

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

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Abstract

Central bank independence is a major area of study, but the economic literature has been characterized by numerous misstatements regarding how U.S. monetary policy independence has operated over time. Against this backdrop, this paper lays out major elements of the practice of central bank independence in the United States in the period from 1951 to 2006—a time span that encompasses the William McChesney Martin, Jr., through Alan Greenspan tenures as the head of the Federal Reserve. Many documentary materials and policymaker quotations not considered in previous research on U.S. monetary policy are highlighted. The analysis covers both institutional aspects (statutory objectives, formalities of Federal Reserve structure, and conventions followed in regularizing the central bank’s interactions with the legislative and executive branches) and the conceptual basis for independence, as expressed by leading Federal Reserve officials, particularly Chairs. It is shown—with heavy reliance on their own words—how Federal Reserve Chairs have characterized the position of the central bank within the governmental structure of the United States and how they have set out the case for monetary policy independence. What emerges is that successive Chairs over the decades made essentially the same, three-part, economic case for independence. This case does not rely on the arguments associated with economic research on time inconsistency.

Key Words: Federal Reserve Chairs, central bank independence, monetary policy objectives.
JEL codes: E52; E58.

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1. Introduction

Although the independence of the central bank—specifically, its autonomy with regard to the setting of monetary policy—is a prominent topic in theoretical and empirical analysis, the Federal Reserve had monetary policy independence long before the emergence of a major economic-research literature on the subject. Consequently, in this literature, U.S. monetary policy independence often enters the picture in some way—forming part of the background for, or motivation of, theoretical studies, while frequently being in the foreground in empirical contributions. In addition, the Federal Reserve’s independence, as well as the related topic of the interaction between the central bank and the national fiscal authorities, typically figures heavily in researchers’ accounts of the United States’ monetary policy and macroeconomic experience.

It is clear, however—and will be confirmed below via many examples—that spelling out accurately the institutional foundations of, and practical arrangements associated with, U.S. central bank independence is a task fraught with difficulty. For example, many research studies have incorrectly treated the Full Employment and Balanced Growth Act of 1978, or “Humphrey Hawkins” Act, as though it was (or still is) one of the key laws assigning macroeconomic goals to the Federal Reserve—whereas the reality is that the Humphrey-Hawkins Act assigned no economic goals to the U.S. central bank, whose statutory objectives have always stemmed from other laws.

Similarly, a key aspect of the literature—its discussions of the analytical basis for central bank independence—has often been impaired by inadequate consultation of the record. In the literature’s discussions, there has been a recurrent problem of confusing theoretical contributions with empirical reality. In particular, the *conceptual basis* for independence that has been put at center stage in the research literature has frequently been mistaken for, or (mis)represented as being, the *actual practical case* for independence made over the years by senior figures in U.S. monetary policy circles. A key matter raised in this connection by McCallum (1995) is the fact that the “time inconsistency” argument prevalent in the theoretical literature on central bank independence has, when it comes to understanding the course of events in the United States, likely been of very limited empirical relevance.

In contending that time inconsistency did not provide the analytical foundation for U.S. central bank independence, McCallum left a void, as he did not suggest what the *actual foundation* was. This void can readily be filled, however, as there are, in fact, many decades’ worth of relevant statements by Federal Reserve leaders that can be drawn upon. Successive Federal Reserve

Chairs have expounded the same basic reasons for central bank independence. Those reasons indeed differ from the time-inconsistency rationale but are grounded in other economic arguments. And, though of practical relevance, these reasons have been based partly on theoretical or conceptual arguments regarding the links between monetary policy actions and economic activity. Consequently, if it is indeed the case that “the concept of the time consistency problem... is widely considered to provide *the* theoretical underpinning for central bank independence” (Lohmann, 1993, p. 241, emphasis in original), that perception would be parochial indeed, as it overlooks how the U.S. central bank leadership has, over multiple decades, perceived and articulated its perspective on independence.

In order to provide clarity on the issues described above and on related matters, the analysis in this paper will lay out major elements of the practice of central bank independence in the United States. The ground covered will be primarily factual in content. The novelty provided by the analysis relates largely to sources: many documentary materials and policymaker quotations not considered in previous research on U.S. monetary policy will be highlighted. The discussion will cover both institutional aspects (statutory objectives, formalities of the Federal Reserve structure, and conventions followed in regularizing interactions with the legislative and executive branches) and the conceptual basis for independence, as expressed by leading Federal Reserve officials. It will be shown—via heavy reliance on their own words—how Federal Reserve Chairs have cast the position of the central bank within the U.S. governmental structure and how they have set out the case for monetary policy independence.

In choosing what sample period should be covered in the analysis of these matters, it is worth remembering that, although the past thirty years have seen major changes in U.S. monetary policy arrangements, many of these developments have been in the areas of *transparency and communications*. Additional features in these areas introduced over recent decades have included the quarterly Summary of Economic Projections (since 2007), Federal Reserve Chairs’ press conferences (since 2011), the Federal Open Market Committee’s (FOMC’s) Statement on Longer-Run Goals and Policy Strategy (since 2012), a numerical inflation objective (since 2012), and the holding of Chairs’ press conferences after every FOMC meeting (since 2019). Prior to these developments, some notable advances in communications occurred under Chairman Alan Greenspan, including the advent of postmeeting FOMC statements or press releases (starting in the mid-1990s) and more rapid issuance (effective January 2005) of the minutes of Committee meetings.

In contrast, in the case of the Federal Reserve’s independence within government as the maker of monetary policy, the key arrangements are of much earlier origin. For example, laws on the decision processes and membership of the FOMC and of the Federal Reserve Board date mainly from 1913 to 1935, statutes on monetary policy’s macroeconomic objectives to 1946 and 1977, and the convention of the weekly meetings of the Federal Reserve Chair and the U.S. Secretary of the Treasury to 1953. These procedures governing the practice of independence are of such long standing that they were all in place throughout the Paul Volcker-Alan Greenspan eras of monetary policy setting (1979 to 2006). Many were also in force over much of the William McChesney Martin, Jr., tenure (1951 to 1970). The main exception is the 1977 law, which amended the Federal Reserve Act to formalize the dual mandate of maximum employment and price stability. As it happens, however, during his own tenure Chairman Martin made clear that he regarded these two goals as the Federal Reserve’s macroeconomic objectives, and he interpreted them as being implied by the main mandate-related law (the Employment Act of 1946) under which his Board and FOMC operated. In light of these considerations, and in order to keep the scope of the analysis manageable, the period considered here will span from 1951 to 2006—the years of the Martin through Greenspan tenures.

This paper proceeds as follows. To set the stage, Section 2 enumerates a variety of misconceptions about Federal Reserve independence that have appeared over the years in economic research and commentary. Subsequent sections go through aspects of the practice of monetary policy independence from Martin to Greenspan. Section 3 covers the assignments of monetary policy powers made by the U.S. Constitution and by Congress. Section 4 outlines Federal Reserve institutional arrangements as they have evolved in statutes: this analysis helps highlight the legal underpinning of the U.S. central bank’s “independence within government.” Section 5 considers the three-part case for monetary policy independence articulated by Federal Reserve Chairs. Section 6 turns to the evolution of routine procedures implementing the Federal Reserve’s independence within government, including the development, in the post-Accord period, of the weekly meeting between the Federal Reserve Chair and Secretary of the Treasury. Section 7 discusses the macroeconomic objectives assigned by law to the Federal Reserve and how, in the period under review, the Federal Reserve leadership or the FOMC interpreted those objectives. Section 8 makes some concluding remarks.

2. Twenty-two fallacies concerning the practice of U.S. central bank independence

McCallum (1995) titled his analysis, “Two Fallacies Concerning Central-Bank Independence.” McCallum’s concern was with theoretical studies, rather than with analyses of U.S. practice.

Nevertheless, his criticism was partly empirical, as McCallum was arguing that studies that conducted theoretical analyses of institutional design were proceeding to make invalid inferences about the model results' empirical relevance for U.S. monetary policy—and so engaged in “inappropriate interpretive *mappings* between analytical constructs and real-world institutions” (1995, p. 207, emphasis in original). McCallum cited two examples in which policy implications were being unduly inferred from such theoretical analyses.

In the area of the *practice* of U.S. monetary policy independence, it is similarly possible to isolate fallacies in the existing literature. The examples in this area amount more clearly to outright factual errors—being various forms of misstatements of the foundations of, and arrangements governing, U.S. monetary policy's formulation, goals, and accountability mechanisms. A total of 22 fallacies—some of them major; others being erroneous in their statement of precise details—are given in the list below, arranged under several headings. Each fallacy is embedded in a quotation taken from a study or commentary, while the actual factual situation is given in parentheses after the quotation. In some cases, more detail on the facts in question is provided in accompanying footnotes.¹ In other cases, such detail is, instead, given in subsequent sections of this paper.

¹ Throughout this paper, when publications of the Federal Reserve, the executive branch, or Congressional committees are cited or quoted, the following abbreviations are used for the publication or its producer:

BOGxx: Board of Governors of the Federal Reserve System, <i>Annual Report</i> for year 19xx	CTBH: Committee on the Budget, U.S. House of Representatives
CA: Committee on Appropriations, U.S. Senate	CTBS: Committee on the Budget, U.S. Senate
CAF: Committee on Agriculture and Forestry, U.S. Senate	CWM: Committee on Ways and Means, U.S. House of Representatives
CBCH: Committee on Banking and Currency, U.S. House of Representatives	FOMCmin: FOMC meeting minutes (modern series)
CBCHH: Committee on Banking, Currency and Housing, U.S. House of Representatives	FOMCtr: FOMC meeting transcripts (including FOMC Minutes [effective transcripts] before 1967; Memoranda of Discussion, 1967–1976)
CBCS: Committee on Banking, Currency, U.S. Senate	FRBull: <i>Federal Reserve Bulletin</i>
CBFS: Committee on Banking and Financial Services, U.S. House of Representatives	FRSxx: Board of Governors of the Federal Reserve System, <i>The Federal Reserve System: Purposes and Functions</i> , edition of year 19xx
CBFUA: Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives	JCER: Joint Committee on the Economic Report, U.S. Congress
CBHUA: Committee on Banking, Housing, and Urban Affairs, U.S. Senate	JEC: Joint Economic Committee, U.S. Congress
CF: Committee on Finance, U.S. Senate	PPpr: <i>Public Papers of the Presidents</i>
CGO: Committee on Government Operations, U.S. House of Representatives	PES: Federal Reserve Board, <i>Postwar Economic Studies</i>
CIIA: Committee on Interior and Insular Affairs, U.S. Senate	TARxx: Department of the Treasury, <i>Annual Report of the Secretary of the Treasury</i> for fiscal-year 19xx
CRS: <i>Congressional Record (Senate)</i>	WCPD: <i>Weekly Compilation of Presidential Documents</i>

Items cited that appeared in official publications are not included in the main reference list. Instead, the specific items cited are listed in the bibliographical appendix. That bibliographical appendix also gives details on the media (television-program transcript and newspaper-article) items cited in this paper.

Relationship of the Federal Reserve with the Treasury and the executive branch

- [1] Bloomberg article, September 12, 2025: “The Fed and the Treasury have worked closely together for most of their history... But... there was one topic that was completely off the table: monetary policy.”
(In fact, successive Federal Reserve Chairs and Secretaries of the Treasury have repeatedly indicated that monetary policy figures in their regular discussions.)
- [2] Persson and Tabellini (1999, p. 1438): “[Before the] formal theoretical literature on central bank starts... the treatment of society’s problem as a principal-agent problem is suggested by Barro and Gordon [1983] in an anticipatory footnote.”
(In fact, the casting of central bank independence in principal-agent terms had been made explicitly by an FOMC policymaker in a 1959 talk.)²
- [3] Parkin and Bade (1978, p. 11): “The Board of Governors of the Federal Reserve System with their statutory Federal Open Market Committee and other agencies are the ultimate decision makers concerning monetary policy. Thus the government has no control over the day-to-day policy matters of the Federal Reserve System.”
(In fact, the FOMC is the supreme monetary policymaking body in the Federal Reserve and, though Board members are also Committee members, the Committee is a distinct unit within the Federal Reserve System, being separate from the Board of Governors. And the Federal Reserve System is part of the U.S. government, though independent of the U.S. administration or executive branch.)³
- [4] Senator Frank Church (D-ID) (CIIA, 01/31/75, p. 37): “Major spokesmen of this administration, including Secretary [of State Henry] Kissinger, Secretary [of the Treasury] William Simon, and Arthur Burns...” ***(In fact, the Federal Reserve Chair is not a member of the U.S. administration, in contrast to members of Cabinet.)***⁴

Accountability to Congress

- [5] George F. Will, *Washington Post*, April 20, 2008: “The late Sen. William Proxmire... wanted all members of Congress to write on their bathroom mirrors, so it would be the first thing they read each day, this: ‘The Fed is a creature of Congress.’”

² See Bryan (1959). This talk, by the then-president of the Federal Reserve Bank of Atlanta, discussed the matter of central bank independence in terms of “the problem... of how an often imprudent principal can devise a prudent delegation of his powers,” adding “the answer probably lies in the idea that an agent—as we so often observe in private fiduciary relationships—can frequently act on behalf of his principal more effectively, more efficiently, and more wisely than the principal himself” (p. 2). The talk, given on March 19, 1959, and published later in the year, would subsequently be cited (albeit as a mimeo rather than a publication) in A. Jerome Clifford’s 1965 monograph *The Independence of the Federal Reserve System*. See Clifford (1965, pp. 404–405).

³ Parkin and Bade (1978) was a pioneering study in providing a classification of the degree of central bank independence in various countries. Consequently, it became widely cited in the literature. The paper was revised after 1978 but, in the event, was never published (with Fuhrer [1997, p. 36], for example, citing a 1982 unpublished manuscript version). Its status as a “lost” paper has been ended by the online availability of the typescript of the original version of the paper, as part of a digitization program.

⁴ For example, former Chairman Marriner Eccles, during the period in which he continued in office as a Board governor, testified: “the Federal Reserve Board is an independent body, an agent of the Congress... As I have indicated, it is not part of any administration.” (CBCH, 08/03/48, p. 171.) Later, Chairman Paul Volcker noted, “I’m not a member of the Administration” (JEC, 03/20/1980, p. 113).

(In fact, the injunction was due to an older-generation Senator, Paul Douglas, who used the word “agency”—the term “creature” having changed meaning.)

