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The Federal Reserve's Mandate: Policy Options

The Federal Reserve (Fed) is responsible for monetary policy, which it conducts mainly by setting short-term interest rates to alter economic activity. (For more information, see CRS In Focus IF11751, *Introduction to U.S. Economy: Monetary Policy*.) Monetary policy is guided by the Fed's statutory mandate from 1977 to promote "maximum employment, stable prices, and moderate long-term interest rates." The employment and inflation goals are called the *dual mandate*.

Since 2012, the Fed has explained how it interprets its mandate in its *Statement on Longer-Run Goals*. It defines *stable prices* as 2% annual inflation, measured by the personal consumption expenditures price index. (The dual mandate has not prevented the Fed from adopting an inflation target.) The Fed does not set a maximum employment target, because, in its view, maximum employment "is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market."

At a March 2025 hearing, some Members of Congress argued that the economy would perform better if the dual mandate were replaced with a single mandate of price stability. Other Members agreed with Fed Chair Jerome Powell that the public has been well served by the current dual mandate. The question of whether the Fed would have chosen different policies under a single mandate depends on an unanswerable counterfactual, but both theory and the experience of other economies suggest that there might be less difference than some expect.

Implications for Monetary Policy

The argument for a single price stability mandate is that inflation is within the Fed's control over the medium term (although the Fed cannot perfectly offset short-term inflation shocks), whereas the Fed cannot influence employment in the long run, for the reasons quoted above. Therefore, it is argued, the Fed should use its one tool to focus on the one goal within its control. However, even if monetary policy cannot permanently affect employment, its effects are long-lasting. For example, in the Fed's own economic model, tight monetary policy can keep employment below maximum employment for several years. Because both goals are directly affected by monetary policy and of paramount importance, supporters of the dual mandate believe that both are appropriate.

One potential problem with a dual mandate is that the Fed has one tool (short-term interest rates) to address two goals. In most circumstances, this is not a problem because the two goals are in sync—an economy in recession is typically characterized by unemployment that is too high and inflation that is too low, both of which the Fed can mitigate by lowering interest rates. Conversely, an overheating economy is typically characterized by inflation that is too high and unemployment that is unsustainably low, which the Fed can counteract by raising interest rates. In these scenarios, policy prescriptions are similar under either mandate type. Occasionally, the two parts of the mandate will be in conflict, however. For example, if inflation and unemployment are both high, should the Fed raise interest rates to address inflation or reduce interest rates to address unemployment? Whereas a single mandate would emphasize price stability, the Fed must choose which mandated goal to prioritize. The answer is likely to depend on context. For example, if inflation is very high and unemployment is only modestly above average, then the Fed can focus on inflation. If high inflation is expected to be transitory, then the Fed can focus on employment. When high inflation has been persistent, the Fed has tightened policy, even at the risk of high unemployment.

Theoretically, a central bank with a single mandate will still take employment into consideration if it is predictive of future inflation. For example, if labor market conditions are a leading indicator of inflation, then ignoring them would lead to subpar inflationary outcomes. This is another reason why policy may be similar under either mandate type. Likewise, the Fed would not pursue policies that favor employment over price stability under a dual mandate if it accepts the mainstream economics premise that there is no long-term trade-off between unemployment and inflation.

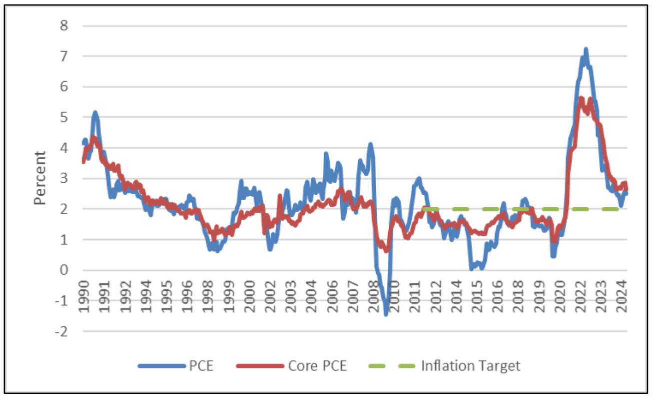
Performance Under the Dual Mandate

Has the economy been well served by the dual mandate? Arguably, this is mainly an empirical question. However, the economy faces frequent unexpected shocks that alter short-term inflation and employment in ways that cannot be predicted. Thus, inflation is rarely exactly on target, and employment is rarely exactly at its maximum. Moreover, monetary policy affects the economy with lags, so the Fed needs to accurately anticipate how its policy will affect the economy in the future, but only some developments can be anticipated. For example, the Fed could not have predicted COVID-19 and put policies in place beforehand to offset its effects on employment and inflation.

