



The Practice of U.S. Monetary Policy Independence from Martin to Greenspan

Edward Nelson (Federal Reserve Board)

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WHY THE "FED" DEFIED THE PRESIDENT

Carter Warns Against Move to Tighten Credit

4 Tuesday, Dec. 7, 1965 The Bakersfield Californian

Federal Reserve Board's Action Angers Congress

"The Fed," he says, "doesn't fit the usual rules of accountability that we have in a democratic society." The Fed's budget

Vs. the Fed

Carter, Federal Reserve Ready To Clash Over Credit

quite different; sponsored by Fed's recent

Reagan Vs. the Fed
nce of pass...
imprint. Their

Greenspan Maintains Fed Has Stayed Independent

name the Federal Reserve Board, but clearly cautioned the central bank in unmistakable terms.

Reagan advises Fed not to hike interest

Reagan criticizes Fed

gs to bear government's view and future Fed

Bush Urges, Fed Resists Easing of Interest Rates

ner of the government that generally hides from public view and, in the process, to influence future Fed policy.

Congress, Hoping to Influence Future Policy, Pushes Measures to Curb Fed's Independence

Constitutional responsibility for monetary policy

- **Eccles (1938):** *“When the authors of the Constitution provided that Congress should have power to coin money and regulate the value thereof, they did not mean that Congress should set up mints and printing presses in the Capitol and operate them itself... **The right of Congress to entrust to administrative agencies the execution of the laws which it enacts is as old as the Republic.**”*
- **Volcker (1981):** *“...ours is a government of delegated powers... [Congress] delegates the authority to carry out many of its responsibilities... the Congress has delegated that [monetary] power to the Treasury Department and to the Federal Reserve System.”*
- **Burns (1971):** *“it would be extremely difficult for the Congress to try to take over the functions that the Federal Reserve Board now discharges in administering monetary policy and credit policy... The Congress would have to be in session on this one set of problems continuously, to do that.”*

Assignment of monetary policy power to the Federal Reserve

- Successive Federal Reserve Chairs have noted that the Federal Reserve's monetary policy authority flows from Congress' assignment to it of its own constitutional power.
 - **Martin** (1955): *“I think of the Federal Reserve... as a trusteeship which has been created by the Congress. Under the Constitution, the power over money resides in the Congress. The Congress, in order to exercise that power, established the Federal Reserve System.”*
 - **Volcker** (1983, congressional testimony): *“Monetary policy is a constitutional responsibility of the Congress... [and] you delegated that responsibility.”*
 - **Bernanke** (2006): *“The Federal Reserve was created by Congress in 1913 and entrusted with the power, granted originally to the Congress by the U.S. Constitution, to coin money and regulate the value thereof.”*

Independence in monetary policy

Martin

- 1955: *“Under the present law, even if the White House should bring all the pressure in the world to bear, the law gives us the authority so that we can act as we believe necessary.”*
- 1956: *“I am perfectly willing to say here that I would promptly resign if, in my judgment, I was not able to exercise my independent judgment.”*
- 1968: *“...we are independent, as stipulated by the Federal Reserve Act.”*



Independence in monetary policy

Volcker

- 1981: *“I think we have our charter basically from the Congress... We, of course, are independent from the Administration... I think I have a good understanding of what the independence of the Federal Reserve involves, and that means we have the responsibility for reaching our own decisions about what is appropriate on monetary policy.”* He also observed that **“any encroachment on our independence... would be firmly resisted.”**
- 1984: *“The [Federal Reserve] System reports to, and is accountable directly to, the Congress, which was given the Constitutional authority over money by our founding fathers, in part to insulate that authority from the Executive, lest it become too powerful.”*





Independence in monetary policy

Greenspan

- 1993: *“The Federal Reserve Act gives the Federal Reserve clear statutory authority to conduct an independent monetary policy in pursuit of specified national macroeconomic objectives... The executive and legislative branches of government have no direct role in the formulation of monetary policy except in the setting of statutory objectives for monetary policy.”*
- **1999:** *“we are insulated from... countermanding of the decisions that we make under law in the Federal Open Market Committee.”*

Independence: Key statutes

Federal Reserve Act of 1913 made the Federal Reserve independent from its inception (1914).