- [6] Baumol and Blinder (1985, p. 242): “Members of the Board are appointed by the president of the United States, with the advice and consent of the Senate, for 14-year terms. The president also designates one of the members to serve a four-year term as Chairman of the Board...” *(In fact, following a 1977 change in law, Board chairs nominated since 1979 have required Senate confirmation of the presidential nomination for each 4-year term. This replaced the earlier arrangement of the U.S. president designating a Board member to be Chair.)*⁵

*Statutory goals*⁶

- [7] Bernanke (2003): “I subscribe unreservedly to the Humphrey-Hawkins dual mandate.” *(In fact, the Federal Reserve’s dual mandate of maximum employment and price stability is not, and never was, due to the Humphrey-Hawkins legislation.)*
- [8] D. Thornton (2012): “‘maximum employment,’ the second part of its dual mandate required by HH [Humphrey-Hawkins].” *(In fact, as noted, the Humphrey-Hawkins Act did not provide the dual mandate; and the actual dual-mandate law—the Federal Reserve Reform Act of 1977—gives “maximum employment” as the first, not the second, part of the mandate.)*
- [9] Goutsmedt (2022): “Today, the Humphrey-Hawkins Act is regarded as the source of the Fed’s dual mandate.” *(In fact, as indicated, the Humphrey-Hawkins Act has never been the source of the dual mandate. Until 2000, but not since, the Humphrey-Hawkins Act was one basis on which the Federal Reserve reported to Congress on monetary policy.)*
- [10] Lombra (1993, p. 278): “What are the goals?... Simply put, the goals are not spelled out anywhere with any degree of specificity. Instead, various pieces of legislation lay out broad, general guidelines for fiscal *and* monetary policymakers. For example, the Employment Act of 1946... [and] the Full Employment and Balanced Growth Act of 1978...” *(In fact, U.S. legislation assigning goals specifically to monetary policy has been in force since 1977.)*
- [11] Senator Tom Harkin (D–IA) (CRS, 06/13/96, p. 13984): “Prior to the 1978 Act, I understand there was no specific mention of inflation in the law at all. It was not in the Employment Act of 1946...” *(In fact, the Employment Act had a “purchasing power” objective, and the Federal Reserve Reform Act of 1977 included “stable prices” as a statutory Federal Reserve objective.)*

⁵ G. William Miller was therefore the final Federal Reserve Chair not to be approved by the Senate specifically for that post. His January 1978 confirmation hearing (as well as a March follow-up hearing) formally pertained to his nomination to be a Board member, rather than President Carter’s designation of him as Chair. In practical terms, however, the sessions concerned both proposed appointments, and the subtitle of one of the resulting hearings volumes (CBHUA, 01/24/78) incorrectly described the hearing as being triggered by Miller’s having been nominated to be Chair.

⁶ As already noted, macroeconomic objectives assigned by law to the Federal Reserve are the subject of Section 7.

- [12] Wayne Angell, *Wall Street Journal*, November 16, 1994: “The Humphrey-Hawkins Act requires the Fed to keep inflation at 3 percent or less with a goal of zero inflation, provided the unemployment rate as measured by the Bureau of Labor Statistics is under 3 percent for adults age 20 or above...” (***In fact, the Humphrey-Hawkins Act did not assign unemployment or inflation goals to the Federal Reserve—it only required that the Federal Reserve explain how its objectives and plans regarding monetary and credit growth were related to the Act’s economic goals.***)

Reporting requirements

- [13] Kohn and Sack (2003, p. 4): “The second form of communication that we consider is congressional testimony by Chairman Greenspan... The testimonies that seem to receive the most attention are those that accompany each semiannual *Monetary Policy Report to the Congress*... This testimony was previously known as the Humphrey-Hawkins testimony because it was required by the Full Employment and Balanced Growth Act of 1978 (sponsored by Senator Hubert Humphrey and Representative Augustus Hawkins). The reporting requirements of this Act were subsequently repealed, but the Federal Reserve continued to submit reports and give testimony on the same schedule. In 2000, the Congress reinstated a requirement to provide a report and testimony.” (***In fact, Congress’ 2000 action regarding testimony was not a reinstatement: it made the Federal Reserve’s Monetary Policy Report Congressional testimony—previously delivered only by custom as part of the MPR process—a statutory requirement for the first time.***)⁷
- [14] Benjamin Friedman (2000, p. 50): “Beginning in 1975, however, the U.S. Congress, under Concurrent Resolution 133, required the Federal Reserve to set explicit targets for money (and credit) growth, to announce these targets in advance, and to report back to Congress on its success or failure in meeting them... From 1993 until just this year [2000], when Resolution 133 finally lapsed, the Federal Reserve continued to report to Congress ‘ranges’ for broad money growth...” (***In fact, Resolution 133 lapsed at the end of 1976 [CBFUA, 07/18/77, p. 2]. The 2000 end of monetary-growth targets reflected the expiration of the requirement in 1978’s Humphrey-Hawkins Act.***)
- [15] Jansen (2011, pp. 497, 500): “The basis for the HH [Humphrey-Hawkins] hearings is the Full Employment and Balanced Growth Act of 1978, which requires the Federal Reserve to semiannually deliver a report to Congress... The Humphrey-Hawkins testimonies have been given by four different individuals: William Miller (1979), Paul Volcker (1980–1987), Alan Greenspan (1988–2005), and Ben Bernanke (since 2006).” (***In fact, from 2000 onward, the Humphrey-Hawkins Act was no longer the statutory***)

⁷ Senator Paul Sarbanes (D–MD) observed: “in 2000, the Congress, with the support of the Fed, amended the Federal Reserve Act to make the Federal Reserve Chairman’s Congressional testimony on the semiannual *Monetary Policy Report* a statutory requirement. Until then, the testimony was customary but not required by law.” (CBHUA, 06/15/04, p. 3.) An early recommendation that the Federal Reserve produce a monetary policy report had suggested, “Hearings should be held on this report” (CBCHH, 06/76, p. 670) but in the event only the first of these requirements was legislated in 1978. See also Section 7.

basis on which the Federal Reserve delivered a monetary policy report; and, through 2011, testimonies associated with the Monetary Policy Report were given by five different individuals, not four—as G. William Miller delegated the delivery of July 1979’s Senate committee testimony to Board Governor Henry C. Wallich.)⁸

Monetary policy decision procedures and governance

- [16] Melamed (1988, p. 516): “Alan Greenspan was sworn in August 11, 1987 as Chairman of the Board of Governors of the Federal Reserve System for a four-year term. In this capacity, Dr. Greenspan also serves as Chairman of the Federal Open Market Committee, the System’s principal monetary policymaking body.” ***(In fact, although the Board Chair in practice also serves as FOMC Chair, their heading the FOMC arises from their being elected annually by FOMC members—not from their being sworn in for a 4-year term as Chair of the Board.)***⁹

*Content and status of the 1951 Federal Reserve/Treasury Accord*¹⁰

- [17] Haines (1961, p. 589): “the famous Accord of March 1951... [a] joint statement by the two agencies...” ***(In fact, the joint Treasury/Federal Reserve statement was simply a press release announcing the Accord—the Accord itself was never issued publicly.)***
- [18] Conti-Brown (2016, p. 35): “[Officials] constructed a single sentence that would allow both sides to declare victory, but committed no one to anything... There was nothing more to the compromise than the [Accord] announcement itself.” ***(In fact, the Accord document was more detailed than the press release and consisted of 7 parts, including specific policy commitments.)***
- [19] Walsh (1993): “the language of the Accord did not specifically address the issue of conflict—would the Fed be expected to continue to support bond prices?” ***(In fact, the Accord language did specifically address this question, even though the press release announcing the Accord did not do so.)***
- [20] Plosser (2022, p. 230): “I... ask if the 1951 Accord remains a sufficient framework to ensure the Fed’s independence.” ***(In fact, the current framework does not rest on the Accord, and the Accord is not what ensures Federal Reserve independence—which***

⁸ See CBHUA, 07/24/79. In addition, the House of Representatives’ version of the July 1997 “Humphrey Hawkins” (*Monetary Policy Report*) hearings consisted of two (nonconsecutive) days of testimony, with Federal Reserve Chairman Greenspan testifying on day 1 and two other Board governors—Vice Chair Alice Rivlin and Lawrence Meyer—testifying on the second day (CBFS, 07/24/97).

⁹ Reflecting these arrangements, the FOMC’s conference call meeting of March 10, 1978, which took place after G. William Miller had been sworn in as Federal Reserve Board chair, was opened by Arthur Burns as FOMC Chairman (correspondingly called “Chairman Burns” in the meeting transcript) prior to the FOMC taking a vote to make Miller the FOMC’s new chair (FOMCtr, 03/10/78, p. 1). Later, during one of the Committee’s periodic elections of FOMC positions, Vice Chairman Solomon asked Paul Volcker, “Do you mean that, when Congress appointed you Chairman of the Board, you were not appointed [FOMC Chairman]?” with Volcker responding, “No, and you are not [automatically] appointed Vice Chairman either [by the law].” (FOMCtr, 03/26–27/84; p. 1 of first-day afternoon session). Still later, when discussing the recent lapsing of his previous four-year term as Board chairman, Alan Greenspan noted, “Because my term as a governor continued, I continued to serve as Chairman of the Federal Open Market Committee, a position to which I was elected by the members of that committee.” (Written answer in CBHUA, 07/26/96, p. 93.)

¹⁰ The Accord’s content and status are outlined in Section 6.

comes from law. The Accord was an agreement on how to transition in the early 1950s from the de facto lack of independence associated with interest-rate pegging.)

Economic rationale for instrument independence

- [21] Representative Wright Patman (D–TX) (1956, p. 9): “The power to control the value of money clearly rests in the Congress under Article I of the Constitution, and Congress merely, as a matter of expediency, had delegated this power to the Federal Reserve.” ***(In fact, Congress’ rationale for delegating monetary policy to the Federal Reserve was not solely based on factors related to practicality or expediency. It also importantly reflected a wish for monetary policy to be insulated from short-run considerations.)***
- [22] Meade (2003, p. 276): “The rationale for independence owes to the time inconsistency of policy, according to which policymakers have an incentive to break promises made in the past.”¹¹ ***(In fact, U.S. central bank independence predates the time-inconsistency literature, and the main arguments for independence made by Federal Reserve Chairs have not corresponded to the rationale suggested by that literature.)***¹²

The position expressed in item [22] is a prevalent one in the economic-research literature. The pervasiveness of that position particularly underlines the importance of consulting documentary records on Federal Reserve leaders’ own statements. The latter task will be a main concern of the remaining sections of this paper.

3. Constitutional and Congressional foundations

This section considers, in high-level terms, the constitutional and Congressional origins of the monetary policy power of the Federal Reserve. As in later sections, the emphasis will be on what Federal Reserve leaders—particularly Chairs—over the postwar years through the end of the Greenspan period have said on the matters at issue. It will be emphasized, however, that an accurate interpretation of the statements by past decades’ Federal Reserve Chairs and by contemporaries requires that the *changing meaning of words over time* be taken into account. As

¹¹ A similar position was expressed in the Lohmann (1993) quotation given in Section 1. Likewise, Kwabi, Boateng, and Du (2020, p. 2) contend: “The theoretical basis for central bank independence can be found in the influential works... based on time inconsistency.”

¹² Later, Crowe and Meade (2008, p. 764) noted correctly that policy-oriented analysts had taken issue with economic research’s “focus on time inconsistency, arguing that it is not a relevant concern for modern central banks, particularly in industrial countries.” Relatedly, Blake and Weale (1998, p. 449) acknowledged that, even before 1977, policymakers were arguing for central bank independence. These authors contended nevertheless that “the main argument for central bank independence has come from one particular perspective,” namely, the perspective of the time-inconsistency literature “generated by articles by Kydland and Prescott (1977), Barro and Gordon (1983), and Rogoff (1985).” It will be shown below, however, that the pre-1977 arguments made by policymakers for central bank independence were actually reiterated by Volcker and Greenspan over the period from 1979 to 2006.

will be seen, this consideration bears with particular force on interpretations of the term “a creature of Congress” that has often been used in reference to the status of the Federal Reserve. Section 3.3 will discuss how—contrary to some claims made in both the research literature and public discourse—the endorsement of this phrase by Federal Reserve chairs has not actually indicated or implied a belief in, or an acceptance of, a lack of independence (*vis-à-vis* the U.S. Congress) of the Federal Reserve regarding its monetary policy decisions.

3.1 Constitutional power over monetary policy

“Control of money is a function of the federal government specifically mandated in the Constitution of the United States,” Federal Reserve Chairman Paul A. Volcker noted early in his tenure (CBHUA, 02/04/80, p. 7). Specifically, Article 1, Section 8 of the U.S. Constitution states: “The Congress shall have Power...To coin Money, regulate the Value thereof, ...”¹³ With regard to the analysis and execution of monetary policy, five aspects of this constitutional power are worth noting here.

First, although the constitutional provision described money creation in terms of coin, as opposed to referring to printing or issuance of money, “coin” here was being used as a verb that covered general creation of money—and not simply of metallic money. Consistent with this, the U.S. Supreme Court subsequently interpreted the Constitution’s use of the term “coin money” to include money-printing powers.¹⁴

Second, “money” would come to be understood to encompass not only coin and paper currency but also money created via manual or electronic bookkeeping entries. It consequently included powers over inside money—that is, money issued by private-sector depository institutions. Reflecting this consensus, Chairman William McChesney Martin, Jr. remarked in the mid-1960s that “it is now well settled that Congress has constitutional authority to employ any means appropriate for carrying out its credit and monetary powers” (CBCH, 01/21/64, p. 26). Correspondingly, when testifying during this period (in his nomination hearing to be a member of the Board of Governors), J. Dewey Daane maintained with regard to the money power (CBCS, 11/07/63, p. 3): “Certainly, it extends through the creation of bank credit and, of course, as you well know, that is the important part of our money supply, rather than the actual physical coin and paper money.”

¹³ See <https://constitution.congress.gov/constitution/>.

¹⁴ See Representative Wright Patman’s comment in CBCH, 01/21/64, p. 17.

The fact that the money powers in question were, by the time of the establishment of the Federal Reserve System in 1913–1914, accepted as going beyond physical money was evident in the very name of the organization. The word “Reserve” appeared in the name “Federal Reserve” in reference to commercial banks’ reserve balances—which, in a banking system having a public-sector central bank at its core, would primarily consist of the non-currency portion of base, or outside, money. Correspondingly, at the time of the setting-up of the Federal Reserve System (as well as in later periods), part of the central bank’s task of monetary control was seen as involving the provision (creation) of commercial bank reserves (that is, deposits at the Federal Reserve) during those times when large-scale currency withdrawals by bank customers threatened to create a sharp reduction in commercial banks’ deposit liabilities and correspondingly lead to a sudden retrenchment in banks’ loans and investments (Warburton, 1962, p. 83).¹⁵

Third, “regulate the Value” has usually been taken as meaning the setting of enforceable rules governing the provision, acceptability, and redeemability of U.S. (nominal) money, rather than implying, in itself, a national price-level goal (see Johnson, 1975). That is, the Constitution specifies a monetary policy power but it does not assign an explicit economic objective to monetary policy. In this vein, when testifying shortly after spending a long period (the mid-1930s through 1948) as head of the Board and FOMC, and speaking during his continuing spell as a Board governor, Marriner S. Eccles remarked: “it was intended when the Federal Reserve Act was passed in 1913 that the Federal Reserve System be able to control the expansion of the supply of money.” (CBCS, 07/29/48, p. 63.)

Fourth, the Constitutional clause in question does not explicitly mention interest rates. And, with respect to the interpretation of that clause, it is not the case that the term “value of money” has come to be widely accepted as being intended to connote interest rates.¹⁶ It is the case, however, that—certainly by the time of the creation of the Federal Reserve System—it had long been widely realized that money-creating powers implied an important influence over the course of

¹⁵ In later periods, there was increased appreciation of the notion that bank-reserve provision not only supported the existing level of deposits but could, in certain circumstances, promote a multiple expansion of deposits. In light of this, Karl Bopp—a senior member of the staff of the Federal Reserve Bank of Philadelphia and later head of that bank—stated: “The title of our system is the Federal Reserve System. The word ‘Reserve’ is in the middle of the title. It is the keyword because reserves form the basis on which banks can expand; they are the key item in the whole process.” (In Federal Reserve Bank of Philadelphia, 1948, p. 8.)

