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A Literature Review on the Institutional Framework of the Federal Reserve's Dual Mandate

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Abstract. As the central bank of the United States, the Federal Reserve conducts a monetary policy—including interest rate regulation and money supply—that not only affects domestic inflation and employment but also exerts significant global spillover effects. The 1977 amendment to the Federal Reserve Act established the Fed's "dual mandate" framework—stabilizing prices and promoting maximum employment. Over the past two decades, the U.S. has faced multiple economic shocks, including the subprime mortgage crisis, the COVID-19 pandemic, and persistent high inflation. In stagflationary environments, inflation and employment objectives often conflict, making the dual mandate a focal point in macroeconomic discussions. This paper employs literature review and comparative analysis methods, drawing on academic journals and official Federal Reserve reports to trace the historical background and legal origins of the dual mandate, summarize scholarly support for and critiques of the system, compare theoretical differences between the dual mandate and single inflation targeting frameworks, and assess the impact of the dual mandate on the Fed's monetary policy choices over the past twenty years. Most existing studies examine inflation or labor markets separately, thereby lacking a systematic integration and synthesis of research on the dual mandate. Comparative analysis reveals that the dual mandate offers greater policy flexibility during recessions and crises, while single inflation targeting excels in maintaining long-term price stability. Neither system is universally superior, their effectiveness depends on specific economic cycles. By integrating diverse research findings and comparing the practical performance of these two central banking frameworks under different economic conditions, this study enhances understanding of institutional design logic in advanced economies and provides insights into China's macroeconomic policy approach, which seeks to balance price stability with employment protection.

Keywords: Federal Reserve, dual mandate, single inflation targeting regime, full employment, price stability

1. Introduction

As the central bank of the United States, the Federal Reserve conducts a monetary policy—including interest rate regulation and money supply—that not only affects the domestic price level and employment in the United States but also has significant global spillover effects, profoundly influencing the world's macroeconomy. Currently, the central banks of many global economies

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regard curbing inflation as their primary policy goal. The United States, relying on the 1977 amendment to the Federal Reserve Act, has established two legal policy goals for the Federal Reserve: stabilizing the price level and promoting full employment. This institutional arrangement is known in the academic community as the "dual mandate" of the Federal Reserve [1]. Over the past two decades, the United States has experienced multiple economic fluctuations such as the subprime crisis, the impact of the COVID-19 pandemic, and persistent high inflation. In special economic environments such as stagflation, the two goals of stabilizing inflation and reducing unemployment often conflict with each other. Whether the dual mandate can balance the two policy goals has long been a topic of ongoing discussion among macroeconomists in China and abroad.

This paper adopts the method of literature research and comparative analysis, and relies on domestic and foreign academic journal literature, official reports of the Federal Reserve, etc., to conduct a literature review. The research mainly sorts out the existing academic achievements: clarifying the historical background and legal origin of the dual mandate, summarizing the mainstream viewpoints of the academic community in support and questioning of the dual mandate, comparing the theoretical differences between the dual mandate and the single inflation target system, and summarizing how the dual mandate framework has influenced the monetary policy choices of the Federal Reserve in the past two decades. Most existing literature often focuses solely on inflation control or labor market issues, lacking a systematic and integrated summary of the dual mandate system. This paper integrates the conclusions of both positive and negative academic research, and compares the practical performance of the two types of central bank target systems in different economic environments. Through this literature review, the internal logic of the institutional design of central banks in developed economies can be clarified, and the study can also provide a reference for understanding China's macro-control approach that balances price stability and employment protection.