Banking Acts of 1933 and 1935:

- Increased the separation of Federal Reserve's budget from the appropriations process.

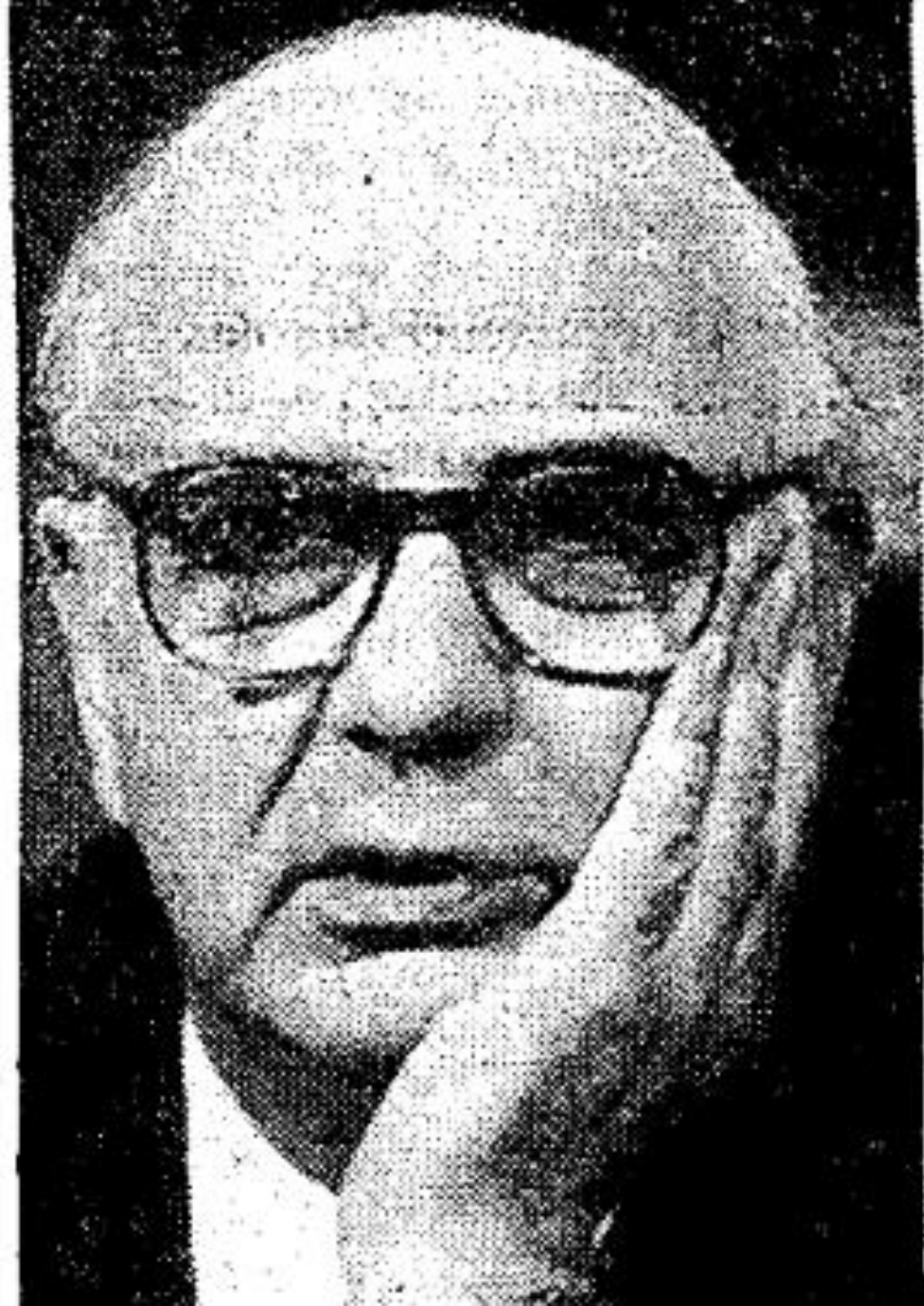
Federal Reserve Reform Act of 1977 (source of dual mandate)