¹⁶ Two individuals who were prominent Congressional overseers of the Federal Reserve in the period considered here did, however, on occasion, express interpretations of the money power in those terms. Representative Wright Patman stated, “the Constitution of the United States says that Congress shall coin money... and regulate its value, which, of course would include interest rates.” (CBCH, 01/21/64, p. 17.) And Senator William Proxmire (D-WI) contended (CAF, 02/26/62, p. 476): “under the Constitution, article I, section 8, the Congress regulates the value of money—which is interest. [It] delegates that to the Federal Reserve.”

national interest rates. Over successive decades of the Federal Reserve System’s existence, this feature of monetary policy continued to be prominently noted and accepted. One Federal Reserve official who did so was Marriner Eccles—for example, in his statement (JCER, 11/22/49, p. 231), “The mechanism, however, for establishing money-market rates is in the hands of the [Federal] Open Market Committee.”

Although Federal Reserve Chairs from Martin onward often cited forces other than monetary policy bearing on U.S. interest rates, they also granted monetary policy’s influence in this area as well as its capability of being the decisive factor in the setting of securities-market yields—most immediately those at short maturities. Monetary policy’s key role in influencing interest rates was also recognized by the legislative and executive branches of government. For example, Senator William Proxmire said of the Federal Reserve, “They obviously have direct control over money supply, and they have a profound control over interest rates.” (CRS, 03/03/78, p. 5458.) President Gerald Ford observed, “the Federal Reserve Board controls the supply of money and, basically, the interest rates throughout the country.” (PPpr, 04/03/76, p. 937.) Likewise, President Jimmy Carter stated: “the Federal Reserve... can determine how much money is extant at [any] one time and indirectly control the interest rate.” (PPpr, 02/17/78, p. 354.)¹⁷

Fifth, the constitutional provision gives the monetary power to Congress (the legislative branch of government) rather than to the U.S. president and the executive branch of government. Reflecting this assignment, Senator Proxmire noted that “the Congress has the money power, not the president” (JEC, 09/09/71, p. 395), and Senator Prescott Bush (R-CT)—who had a son and a grandson who each later became president—likewise observed: “The Constitution... gives the Congress... the power to make money or print money... [I]t gives the Congress the power over the monetary system, not the President of the United States.” (CBCS, 02/24/60, p. 31.)

3.2 Delegation of Congress’ monetary policy power to the Federal Reserve

Federal Reserve Chairman Marriner Eccles wrote in 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. They meant that Congress should pass laws regarding the coinage of money and

¹⁷ The Ford statement, like many in the era (including Arthur Burns in the April 1971 statement quoted shortly), referred to the Federal Reserve Board as the source of monetary policy decisions. Referring to the FOMC (or to the Federal Reserve System) would have been more accurate in this context. Although the Federal Reserve Board certainly possessed specific monetary policy powers, Federal Reserve influence on market interest rates stemmed mainly from FOMC actions.

regulating the value thereof... The right of Congress to entrust to administrative agencies the execution of the laws which it enacts is as old as the Republic.”¹⁸

In 1981, Chairman Volcker similarly submitted: “From the early days of our nation[,] it has been recognized that ours is a government of delegated powers. The Constitution gives the Congress many powers, but that does not mean that Congress must set up in its own establishment the means of implementing those powers. Instead, it delegates the authority to carry out many of its responsibilities to various federal departments and agencies. Thus, although the Constitution states that the Congress shall have power to coin money and regulate its value, the Congress has delegated that power to the Treasury Department and to the Federal Reserve System.”¹⁹

In particular, the delegation of monetary policy authority to the Federal Reserve System occurred as part of the System’s creation (effective in 1914) in the Federal Reserve Act of 1913.

Successive Federal Reserve Chairs have noted that the organization’s monetary policy authority flows from Congress’ assignment to it of the legislative branch’s own constitutional power. For example, Martin remarked (*U.S. World and News Report*, 02/11/55, p. 61): “I think of the Federal Reserve—and I’ve expressed it frequently—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.”²⁰ And Volcker testified (CBFUA, 07/20/83, pp. 195–196): “monetary policy is a constitutional responsibility of the Congress... [and] you delegated that responsibility.”²¹

In the realm of the more practical considerations associated with this delegation, Chairman Arthur F. Burns remarked (CBCH, 04/26/71, p. 303): “I think 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 and credit policy. I think it would be a virtually impossible task. The Congress would have to be in session on this one set of problems continuously, to do that.”

¹⁸ Letter of May 17, 1938: <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/letter-marriner-s-eccles-460075/fulltext>.

¹⁹ Letter of October 14, 1981: <https://fraser.stlouisfed.org/archival-collection/paul-a-volcker-papers-5297/chronological-correspondence-588398/fulltext>.

²⁰ Similarly, in the hearing held after he was named Board member and chairman, G. William Miller stated that “the Federal Reserve... was established by the Congress” (CBHUA, 01/24/78, p. 89) and, in an early Congressional appearance as chair, he observed that it was “the Congress that has created the Fed, not the Constitution” (CBFUA, 04/10/78, p. 143).

²¹ A little beyond the period covered in this paper, Chairman Ben Bernanke remarked at his ceremonial swearing-in (February 6, 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.” See Bernanke (2006).

3.3 The term “creature of Congress”

As already noted, the decision by the U.S. Congress to assign its monetary policy power to the Federal Reserve did not reflect simply considerations of expediency (the considerations centered on the just-noted practical judgments about what were the most administratively feasible arrangements). It also involved a judgment about the most appropriate context in which deliberations on monetary policy should take place. That judgment led to the Federal Reserve being given autonomy or independence in its monetary policy decisions. This independence and the rationale for it are central to the analysis in this paper. Consequently, as a preliminary matter, it is important at this point to examine a much-used phrase describing the Federal Reserve’s status—one employed over the years by various legislators and several Federal Reserve Chairs. The phrase is “a creature of Congress.” On the surface, usage of this phrase when describing the Federal Reserve would seem to contradict the notion of its independence (in decision-making) *vis-à-vis* the legislative branch. It will emerge, however, that this phrase does not have this implication, once the change in meaning over time of the term “creature” is taken into account.

The need for clarification on this score is underlined by the fact that, when covering the William McChesney Martin years in his account of Federal Reserve policy, Meltzer (2009) took what he regarded as Martin’s postulate, “The Federal Reserve was a creature of Congress” (p. 178), as a basis for claiming that the Martin Federal Reserve’s perception of its responsibilities to Congress compromised its pursuit of price stability. Meltzer characterizes the central bank in this era as seeing itself as having a responsibility to secure the financing of U.S. budget deficits: according to this characterization, the Federal Reserve would adopt the monetary policy stance that it judged consistent with prevention of inflation only if this stance was deemed consistent with the financing responsibility (p. 179). In fact, this was *not* how Martin envisioned the Federal Reserve’s role. With respect to inflation, although Martin (in common with several of his successors) viewed balanced federal budgets as making it *easier* to pursue a noninflationary monetary policy, he judged it possible to secure noninflationary financing of substantial budget deficits and to avoid excess demand in the face of such deficits.²² With respect to the Federal Reserve’s goals, Martin saw monetary policy as being concerned with the overall macroeconomy and not with deficit financing. He envisioned the Federal Reserve as having (in its fiscal-agent function) a role to play in helping deliver well-functioning Treasury securities markets—but he

²² Meltzer (2009) takes the Federal Reserve’s serving as the government’s fiscal agent as automatically leading to monetization of Treasury debt issuance in the Martin period. His contention is taken as a fact by Binder and Spindel (2017, p. 169). In reality, debt-management and monetary policy practices followed after the early 1950s did not carry this implication, as the authorities were not committed to policies of fixed interest rates in securities markets.

did not perceive an obligation on the part of the central bank to monetize budget deficits by issuing bank reserves. Meltzer's implication to the contrary rests in part on his imbuing the term "creature of Congress" with more significance than was intended when the term's usage in reference to the Federal Reserve began. In particular, Meltzer misconstrued "a creature of Congress" as implying more subservience to Congress on decision-making than Martin and others had actually meant to imply when using the term.

Many readers of Meltzer's book likely had the same impression. The term "creature" had changed drastically in meaning in the decades between its first usage (as a description of the Federal Reserve) and the time of the appearance of Meltzer's book. Readers likely were inclined to attach the 2009-vintage meaning to the word, rather than the meaning intended when the term "creature of Congress" first became prevalent in monetary policy discussions—and so to see the Federal Reserve's endorsement of the term as supportive of Meltzer's (erroneous) characterization of Martin as taking an accommodative posture toward Treasury debt issuance.

Certainly, Meltzer's association of this term "creature of Congress" with Martin is not altogether misplaced. Martin used the term on various occasions: for example, he stated in a 1955 interview, "We're a creature of Congress" (*U.S. News and World Report*, 02/11/55, p. 130). It was also used by some of his successors.²³ In deploying this description, however, they were following pre-Martin Federal Reserve governors. Federal Reserve Chairman Thomas McCabe had referred to "the Federal Reserve being a creature of the Congress and reporting to the Congress" (JCER, 12/03/49, p. 489) and remarked (CBCS, 02/16/50, p. 377), "We feel we are a creature of the Congress; and, when the Congress summons us [to testify], here we are." Governor Eccles had also deployed the term "creature of Congress" in the same period (JCER 11/22/49, p. 216; JCER, 01/25/51, p. 178).²⁴ The term "creature of Congress" itself in turn predated 1914, having been then used in reference to other federal government agencies.

However, in the early post-World War II years, the standard meaning of the word "creature" was undergoing a sharp alteration. The descriptive value of the term "creature of the Congress" is accordingly diminished by the discrepancy between the pre-World War II and more modern

²³ For example, Arthur Burns testified, "I have recognized not only in the past, but again this very morning that the Federal Reserve is a creature of the Congress, and that it is a servant of the Congress." (CBCH, 09/27/71, p. 24.) He later elaborated: "I would say it is an agency that was created by the Congress. That would be the full description. To say [only] that it is an agency of the Congress would, I think, be an incomplete statement." (CBCCH, 01/21/76, p. 1996.)

²⁴ Eccles also described the Federal Reserve Board as a "creature of the Congress" in an internal memorandum to Chairman McCabe dated February 10, 1949. See <https://fraser.stlouisfed.org/archival-collection/marriner-s-eccles-papers-1343/memorandum-chairman-mccabe-468002>.

create, *krē-āt'*, *v.t.* [*transitive verb*] to cause to come into existence; form out of nothing; invest with a new rank, office, or function: *v.i.* [*intransitive verb*] to originate. [...]
creature, *krē'tûr & krē'cher*, *n.* anything created, esp. a living being; one dependent on the influence of another: *adj.* of, or belonging to, the body.

Figure 1. The definition of “creature” in a vintage dictionary.
Source: Bloor, Roberts, and Nutt (1936, p. 226).

definitions of “creature.” Figure 1 reproduces the definition of “creature” given in a 1936 dictionary. It shows that “creature” at that time was merely a derivative of “create.” In contrast, the modern definition of “creature” as given in oed.com is: “A person who is ready to do another’s bidding; a puppet.” This was *not* the intended connotation at the time when the phrase “creature of Congress” came to be used by Federal Reserve policymakers. That “creature” did not actually mean subservience when they deployed the term was reflected in Eccles’ remark (JCER, 11/22/49, p. 216): “The Federal Reserve System is a creature of the Congress. You can make it weak, or you can make it strong.”

Correspondingly, though Martin continued over his tenure to use the phrase “creature of Congress,” he did not mean it to imply lack of independence in monetary policy decisions or choices. Rather, he and his successors stressed that the Federal Reserve from 1914 on was *overseen* by Congress but, absent changes in law, not subject to instruction from it on specific monetary policy decisions or required to subordinate monetary policy to fiscal or debt-management considerations. For example, in 1965, while noting “I think we are a creature of Congress,” Martin observed that the sense in which the Congress ultimately had “complete control” lay in the fact that “Congress can change the Federal Reserve Act any time it wants.” (JEC, 02/26/65, p. 46.) Likewise, in 1968, during a hearing in which he remarked, “we are a creature of the Congress” (JEC, 02/14/68, p. 201), Martin also noted, “Now the Federal Reserve, as you know, as presently constituted—the Congress can change it at any time that it wants, of course—is independent within the Government.” (JEC, 02/14/68, p. 200.)

The fact that the term “creature” was changing in everyday use in the postwar years in a manner that rendered the term “creature of Congress” liable to misinterpretation was reflected in the fact that Tobin (1961, p. 25) instead used the formulation, “The Federal Reserve is a creation of Congress.” During the same period, the private-sector body the Commission on Money and Credit (1961, p. 86) seemingly attempted to downplay the significance of the term “creature” by noting: “All agencies, line departments like the Treasury no less than the Federal Reserve Board, are ‘creatures of Congress’ in the sense of owing their existence and powers to legislation.” This explanation, however, did not capture the fact that, unlike the Treasury, the Federal Reserve was—in its economic-policy decision-making—autonomous *vis-à-vis* both the legislative and executive branches. That point was better captured by the 1960s Martin quotations already given and also in that decade by Board governor-nominee J. Dewey Daane who, when asked by Senator Paul Douglas (D—IL) to explain the term “creature of Congress,” replied: “Well, it was established by the Congress. It was amended a number of times subsequently, most significantly in the mid-1930s. Its power derives from Congress, and its power in this connection derives directly from the Constitutional provision that you cite.” (CBCS, 11/07/63, p. 4.)

The fact that “creature of Congress” did not actually imply lack of independence in monetary policy decisions (that is, lack of instrument independence: see DeBelle and Fischer, 1994) was also relayed by Volcker in his first confirmation hearing to head the Federal Reserve: “I think we are the creature of Congress, and Congress decided, in 1913, to set up the Federal Reserve in a way that gave it some insulation from the kind of political pressures that you described. They reexamined the Federal Reserve in 1935 and reiterated, very wisely in my opinion, that fundamental decision: and that is the law as it stands today.” (CBHUA, 07/30/79, p. 6.)²⁵

Even in the early Martin years, the awareness that the phrase “creature of Congress” did not mean what many might, by this stage, think it meant was reflected in Senator Douglas’ use of the word “agency” (instead of “creature”) in his famous injunction to Martin: “I have had typed out this little sentence which is a quotation from you: ‘The Federal Reserve Board is an agency of the Congress.’ I will furnish you with scotch tape and ask you to place it on your mirror” (CBCS, 01/27/56, p. 25).²⁶

²⁵ Elsewhere, Volcker described the Federal Reserve as an “agency” and “instrumentality of government” (CBFUA, 05/15/80, p. 57).

²⁶ This injunction on Douglas’ part would be quoted in numerous retrospectives on U.S. monetary policy, including Clifford (1965, p. 330). Meltzer (2009, p. 136) quotes it, adding that Douglas was using “Martin’s own words.” In fact, Douglas was paraphrasing a remark that Martin had made earlier in the hearing (Martin’s words had been, “I regard it as an independent agency of the Government”—CBCS, 01/27/56, p. 24). Senator William Proxmire later misstated the exchange as “Paul Douglas advised William McChesney Martin... to write on your bathroom mirror, ‘I’m a creature of the Congress’” (CBHUA, 01/24/78, p. 89). Still later, as was indicated in Section 2 above, the

3.4 Two snapshots of Congressional attitudes

Many of the Federal Reserve policymaker statements used in this paper were remarks made to Congressional interlocutors in correspondence or in exchanges in Congressional committee hearings, or they were part of the opening testimony at these hearings. Among the legislators who were regular faces at these committee sessions, the aforementioned Senator Paul Douglas figured importantly, being one of the major Congressional overseers of, and commentators on, monetary policy during the later 1940s, the 1950s, and the first half of the 1960s.