The Fed's performance can be assessed on the basis of whether monetary policy has been able to quickly correct deviations from the inflation target or maximum employment. **Figure 1** shows that the dual mandate was not an obstacle to price stability—inflation was consistently low from 2012, when the Fed introduced its 2% inflation target, until April 2021, when inflation surged after the COVID-19 pandemic. Core inflation—which omits food and energy prices—was consistently near 2% from September 1992 to April 2021. The Fed did not achieve price stability from the late 1960s to early 1980s (before and after the dual mandate was introduced) until it demonstrated a commitment to rein in inflation regardless of high unemployment in the early 1980s. The Fed has not been able to avoid high unemployment during recessions under the dual mandate, but recessions have been rare and brief, with the exception of the recessions in 1981-1982 and 2007-2009. Unemployment was low by historical standards for prolonged periods in every decade from the 1990s on.

Figure 1. U.S. Inflation

January 1990 to January 2025, 12-Month Percentage Change



Source: CRS based on Bureau of Economic Analysis data.

Note: Compared to the Fed's inflation target since 2012.

International Comparison

The Fed achieved price stability under the dual mandate for decades—until after the pandemic, which will be addressed in the next section. But did it perform as well as single mandate economies? The eurozone, Japan, and Switzerland are major advanced economies where price stability is the predominant goal of monetary policy. Like the Fed, they target 2%—or 2% or lower—inflation. **Table 1** shows that the eurozone and the United States had comparable inflation rates both before and after the post-pandemic surge, while Japan and Switzerland experienced lower rates in both periods. Japan and Switzerland are somewhat unique globally, however—both experienced years of undesirable deflation (falling prices). If both undershooting and overshooting the target is undesirable, one could characterize the United States as coming closer to achieving its price stability goal in the 2000-2020 period than have Japan (which has targeted 2% inflation since 2013 and below 2% inflation previously) and Switzerland (which has targeted inflation below 2% since 1999). A comparison to single mandate economies does not reveal an obvious difference in employment outcomes either. Since 2000, Japan and Switzerland have had lower average unemployment rates and higher working age employment rates than the United States has had, whereas the eurozone has had worse outcomes on both measures than the United States has had. Just as there is no evidence that a dual mandate prevented the Fed from achieving price stability before 2021, there is no clear evidence that dual mandate economies achieve better employment outcomes.

In theory, a single mandate of price stability might lead to an overly rigid response to economic crises, as inflation might initially be too high to justify a robust response. However, because lags require monetary policy to be forward-looking, a central bank could reasonably argue that a robust response to a crisis is necessary to avoid future deflation even if current inflation is high. In practice, countries with single mandates have also responded robustly to recent crises. To the extent that they responded less robustly than the United States did, it might be attributable to structural differences unrelated to the mandate, such as the relative size of the Swiss economy or the multinational nature of the European Central Bank, for example.

Table 1. Inflation in Selected Economies

Annual Average	2000-2020	2021-2024
Eurozone	1.7%	5.4%
Japan	0.1%	2.0%
Switzerland	0.4%	1.7%
United States	2.1%	5.0%

Source: CRS based on International Monetary Fund data.

Note: Inflation measured using consumer price index.

Did the Dual Mandate Play a Role in Post-Pandemic Inflation?

The Fed's decades-long record of consistently delivering price stability came to an end when inflation surged after the pandemic, averaging 6.6% in 2022. (Since February 2024, inflation has been below 3% but above 2%.) Inflation initially surged across advanced economies for reasons beyond the Fed's control—namely, large pandemic-related shocks to supply and demand (including fiscal stimulus).

Nevertheless, the Fed did not tighten monetary policy when inflation first rose. The Fed waited until March 2022 to end quantitative easing and to raise interest rates above zero. At that point, inflation was around 7%, and unemployment was 3.7%. Perhaps its employment mandate gave the Fed pause when inflation first started rising, but it should have stopped being a factor beginning in late 2021. Unemployment was still 6.1% when inflation started rising in April 2021, but it fell (and remained) below 5% in September 2021. The Fed's statements and forecasts at the time suggest that its slow reaction to high inflation was caused by a mistaken belief that high inflation would be, in the words of Powell, "transitory" and could therefore be ignored. For example, in June 2021, members of Fed leadership were projecting that inflation would be between 1.6% and 2.5% in 2022, as opposed to actual inflation of 6.6%. In that case, the same decision was likely to have been made under a single mandate.

Implications for Congressional Oversight

A single versus dual mandate has implications for the Fed's accountability to Congress. A single mandate provides for a more straightforward evaluation of the Fed's monetary policy decisions. (For example, did the Fed achieve its inflation target? If not, why not?) By contrast, the dual mandate makes it harder to evaluate success, as there are potentially trade-offs between the two goals, and the Fed has not set a numerical target for one of the two goals.

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