Continuity and Change in the Federal Reserve's Perspective on Price Stability

David López-Salido, Emily J. Markowitz, and Edward Nelson

Abstract

We examined statements made by Federal Reserve leadership since the early 1950s and established there has been considerable continuity in policymakers' perceptions of the benefits of price stability. Policymakers have consistently contended that deviations from price stability give rise to greater cyclical instability, and they have also frequently suggested that potential output is significantly lowered by inflation. The recurrent support for price stability that comes through in these statements implies that it is invalid to interpret deviations from price stability in the U.S. economy as an indication that policymakers seek inflation.

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1. INTRODUCTION

Along with the goal of maximum employment, price stability is a statutory objective of the Federal Reserve, as part of the dual mandate assigned to monetary policy.[1] In pursuing this dual mandate, the Federal Reserve's Federal Open Market Committee (FOMC) has specified a longer-run inflation rate of

1. This dual mandate was formalized in law in 1977 in an amendment to the Federal Reserve Act. The wording of the mandate—"the goals of maximum employment, stable prices, and moderate long-term interest rates"—had previously been used in a resolution applying to the Federal Reserve that both houses of Congress passed in 1975. (See the remarks of Rep. Henry S. Reuss in the hearing of July 18, 1977, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 1977, pp. 2-3.) In practice, the third item listed in the mandate—moderate longer-term interest rates—has not been considered a separate policy goal, as longer-term price stability is seen as securing moderate long-term interest rates (see, for example, Mishkin, 2007).

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2 percent (in personal consumption expenditures, PCE, prices) as its price-stability goal. This numerical goal is set out in the FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy, which is also known as the Committee's "consensus statement." This statement was originally released in 2012, and the 2 percent goal has been reaffirmed over subsequent years in successive versions of the statement. (See Federal Open Market Committee, 2012, 2024.)

Notably, considerable judgment, involving economic analysis, underlies the FOMC's choice of the 2 percent goal. Underpinning that 2 percent goal, therefore, is an assessment of the *implications of different longer-run inflation rates for economic performance*. That is, policymakers took a stand on the *structural behavior* of the U.S. economy. When the 2 percent objective was announced, Federal Reserve policymakers indicated that this number was deemed to be the rate *most likely* to help secure the achievement of the Federal Reserve's other macroeconomic goal of maximum employment.[2] Consequently, 2 percent was judged to be the numerical inflation objective most consistent with the Federal Reserve's overall mandate.

That 2012 assessment motivates our examination in this article of the views that the Federal Reserve held over the pre-2012 period on the same issue. We document continuity and change in the Federal Reserve's perspective on price stability by analyzing how policymakers' position on the relationship between sustained rates of inflation and other economic variables has evolved. We put the FOMC's modern-day inflation goal into a longer-term context by examining the Federal Reserve's stance over time on the merits of price stability.

Our analysis is most specifically concerned with *ascertaining the costs, as perceived by policymakers, of deviations from price stability*. To this end, we examine what senior Federal Reserve officials have seen as the likely economic repercussions of deviations from price stability. In so doing, we consider policymakers' views on the merits of price stability as a goal in its own right and on the relationship between the price-stability objective and the real long-term objective embedded in the maximum-employment mandate, as well as related goals articulated by policymakers (such as maximum sustainable economic growth). By drawing out the views expressed by pre-2012 policymakers on the costs of departures from price stability, our analysis reveals the antecedents to the FOMC's characterization—as given in successive versions of the consensus statement—of the relationship between its longer-run inflation and employment goals.[3]

We find considerable consistency over time in policymakers' general perception of the implications of above-normal inflation rates for economic performance. We show that the Federal Reserve leadership's emphasis on the costs of inflation and on the corresponding desirability of price stability was prevalent both during the decade from the mid-1950s to the mid-1960s—a period when price stability largely prevailed but the U.S. economy was often seen as vulnerable to an outbreak of inflation—and during the more sustained deviations from price stability that the United States experienced from the mid-1960s through the early 1980s.

In particular, in examining official views over the period since the 1950s regarding the costs of high inflation, we establish numerous parallels with the situation seen since 2021. In the more-recent period,

2. See, in particular, Bernanke's (2012) remarks, at the press conference that he gave on the day of the release of the consensus statement, about the real costs of inflation rates above or below 2 percent. The consensus statement's assessment of 2 percent as the mandate-consistent inflation rate was based on considering the full dual mandate, not just its price-stability element. In this vein, Bernanke (2012, p. 22) remarked on release of the statement, "as we've talked about frequently, we set inflation—our inflation objective—in a way that was consistent with both sides of the mandate." In addition, in May 2013 testimony, Bernanke referred to the "2 percent rate that the Federal Open Market Committee (FOMC) judges to be most consistent with the Federal Reserve's statutory mandate to foster maximum employment and stable prices."