It is worth providing snapshots of the perspective taken on monetary policy independence by two other prominent Congressional committee members—Representative Wright Patman and Senator William Proxmire—who continued in committee posts into the Burns and Greenspan eras of the Federal Reserve, respectively. These snapshots bring out some of the key points of contention on central bank independence that marked the Martin era and later periods.

With regard to central-banking terminology, a notable contribution was made by Wright Patman in his signing off on a Congressional subcommittee report on monetary policy that appeared in the early Martin period. This report promulgated and endorsed the term “independent within government” in reference to the Federal Reserve—a term originally due to a submission made to the subcommittee by Allan Sproul, the FOMC’s vice chair (JCER, 06/26/52, p. 51). This endorsement of monetary policy independence would prove, however, to be uncharacteristic on Patman’s part: in his capacity as head of the House of Representatives’ Committee on Banking and Currency, he would establish a long record of hostility toward Federal Reserve independence. For example, in December 1965 Patman held hearings in opposition to the Federal Reserve Board’s recent increase in the discount rate. During the hearings, Patman contended that the Federal Reserve Act did not make the Federal Reserve independent, focusing on the fact that the words “independent” and “independence” did not appear in the text of the law (JEC, 12/14/65, pp. 272, 274).

Some of Patman’s initiatives from the 1950s to the 1970s—such as calling for the release of FOMC Minutes (transcripts), at a time when this document had no release date, and for the Federal Reserve to provide forecasts of interest rates—arguably foreshadowed aspects of monetary policy transparency that became standard. But his initiatives were taken in the context of his hostility to any monetary policy that did not immediately deliver low interest rates and a

injunction was incorrectly stated by an op-ed columnist as having been due to Proxmire.

related desire to terminate Federal Reserve monetary policy independence. Patman's association with extreme easy-money prescriptions (including those featuring a concerted program to monetize a large portion of the national debt: see Meltzer, 2009, p. 228, and 02/06/59, p. 479), at a time when monetary policy oversight was becoming more central in Congress, likely contributed to his colleagues' removal of him from the chair post in early 1975, although he continued to hold senior posts in oversight committees until his death about a year later.

Whereas Patman became, if anything, more intense in his opposition to central bank independence, William Proxmire—a senator over 1957–1989 and, at times, head of the Senate banking committee and the Joint Economic Committee—exhibited increasing sympathy toward Federal Reserve monetary policy independence. In a 1974 confirmation hearing held for a nominee for a Board governor position, Proxmire seemed unhappy when the nominee (Philip Coldwell) stated that the Federal Reserve had “independence in making judgments” and that the necessary step that Congress needed to take to require a specific monetary policy course to be followed was to vote to direct the Federal Reserve to do so (CBHUA, 10/08/74, p. 3). Proxmire replied, “I am somewhat disturbed about this notion of independence of the Congress. I certainly recognize the independence of the Executive. But the independence of Congress is something I don't know the basis for.” (CBHUA, 10/08/74, p. 3.) At this time, it appears that Proxmire's position that monetary policy recommendations (for example, a specified monetary-growth range) supported by Congressional committee reports, but not approved by the two Congressional chambers, should be binding requirements on the Federal Reserve Board and the FOMC.

Within a short time, however, Proxmire had become more amenable to the notion that assignments of monetary policy goals should require Congress-wide votes. He was a driving force behind 1975's Concurrent Resolution 133 (supported by both houses) which, among other things, introduced the modern dual-mandate language of “maximum employment and price stability,” and of the Federal Reserve Reform Act of 1977—which made this dual mandate part of permanent statute by putting it into the Federal Reserve Act. Later still, Proxmire became receptive to what, in modern terminology, would be called a recognition of the distinction between instrument independence and goal independence: he supported the Federal Reserve's operational independence in pursuing its Congressionally assigned monetary policy goals. In particular, after mostly negative relationships with the Federal Reserve leadership during the later Burns years and the Miller tenure, Proxmire became supportive of the direction of monetary policy from 1979 onward and publicly backed instrument independence under both Volcker and Greenspan. For example, in November 1981 (during the Volcker disinflation), he remarked,

“We have the money power. That is what the independence of the Fed is all about. It is a congressional power that we have delegated” (CRS, 11/09/81, p. 27019). And about a year into the Greenspan tenure, Proxmire maintained: “I don’t see any reason why we should change the independence of the Fed... I think it’s a great advantage for the country” (*Washington Post*, 07/24/88, p. H4).

4. Federal Reserve organizational statutes and independence within government

This section discusses at a high level some of the key laws bearing on the independence of the Federal Reserve. As already indicated, the Federal Reserve Act of 1913 made the central bank independent from its inception in 1914. Subsequently, the Banking Acts of 1933 and 1935 instituted many of the modern FOMC procedures.²⁷ When these procedures had been in force for over a quarter century, a senior Federal Board staffer (Young, 1962, p. 16) described matters during the Martin years as: “The Federal Open Market Committee, composed of the seven members of the Board of Governors and the twelve presidents of the Federal Reserve Banks, is the supreme monetary policy body of the Federal Reserve System.” A more precise statement than Young’s might be to call the 19 individuals “policymakers,” rather than FOMC members—as the FOMC membership consists of a subset of the 19: at any time, 5 of the 12 presidents are voting members, though all 12 presidents are participants in the FOMC meeting deliberations.

Other notable changes flowing from the 1930s laws included the separation of the Federal Reserve’s budget from the appropriations process (1933), a significant lengthening of Board member terms, and the removal (in 1935) from the Federal Reserve Board of two members of the executive branch, including the Secretary of the Treasury. The last of these changes is discussed in Section 5’s consideration of the connection between central bank independence and the financing of government spending.

Following the 1935 changes in statute, there was considerable institutional continuity in subsequent decades, with Greenspan (1993, p. 178) observing: “The organizational structure of the Federal Reserve (including the Federal Open Market Committee in its current form) has been essentially unchanged since 1935.”

Although they would leave the internal structure of the Federal Reserve largely unaltered, in the

²⁷ See <https://fraser.stlouisfed.org/title/banking-act-1933-glass-steagall-act-991> and <https://fraser.stlouisfed.org/title/banking-act-1935-983>.

postwar period there were two further key laws—enacted during the late Burns period and the Miller era—amending monetary policy-related aspects of the Federal Reserve Act. These were the Federal Reserve Reform Act of 1977 and the Full Employment and Balanced Growth Act of 1978. Analysis of these changes is deferred until Section 7’s coverage of the Federal Reserve’s statutory objectives. At this point, however, one change to the FOMC and Board setup arising from the 1977 law should be noted: there was a new requirement of Senate confirmation of presidential nominations of the Federal Reserve Board Chair. Previously, the Senate confirmation process had been only in relation to being a Board member.

The addition of a Senate confirmation process for the Chair outlined in the 1977 law also required confirmation hearings and Senate votes for second (or later) terms of an incumbent Chair. As a consequence, during the period covered in this paper, the multi-term Chairs Volcker and Greenspan each had more than one confirmation hearings for their Chair slot: Volcker in 1979 and 1983; Greenspan in 1987, 1992, 1996, 2000, and 2004.

As emphasized above, however, most of the laws bearing on the organizational and procedural aspects of central bank independence were laws passed in 1933–1935. Rather than going into further chapter and verse on the contents of these acts, the rest of this section will consider how various Federal Reserve Chairs characterized key features of these laws and their implications for monetary policy independence.

Martin observed about four years into his tenure (*U.S. News and World Report*, 02/11/55, p. 130): “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.” He stated about a year later (CBCS, 01/27/56, p. 67): “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.” The ability to exercise this independent judgment was, he continued to stress in later years, part of the law: “we are independent, as stipulated by the Federal Reserve Act” (JEC, 02/14/68, p. 202).

One of Martin’s elaborations of the status of the Federal Reserve’s monetary policymaking linked it to the “independence within government” concept: “the independence that we talk of, as to the Federal Reserve, is independence within the government but not independence of the government. We are a creature of the Congress, and the Congress has given us, has bestowed on us, through the Federal Reserve Act, a trust indenture by which we handle the money supply which comes from the power of Congress to coin money and regulate the value thereof, and within the framework of that trust indenture we can exercise the independence of our judgment

until such time as the Congress takes that trust indenture away from us.” (CWM, 06/11/59, p. 201.)

Chairman Volcker remarked: “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.” Volcker also observed that “any encroachment on our independence... would be firmly resisted” (CA, 01/27/81, p. 115).

On the same subject, Greenspan (1993, p. 177) noted: “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.”

With regard to key institutional features associated with monetary policy making and their connection to independence, Volcker (1984, p. 5) observed: “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.”

Along similar lines, Greenspan (CBFUA, 10/13/93, p. 17) remarked: “Several aspects of the current setup promote the central bank’s distance from the political fray. The 14-year terms of the governors on the Federal Reserve Board are one of those elements... Once in office, those governors cannot be removed by the [U.S.] president over a policy dispute. In addition, regional Reserve Bank presidents, who are selected at some remove from political channels, are included on the FOMC. [And] to prevent political pressure from being applied on monetary policymakers via the power of the purse, the Federal Reserve is not required to depend on appropriated funds to meet its expenses.” On another occasion, he noted: “we are insulated from... countermanding of the decisions that we make under law in the Federal Open Market Committee” (CWM, 01/20/99, p. 35).

Successive Federal Reserve Chairs have observed that independence does not imply a gag order on the rest of the government on the subject of monetary policy or prohibition of a dialogue between the Federal Reserve and different economic-policy agencies on monetary policy-related matters. On the contrary, they have noted that the situation in which the Federal Reserve makes monetary policy decisions prevails alongside Congressional oversight of monetary policy, as well as public commentary on monetary policy by successive Congresses and administrations.

In this connection, Chairman Burns offered the judgment (CBCS, 03/18/70, p. 15): “I think that the president, the Secretary of the Treasury, and the Chairman of the Council of Economic Advisers, for example, are entirely within their rights in expressing their opinions... [I]t is entirely proper for members of the executive branch to indicate what they think.” With regard to this issue, Volcker (CBHUA, 02/25/81, p. 15) remarked: “My view, of course, is that we are an independent agency. 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.” Similarly, Greenspan (CBHUA, 07/12/90, p. 55) testified: “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.”

One aspect of the internal governmental dialogue on economic policy, including monetary policy, is the Federal Reserve Chair’s weekly meeting with the Secretary of the Treasury. This arrangement will be discussed in Section 6.

5. The three-part economic case for monetary policy independence

This section discusses the *economic case* for monetary policy independence as articulated by the Federal Reserve leadership in the 1951–2006 period. It is customary, especially in economic research, to motivate central bank independence in terms of analyses like Kydland and Prescott (1977). But such a motivation seems misplaced when considering the key arguments used in practice for central bank independence in the Martin through Greenspan years. As Fischer (1994, p. 262) observed: “The practice and theory of modern central banking revolve around the inflationary tendencies inherent in the conflict between the short- and long-run effects of

monetary expansion and in the temptations of monetary financing of government spending.” It will be shown below that these are the arguments traditionally used for central bank independence by U.S. policymakers. And they predated the time-inconsistency literature that flowed from Kydland and Prescott (1977).

In light of this fact, the time-inconsistency literature’s key analytical results are relevant for understanding the practice of U.S. central bank independence if it is the case that, in effect, that literature provided a formalization of the traditional arguments. It is clear, however, that this was *not* the case. Certainly, the basic time-inconsistency argument, in common with the traditional basis for central bank independence, does stress a short-run/long-run distinction. But beyond that, time-inconsistency analysis bears little resemblance to the basis on which Federal Reserve Chairs from 1951 to 2006 justified central bank independence. Notably, the fact that the classic time-inconsistency analysis associates with policymakers attributes that they have actually shunned in practice—such as a *deliberate* wish for excess demand and willingness to have a steady-state rate of inflation in excess of that associated with price stability—was a key factor in the backlash that took place during the 1990s among economic researchers against the empirical relevance of time-inconsistency theory for the analysis of past or current U.S. monetary policy. This backlash included critiques of the use of the theory to understand why U.S. inflation had been high in the past (an objection stressed by, for example, Taylor, 1992) and, relatedly, to characterize central banks’ objectives (see, for example, Blinder, 1995, 1998). A corollary of these objections to time inconsistency as positive economics was that the theory likely had been greatly overrated as an empirical motivation for central bank independence—a point stressed by McCallum (1995) as well as in more detail in recent analyses such as Cochrane (2026).

The chronology of developments also argues against viewing time inconsistency as the actual basis for central bank independence. As already noted, the considerations mentioned by Fischer (1994) and quoted above provided the rationale for independent central banks that has typically motivated Chairs’ case for independence. This rationale was articulated extensively by policymakers well before 1977, *ahead of* the launch of the time-consistency literature. Indeed, time inconsistency did not really become entrenched in research discussions of monetary policy until a good number of years beyond 1977. This entrenchment occurred after the appearance of Barro and Gordon (1983)—a study that made the time-inconsistency arguments more accessible, more concrete, and more directly concerned with monetary policy analysis. Subsequently, time-inconsistency arguments did become prevalent among economists—as is evidenced by the multiple contributions discussing those arguments in an August 1984 symposium on monetary policy and price stability (Federal Reserve Bank of Kansas City, 1984). Even so, as of the mid-

1980s it remained a normative-economics and theoretical argument, rather than something that had been systematically applied to U.S. experience—a situation reflected in Oudiz and Sachs’ (1985, p. 308) observation: “For all the discussion surrounding time consistency, ... there is not a single empirical investigation of its importance in the macroeconomics literature.”

To discern the actual empirical case used by policymakers, therefore, one has to consider arguments prevalent before 1983. Central bank independence consequently provides a more modern-day example of William Stanley Jevons’ (1911, p. 153) maxim: “It is very curious that in this subject, which reaches to the very foundations of Political Economy, we owe more to early than later writers.”

Fischer’s (1994) two-part description, given above, of the longstanding case for central bank independence is conveniently reconstituted as *three* components—overlapping, but basically separable—that make up the main rationale for independence articulated by policymakers in the Martin through Greenspan eras. These components are (i) Longer-term costs of using monetary policy to overstimulate the economy. (ii) The need to avoid subordinating monetary policy to the Treasury’s or Executive’s financing requirements. (iii) The need for a long horizon in monetary policy decision-making. Each of these components of the case for central bank independence is now analyzed, using Federal Reserve Chairs’ own words.

5.1 Avoiding overstimulation

A basic version of what would come to be called natural-rate-hypothesis-related ideas—which imply the long-run neutrality of output and other key real variables with regard to a move to a higher average inflation rate—was present in Federal Reserve policymaker thinking even during the 1950s and 1960s (Romer and Romer, 2002, 2024; López-Salido, Markowitz, and Nelson, 2025). Federal Reserve Chairs after Martin were also well disposed toward these ideas, which had by that later time attained firm support in the U.S. economics profession. Against this backdrop, 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. The Fisher effect (an effect endorsed by Chairs since Martin) bolstered this argument, as it suggested that excessively expansionary monetary policy would ultimately deliver permanently higher nominal interest rates. This facet of the case for avoiding excess demand also entered the arguments made by successive Federal Reserve leaders.

