U.S. Chamber of Commerce

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Hearing titled "Less Mandates. More Independence."
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Members of the House Financial Services Committee Monetary Policy Taskforce, my name is Curtis Dubay. I am the Chief Economist at the U.S. Chamber of Commerce. I have been in this role since 2020. I have been an economist focused on economic policy for over 20 years. I previously worked as an economist at the American Bankers Association, the Heritage Foundation, PwC, and the Tax Foundation.

The U.S. Chamber of Commerce is the world's largest business organization, representing companies of all sizes, including small and midsized businesses. We also have local chambers of commerce and leading industry associations as members. The Chamber serves as the voice of American business in Washington, across the country, and around the globe. For over a century, the Chamber has advocated for pro-business policies that drive economic growth, spark innovation, and create jobs. Through its extensive network and expertise, the Chamber works to promote free enterprise, support smart policymaking, and address the challenges facing businesses today.

The Chamber supports sound monetary policy because it is vital for the success of businesses and the American economy, particularly for small and midsized businesses that are often forgotten in the debate about the setting of proper monetary policy. When prices rise, as they did recently, small and midsize businesses have much less ability than larger businesses to manage the price increases. They lack the scale to negotiate with suppliers. They have less ability to pass on price increases to customers. And they lack the depth of capital necessary to endure short-term losses. Small and midsize businesses are also most likely to rely on financing sources closely linked to Fed actions as they rely on bank loans.

A Single Mandate and Independence is Best

The focus of this hearing is "Less Mandates. More Independence." A Fed Reserve that has as a sole mandate of stable prices and that is independent from political pressure provides the best environment for the Fed to achieve its goals. The Fed's macroeconomic tools are blunt and how they influence prices is often uncertain, even with years of experience and enormous amounts of research on the topic. The Fed would be best served continuing learning and analyzing how its tools affect prices. Additional mandates divert its attention from what should be its core function of keeping prices stable, risking that it will not do this extremely important job as well as it could. Aside from a mandate of stable prices, the only other function the Fed should serve would be to supervise the banks that are members and to act as the lender-of-last-resort. Both of these jobs are part of setting monetary policy.

The Fed also needs independence to best do its job well. The setting of monetary policy is complicated in the best of circumstances. The Fed and the Federal Open Markets Committee (FOMC) must sift through an enormous amount of data and analyze what it means for the future course of the economy and prices. They have to extrapolate what data that is already outdated at the time they receive it means for the future course of the economy because monetary policy works with uncertain and variable lags. Political interference in that difficult endeavor makes a hard task even harder and should be avoided.

Price Stability should be Paramount

The Fed does not have a single mandate, however. It has a dual mandate that also includes full employment in addition to stable prices. Full employment is best pursued through sound fiscal and regulatory policies, which are outside the Fed's purview.

If the Fed is to have a dual mandate, Congress should clarify that stable prices is the mandate the Fed should pursue if the two mandates ever conflict. For instance, a situation where inflation rises well above the Fed's 2 percent target, which would necessitate higher interest rates that elevate the unemployment rate and push the labor market below full employment. In this case, it would make the Fed's job easier if it was clear it is to target stable prices first and worry about returning to full employment later. It would make it easier for the Fed to choose the right monetary policy and reduce outside criticism that imperils independence.

Fortunately, the aim of full employment has been complementary with stable prices until now. This has meant that it has not interfered with the Fed's ability to target its chosen price level. The Fed has been able to focus on the more pressing issue at any given time and the policies it has chosen has either aided in achieving the other mandate, or at least not impeded the Fed from its goal.

For instance, when the financial crisis hit in 2007, the Fed's lowering interest rates, and later the liquidity vehicles it set up, helped keep prices from falling and simultaneously supported a fast-deteriorating labor market. Clearly unemployment rose sharply as the recession took hold, but the Fed's monetary policy kept it from rising even more.

Similarly, when the economy faltered at the beginning of the Covid-19 pandemic, the Fed lowered interest rates again to keep prices from falling, which also supported a weakening labor market at the time.

The Fed was aided in its recent task of lowering inflation without raising unemployment to an unacceptably high level because of our changing demographics. An aging population means we are short several million workers. When the Fed raised interest rates starting in March of 2021, unemployment did not rise sharply because businesses needed workers so badly. They held on to the workers they had kept hiring even as interest rates rose. This remains the case today, although at a slower pace.

The worker shortage is unlikely to change anytime soon, particularly with falling immigration. If this holds, monetary policy will have less impact on employment going forward.

Even though the dual mandate is not ideal, the Fed over the course of five decades has learned how to handle it. The complementary nature of the two mandates is most likely to persist, and the Fed has also proven that it can focus on the more pressing issue ably. So while a single mandate remains ideal, the dual mandate can remain for now with minimal risk.

No New Mandates

A more pressing concern is stopping the Fed from being burdened by a third mandate. Congress has been fortunate that the addition of the mandate of full employment has not created a problem to date. It is unlikely to be as fortunate should it add another mandate. The complementary nature of prices and full employment is not necessarily replicable. Another mandate could seriously impair the Fed's ability to achieve a stable price level and full employment by diverting its attention, or because the newer mandate conflicts with the other two. This is an enormous risk and not one remotely worth taking.

It is highly likely that the Fed does not have the tools necessary to achieve another mandate. The Fed's main tool for achieving its 2-percent inflation rate is by setting the risk-free interest rate for the economy. It does this through open market operations, its control of reserves in the system, and directly setting interest rates for excess reserves and overnight loans. It is possible these tools could prove helpful in achieving other economic policy goals, but no one has shown how that would work in theory or proven it would work in practice.

Congress could create a de facto third mandate by directing the Fed to use its supervisory role to achieve certain policy goals. For instance, it could tell the Fed to dictate to its member banks what types of loans it can issue and to whom it can issue them. This would not be wise as it would divert the Fed's supervisory attention from assessing the safety and soundness of the banks, increasing the risk of systemically damaging bank failures.

It is also an end-run around the proper channels for setting such policies. If Congress wants to play a role in determining whom banks should lend to and for what purposes, it should pass a law so the voters can weigh in.

The Fed has handled a difficult period of economic history (Global Financial Crisis, pandemic, high-inflation) well to the benefit of all Americans. If we were to ever face a gauntlet like that again with the addition of another mandate on the Fed's already-full plate, the chances that it would perform as well would diminish, putting the well-being of the American people at heightened risk.

Congress should leave the Fed's dual mandate in place and never add to it.

Closing

Task force members, thank you for the opportunity to share the perspective of the U.S. Chamber of Commerce on the Fed's mandates and its independence. The Chamber stands ready to work with the Committee and all members of Congress to develop and implement policies that promote economic growth, innovation, and opportunity for all Americans. I look forward to answering any questions you may have.