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- **April 29, 2011**. Opening Remarks (opening_remarks_fr_community_affairs_research_conference_2011_final pdf). Given at the *Federal Reserve Community Affairs Research Conference*, Arlington, Va.
- **April 26, 2011**. Article. "The Fed's Dual Mandate: Lessons of the 1970s," Federal Reserve Bank of St. Louis *Annual Report 2010*.

Many Moving Parts: A Look Inside the U.S. Labor Market

Message From Our Bank President
The Fed's Dual Mandate: Lessons of the 1970s

When the U.S. Congress amended the Federal Reserve Act in 1977, it essentially gave the Fed a dual mandate: to promote maximum sustainable employment and price stability. Price stability is usually interpreted as low and stable inflation, and the impetus for this explicit objective was the highly volatile inflation of the 1970s.

The Fed's dual mandate stands in contrast to the European Central Bank's (ECB's) single mandate. In 1992, the Maastricht Treaty, which laid the groundwork for the establishment of the ECB later in the decade, designated price stability as the primary objective of monetary policy. In the 1990s, European governments and policymakers operated with more knowledge than when the U.S. Congress gave the Fed its dual mandate in 1977. The ECB's single mandate, therefore, was partly the result of the global experience and lessons learned in previous decades.

What were those lessons? The 1970s are often cited as a time when U.S. monetary policy became misaligned with its objectives. From the late 1960s through the early 1980s, inflation rates were high and variable; for example, over roughly four years, Consumer Price Index (CPI) inflation rose from about 3 percent to 12 percent and then fell to 5 percent. Many were

surprised that, along with the swings in inflation, real output was quite volatile and the unemployment rate generally was high, peaking at 10.8 percent in 1982. The U.S. suffered through four recessions in the 13 years from 1970 to 1982. The economy fluctuated from boom to bust. Each cycle ushered in both higher inflation and higher unemployment. In retrospect, the Federal Open Market Committee (FOMC) placed too much emphasis on real output and unemployment during this decade and ended up with the worst of both worlds, a volatile real economy with high and variable inflation.

The Volcker disinflation—named after then-Chairman Paul Volcker—lowered the CPI inflation rate from more than 14 percent in early 1980 to less than 3 percent by mid-1983. At this point, the FOMC tried a new policy—keep inflation low and stable. The result was a long expansion during the 1980s and another long expansion during the 1990s. During these expansions, inflation remained low and, in fact, declined, while the unemployment rate declined to as low as 3.8 percent in 2000. The boom-bust cycle was eliminated.

The FOMC learned a valuable lesson on how to pursue the dual mandate from the 1970s experience—namely, the Committee should aim for policies that keep inflation low and stable for the sake of both price stability and the real economy. This lesson was not lost on other central banks around the globe, which helps explain why, in the 1990s, the Maastricht Treaty gave the ECB the single objective of price stability.

Still, one would not have to go all the way to a single mandate in order to obtain the good experience of the 1980s and 1990s. Another way to achieve the same outcome is to simply internalize the message from the 1970s, thus understanding that the optimal way to deliver on the dual mandate is to pursue low and stable inflation, which in turn helps the real economy. In other words, monetary policy can achieve the same desired outcomes with a single mandate as it can with an appropriately interpreted dual mandate.

Today, it may be tempting to lose sight of the lessons of the 1970s, but I believe they remain as relevant as ever. As both the U.S. and Europe continue to recover from the severe financial crisis and subsequent recession of 2007-2009, many policy changes are in the air. But the