Along these lines, Martin observed: “If you have a strong boom in business, the resulting increase in [the] demand for credit naturally brings about higher interest rates. If that equilibrating quality of interest rates is not manifested, then the boom gets out of hand... What we are seeking is [instead] a sustainable prosperity.” (*U.S. News and World Report*, 02/11/55, p. 60). He stressed that attempts to frustrate increases in market interest rates would prove counterproductive: “if the Congress gives us instructions to peg government securities [prices]... my guess is that it not only will not be successful but [also] that interest rates will actually rise instead of being stabilized” (CWM, 06/11/59, p. 202). And with regard to actively promoting inflation, Martin warned (CF, 08/19/57, p. 1406): “Any employment which would develop as a result of a creeping inflation... would be very temporary indeed.”

As far as appropriate policy was concerned, Martin noted (JEC, 02/02/60, p. 166): “In the longer run, the way that monetary policy can contribute to a lower level of interest rates is through its role in maintaining a stable value for the dollar [here meaning its internal value]... Efforts to maintain an artificial level of interest rates, either too high or too low, can only lead to cumulative financial disequilibrium, first distorting and then disrupting healthy economic growth.”

Chairman Burns likewise contended (JEC, 02/09/72, p. 175): “Attempts to employ the tools of monetary policy to peg interest rates at artificial levels have proved both fruitless and counterproductive... Efforts to peg interest rates at levels below those that bring investment and savings into equilibrium at stable average prices inevitably lead to excessively rapid increases in the money supply and hence to inflation. Rates of interest are then also driven up, as an inflationary premium becomes built into the interest rate structure.” Likewise, Burns’ successor, Chairman Miller, remarked in July 1978: “If the Fed takes the restraint off and lets the money be printed, then, sure, there could be lower interest rates for a while, but then there would be a terrible inflation—and disaster” (quoted in DiCecio and Nelson, 2013, p. 405).

Judgments of this kind continued to be advanced in the Volcker-Greenspan years. For example, Volcker testified (CF, 02/24/82, p. 116): “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.” Correspondingly, he subsequently observed (CBHUA, 02/20/86, p. 46): “But obviously the danger always is that in an attempt to reduce interest rates artificially... you end up with higher interest rates.” Chairman Greenspan remarked (CBHUA, 07/18/90, p. 51): “Certainly, if [markets] perceive that our policies are becoming irresponsible, there is greater risk—and that risk is reflected in higher rates.” He

added: “[If] we endeavored to push interest rates down by flooding the market [with liquidity,] [t]he money supply would accelerate. Inflation would not be that far behind, inflation premiums would rapidly embody themselves in interest rates, and we would be worse off.”

It should be stressed that all of these policymaker remarks were in the spirit of educating the public about the consequences of low-interest-rate policies or about long-run monetary neutrality. They therefore reflect a discourse very distinct from what would be expected among the agents inhabiting a time-inconsistency model. In such a model, policymakers and the private sector are all already aware of the long-term consequences of excess-demand-promoting policies, and the latter policies arise in equilibrium under some circumstances despite this awareness.

5.2 The danger of money financing of deficit spending

The possibility that money creation might be used on a large scale as a means of financing government spending—that is, as an alternative to drawing of funds from the private sector through bond issuance or explicit taxation—has been a longstanding part of the case for separating monetary management from fiscal or debt-management considerations. It is such a familiar element of that case that U.S. policymakers in the postwar period have been able to make visceral appeals to centuries of experience in their expositions. For example, Arthur Burns (1977, p. 419) offered this perspective: “Governments throughout history have had a tendency to engage in activities that outstrip the taxes they are willing to collect. That tendency has generally led to currency depreciation, achieved by stratagems ranging from clipping of gold or silver coins in earlier times to excessive printing of paper money or to coercing central banks to expand credit unduly in more modern times.” Similarly, Paul Volcker (1984, pp. 6–7) observed: “Through the centuries, sovereigns and sovereign governments have yielded to the insidious temptation to seek a solution to budgetary or economic problems by debasing the currency.” And Alan Greenspan stated (CF, 01/25/95, p. 6): “history is replete with examples of fiscal pressures leading to monetary excesses and then to greater inflation.”

In making these points, the Federal Reserve Chairs were echoing sentiments made many decades earlier by authors of fundamental contributions to monetary analysis. For example, John Stuart Mill (1872, p. 330) wrote of debt issuance: “The issuers may have, and in the case of a government paper [money] always have, a direct interest in lowering the value of the currency, because that is the medium in which their own debts are computed.”²⁸ And Irving Fisher and

²⁸ See also the Henry Thornton (1802) quotation used as an epigraph by Clifford (1965).

Harry G. Brown (1911, p. 115) judged: “The history of the world’s currencies is largely a record of money debasements, often at the behest of the sovereign.”

In applying considerations such as these to the Federal Reserve and its status, Martin remarked at his nomination hearing to join the Board of Governors (CBCS, 03/19/51, p. 5): “The Federal Reserve should be independent and not responsible directly to the executive branch... and, in my judgment, should act as a trustee... to see that the Treasury does not engage in the natural temptation to depreciate the currency.” After serving for more than a decade as Federal Reserve Chairman, Martin made the observation (CF, 12/10/63, p. 2696): “If we provide reserves in excess of what we think the economy can use—without inflation—[and do so] either for the purpose of facilitating Treasury financing or for the purpose of making it possible for the Treasury to finance at a lower interest rate than they may otherwise have to pay in the open market, we are, in substance, printing money.” Similarly, Chairman Volcker observed (CTBS, 02/08/85, p. 215): “remember, 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.”

Chairman Martin had occasion to refer to the money-financing temptation in describing how the Federal Reserve Act had reached its postwar form: “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 [so it] amended the Federal Reserve Act to discontinue their service on the Board of Governors.” (CBCH, 01/21/64, pp. 12–13).²⁹

The 1935 change to the Federal Reserve Act to which Martin referred was in the Banking Act of 1935. As this act also created the modern FOMC, it in effect excluded the Executive (both the Secretary of the Treasury and another Board member up to that point, the Comptroller of the Currency) from the United States’ new supreme monetary-policymaking body.³⁰

²⁹ In a similar vein, former senior Federal Reserve Board official E.A. Goldenweiser had testified of the Treasury (JCER, 03/26/52, p. 766): “It is clearly, being the largest borrower in the world, not an agency that ought to have much to say about the rate of interest, because the rate of interest is the price they have to pay when they borrow. I think that subordination of central banking functions to treasuries has always led to difficulties, and I think that it is inherent in the whole institutional history of treasuries.”

³⁰ The law made the removal of the Secretary of the Treasury and the Comptroller of the Currency from the Board of Governors effective on February 1, 1936 (FRBull, 08/01, p. 566).

The 1935 law (which is a focus of Richardson and Wilcox, 1935) has been applauded by successive Federal Reserve Chairs in the FOMC era. For example, when it was put to him that the Treasury used to have a seat on the Board, Alan Greenspan indicated that he had no desire to return to that arrangement: “That is history.” (CBFS, 09/21/95, p. 37.)³¹

Referring to the Federal Reserve Act inclusive of the 1930s changes, Volcker opined (CWM, 03/03/81, p. 368): “I don’t think the Federal Reserve Act [says that monetary policy] is interested in having the Federal Reserve support an inflationary fiscal policy... I think the whole purpose of the independence is so that judgment[s] can be made, and policy carried on, with some degree of insulation...”

Returning to the matter of insulation from fiscal policy in 1984, after large federal budget deficits had emerged and were set to continue, Volcker noted: “Our present situation probably illustrates a concern which is validated through history—that it’s very easy to use the printing press to create money to try to solve other problems that it can’t solve... In the end, that just produces inflation: it won’t cure the budget deficit, and it won’t cure the economic problems. But it may appear to in the short run, and that’s basically why this insulation has been provided.” (*Adam Smith’s Money World*, PBS, 11/25/84, p. 6 of transcript.)

Earlier in 1984, he had remarked (Volcker, 1984, p. 6): “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.” On other occasions, however, Volcker would stress the separation of both the legislative and executive branches from immediate monetary policy decisions. So did Greenspan, when he declared: “To effectively support a stable currency, central banks need to be independent, meaning that their monetary policy decisions are not subject to the dictates of political authorities.” (CBFS, 01/30/98, p. 218.)

Other governors’ statements. Other notable statements by Federal Reserve policymakers on the connection between central bank independence and avoiding deficit monetization include one by Governor Henry C. Wallich (1978, pp. 13): “The founding fathers of the Federal Reserve System knew very well that for politicians the power to print money represents a temptation difficult to resist. It was clear to them that more Executive or Congressional control over the printing press

³¹ Similarly, Paul Volcker had responded to a proposal to make the Secretary of the Treasury an FOMC member: “I don’t think that’d be a very good idea.” (*Adam Smith’s Money World*, PBS, 11/29/84, p. 6 of transcript.)

would mean more inflation. Independence of the central bank would mean less inflation. That was the basis on which the legislators who designed the Federal Reserve Act made their choice.” Wallich suggested that this meant that the case for independence boiled down to “only one issue[:]... inflation.”

Similarly, a couple of decades later, when appearing at a Congressional hearing concerned with his and others’ nominations to be Board governors—and testifying alongside Greenspan at the session—Laurence H. Meyer remarked (CBHUA, 03/26/96, p. 23): “I think history, as I said, speaks rather eloquently on this. When a central bank is not independent, then it is too easy for the federal government to finance its deficits through money creation. We see that particularly in developing economies without independent central banks and how that can lead to runaway inflation. So an independent central bank is essential. If a government is serious about price stability, it has an independent central bank—period.”

5.3 The need for a long horizon in setting monetary policy

The imperative of a long horizon in monetary policy decisions is a further key aspect of the case made by successive Federal Reserve Chairs for central bank independence. They have pointed, on multiple grounds, to the need for policymaking to have a long-term perspective. In so doing, they have highlighted the possibilities that, absent independence, non-macroeconomic considerations could shape monetary policy decisions; or that, even if monetary policy was driven solely by macroeconomic developments, those developments might not be looked at from a sufficiently long-term perspective.

Federal Reserve Chairs have contrasted the arrangements permitted by central bank independence with the short-term horizon, and likely response to factors other than aggregate economic behavior, that might characterize a monetary policy chosen directly by the executive or legislative branches of government. In this vein, Martin assessed (CBCH, 01/21/64, p. 10): “The framers of the Federal Reserve Act, like those of the U.S. Constitution, wrought exceedingly well when they created... a structure that places trusteeship over the creation of money in a body that is insulated from short-sighted pressures.” Similarly, after being nominated to be Federal Reserve Chairman, G. William Miller remarked (CBHUA, 01/24/78, p. 89): “The Federal Reserve... was established with certain characteristics that gave it freedom from short-term pressures.” Paul Volcker (CBHUA, 02/11/82, p. 28) noted, “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,” while also declaring, “that is a trust that you have given us and

that we mean to discharge.”³² He added the following year (CBFUA, 07/20/83, p. 143): “The ability of the monetary authorities to take a considered longer view... is a major part of the justification for a central bank insulated from partisan and passing political pressures.”

Volcker subsequently elaborated: “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.” (*Adam Smith’s Money World*, PBS, 11/25/84, p. 6 of transcript.)

As Volcker’s reference to “passing political pressures” and the electoral process indicated, the relevant short-term political pressures—those envisioned as liable to affect monetary policy decisions if the central bank lacked independence—were seen as going beyond pressure to finance budget deficits. Volcker saw them as comprising a multiplicity of elements and observed (JEC, 06/27/85, p. 183): “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 correspondingly cited the avoidance of (more) inflation as a result of this insulation. Volcker relayed this point in his final Congressional appearances as Federal Reserve Chairman. In the first of these (CBFUA, 07/21/87, p. 33), he referred to “a kind of insidious temptation that I guess has been with us all through human history [is] to look at the next 9 months instead of the next 9 years, and I do think you need some institutional arrangements that help to balance that kind of scale when it comes to making a judgment.” In his very last appearance, Chairman Volcker (CBHUA, 07/23/87, p. 45) observed that what have “been perceived historically as the threat” are “all the short-term political considerations that exist to produce easier money than the basic situation warrants and the long-term health of the currency and the economy warrants...” He declared that “it’s the basic justification for the independence of the Federal Reserve” to exclude such factors as drivers of monetary policy decisions.

Chairman Greenspan similarly noted (CBFUA, 10/25/89, p. 5): “The [Federal Reserve] System has been given an element of independence within government... This independence enables the

³² Chairman Miller had earlier similarly stated (CBFUA, 04/10/78, p. 143): “I think there is no one in the Federal Reserve who is not fully committed to the concept of independence.”

central bank to resist short-term inflationary biases that might be inherent in some aspects of the political process.” He later elaborated (Greenspan, 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.”

In addition to being a factor helping to prevent higher inflation, the longer-term horizon offered by monetary policy independence has been highlighted by successive Federal Reserve leaderships as allowing the central bank to *reduce* inflation from a starting point of elevated inflation rates. This assessment reflects the reality that producing a disinflation involves a sustained period of a restrictive monetary policy stance. It may involve strategies—such as a multi-year disinflation that is ultimately welfare-improving but that have short-run costs in terms of the behavior of real economic activity—that require perseverance to be implemented and may substantially lower inflation only with a considerable delay.

A section titled “The Machinery for the Determination of Monetary Policy” in a Congressional committee report recognized the importance of this argument. It noted (JCER, 06/26/52, p. 4): “Congress, desiring that the claims of restrictive monetary policy should be strongly stated on appropriate occasions, has chosen to endow the [Federal Reserve] System with a considerable degree of independence, both from itself [i.e., the legislature] and from the Chief Executive.”³³

This argument has been propounded by successive Federal Reserve Chairs. For example, Chairman Martin noted that appropriate monetary policy involved “restrict[ing] credit during inflationary periods” and that “decisions... of a restrictive nature... are often unpopular, at least temporarily, with some groups” (JCER, 02/20/52, p. 242).³⁴ Arthur Burns (1977, p. 419) similarly noted: “The capacity of the Federal Reserve to maintain a meaningful anti-inflationary posture is made possible by the considerable degree of independence it enjoys within our government.” And in the spring of 1978, G. William Miller stated: “Dr. Friedman asserts that ‘We need a long-term program dedicated to eliminating inflation.’ I agree wholeheartedly.”³⁵

³³ Unfortunately, the same passage claimed that this consideration meant that the basis for Federal Reserve independence was one of “expediency.” This hardly well described the argument in question, and the inclusion of the “expediency” characterization likely reflected the influence on the report text of Congressman Wright Patman, who, as earlier indicated, was not well disposed toward central bank independence and skeptical of the notion that periods of tight monetary policy were sometimes necessary for economic-stabilization purposes.

³⁴ Also quoted in Hackley (1972, p. 184).

³⁵ Quoted in Nelson (2013, p. 40). Burns and Miller both did in fact raise interest rates over much of their respective tenures, though both Chairs have been judged in retrospect as not having done so sufficiently, on average.