Independence: Key institutional features

- **Martin (1964):** *“The provisions of the original Federal Reserve Act obviously contemplated a high degree of independence for members of the Board. Thus, in addition to the requirement that they shall be **appointed only with the consent of the Senate**, it gave them 10-year terms, provided for the **staggered expiration of terms** so that there would be occasion for the appointment of a new member only once every 2 years, and made them **removable by the President only ‘for cause.’** The length of the term of office was extended to 12 years by the Banking Act of 1933, and [it] was further extended to 14 years by the Banking Act of 1935.”*

Independence: Key institutional features

- **Volcker (1984):** *“The Congress, in its wisdom, had another purpose in mind in creating and maintaining an independent central bank—an insulation from the passionate partisanship that understandably characterizes some of our political life. Members of the Board of Governors have long terms, their terms are staggered, and they cannot be removed because of policy differences. Federal Reserve operations are financed from its own resources.”*



Independence within government

- Joint Committee on the Economic Report (later JEC), June 1952: “The independence of the Federal Reserve System must be an **independence within and not from the Government.**”
- Instrument independence, not goal independence (DeBelle and Fischer, 1994)
 - Instrument: Monetary policy tool(s)
 - Goals: Macroeconomic objectives, specified in U.S. law

“The ultimate determinant of our policies will largely come from the Congress, under whose statutes we function.”

—Chairman Greenspan, 1987

Independence within government

Independence is in the context of Congressional oversight. Also, **independence does *not* mean a “gag order”** on public commentary and prescriptions (re monetary policy) by successive Congresses and administrations.

- **Volcker (1981):** *“Congress has delegated its authority in the monetary area to the Federal Reserve, and we are responsible for making judgments that we think are appropriate. In that process, I am a very strong believer in maintaining communications as open as possible with the Administration, so that we understand their thinking and they understand our thinking. But, when the day is done, we have to make our own judgments.”*

Independence within government

- **Greenspan (1990):** *“I took an oath of office to act in my job in a manner which is consistent with the purposes of the Federal Reserve System... [It] is wholly appropriate, I might say, [that] we should be hearing from you [legislators], the White House, from everybody, with respect to what they think the problems are. Anybody who can add new insight, new evidence, which would help us do our job—I think that is important that we get that.”*



Economic rationale for independence

- Economic rationale conveniently given as *three* components—overlapping, but basically separable—that make up the main rationale for independence articulated by policymakers in the Martin through Greenspan eras:
 - Longer-term costs of using monetary policy to overstimulate the economy.
 - Need to avoid subordinating monetary policy to Treasury financing requirements.
 - Need for a long horizon in monetary policy decision-making.

Avoiding overstimulation

- A rudimentary version of natural-rate-type ideas was present in Federal Reserve policymaker thinking even during the 1950s and 1960s (Romer and Romer, 2002, 2024; López-Salido, Markowitz, and Nelson, 2025).
- Hence, both Martin and his successors warned against overly-expansionary monetary policy on the grounds that it would permanently raise inflation, while generating favorable interest-rate and output outcomes only in the short run.

Federal Reserve Chairs on avoiding overstimulation

Martin

- 1957: *“Any employment which would develop as a result of a creeping inflation... would be very temporary indeed.”*
- 1959: *“It is my view that, today, if the Congress gives us instructions to peg government securities [prices], ... interest rates will actually rise instead of being stabilized.”*



Federal Reserve Chairs on avoiding overstimulation

- **Volcker**
- 1982: *“It will profit us nothing to embark on a heroic effort to bring interest rates down for 3 months [only] to find out that we have undertaken a policy course that, in the next 6 months, sends them up.”*
- 1986: *“Obviously the danger always is that in an attempt to reduce interest rates artificially...you end up with higher interest rates.”*

Costs of past money financing of deficit spending: Federal Reserve Chairs' statements

- **Volcker (1984):** *“Through the centuries... sovereign governments have yielded to the insidious temptation to seek a solution to budgetary or economic problems by debasing the currency.”*
- **Volcker (1985):** *“All of human history, economically, is the sovereign clipping the coinage to meet his expenses... That is presumably why we have an independent central bank—to try to resist that temptation.”*
- **Greenspan (1995):** *“History is replete with examples of fiscal pressures leading to monetary excesses and then to greater inflation.”*