2. The origin, legal basis and core essence of the dual mandate of the federal reserve

2.1. The historical background of macroeconomic regulation in the United States prior to the establishment of the dual mandate

Before the formal legislation of the dual mandate in 1977, the regulatory goals of the US central bank underwent several changes. Mishkin's research traces the early purposes of the Federal Reserve and the adjustment of U.S. macroeconomic policy after World War II. These changes can be divided into three main stages: The first stage was the early period of the establishment of the Federal Reserve (1913), when its core goal was to maintain financial system stability and prevent bank panics [2], The second stage spanned the Great Depression and World War II, when the Federal Reserve's policy shifted to cooperate with fiscal policy, focusing on stimulating economic recovery and reducing the unemployment rate, and undertaking the function of providing financing for the war [2], the third stage was during the Bretton Woods system period, when the Federal Reserve had to balance exchange-rate stability and domestic economic growth, and the independence of monetary policy was to some extent constrained [2]. In the 1970s, the first oil crisis broke out, and the United States fell into a special situation of stagflation. The old policy framework was unable to cope with the economic problems at that time [2]. Many research materials would record the economic reality of this stage to explain why the American society pushed for the introduction of the dual mandate system. This part mainly summarizes the evolution process of the Federal Reserve's goals before the legislation, restores the overall economic environment in the 1970s, and objectively explains the various real factors that gave rise to the dual mandate system.

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2.2. The Federal Reserve Act of 1977: the legal origin of the dual mandate

Mishkin has outlined the background and legislative process of this bill revision [3]. In 1977, the United States revised the Federal Reserve Act, establishing the legal status of the dual mandate. Before that, there were no clear and strict regulations in US law regarding the employment-related goals of the Federal Reserve, and the Fed enjoyed considerable policy autonomy. As the stagflation problem continued to worsen in the 1970s, Congress hoped to impose legislative constraints on the Federal Reserve and require monetary policy to simultaneously take into account price stability and employment improvement. Thus, the dual mandate system was formed. The revision of this bill officially set full employment and price stability as the two legal policy goals of the Federal Reserve, delineating the institutional framework for the subsequent decades of US monetary policy practice.

2.3. The official definition and academic interpretation of the goals of stable inflation and full employment

The official documents of the Federal Reserve have provided their own definitions for the two goals of stabilizing inflation and achieving full employment: The Federal Reserve sets 2% as the long-term inflation target for price stability [4]. However, in academic research, different scholars have not reached a unified view on the evaluation criteria for these two goals. Some literature recognizes the standards given by the Federal Reserve, while other studies have different understandings of the measurement methods and reasonable ranges of the goals: Some scholars believe that the measurement of full employment should include dimensions such as labor participation rate and employment quality, and cannot be judged solely based on the unemployment rate indicator, another group questions the applicability of the 2% inflation target and proposes that it be adjusted dynamically in light of demographic changes and supply shocks. There are many differences and diverse interpretations in the relevant materials. When writing, this paper summarize these existing different research conclusions and finally make an objective summary.

3. A review of domestic and international academic research on the advantages and disadvantages of the dual mandate system

3.1. Mainstream theoretical and empirical research conclusions supporting the dual mandate system

Part of the academic literature holds a positive attitude toward the dual mandate system. Relevant empirical studies conduct analysis based on historical economic data and draw corresponding research conclusions [5]. Based on cross-national historical data comparison, Mishkin finds that under the dual-mandate framework, fluctuations in employment and output in the United States are significantly smaller than those in countries adopting a single inflation-targeting regime. Bernanke also supports the dual mandate, arguing that flexible inflation targeting can take employment stability into account and improve monetary policy's capacity to cope with crises. Chinese scholar Zhang Yu tests nearly 30 years of U.S. macroeconomic data and finds that the dual mandate helps smooth business cycles. This body of literature generally holds that a central bank paying attention to both prices and employment can better respond to complex and changing economic conditions. This section objectively presents the theoretical logic and empirical results proposed in such literature without judging whether the viewpoints are right or wrong.

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3.2. Academic viewpoints and theoretical grounds questioning the inherent defects of the dual mandate system

A considerable number of studies also raise doubts about the dual mandate [6]. From the perspective of monetary policy rules, Taylor points out that the dual mandate tends to blur policy objectives. When inflation and employment goals conflict, the lack of clear and quantifiable action criteria may easily give rise to the time-inconsistency problem of monetary policy and damage the credibility of central bank policies. Summers proposes that in the long run, monetary policy can only determine the price level and cannot permanently raise employment. Forcibly pursuing full employment may easily lead to loose money and plant hidden dangers for rising inflation. By reviewing the history of U.S. stagflation in the 1970s, Chinese scholar Wang Hao argues that multi-objective constraints tend to cause policy swings by the Federal Reserve and prolong the macroeconomic adjustment cycle. These documents suggest that pursuing two objectives simultaneously creates difficulties for the Federal Reserve in policy-making. When inflation and employment clash, the central bank is caught in a dilemma. Literature of various types analyzes potential problems of this system from different angles, and this section sorts out the core critical logic put forward by these scholars merely as an objective summary.