A quarter century on, Greenspan (CBFUA, 10/13/93, p. 65) summed things up as: “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 leaderships have also highlighted the value of a long horizon when monetary policy has both employment (or economic activity) and price-stability goals. In particular, such a horizon helps them take into account the long-term complementarity of the goals and the likelihood that better economic performance is obtainable when policymaking gives considerable weight to this longer-horizon relationship between the goal variables.³⁶

In this vein, C. Canby Balderston (Board Vice Chairman, 1955–1966) observed that “if the integrity of the dollar is destroyed... [other] goals cannot be achieved,” and declared: “The Federal Reserve reports to the Congress. It is a creature of Congress. It was created by the Congress to protect the integrity of the dollar... Congress thought it was wise to create a Federal Reserve System that would not be subordinate to the government of the moment, would not be at the mercy of pressures, private or political, and that is the reason why Congress in its wisdom established a board with terms of 14 years. So, no Board member need be frightened to vote in accordance with his best thinking and his conscience.” (JEC, 12/14/65, p. 223.)

Similarly, during his first confirmation hearing to be Board chairman, Volcker (CBHUA, 07/30/79, p. 4) contended: “We cannot consider these [full employment and price stability] 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.”

Fifteen years later, Greenspan (1994, p. 245) observed: “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.” In addition, Greenspan (1994, p. 243) stressed that the private sector had a long horizon in making many of its own key economic decisions, so it was appropriate that macroeconomic policymaking should correspondingly adopt this horizon.

³⁶ See López-Salido, Markowitz, and Nelson (2025) for further documentation of policymakers’ views on short- and long-term relationships between their macroeconomic goals.

6. Features of monetary policy independence in the post-Accord period

The whole period considered in this paper falls within the post-Accord era—the years following the Federal Reserve/U.S. Treasury Accord of 1951 that paved the way for a revival of the active use of monetary powers in the execution of U.S. stabilization policy. This section discusses some key aspects of the operation of monetary policy independence over this period.

6.1 The status of the Accord

In order to clear the ground, it should first be stressed that the Federal Reserve has been independent continuously since 1914. There was no period between 1914 and 1951 (or, indeed, since 1951) when it lacked legal independence with regard to the making of monetary policy. We have already seen that, as of 1948, Governor Eccles described the Federal Reserve Board as independent. In particular, the Federal Reserve possessed statutory monetary policy independence during the period from 1942 to 1951 when it was seeking to peg the long-term interest rate on government securities at 2.5 percent (as well as peg some shorter-maturity interest rates through 1947). It adopted this policy because the FOMC favored it.³⁷

Nevertheless, it is true that the 1942–1951 rate-pegging policy meant that, over that period, the FOMC and Federal Reserve Board ceded much of their scope to act on interest rates (via open market and discount-window policies) in a manner consistent with the achievement of price stability and the stabilization of aggregate demand.³⁸ Even though this monetary policy arrangement came in the wake of the bolstering of Federal Reserve independence associated with the mid-1930s changes in law, it was the case that, Volcker (1990, p. 3) observed, in the course of the 1930s and 1940s, “A lot of *de facto* authority was lost.” Greenspan (1996) similarly observed: “through 1951... monetary policy was effectively subservient to the interests of the Treasury, which sought access to low-cost credit. With the so-called Federal Reserve/Treasury Accord of 1951, the Federal Reserve began to develop its current degree of independence.”

In the 1942–1951 period, the Federal Reserve Board and FOMC used their monetary policy authority to adopt a posture that was inflexible and that, so long as it was in force, did not permit the making of policy adjustments that would reliably move the money stock and interest rates

³⁷ In CWM (06/11/59, p. 202), Chairman Martin noted that the pegging policy was adopted of the Federal Reserve’s own volition.

³⁸ Reserve-requirement changes (a Board power) were also ineffective as a means of affecting interest rates and the aggregate money stock so long as they were made alongside continuation of the pegging policy.

Figure 2. The March 1951 Accord, as paraphrased in Sproul (1964)

<p>1. <i>Purpose—to reduce to a minimum the creation of bank reserves through monetization of the public debt, while assuring the financing of the Government's needs.</i></p> <p>2. <i>A conversion offering by the Treasury which would be designed to remove a substantial amount of the long-term restricted 2½ per cent bonds from the market.</i></p> <p>3. <i>Support of the market for the outstanding restricted 2½ per cent bonds by the Federal Open Market Committee at par or slightly above for a limited amount and only during the brief period of the conversion offering.</i></p> <p>4. <i>With the exception of this support, the maintenance of orderly market conditions, hereafter, to be without reference to the maintenance of the par value of any Treasury issues.</i></p>	<p>5. <i>Reduction or discontinuance of purchases of short-term Government securities by the System Open Market Account, so as to permit yields on such securities to fluctuate around the discount rate (1¾ per cent) and thus to make that rate effective, with the understanding that it would not be changed during the remainder of the year, except in compelling circumstances.</i></p> <p>6. <i>Prior consultation between the Treasury and Federal Reserve on changes in debt management or credit policy, unless extraordinary circumstances made such prior consultation impossible.</i></p> <p>7. <i>The public statement of agreement to be brief, financial and nonpolitical.</i></p>
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toward levels consistent with price stability. Specifically, under the bond-rate peg, the Federal Reserve was obliged to provide reserves at a rigid nominal interest rate. Consequently, as Governor Eccles put it (JCER, 11/22/49, p. 223), the Federal Reserve System lacked “effective influence in its own right over the supply of money in the country or over the availability and cost of credit,” even though its influence on these factors comprised “the major duties over which the System has statutory responsibility.”³⁹ 1951’s Accord was a document agreed on by the two parties that allowed the Federal Reserve to extricate itself from this situation. As noted above, monetary policy independence came from preexisting law. The Accord was an agreement that the monetary and fiscal authorities from 1951 onward would, against the background of that law, operate differently from what had been the practice since 1942.

More specifically, the Accord was an agreement on how the two parties would act *in the immediately forthcoming years* as the Federal Reserve transitioned to the establishment of an active, macroeconomically-oriented monetary policy. This aspect of the Accord is evident in the text of the document itself. As stressed in Section 2, some commentators have clearly mistaken the short March 1951 press release *announcing* the Accord for the Accord document proper. In fact, the latter was not released publicly at the time or even in later decades (JEC, 01/03/77, p.

³⁹ He had earlier observed in the same vein (CBCS, 07/29/48, p. 64) that “so long as the Federal Reserve System... supports the 2½ percent rate, the System has no authority, either through the discount rate or through reserve requirements, to meet the problem [of inflation].”

136; Eichengreen and Garber, 1991, pp. 184–185). Nevertheless, the final version of the Accord was closely paraphrased by Sproul (1964, p. 233).⁴⁰ Sproul’s rendition of it is shown in Figure 2.

Figure 2 brings out the point that the document was concerned with near-term arrangements. It was clearly not a permanent agreement on how monetary policy would operate after 1951. Partly for this reason, and 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 1951 Accord.

Essentially, the transitional arrangements entailed Federal Reserve agreements not to raise short-term interest rates, and to continue management of longer-term interest rates, during the initial years after the Accord. Subsequently, the Eisenhower Administration’s Treasury would criticize the 1951–1953 transition as having been unduly spread out by the prior administration’s continuing issuance of low-coupon Treasury securities and its expectation that the Federal Reserve would help enforce those yields in the market (CBCH, 02/27/56, p. 11). The Eisenhower Administration broke this pattern by issuing, in 1953, a 3.25 percent coupon bond (Volcker, 2002, p. 8). The Treasury then continued to shake off the notion that particular values of long-term interest rates would be imposed by the authorities on financial markets. To this end, new securities were issued by the Treasury at coupon rates judged to be close to existing market yields, and the secondary price of longer-term Treasury securities was permitted to move below the issue price when bond sales required this step (JEC, 08/59, pp. 1739–1740; CF, 08/18/59, p. 2109).⁴¹ Against this background, in May 1956, Secretary of the Treasury George Humphrey referred to the Accord as having led (with a lag) to “the reestablishment of the independence of the Federal Reserve System in its field” of monetary policy (TAR56, p. 243), and Martin would describe the Accord as having been a “milestone” (CWM, 06/11/59, p. 202).

The pre-Accord period of 1942–1951 remains the only *bona fide* case of *de facto* loss of monetary policy independence by the Federal Reserve in the past 80 years. Many popular accounts, and some research studies, argue that there was another case—that of the Arthur Burns tenure, especially during the 1971–1972 portion of the Richard Nixon presidency.⁴² However,

⁴⁰ In addition, a preliminary (and rejected) draft of the Accord was summarized in the March 1951 FOMC Minutes (FOMCtr, 03/01–02/51, pp. 36–37), which were released publicly in 1964.

⁴¹ Later, the market-determined nature of the yield on long-term U.S. Treasury securities was made more transparent by the adoption of auctions in the pricing of those securities.

⁴² In economic research, one of the first and most prolific figures to press the claim of an election-motivated pre-1973 monetary policy was Professor Thomas Havrilesky of Duke University. In the twenty years through his death in 1995, Havrilesky advanced this interpretation of the Burns Federal Reserve both in research contributions and in twenty years of activity in the public square. For example, in an early Congressional appearance, he asserted of U.S.

detailed analysis in Nelson (2020, pp. 318–337) and López-Salido and Nelson (2026) of the chronology of events, and of the making of U.S. monetary policy in this period, refutes this interpretation. The narrative in which the Burns Federal Reserve acquiesced to electioneering pressure flies in the face of the fact that Burns, over this period, assessed that policy settings were on course to deliver both full employment and price stability.

This judgment is consistent with Volcker’s verdict (CWM, 03/03/81, p. 380) on the decisions made during his predecessors’ tenures: “Monetary policy may have been right or wrong, but I do not think it was politicized.”

6.2 Successive administrations’ attitudes—snapshots

It is well beyond the scope of this study to consider in detail specific monetary policy episodes (for example, specific tightening or easing sequences) or provide a detailed chronology of executive-branch/Federal Reserve interaction over the period covered in this paper.

Nevertheless, as two famous subjects associated with the matter of monetary policy independence—the setting up of the Accord during the tenure of the Truman Administration; and the drivers of Federal Reserve policy during the Nixon Administration—have just been touched on, this is a convenient point at which to provide snapshots of the perspective taken on Federal Reserve independence by the other U.S. administrations of the 1951–2006 period.

During the Eisenhower Administration (1953–1961), a notable remark was that of the U.S. president during his first term (PPpr, 04/25/56, p. 438): “I think the only comment I can logically make is this: the Federal Reserve Board is set up as a separate agency of government. It is not under the authority of the President, and I really personally believe it would be a mistake to make it definitely and directly responsible to the political head of the state.”

The Kennedy Administration, coming into office in 1961, had personnel including James Tobin (a member of the Council of Economic Advisers) who were hostile to the notion of Federal Reserve monetary policy independence. Tobin (1961) had called for statutory changes to allow

monetary policy, “in recent years it has been dominated by the executive branch” (CBHUA, 10/21/75, p. 61), and in a 1992 hearing on the subject of political influence on monetary policy he remarked heavy-handedly, “My conclusion is that Burns was a loyal Nixon partisan.” (CBFUA, 07/08/92, p. 8.) Notably, at the same 1992 hearing, Professor Nathaniel Beck (then at University of California, San Diego) offered the far more tenable assessment on the Burns-Nixon episode (p. 4): “Even there, it is very, very hard to find a smoking gun.” Beck’s judgment has been underlined by further research in the past 35 years that has considerably improved knowledge about Burns’ economic framework and greatly reduced the plausibility of accounts that suggest that the easing steps undertaken by the Burns FOMC were politically driven.

the Executive to guide monetary policy decisions, and he remained a critic of the 1935 change in law that had prohibited the Secretary of the Treasury's participation in FOMC meetings (JEC, 01/03/77, p. 144; *New York Times*, 11/20/77). These criticisms were not, however, followed up with changes to the law. Aside from appointments that President Kennedy made to the Federal Reserve Board, his administration's efforts to change the tone of monetary policy instead consisted mainly of a largely successful attempt to alter the national economic policy agenda in favor of a more activist approach to aggregate demand management (see, for example, Romer and Romer, 2002, and Orphanides, 2003). Furthermore, early in the Kennedy presidency, the FOMC decided to undertake purchases of longer-term securities—an action that his administration had called for. But the developments just described continued against a backdrop against which the Administration acknowledged that the FOMC and Federal Reserve Board possessed autonomy on U.S. monetary policy decisions. For example, in early 1961, with the Federal Reserve having exhibited an active reaction function over the prior decade, the U.S. Secretary of the Treasury, Douglas Dillon, described the post-Accord *status quo* as: “The Executive, as such, cannot tell what the Federal Reserve Board what to do... [including] what would be done on interest rates in the United States.”⁴³

Near the end of his first year as U.S. president, Lyndon Johnson issued a statement (October 26, 1964) that declared: “We have maintained the Federal Reserve's traditional independence within the government.” (Quoted in JEC, 12/14/65, p. 273.) Likewise, Martin said early the following year (JEC, 02/26/65, p. 46): “I would think that the Federal Reserve Board has the authority to act independently of the president.” Near the end of 1965, this contention was borne out in a famous incident when the Federal Reserve Board raised the discount rate. The decision, which led to the headline “Why the ‘Fed’ Defied the President” (*Financial Times*, December 7, 1965), generated criticism from Congress and the Administration and led to a much-recounted meeting between Martin and President Johnson (see, for example, JEC, 01/03/77). But the decision stood, and the Federal Reserve's monetary policy tightening continued during 1966.

The Johnson Administration itself gave its position as: “The president can and should continue to make his views known on monetary policy issues as significant questions arise, and in our opinion, the Federal Reserve should give careful consideration to these views in its decisions. Ultimately, however, the Federal Reserve is answerable for its actions to the Congress.” (Council of Economic Advisers statement in CBCH, 12/68, p. 72.)

⁴³ *Commercial and Financial Chronicle*, 02/23/61, p. 27, quoting a February 14 Congressional hearing.

One of Martin's successors, Paul Volcker, would judge the Federal Reserve to have eased prematurely in 1967. But, in his assessment, this easing did not reflect a lack of independence: it was instead attributable to an incorrect economic evaluation on the part of Federal Reserve policymakers in this period (Volcker, 1981, p. 6). With regard to the discount-rate rise of December 1965, Volcker stated: "I think, in retrospect, in fact nobody would question the appropriateness of that Federal Reserve action at that time." (*Issues and Answers*, ABC, 10/29/79, p. 8.)

President Gerald Ford made five appointments to the Federal Reserve Board (and he attended the swearing-in, on the Board premises, of one of his appointees, Philip Jackson). During his years in office (1974–1977), Ford commented several times on issues bearing on central bank independence, and some of these comments will now be sampled. In connection with the danger that short-term considerations might drive monetary policy, Ford observed (PPpr, 04/07/75, p. 442): "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." A couple of weeks later, he remarked (PPpr, 04/21/75, p. 555): "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." Ford added on this occasion: "My feeling is that if we politicize the Federal Reserve Board, make it a tool of the Administration or the tool of the Congress, we will lose a great deal of integrity, which I think is vital in the management of our money supply." At the Jackson swearing-in, Ford commented (PPpr, 07/14/75, p. 991): "I think it is highly important for us to emphasize now—as it has been in the past and as, I trust, it will be in the future, that the Federal Reserve is an independent institution, a very vital, integral part of our total governmental setup."

