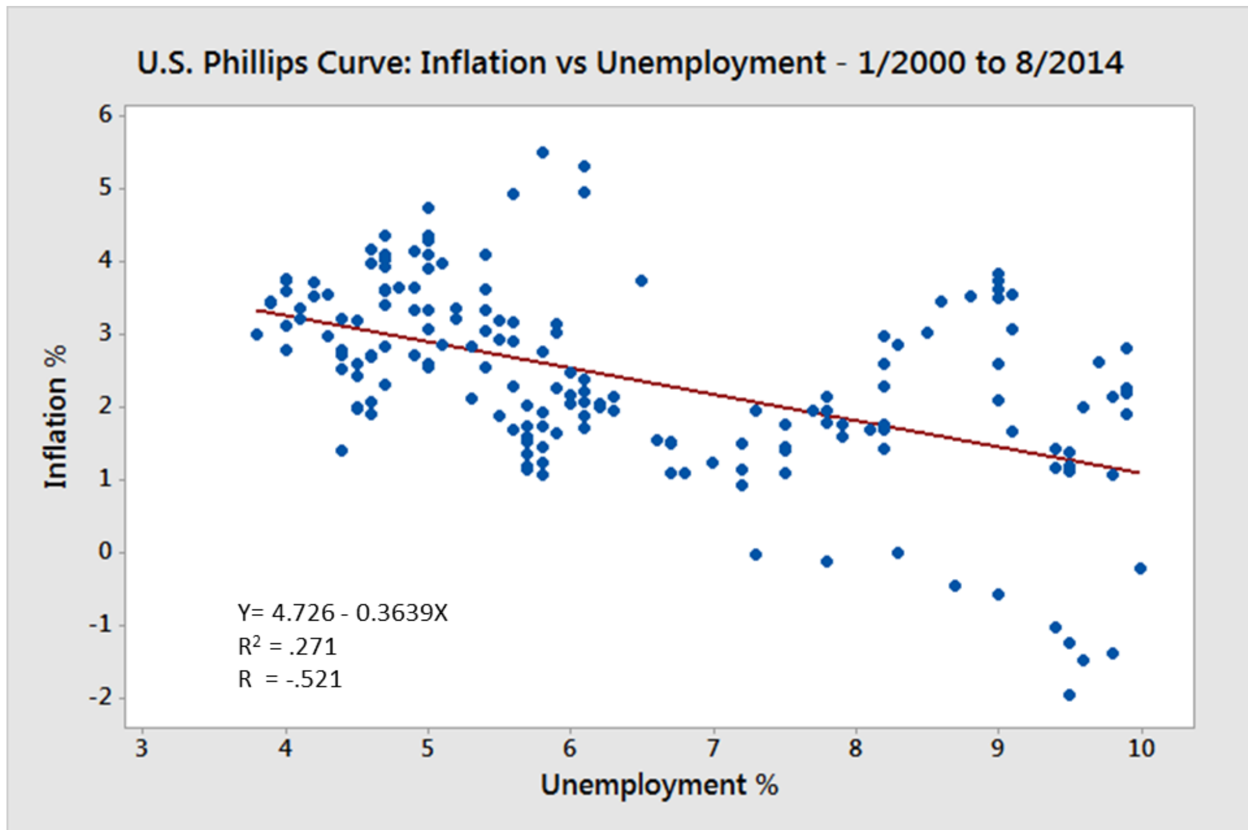
The "misery index" is an economic indicator that is intended to measure the degree of economic distress felt by working-class people as a result of the combination of job instability and increased cost of living. The misery index is calculated by adding the unemployment rate to the inflation rate.[25] It was popularized in the 1970s. The Index for the 1970s appears to refute the Phillips Curve.



[25] "Misery Index." Investopedia. Accessed June 10, 2022.

APPENDIX C: The Phillips Curve

The Phillips curve hypothesizes an inverse correlation between unemployment and wage prices. The idea is that as unemployment falls (or we might say as employment rises), wage rates in a country rise, because more workers have well-paying options and can hold out for increasingly better offers (at least up to a point). It is named for economist A.W. Phillips.