3.3. Extended research and comments by domestic scholars on the Federal Reserve's dual mandate

Many Chinese papers on macroeconomics also focus on the Federal Reserve's dual mandate. Most Chinese scholars analyze the dual mandate in light of China's macroeconomic regulation [7]. Comparing the Federal Reserve's dual mandate with China's dual-objective regulation framework of stabilizing prices and safeguarding employment, Zhang Ming points out that the two differ fundamentally in institutional backgrounds and policy tools, and that U.S. experience cannot be copied directly. Liu Bin sorts out the practical effects of the dual mandate over the past half-century and holds that the advantages of the dual-target system are premised on strong central-bank independence. Focusing on the post-pandemic period, Li Ran analyzes the policy trade-off dilemmas brought by the dual mandate for the Federal Reserve under high-inflation conditions [7]. Many studies contrast the U.S. system with China's policies of stabilizing prices and ensuring employment and put forward respective comments. This section compiles analyses from existing Chinese literature and objectively presents perspectives from Chinese research.

4. Theoretical and practical controversy comparison between the dual mandate and single inflation targeting regime

4.1. Theoretical framework and operational logic of the single inflation targeting regime

Single inflation targeting is a monetary-policy regime adopted by central banks in a number of countries [8]. Its theoretical roots lie in monetarism and the rational-expectations school: Monetarism maintains that money supply is the core variable determining long-term price levels, and that central banks should take price stability as their primary objective. The rational-expectations school further proposes that clear and public inflation targets can anchor public inflation expectations, reduce short-term disturbances of monetary policy to the real economy, and enhance policy credibility. Relevant literature introduces the basic theories of this regime. Its core is to take curbing inflation as the central bank's foremost task and set explicit numerical inflation

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targets. In practice, New Zealand took the lead in formally implementing inflation targeting in 1990. Afterwards, advanced economies including the United Kingdom, Canada, Sweden and Australia followed suit, and some emerging-market economies also successively introduced this monetary-policy framework after 2000. Existing sources can be consulted for its theoretical origins and general modes of operation. This section objectively summarizes these established research contents.

4.2. Comparative research by academic circles on the effects of the two regimes in coping with economic shocks

Mishkin conducts research taking the 2008 subprime mortgage crisis as an example to compare the performance of the dual mandate and single inflation targeting when confronted with economic shocks [9]. Relying on the dual-mandate framework, the Federal Reserve considered both price stability and employment recovery. After the crisis broke out, it quickly lowered policy interest rates and launched multiple rounds of quantitative easing to offset impacts of financial-market collapse on the real economy. By contrast, the European Central Bank under single inflation targeting anchored policy focus on inflation levels. In the early phase of the crisis, its pace of interest-rate cuts was markedly slower than that of the Federal Reserve, and the roll-out of unconventional monetary-policy tools also lagged. Ultimately, the euro-zone output gap widened, unemployment climbed, and economic recovery lagged noticeably behind that of the United States. Research by Blanchard and Gali offers another set of comparative experiences: excessive employment-oriented stimulus under dual objectives by the Federal Reserve eventually induced high inflation, whereas price fluctuations in some inflation-targeting countries prioritizing inflation remained relatively manageable [9, 10]. Real-world events such as the subprime crisis and oil crises are cited to compare policy choices made by central banks under the two institutional frameworks and subsequent economic outcomes. Writing draws on documented cases from existing literature and paraphrases comparative analyses within those sources objectively.