Federal Reserve Chairs on avoiding money financing of deficits

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- **Martin (1964):** *“To oversimplify only slightly, the question is whether the principal officer in charge of paying the Government’s bills should be entrusted also with the power to create the money to pay them. The Congress concluded in 1935 that Secretaries of the Treasury should not be faced with a conflict of interest of this magnitude and amended the Federal Reserve Act to discontinue their service on the Board of Governors.”*

The need for a long horizon

- The imperative of a long horizon in monetary policy decisions has been stressed by successive Federal Reserve Chairs, on multiple grounds, including:
 - The fact that many household and business decisions themselves involve long horizons.
 - The likelihood that better economic performance is obtainable by a policymaker focus on long-term goals.
 - The reality that appropriate monetary policy may involve strategies (such as a multi-year disinflation that is ultimately welfare-improving but that can be costly in the short run) that require perseverance to generate dividends.

Federal Reserve Chairs on the need for a long horizon

Volcker: First term (steep inflation phase) 1979–1983

- 1979: *“We cannot consider these [unemployment and inflation] over a period of time as opposing goals... And we have to consider the short-range tradeoffs, if you will, in that longer-term context.”*
- 1982: *“I think you will find the unanimous feeling in the Federal Reserve that the Congress deliberately set us up with an insulation from that kind of political pressure and that that is a trust that you have given us and that we mean to discharge.”*

Federal Reserve Chairs on the need for a long horizon

Volcker: Second term (disinflation-consolidation phase), 1983–1987

- 1984: *“I think it’s important that there has been some insulation. And that’s been public policy, that’s been Congressional policy, ever since the Federal Reserve was founded—that we have a degree of insulation against what we think of as partisan political pressures, passing political pressures. Obviously, we are, in a very large sense, part of the political system. But we shouldn’t be used as an electoral machine.”*
- 1985: *“The Federal Reserve System was created by the Congress in legislation carefully crafted to insulate the central bank from influences of private bankers, the executive branch[,] and short-term political pressures in the Congress.”*



Federal Reserve Chairs on the need for a long horizon

Greenspan

- 1989: *“The [Federal Reserve] System has been given an element of independence within government... This independence enables the central bank to resist short-term inflationary biases that might be inherent in some aspects of the political process.”*
- 1993: *“The recognition that monetary policies that are in the best long-run interest of the nation may not always be popular in the short run has led not only the United States but also most other developed nations to limit the degree of immediate control that legislatures and administrations have over their central banks.”*

Federal Reserve Chairs on the need for a long horizon

Greenspan

- 1994: *“Whether a central bank’s goals are determined outside the institution or determined internally, **central banks need freedom from short-run political pressures** to meet these goals, given political propensities to sacrifice long-run objectives for short-run goals.”*
- 1996: *“If the Federal Reserve’s monetary policy decisions were subject to Congressional or Presidential override, short-term political forces would soon dominate. The clear political preference for lower interest rates would unleash inflationary forces, inflicting severe damage on our economy.”*

Independence as practiced—arrangements

- As Richardson and Wilcox (2025) stress, it is not appropriate (and is factually wrong) to regard Federal Reserve independence as originating in, or as subsequently resting on, the March 1951 Accord between the Federal Reserve and the Treasury.
- Independence came from preexisting law. The Accord was an agreement on how the authorities would henceforth operate against the background of that law.
- And the Accord primarily pertained to arrangements related to transitioning from the pegging policy—rather than setting out lasting new, post-peg, rules of the game.

Independence as practiced—arrangements

The 1942–1951 pegging period provides a *bona fide* case of *de facto* loss of Federal Reserve independence/autonomy.

- In contrast, the oft-cited Burns 1971–1972 monetary policy was *not* such a case.
- Detailed analysis (Nelson, 2020; López-Salido and Nelson, 2026) shows that Burns’ policy choices in this period reflected part of a mix that he had pushed for (price controls plus monetary easing) and that reflected his nonmonetary view of inflation—not electioneering or Nixon pressure.
- Volcker’s assessment (1981): “*Monetary policy may have been right or wrong , but I do not think it was politicized.*”

Case studies of (alleged) lack of independence: Do they stand up?