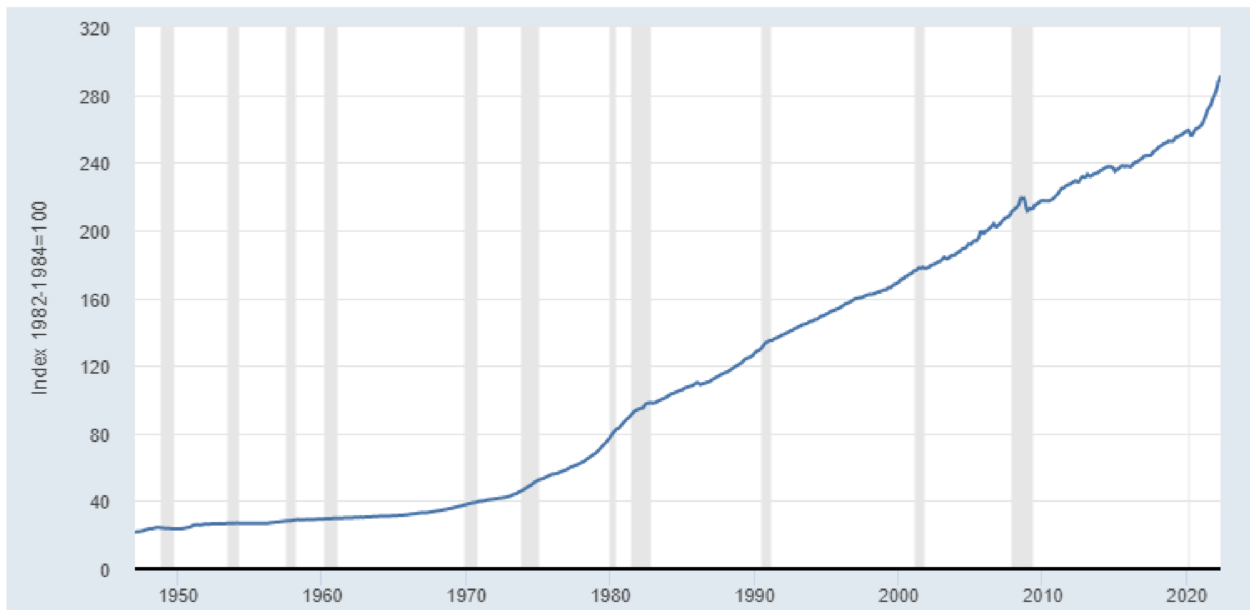


Source: FRED Database. Inflation: CPI for All Urban Consumers.

APPENDIX D: Consumer Price Index

The Consumer Price Index (CPI) attempts to depict the general price level by measures the price of a basket of common goods and services that regular consumers purchase. A rising CPI means that goods and services are getting more expensive. A falling CPI means that they are getting cheaper. The CPI includes a wide variety of prices, including prices for food, clothing, shelter, fuel, transportation fares, service fees, sales taxes, and more. Some economists use the CPI to help determine whether the country is in a period of inflation or deflation.

Consumer Price Index for All Urban Consumers



Source: [U.S. Bureau of Labor Statistics, FRED Database.]
Data indexed to the period of 1982 to 1984. Seasonally Adjusted

APPENDIX E: Economic Indicators of Selected Countries, 2022

Each year, the *Index of Economic Freedom* ranks countries on economic freedom based on many variables, including tax burden, government spending, and business freedom. The table below shows the overall ranking, plus four other variables that are relevant to this debate.

Country	World Rank Economic Freedom	Income Tax Rate (%)	Gov't Expenditure % of GDP	GDP per Capita (PPP)	Unemployment (%)
Singapore	1	22.0	18.2	$97,057	5.2
Switzerland	2	40.0	33.1	$72,874	4.9
Ireland	3	41.0	25.9	$94,392	5.9
New Zealand	4	33.0	39.4	$42,018	4.6
Luxembourg	5	42.0	44.1	$118,002	6.7
Taiwan	6	40.0	17.6	$55,724	4.5
Estonia	7	20.0	41.5	$37,745	6.5
Netherlands	8	52.0	42.7	$57,534	4.1
Finland	9	31.25	54.6	$49,853	7.8
Denmark	10	56.0	51.3	$58,933	5.7
Sweden	11	57.0	49.5	$54,146	8.5
Australia	12	45.0	40.2	$51,680	6.6
Iceland	13	31.8	45.9	$55,966	5.0
Norway	14	47.8	51.8	$65,800	4.6
Canada	15	33.0	44.9	$48,720	9.5
…	…	…	…	…	…
United States	25	37.0	38.9	$63,416	8.3
…	…	…	…	…	…
Mexico	67	35.0	26.9	$19,130	4.7
Russia	113	13.0	35.3	$27,903	5.7
China	158	45.0	34.5	$17,192	5.0

Source: "2022 Index of Economic Freedom" The Heritage Foundation.