4.3. Discussion on the adaptability of the two institutional frameworks under different economic cycles

Relevant literature by Taylor discusses the respective strengths and shortcomings of the dual mandate and single inflation targeting in different periods. This section compiles research conclusions from various economic phases. First, periods of steady economic prosperity. When output gaps are small and inflation and unemployment rates remain within moderate ranges for a long time, macro-regulatory effects of the two monetary-policy frameworks show relatively limited differences. The Federal Reserve under the dual mandate can moderately pursue full employment on the premise of price stability and prolong economic expansion cycles. Countries under single inflation targeting anchor inflation expectations and maintain macro-stability through rule-based interest-rate adjustments. A shared shortcoming of both: in long-run low-interest-rate environments, both regimes are prone to fueling asset-price bubbles, and traditional inflation indicators struggle to capture risk accumulation within financial markets.

Second, periods of economic recession or crisis. In crisis environments featured by contracting aggregate demand and rapidly rising unemployment, the dual-mandate system boasts obvious advantages. Policymakers possess greater discretionary freedom and may prioritize expansionary monetary policy to stabilize employment and counteract downward pressures on the real economy. Its weakness lies in ambiguous policy boundaries, discretionary policy choices may easily trigger

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market concerns over future inflation. By contrast, constrained by its statutory priority on prices, single inflation targeting tends to impose restrictions on interest-rate cuts and easing policies amid crises, resulting in delayed policy responses and greater losses in output and employment. Its strength consists in less risk of de-anchored inflation expectations and stronger long-run price stability [3].

Third, periods of stagflation or high inflation, namely phases marked by soaring inflation alongside sluggish economic growth. Here single inflation targeting becomes more suitable. This regime sends a clear public signal to prioritize inflation suppression and re-anchor inflation expectations through contractionary monetary policy. Its downside is that tightening policies will push unemployment higher and aggravate downward economic pressure. The dual mandate shows its most prominent drawbacks in such scenarios: severe conflicts emerge between stabilizing prices and lowering unemployment, trapping the central bank in a policy dilemma. Easing policies will push inflation higher while tightening will worsen unemployment, making it hard to fulfill both major objectives simultaneously. The great U.S. stagflation in the 1970s serves as a typical historical illustration of such contradictions.

5. Summary of research on U.S. monetary policy under the dual-mandate framework over the past two decades

5.1. Literature review on Federal Reserve policy choices during economically stable periods

Bernanke's research documents policy practices [11]. The Clinton era in the 1990s, known as the "Great Moderation", represents a typical stable-economy phase. During this period, global inflation pressures remained generally moderate. The Federal Reserve mainly referenced the Taylor Rule for policy-making and adopted gradual, predictable fine-tuning of interest rates: modest rate hikes when inflation showed early upward signs and moderate rate cuts upon signs of weakening employment. It allowed periodic declines in unemployment rates without triggering high inflation and fully exploited the advantages of the dual-mandate system. Yellen's research also focuses on the post-crisis era, another stable phase. Throughout the lengthy economic-recovery cycle following the financial crisis, the Federal Reserve kept interest rates low for an extended period and phased out quantitative easing gradually. Different from the Great Moderation, equilibrium real interest rates trended downward persistently in the post-crisis context. The Federal Reserve adjusted its policies and began attaching importance to broad-based employment indicators, no longer fixating merely on conventional unemployment rates but incorporating labor-force participation rates and long-term unemployed populations into decision-making reference ranges [7]. Synthesizing existing literature, shared features of Federal Reserve policy during stable economic phases include high predictability of monetary policy, primary reliance on interest-rate instruments with unconventional tools held in reserve, and efforts to tap labor-market potential to pursue full-employment objectives so long as inflation remains stable [11].

5.2. Research on monetary-policy trade-offs when inflation and employment objectives conflict

Bernanke's literature documents the subprime-crisis episode. After the financial-crisis outbreak, U.S. unemployment surged rapidly. To drive employment recovery, the Federal Reserve implemented successive rounds of quantitative easing (QE) and maintained the federal funds rate at the zero-lower bound for a long time [5]. Some literature points out that although labor markets recovered slowly during this period, persistently loose monetary policy created latent inflation risks.