- **Pre-1951 pegging: Yes.** Formal independence, but *de facto* non-independence—Federal Reserve acquiescence in gearing monetary policy to debt financing needs.
- **1965–1966 tightening: No.** Federal Reserve Board December 1965 discount rate increase received administration (LBJ) criticism, but Board and FOMC proceeded with the tightening cycle and acted independently.
- **1971–1972 monetary policy (mostly not an easing in interest-rate space): No.** Frequently *misinterpreted* as lack of independence, but, as already indicated:
 - ◆ Policy mix of 1971–1972 was Burns' choice (inflation control directed to incomes policy).
 - ◆ Burns—viewing inflation as cost-push —pressed wage/price controls on the Nixon administration.
 - ◆ Well before his main White House conversations with Nixon, Burns stated to policymakers that those controls would usher in lower interest rates.
 - ◆ And Federal Reserve discussing shared economic objectives with Executive \neq lack of independence.

Post-Accord arrangement: Treasury Secretary/Federal Reserve Chair weekly meetings (starting 1953)

- Martin (1955): *“At the present time, I meet every Monday with Secretary Humphrey and his people, and a group of them come over and visit with us practically every Wednesday.”*
- U.S. Treasury Secretary Humphrey (1956): *“We arranged [to] have the closest cooperation between the Federal Reserve Board and the Treasury, each recognizing the other’s field of operation and the other’s independence in his particular field. We set up a lot of mechanics, such as meetings back and forth, weekly meetings...”*
- The practice continued under successors: for example, Chairman Burns noted (1977): *“I meet weekly with Mr. Blumenthal [Secretary of the Treasury Michael Blumenthal].”*

Treasury Secretary/Federal Reserve Chair weekly meetings

- **Volcker (1982):** *“Although the Federal Reserve, as an independent agency, is responsible for reaching judgments in the monetary policy area, the Board is accountable to the Congress and maintains close communications with both the Congress and the Administration.”*
- **Greenspan (1989):** *“...there is only one American government, and there is only one American economic policy. And, while we are independent of the administration, that does not mean that we would have a policy which we consider to be at variance with the national policy... we are independent and behave in that manner, hopefully.”*

Treasury Secretary/Federal Reserve Chair weekly meetings

- Greenspan (1989): *“This insulation has not meant isolation, as we coordinate and consult extensively with both the executive and legislative branches.”*



Treasury Secretary/Federal Reserve Chair weekly meetings

- **Greenspan (1993):** *“The responsibility for reaching monetary policy decisions rests solely with the Federal Reserve. However, **Federal Reserve officials communicate often with other government officials** regarding a broad range of topics, providing the opportunity for frequent exchanges of views regarding monetary policy. For example, **the Chairman of the Board of Governors normally has a weekly meeting with the Secretary of the Treasury.**”*

The Federal Reserve & the 1977 law on goals

“In an amendment to the Federal Reserve Act, Congress has charged the central bank with furthering the goals of ‘maximum employment, stable prices, and moderate long-term interest rates.’ To promote those objectives, the Federal Reserve must take a long-run perspective.”

—Greenspan, 1993



The “dual mandate” interpretation of the 1977 Act

- Re: the three “goals of maximum employment, stable prices, and moderate long-term interest rates,” the Federal Reserve at an early stage noted that economic reasoning suggested that they were collapsible into a dual mandate.
- While the bill was being finalized, Burns implied “moderate long-term interest rates” would flow from (continuous) achievement of the other goals: conversely, *“persistent inflation and inflationary expectations are inconsistent with either continuing high levels of employment or moderate long-term interest rates”* (1977).
- In particular—for Fisher-relationship reasons—expectations of the long-term achievement of price stability are conducive to moderate longer-term interest rates.
- Greenspan (1994): *“[If] you have low inflation... you would have lower inflation premiums, and hence you would have moderate or lower long-term interest rates.”*
- In this vein, when using the term “dual mandate,” Board Vice Chair Alan Blinder (1995) acknowledged the “third goal” of moderate long-term rates in a footnote but stated that the achievement of price stability would secure such moderate rates.

The Federal Reserve's interpretation of its objectives

Maximum employment (as given in the Employment Act)

- The Federal Reserve has had a statutory “maximum employment” goal since 1946, and it has been in the Federal Reserve Act since 1977.
- From an early stage, the Federal Reserve interpreted the goal as a long-term objective—and so not implying that policymakers should seek ephemeral maxima through overstimulation of demand—and as something to be obtained in the context of a market economy and with aggregate-supply factors recognized. (It thereby stressed economic, rather than purely physical or engineering, conceptions of a maximum level.)