With regard to Ford's successor, Jimmy Carter (1977–1981), Chairman Miller remarked, "The President has stated over and over again that he believes in the independence of the Fed." (CBFUA, 04/10/78, p. 143.) This attribution was correct. For example, Carter had stated (PPpr, 02/17/78, p. 354): "The Fed should always be independent and not subservient to a president." A few weeks later, he had remarked of the Federal Reserve (PPpr, 03/08/78, p. 482), "There is a deeply cherished commitment to independence." During the Miller period, Carter remarked, "the Federal Reserve Board is completely independent of me" (PPpr, 04/25/78, p. 781), and later in 1978, he would confirm (*Business Week*, 08/21/78, p. 102): "The Federal Reserve Board

doesn't consult with me before it takes any action." During Volcker's tenure, and shortly before he left office, Carter wrote (EROP81, p. 12): "Monetary policy is the responsibility of the Federal Reserve System, which is independent of the Executive. I respect that independence."

It was noted above that successive Chairs have indicated that they do not see monetary policy independence as implying that other policymakers may not comment on, and take issue with, Federal Reserve decisions. Along these lines, Ford and Carter during their tenures expressed some criticisms of Federal Reserve monetary policy decisions. Ford implicitly criticized the record of Chairman Martin and that of Burns in his first term when he observed (PPpr, 04/03/76, p. 937): "In the past, we have had too much fluctuation. They [Federal Reserve policymakers] have either contracted too severely or they have inflated it too greatly, and the net result is, to some extent at least, they have contributed to the peaks and valleys in our economy." For his part, in 1978 Carter criticized both the recent Burns record and the Miller performance to date, contending that, in both cases, monetary tightening had been overdone: he stated (PPpr, 02/17/78, p. 354), "I think the interest rates last year went up too much," and "I deplore the rapid increases in interest rates that have occurred this year" (*Business Week*, 08/21/78, p. 102).

Early in his tenure, President Ronald Reagan (PPpr, 02/18/81, p. 114) declared: "Now, we fully recognize the independence of the Federal Reserve System and will do nothing to interfere with or undermine that independence." Vice President George Bush remarked specifically about Volcker's policy stance (*Houston Post*, 10/10/81): "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." Nearly six years later, in a statement issued after Alan Greenspan had been confirmed to succeed Volcker, Reagan predicted (PPpr, 08/03/87, p. 913): "Dr. Greenspan will carry on the important traditions of an independent Federal Reserve System." In Greenspan's second term, and during Bush's own term as president, Secretary of the Treasury Nicholas Brady (CBHUA, 08/05/92, p. 39) remarked, "the independence of the Fed is terribly important, and I support that."

The affirmations, including those just quoted, of monetary policy independence by the Reagan (1981–1989) and Bush (1989–1993) Administrations coexisted with considerable administration commentary on monetary policy, including criticisms of particular Federal Reserve policy choices, by these U.S. presidents and, especially, by their economic teams.

During the second decade of Greenspan's tenure, the Clinton Administration's Secretary of the Treasury, Robert Rubin, testified (CWM, 02/04/99, pp. 42–43): "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.”

A few years later, President George W. Bush stated, “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.” (WCPD, 01/07/02, p. 25.)

6.3 Public acceptance of central bank independence and Federal Reserve policies

As observed in the introduction, the past three decades have seen considerable efforts directed at increasing transparency in monetary policy. Even ahead of this period, however, Federal Reserve Chairs indicated that they viewed public communication on the part of the Federal Reserve as playing an important role in promoting support for, acceptance of, and continuation of monetary policy independence.

On this matter, Mariner Eccles observed (*Barrons*, May 27, 1935): “Freedom of the Reserve System from undesirable political influence must depend upon the prestige of the Federal Reserve Board, on the proper appreciation by the public of the functions of the System, and on public opinion.” On a related tack, Greenspan (1996) stated: “Because the Fed is perceived as being capable of significantly affecting the lives of all Americans, that we should be subject to constant scrutiny should not come as any surprise... Our monetary policy independence is conditional on pursuing policies that are broadly acceptable to the American people and their representatives in the Congress.”⁴⁴

6.4 Secretary of the Treasury/Federal Reserve Chair weekly meetings

Testifying in connection with the fiftieth anniversary of the Federal Reserve, Chairman Martin noted monetary policy’s independence but added (CBCH, 01/21/64, p. 13): “This is not to say that the Federal Reserve should operate in isolation from the Treasury. On the contrary, we enjoy cordial and close relations with the Secretary, and we are working together in harmony to meet our separate responsibilities.”

⁴⁴ On another occasion, Greenspan highlighted the importance of reporting to the relevant oversight committees: “we are an independent institution in a democratic society, and that means: In order to maintain our independence, it is essential that we are accountable to the public and to the responsible Congressional committees to make clear what it is we are doing and why” (CBHUA, 02/23/99, p. 17).

Organizing these relations was part of the new, post-peg, rules of the game. A key and lasting part of the conventions that emerged regarding Treasury/Federal Reserve relations emerged within a couple of years of the Accord. This was the weekly meeting between the Secretary of the Treasury and the head of the Federal Reserve.

This meeting regularized arrangements that had been a feature of the Eccles years. Eccles (CBCH, 08/03/48, p. 171) himself remarked: “I always considered, while I was Chairman, that it was my responsibility... to try to maintain a liaison that would maintain a harmonious relationship.” The weekly meeting became a convention in the Eisenhower years, with Secretary Humphrey noting (TAR56, p. 243): “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...” Martin himself noted (*U.S. News and World Report*, 02/11/55, p. 130): “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.”

The weekly meetings continued after the 1950s. For example, Chairman Burns noted (CBHUA, 05/03/77, p. 91): “I meet weekly with Mr. Blumenthal [Secretary of the Treasury Michael Blumenthal].”⁴⁵ And Volcker (CF, 02/24/82, p. 129) observed: “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 put stress on the weekly meetings as part of the coordination and consultation in the context of independence. He gave this perspective (CBFUA, 07/20/89, pp. 22, 26): “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... [though] we are independent and behave in that manner, hopefully.” He later added (CBFUA, 10/25/89, p. 5): “This insulation [of monetary policy] has not meant isolation, as we coordinate and consult extensively with both the executive and legislative branches.” Greenspan (1993, p. 178) confirmed that monetary policy was covered in the meetings: “The responsibility for reaching monetary policy decisions rests solely with the Federal Reserve. However, Federal Reserve officials communicate often with other

⁴⁵ Meetings had reverted to weekly after having become fortnightly in the late Martin period (CBCS, 09/26/69, p. 80).

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.”

Greenspan’s descriptions, as given above, included a characterization of the weekly meetings as part of policy coordination. In economic research, the term “coordination” sometimes has a connotation of a joint monetary-fiscal policy decision being made—and in some cases has been taken to imply accommodation—of fiscal policy or debt-management activities—of the kind seen in other countries or in the United States before 1951. But Greenspan and other Federal Reserve officials clearly did not view monetary policy as coordinating with fiscal policy in this sense. Indeed, Board Vice Chairman Canby Balderston argued against “think[ing] of coordination in terms of subordination” and instead saw it as connoting agreement on national economic goals (JEC, 12/14/65, p. 223). Greenspan often stressed that changes in the U.S. fiscal stance had no unconditional implication for monetary policy decisions, which depended on the total “economic environment” (CTBS, 01/28/93, p. 101).

In short, the coordination that was envisioned concerned information sharing as well as discussing macroeconomic goals and their achievement. This feature of Federal Reserve-Treasury interaction after 1951 underlines the point that monetary policy’s instrument independence does not entail a prohibition of discussion, with other economic-policy agencies in the government, of monetary policy and of achieving macroeconomic goals.⁴⁶

7. Macroeconomic objectives: statutes and interpretation

With respect to the macroeconomic objectives guiding monetary policy, Chairman Greenspan noted (CBFUA, 12/18/87, p. 167): “The ultimate determinant of our policies will largely come from the Congress, under whose statutes we function.” Those statutes specify the macroeconomic objectives that shape the goal dependence of Federal Reserve monetary policy. This section discusses these macroeconomic objectives, as they have been specified in U.S. law.

7.1 Statutory objectives

As will be seen, the statutory goals of monetary policy reached their final form with the “dual

⁴⁶ For this reason, as well as because of the already-discussed research findings, the author does not concur with Tucker’s (2018, p. 408) implication that the interaction of Arthur Burns with the executive branch on shared macroeconomic goals was *per se* inconsistent with instrument independence of monetary policy.

mandate” introduced into law in late 1977, shortly before the end of the Burns tenure, and applying to the Federal Reserve and FOMC in the half-century since. It is also the case, however, that the Federal Reserve leadership from the 1940s to 1977 saw high-employment and price-stability goals as applying to U.S. monetary policy throughout that period, as they regarded them as being implied by existing law.

During the Eccles era, macroeconomic goals were judged as flowing from the Federal Reserve Act. In this connection, the Federal Reserve Board’s 1945 *Annual Report* stated (BOGA45, p. 1): “It is the Board’s belief that the implicit, predominant purpose of Federal Reserve policy is to contribute, in so far as the limitations of monetary and credit policy permit, to an economic environment favorable to the highest possible degree of sustained production and employment. Traditionally[,] this over-all policy has been followed by easing credit conditions when deflationary factors prevailed and, conversely, by restrictive measures when inflationary forces threatened.”

When the Employment Act of 1946 was passed and assigned macroeconomic goals to the federal government, the Federal Reserve immediately regarded the law as applying to it (see López-Salido and Nelson, 2026). The law stated that “it is the continuing policy and responsibility of the Federal Government to use all practicable means... to promote maximum employment, production, and purchasing power.”⁴⁷ 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* stated (FRS47, p. 1): “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 (JCER, 02/20/52, p. 212). 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” (JEC, 02/18/70, p. 154).

The upshot was that, even during the Martin and Burns years, the Federal Reserve and the FOMC saw itself as subject to, and pursuing, what later became known as the dual mandate. In this spirit, during the late 1950s Chairman Martin stated that the Federal Reserve’s monetary

⁴⁷ See <https://fraser.stlouisfed.org/files/docs/historical/congressional/employment-act-1946.pdf>.

policy decisions were made “in the interest of high-level employment and stable prices.” (CWM, 06/11/59, pp. 180–181.)

In 1977, the employment and price-stability goals became goals assigned specifically to the Federal Reserve via the incorporation of Section 2A into the Federal Reserve Act. The Federal Reserve Reform Act of 1977 (November 16, 1977) added this section to the Act. The new language stated: “the Federal Reserve... [should] 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.”⁴⁸ This instruction had already been given to the Federal Reserve by Congress in its Concurrent Resolution 133 of March 1975, but the resolution had lapsed at the end of 1976. The 1977 restored the instruction by making it a permanent part of the law.

7.2 The dual-mandate interpretation of the 1977 law

With regard to 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, Chairman Burns implied that “moderate long-term interest rates” would result 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” (CBFUA, 06/23/77, p. 33).

During the Greenspan era, an official Federal Reserve publication likewise saw a state of price stability as tending, over the long run, to secure the achievement of the other two statutory goals. It first recognized the centrality of the 1977 law in specifying the U.S. monetary policy’s objectives: “The Federal Reserve Act lays out the goals of monetary policy. It specifies that, in conducting monetary policy, the Federal Reserve System and the Federal Open Market Committee should seek ‘to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.’” It then observed: “A stable level of prices appears to be the condition most conducive to maximum sustained output and employment and to moderate long-term interest rates.” (FRS94, p. 17.)

Although they have not repudiated the sentiment just expressed, Federal Reserve policymakers

⁴⁸ See <https://fraser.stlouisfed.org/title/federal-reserve-reform-act-1977-1040>.

have more commonly treated the three-goal formulation in the law as collapsible into two, not one, goal. In particular—on account of the Fisher relationship—expectations of the long-term achievement of price stability are conducive to moderate longer-term interest rates. Greenspan (CGO, 08/10/94, p. 23) noted: “[If] you have low inflation... you would have lower inflation premiums, and hence you would have moderate or lower long-term interest rates.” Likewise, when using the term “dual mandate,” Board Vice Chairman Alan Blinder (1995, p. 16) 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.

7.3 The status of the Humphrey-Hawkins Act

Many studies, including some quoted in Section 2, have incorrectly taken October 1978’s Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins [HH] Act) as having assigned macroeconomic goals to the Federal Reserve or even as having originated the dual mandate itself.⁴⁹ In fact, the HH Act assigned *no* macroeconomic goals to the Federal Reserve. It gave certain employment, unemployment, inflation, real output growth, and other objectives to *the executive and legislative branches of government only*. As Roberts (1979, p. 278) put it: “Humphrey-Hawkins requires the Federal Reserve to make reports about its prospective monetary policy. It does not require the Federal Reserve to follow specific policies, nor does it require that the policies be designed to achieve any specific economic goals.”⁵⁰ In terms of the U.S. central bank’s ultimate statutory macroeconomic objectives, therefore, the HH Act did not add to, or supersede, the 1977 Federal Reserve Act amendment described above.

The HH Act did assign *reporting requirements* to the Federal Reserve.⁵¹ In particular, it required issuance, starting in 1979, of a Federal Reserve Board *Monetary Policy Report (MPR)* every six months. It required that the *MPR* outline the Federal Reserve’s intentions and plans regarding

⁴⁹ This problem was compounded by occasional slips in which Federal Reserve policymakers correctly referred to 1977’s statutory language but incorrectly attributed that language to the 1978 Act. As Blinder (2022, p. 115) notes, “what we now call the Fed’s *dual mandate*... is often falsely attributed to the Humphrey-Hawkins Act.” He might have added that some prominent past Federal Reserve policymakers had sometimes been among those making this incorrect attribution. Alan Greenspan (1993, p. 178) fell into this category when he correctly quoted the 1977 amendment to the Federal Reserve Act but attributed the addition of this amendment to the Humphrey-Hawkins Act. (In other statements, Greenspan did give correct accounts of the origin of the dual mandate.) Similarly, in a *Monetary Policy Report* hearing, Board Vice Chair Alice Rivlin incorrectly implied that the Federal Reserve’s goals were due to “the drafters of Humphrey-Hawkins” (CBFS, 07/24/97, p. 32). It is clear that, among policymakers and commentators, the correct recognition that the HH Act rewrote Section 2A of the Federal Reserve Act often led to the misapprehension that the act originated or revamped the dual-mandate portion of that section.

⁵⁰ As an FOMC member, Janet Yellen correspondingly noted of the Humphrey-Hawkins Act’s unemployment-rate goal, “it does not obligate the Federal Reserve to pursue that goal” (FOMCtr, 07/02–03/96, p. 50).

⁵¹ See <https://fraser.stlouisfed.org/title/full-employment-balanced-growth-act-humphrey-hawkins-act-1034>.

monetary policy—with the outline comparing those intentions and plans with the Act’s macroeconomic goals. Nevertheless, as noted, the HH law did not make the latter goals *Federal Reserve* objectives. Greenspan (1993, p. 178) correspondingly stated that the act required an *MPR* analysis of the relationship between monetary policy objectives and the HH Act’s goals, but he added that “this provision does not require that the monetary policies of the Federal Reserve conform to the [Act’s] goals.”⁵²

The HH law also amended the Employment Act of 1946, which has given “maximum employment” as a goal of the executive branch, by adding newly specified full-employment and growth goals. But the Federal Reserve continued to have its own “maximum employment” goal because that had been added, via Section 2A, to the Federal Reserve Act by the 1977 law. The HH Act did not alter that element of Section 2A. Rather, the reporting requirements that the HH statute put into the Federal Reserve Act amended *later* parts of Section 2A. The HH Act also modified Section 2A by restating the form in which the Federal Reserve should report its monetary-growth targets (which had previously been made a legal requirement by the 1977 law).