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Given severe aggregate-demand deficiency amid the crisis, large-scale money injection did not immediately translate into consumer-price rises. Excess liquidity instead flowed largely into stock, real-estate and other asset markets, fueling asset inflation and forming a special type of objective conflict characterized by "high unemployment alongside asset-price inflation".

Williams' research focuses on post-pandemic high-inflation episodes. Driven by overlapping factors including supply-chain disruptions, fiscal stimulus and labor-supply shrinkage, U.S. CPI inflation exceeded 8% while labor markets recorded massive job openings, creating a coexistence of high inflation and strong employment. Faced with sharp contradictions between the two core dual-mandate objectives under Powell, the Federal Reserve launched an aggressive rate-hike cycle, sacrificing partial employment growth to restore price stability. Literature evaluates the policies of this period divergently: one camp argues that the Federal Reserve misjudged inflation as transitory in the early stages and delayed policy tightening, with the dual-mandate framework slowing its responses to inflation risks. Another camp holds that pandemic shocks featured high uncertainty, and its gradual approach of keeping employment goals in mind had rationality, while external supply shocks amplified policy dilemmas [12].

5.3. Analysis of macroeconomic effects from long-term implementation of the dual mandate

One strand of research represented by Reifschneider contends that the dual mandate has reduced the amplitude of U.S. unemployment-rate fluctuations in the long run. Enabled by the dual mandate, the Federal Reserve can proactively implement counter-cyclical easing policies to underpin labor markets during economic downturns. Compared with countries under single inflation targeting, the United States sees shorter unemployment spells and faster employment recovery. The institutional design helps smooth real business-cycle fluctuations and improves aggregate social welfare in the medium-to-long run [10]. Meanwhile empirical results from such studies show that decades of dual-mandate practice have not systematically lifted inflation levels. Provided monetary-policy frameworks function well, price stability and full-employment objectives can remain compatible over time.

Another strand of research represented by Rogoff argues that the dual mandate renders U.S. inflation expectations more susceptible to shifts. Entrusted with employment objectives, central banks face time-inconsistency risks: Short-run appeals to boost employment may bring about excessive monetary easing. Even if monetary tightening becomes necessary in the long run, upward inflation pressures may materialize and increase inflation volatility. Some cross-national panel comparisons show that advanced economies practicing single inflation targeting register lower average inflation volatility. Under certain conditions, the dual-mandate regime imposes costs on price-stability performance. Such institutional defects manifest more prominently amid exogenous disturbances such as oil crises and pandemic supply shocks [8]. Beyond unemployment and inflation, some literature discusses impacts of the dual mandate on macroeconomic growth, yet existing empirical findings remain inconclusive. Some studies find that the dual mandate stabilizes macro-environments and thereby benefits long-term investment, other scholars warn that easing biases may spawn asset bubbles, plant hidden financial-instability risks and impair long-run growth quality [13].

6. Conclusion

A review of diverse literature shows that the Federal Reserve's dual-mandate system emerged from specific historical and economic contexts and acquired legal standing through the 1977 amendment

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to the Federal Reserve Act. Scholars have long held divided opinions on this system. Some studies approve of its design for balancing prices and employment, while others point to institutional shortcomings stemming from conflicts between its two objectives. Comparisons between the dual mandate and single inflation targeting demonstrate that both regimes possess respective strengths and weaknesses across boom, recession and stagflation economic cycles. Constrained by the dual-mandate framework over the past two decades, the Federal Reserve adopted differentiated monetary-policy choices when facing stable periods, crisis shocks and objective-conflict scenarios, bringing about corresponding macroeconomic outcomes. This literature review still bears certain research limitations: First, it draws mainly on secondary published literature without direct collation of original Federal Reserve archival materials. Second, further data verification is not performed for divergences among empirical results from different papers. Third, it relies heavily on theoretical and literature review and lacks independent quantitative analysis. Future research concerning the Federal Reserve's dual mandate can continue to investigate practical evolutions of this system amid global high-inflation backdrops and further explore lessons for institutional design of central banks in other economies.

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