The Federal Reserve's interpretation of its objectives

Maximum employment—Volcker and Greenspan (the formal dual-mandate era)

- Under Volcker and Greenspan, in the era following the 1977 Act, the Federal Reserve Chairs continued to make similar statements with regard to the employment goal.
- Volcker (1981): Monetary policy sought to ***“combine as full employment as we can get with price stability.”***
- Greenspan (1994): ***“In setting monetary policy, the Federal Reserve is looking to encourage the highest level of activity that the economy can sustain, not to hold it back.”***
- Greenspan (2004): ***“Our ultimate mandate to promote maximum sustainable employment over time.”***



The Federal Reserve's interpretation of its objectives

Price stability—responsibility and mandate

- The Federal Reserve interpreted the Employment Act of 1946's mandate as including a price-stability goal (under “maximum purchasing power”).
- For example, the Board-approved book *The Federal Reserve System: Its Purposes and Functions* (1947) stated: “The principal purpose of the Federal Reserve is to regulate the supply, availability, and cost of money with a view to contributing to the maintenance of a high level of employment, stable values, and a rising standard of living.”
- In response to a 1952 Congressional questionnaire, Martin stated that a mandate to “*foster more stable values*” (i.e., price stability) was implied by the Employment Act.
- Similarly, Chairman Burns remarked, “*The protection of the integrity of the dollar and the promotion of stable prosperity in our country—that, I think, is the function that the Congress assigned to the Board*” (1970).

The Federal Reserve's interpretation of its objectives

Price stability—policymakers' definition

- In particular, in the early 1990s, the FOMC's monetary-growth objectives were not moved down below those roughly consistent (in the midpoint of the growth range) with long-run 2 percent inflation. During that period, Greenspan remarked publicly that a further “notch” down was something that the FOMC might contemplate in the future but that had not been decided on.
- In the deliberations of the FOMC, a 2 percent goal was settled on as an interim inflation objective in the well-known Committee discussion of July 1996.

Administrations on Federal Reserve independence: 1975–1978

- **President Ford (1975):** *“When interest rates rise, there is a temptation to call for the Federal Reserve to provide even more money and more credit to satisfy the demands. As we have seen in the past when this is done, the longer-term result is inevitably more inflation and even higher interest rates.”*
- **President Ford (1975):** *“My judgment is that the Federal Reserve Board needs a high degree of autonomy. **The minute we turn the central banking setup into a political weapon, then I think our credibility for responsible monetary policy goes down the drain... I can’t call up Arthur Burns and tell him to do this or do that, and the Congress can’t unless they change the law.**”*
- **President Carter (1978):** *“The Federal Reserve Board doesn’t consult with me before it takes any action.”*

Administrations on Federal Reserve independence: Volcker Era

- **President Carter (1981):** *“Monetary policy is the responsibility of the Federal Reserve System, which is independent of the Executive. I respect that independence.”*
- **President Reagan (1981):** *“We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence.”*
- **President Reagan (1987):** *“Dr. Greenspan will carry on the important traditions of an independent Federal Reserve System.”*
- **Vice President Bush (1981):** *“The administration does want lower interest rates... [but] not by artificial legislation or by attempting to mandate [dictate] to an independent Fed what it ought to do about lowering interest rates.”*

Administrations on Federal Reserve independence: Greenspan Era

- **Treasury Secretary Nicholas Brady (1992):** *“The independence of the Fed is terribly important, and I support that.”*
- **Treasury Secretary Robert Rubin (1999):** *“I would observe that we have an independent Federal Reserve Board. And we have created a mechanism there and, through many presidencies, that independence has been respected—I think very much for the benefit of the country.”*
- **President George W. Bush (2002):** *“...in terms of monetary policy, I’ll leave that in the hands of our Chairman, Chairman Greenspan—he’s done a fabulous job in running the Federal Reserve.”*



Concluding observations

- The time-inconsistency account has little to offer as an expression (or as a formalization) of the practical rationale for monetary policy independence in the United States.
- Rather, Federal Reserve Chairs—including Martin, Volcker, and Greenspan—each spelled out a three-point economic rationale.