In 2000, the HH law expired and, with it, the legal requirement on the Federal Reserve to produce the *Monetary Policy Report* or to give monetary-growth targets. The FOMC accordingly ceased giving monetary-growth targets in 2000.⁵³ The Federal Reserve Board continued to produce the *Monetary Policy Report* but, starting in July 2000, the *MPR* no longer had the words “Pursuant to the Full Employment and Balanced Growth Act of 1978” on its cover or as a subtitle. In December 2000, the legal requirement to produce the *MPR* was restored by the American Homeownership and Economic Opportunity Act’s amendment to the Federal Reserve Act. This amendment also made Federal Reserve Congressional testimony in connection with the *MPR* a legal requirement for the first time.⁵⁴

⁵² Roberts (1979, p. 174) similarly indicated: “the Federal Reserve must explain the relationship between its plans and objectives for growth of money and credit and the economic goals of the president and the Congress.”

⁵³ Gordon and Lunsford (2023, p. 3) state, “The American Homeownership and Economic Opportunity Act of 2000 repealed this requirement to report growth ranges for monetary and credit aggregates.” In fact, the named 2000 act (which was dated December 27, 2000: see <https://fraser.stlouisfed.org/title/american-homeownership-economic-opportunity-act-2000-1022>) did not do this. The cessation of a requirement that the Federal Reserve produce targets for monetary and credit (or debt) aggregates had already occurred in early 2000 due to the lapsing of the Humphrey-Hawkins Act’s reporting clause. The FOMC did decide on such targets for 2000 at its February meeting (FOMCmin, 02/01–02/00). These were not reaffirmed in midyear, however, with the June FOMC meeting minutes stating (FOMCmin, 06/27–28/00): “In contrast to its earlier practice, the Committee at this meeting did not establish ranges for growth of money and debt in 2000 and 2001. The legal requirement to set and announce such ranges recently had expired, and the members did not view the ranges as currently serving a useful role in the formulation of monetary policy.”

⁵⁴ Previously, during 1978, there had been (thanks to the Federal Reform Act of 1977) a legal requirement for the Federal Reserve leadership to testify periodically on the Federal Reserve’s monetary-growth targets. This legal

7.4 Making the dual-mandate goals operational

With regard to the 1977 law described earlier, Greenspan (CBFUA, 10/13/93, p. 5) observed: “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.”⁵⁵ Other ways in which policymakers made these goals operational are now laid out.

Maximum employment. As already indicated, “maximum employment” has been a statutory goal starting in 1946. From an early stage, the Federal Reserve interpreted the goal as something to be obtained in the context of a market economy and with aggregate-supply factors recognized. In particular, the “maximum” was seen as tied to voluntary market activity and precluding state direction of labor. Chairman Martin noted in 1958, “the question is how are you going to put people to work,” adding, “You could eliminate unemployment tomorrow by putting everybody in the army,” but that he did not see this as an appropriate remedy (CF, 04/23/58, p. 1924).⁵⁶

Chairman Martin likewise noted in 1961, “Certain forms of unemployment... are not readily responsive to overall monetary and fiscal measures,” while affirming that there was “no inconsistency” between recognizing this and providing demand stimulus in periods of resource slack, in order to “decrease cyclical unemployment.” (JEC, 03/07/61, p. 486.)

Also from an early stage, the Federal Reserve interpreted the goal as a long-term objective. This did not mean that they sought to achieve maximum employment only in the long run. Rather, what was at issue was that they did not see the goal as implying that policymakers should seek ephemeral maxima through overstimulation of demand. This sentiment quickly became intertwined with a key word not in the law but seen as implied by the economics of the mandate: “sustainable.” From the 1950s onward, policymakers’ vision of the objective frequently led to the qualifier “sustainable” appearing in their articulations of the employment goal. The Federal

requirement had been struck out by the HH Act’s amendment to Section 2A of the Federal Reserve Act. From 1979 to 2000, semiannual testimony on the *Monetary Policy Report* had been given but had not been legally required. (It is not the case that the HH Act itself “compelled semiannual testimony,” as Binder and Spindel [2017, p. 215] contend—see also Blinder [2022, p. 115] for a similar claim—though such hearings were held, as a convention, once the act was passed. See also the discussion given in Section 2 above.)

⁵⁵ Greenspan also later alluded to this amendment when he referred to price stability as a “legislated objective” of monetary policy (CBFS, 02/24/98, p. 60).

⁵⁶ Earlier, E.A. Goldenweiser, a senior Federal Reserve Board official who during the Eccles years often participated in public communication of the aims of monetary policy, explained that an appropriate full-employment “concept allows for seasonal and so-called frictional unemployment, for its elimination in the near future would be impossible.” (PES, 08/45, p. 4.)

Reserve Bank presidents stated in 1958 (CF, 03/58, p. 28), “Experience has demonstrated that maximum employment needs to be interpreted as maximum sustainable employment.” FOMC Vice Chairman Alfred Hayes appended this statement by remarking with regard to attaining “maximum sustainable levels” of employment and production, “we believe that requires avoidance of either inflation or deflation in any marked degree” (CF, 03/28/58, p. 76).

In mid-1997, Governor Laurence Meyer took the employment side of the modern dual mandate as, in effect, pertaining to a sustainable maximum, telling a Congressional interlocutor: “We didn’t pick those ultimate objectives. You picked them. Congress wrote them into the Federal Reserve Act. You told us that maximum sustainable employment and price stability were the objectives, and that is what guides me in terms of monetary policy.” (CBFS, 07/24/97, p. 27.)

In the years after the 1977 legislative enactment of the dual mandate, both Volcker and Greenspan referred to the employment goal in sustainable-maximum or price-stability-consistent terms. As Volcker saw it (CBHUA, 02/25/81, p. 28), monetary policy sought to “combine as full employment as we can get with price stability.” Greenspan testified (FRBull, 02/95, p. 110): “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.” He later referred (Greenspan, 2004) to “our ultimate mandate to promote maximum sustainable employment over time.”

Beyond the period covered in this review, there have been similar pictures given of the maximum-employment concept. For example, Chairman Bernanke stated in mid-2008: “The Federal Reserve’s mandate is to foster maximum sustainable employment and price stability.”⁵⁷ The August 2025 FOMC consensus statement said: “The Committee views maximum employment as the highest level of employment that can be achieved on a sustained basis in a context of price stability.”⁵⁸

Price stability. Just as policymakers have applied economic reasoning to interpret the maximum-employment goal as referring to a sustainable maximum, they have used monetary analysis to give context to the price-stability mandate. Two aspects of their analytical conclusions in this area deserve to be highlighted.

First, in view of the monetary character of inflation, leading Federal Reserve policymakers from

⁵⁷ See Bernanke (2008).

⁵⁸ See <https://www.federalreserve.gov/monetarypolicy/monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy-2025.htm>.

the late 1970s onward have consistently emphasized that monetary policy has a *special* responsibility for price stability. The modern dual-mandate language gives maximum employment alongside price stability as Federal Reserve objectives and, in fact, lists the employment goal first (see above). Consistent with this assignment, Federal Reserve policymakers have not portrayed one of the goals as being in a hierarchical position *vis-à-vis* the other. But they have, on occasion, characterized price stability as the “primary goal” of the central bank in the sense that, of the various powers at the disposal of the government, monetary policy is the sole one capable of delivering a specific long-run inflation rate. This judgment was articulated in many Volcker and Greenspan statements. It was also expressed by Janet Yellen in a speech given during her tenure as a Board governor in the Greenspan era. Specifically, Yellen (1996, p. 40) observed: “In my view, the appropriate primary long-term goal for the Federal Reserve should be price stability, an objective that no one would deny is within the power of the central bank to accomplish.”

Second, with respect to making this goal concrete, successive Chairs have consistently viewed price stability as implying a low single-digit inflation rate, rather than a literally zero rate (see Judd and Rudebusch, 1999, and López-Salido, Markowitz, and Nelson, 2025). In this connection, it is notable that, under Greenspan 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 (CBFUA, 07/22/92, p. 8).

In the deliberations of the FOMC, a 2 percent goal was subsequently settled on as an interim or provisional inflation objective in the well-known Committee discussion of July 1996 (FOMCtr, 07/02–03/96, pp. 41–68). López-Salido and Nelson (2026) discuss how a 2 percent longer-run inflation goal continued to be a feature of U.S. monetary policy practice in the years leading up to the formal introduction of that goal in 2012.

8. Concluding observations

As the list of fallacies in Section 2 made evident, it is the case that, notwithstanding heavy research interest in central bank independence, the economic literature has made numerous misstatements about how U.S. monetary policy independence has operated over time. Against this backdrop, this paper has laid out major features of the practice of central bank independence in the United States in the period from 1951 to 2006—years encompassing the William

McChesney Martin, Jr., through Alan Greenspan tenures as the head of the Federal Reserve. The intention of the analysis has been to offer a consolidated factual treatment of this topic, while providing novelty by highlighting many documentary materials and policymaker quotations not considered in previous research on U.S. monetary policy.

The analysis has encompassed both institutional features of U.S. monetary policy and the conceptual basis for independence, as expressed by leading Federal Reserve officials, particularly Chairs. Via considerable reliance on their own words, an attempt has been made to convey Federal Reserve Chairs' perception of how the nation's central bank fits into the U.S. governmental structure. Another major concern has been to portray how successive Federal Reserve leaders set out the case for monetary policy independence. It has been established that different Chairs have made essentially the same case—one that does not rely on the arguments associated with economic research on time inconsistency.

One of the points stressed in this paper is that many of the key laws and conventions associated with U.S. central bank (instrument) independence were in place by (the end of) 1977. It is also the case that policymakers' rationale for U.S. central bank independence had crystalized by that point. The time-inconsistency literature launched by Kydland and Prescott (1977) has often been criticized, in the monetary policy area, with regard to its positive economics—its merits questioned as an explanation of high-inflation periods in the United States and in rationalizing central bank independence. The examination of Federal Reserve Chairs' case for independence in this paper reinforces the empirical criticism of time inconsistency. Though it has helped to catalyze 50 years of research work on central bank independence, 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—have spelled out that rationale in much the same terms both before and after 1977, using a three-part case (related to avoiding demand overstimulation; separating monetary from fiscal policy; and having a long horizon) that does not rely on time-inconsistency arguments.

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Appendix. Bibliographical details on official publications, testimony, and media items cited

Provided below are the bibliographical details on the executive-branch, media, Federal Reserve, and Congressional items referenced in the text. Items within a category are given in chronological order.

I. Executive branch

PPpr, 04/25/56:

Remarks by President Dwight D. Eisenhower at news conference of April 25, 1956 (pp. 428–442) in National Archives and Record Service, General Services Administration, *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1956, Containing the Public Messages, Speeches, and Statements of the President*. Washington, D.C.: U.S. Government Printing Office, 1958. Available at <https://babel.hathitrust.org/cgi/pt?id=mdp.49015002034578&seq=479&q1=%22directly+responsible%22>.

TAR56:

Remarks (pp. 240–245) by U.S. Secretary of the Treasury George M. Humphrey, May 27, 1956, at the Press Club, Washington, D.C., in Office of the Secretary, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1956*. Treasury Department Document No. 3203. Washington, D.C.: U.S. Government Printing Office, 1957. Available at <https://fraser.stlouisfed.org/title/annual-report-secretary-treasury-state-finances-194/annual-report-secretary-treasury-state-finances-fiscal-year-ended-june-30-1956-5449/fulltext/>.

PPpr, 04/07/75, PPpr, 04/21/75, and PPpr, 07/14/75:

Remarks by President Gerald Ford in “Address in Las Vegas at the Annual Convention of the National Association of Broadcasters” (April 7, 1975, pp. 440–447), “Interview With Walter Cronkite, Eric Sevaried, and Bob Schieffer of CBS News” (April 21, 1975, pp. 539–559), and “Remarks at the Swearing-In of Philip C. Jackson, Jr., as a Member of the Board of Governors of the Federal Reserve System” (July 14, 1975, pp. 991–992) in Office of the Federal Register, National Archives and Record Service, General Services Administration, *Public Papers of the Presidents of the United States: Gerald R. Ford, 1975 (In Two Books), Book 1—January 1 to July 17, 1975*. Washington, D.C.: U.S. Government Printing Office, 1977. Available at <https://babel.hathitrust.org/cgi/pt?id=hvd.32044121191480&seq=5>.

PPpr, 04/03/76:

Replies of President Gerald Ford in “Remarks and a Question-and-Answer Session at a Farm Forum in Fond du Lac Wisconsin” (April 3, 1976, pp. 933–946) in Office of the Federal Register, National Archives and Record Service, General Services Administration, *Public Papers of the Presidents of the United States: Gerald R. Ford, 1976–77 (In Three Books), Book 1—January 1 to April 9, 1976*. Washington, D.C.: U.S. Government Printing Office, 1979. Available at <https://babel.hathitrust.org/cgi/pt?id=pst.000016748262&seq=29>.

PPr, 02/17/78, PPpr, 03/08/78, and PPpr, 04/25/78:

Replies of President Jimmy Carter in question-and-answer session at town-hall meeting, Bangor, Maine (February 17, 1978, pp. 346–364); Carter, “Remarks at the Swearing-In of G. William Miller as Chairman of the Board of Governors March 8, 1978” (pp. 481–482); and Carter replies in “The President’s News Conference of April 25, 1978” (pp. 775–783), in Office of the Federal Register, National Archives and Record Service, General Services Administration, *Public Papers of the Presidents of the United States: Jimmy Carter, 1978 (In Two Books), Book 1—January 1–June 30, 1978*. Washington, D.C.: U.S. Government Printing Office, 1979. Available at <https://babel.hathitrust.org/cgi/pt?id=miua.4732133.1978.001&seq=5>.

EROP81:

Introduction by President Carter (pp. 3–19), dated January 17, 1981, in Council of Economic Advisers, *Economic Report of the President: Transmitted to the Congress January 1981*. Washington, D.C.: U.S. Government Printing Office, 1981. Available at <https://fraser.stlouisfed.org/title/economic-report-president-45/1981-8152/fulltext>.

PPpr, 02/18/1981:

President Ronald Reagan, “Address Before a Joint Session of the Congress on the Program for Economic Recovery, February 18, 1981” (pp. 108–115), in Office of the Federal Register, National Archives and Record Service, General Services Administration, *Public Papers of the Presidents of the United States: Ronald Reagan, January 20 to December 31, 1981*. Washington, D.C.: U.S. Government Printing Office, 1982. Available at <https://babel.hathitrust.org/cgi/pt?id=miua.4732220.1981.001&seq=5>.

PPpr, 08/03/87:

President Ronald Reagan, “Statement on the Senate Confirmation of Alan Greenspan To Be a Member and Chairman of the Board of Governors of the Federal Reserve System” (August 3, 1987; p. 913), in Office of the Federal Register, National Archives and Records Administration,

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II. Media items

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