3. Though we discuss the fact that policymakers consistently viewed variations in inflation as harmful to the execution of stabilization policy, the focus of our analysis is on policymakers' perception of the longer-run relationship between the employment and price-stability goals. Consequently, we do not consider in detail changing views over time in the short-run connection between inflation and employment.

for the first time in decades, inflation has been well above 2 percent on multiple measures for a stretch of time. Against this background, Federal Reserve policymakers have underscored both (i) the costs that the economy incurs when there are significant deviations from price stability and (ii) the status of anchored inflation expectations as one of the necessary conditions for the orderly expansion of economic activity. In articulating this point, they have in effect been echoing a message that has been conveyed repeatedly over many years in Federal Reserve policymakers' statements. In particular, in notable contrast to Schonhardt-Bailey's (2013, p. 230) suggestion that Paul Volcker "introduced for the first time the notion of the importance of public attitudes and expectations toward future inflation," we show that inflation expectations featured prominently in the Federal Reserve leadership's perspectives for over a quarter-century before the Volcker tenure began in 1979. Over the past seven decades, leading Federal Reserve officials have repeatedly stressed that stable long-term inflation expectations—a state that monetary policy can help create—are an important element of price stability and that the stability of inflation expectations makes sustained economic expansion more likely. This is true in part because these conditions better position the central bank to carry out countercyclical monetary policy.[4]

As already implied, our analysis establishes that an aversion to inflation—on the basis that it generates high real costs—is a fundamental element of *continuity* that we find in Federal Reserve statements over the years. With regard to change, we establish that there have been some notable shifts in *policymakers' perceptions of the mechanisms through which inflation hurts and price stability benefits the economy*. The main change is the fading out of one longstanding policymaker basis for favoring low inflation: the notion that price stability boosts longer-term economic growth. Although it was championed in the 1980s and 1990s by Paul Volcker and Alan Greenspan, this notion has received much less emphasis in more recent decades, as judgments have hardened that factors driving real economic growth are not very sensitive to modest variations in the steady-state inflation rate.

It is therefore certainly the case that, in the wake of changes in the financial system and the structure of the real economy, specific costs of inflation have received different degrees of emphasis over time. Nevertheless, a key contention that has been made prominently and recurringly by policymakers, from the 1950s onward, is that entrenched high inflation has adverse implications for the longer-term behavior of the level of aggregate potential output and its components, including long-run levels of employment and productivity.[5] The assessment that these effects are significant has shaped policymakers' views on the relationship between the variables that enter the modern dual mandate. Federal Reserve officials have consistently judged there to be adverse repercussions of longer-term deviations from price stability (one of the dual-mandate goals) for the achievement of the goal of maximum employment (the other dual-mandate goal).[6] They have taken this position even in periods, such as the 1960s, when there has been substantial disagreement among outside researchers—notably in U.S. academia—about the desirability of price stability (as compared with deviations from price stability, such as an inflation rate of 3 percent or more).

Our investigation is therefore into policymakers' judgments about the costs of inflation and the connection between the goals. We find that Federal Reserve policymakers consistently favored price stability: Therefore, although our work concentrates on policymaker views on the structure of the economy, it bears on the literature on policymaker goals. Our results suggest that it is appropriate to regard

4. As discussed in Section 4.2, the confidence that policymakers had in their ability to affect inflation, and hence inflation expectations, diminished during the 1970s. Even in that period, however, it was accepted that expectations of price stability, if achieved, contributed to real economic stability.

5. As we discuss in Section 3.2, relative price dispersion and the impairment of saving/investment connections have been highlighted by successive policymakers as key channels through which inflation generates real costs.

6. Although the modern dual mandate of maximum employment and price stability dates to the late 1970s, pre-1970s policymakers also regarded themselves as statutorily required to meet these goals. We discuss this point in detail in López-Salido, Markowitz, and Nelson (2025).

low-frequency movements of historical U.S. inflation as amounting primarily to sustained deviations from the Federal Reserve's—largely unchanged—inflation goal. In particular, we establish that, during the 1970s, high inflation was *not* a goal, and a return to price stability was repeatedly affirmed by the Federal Reserve's leadership as a multi-year policy objective—with such affirmations occurring both before and after the legislative developments of mid-decade that made price stability an explicit statutory objective. Our finding that price stability has been a consistent goal of Federal Reserve policy is a different conclusion from, for example, Sargent, Williams, and Zha (2006) who—in common with many other researchers—operate on the postulate that in the 1960s and 1970s "the monetary authority's inflation target evolves as its estimated Phillips curve moves" (p. 1193).[7] Our result also contrasts with various studies that try to infer a time-varying U.S. implicit inflation target on the basis of actual inflation outcomes (see, for example, Cogley and Sbordone, 2008) and associate large target-rate increases with periods of high U.S. inflation. Instead, as already indicated, we find that the evidence is consistent with a price-stability-consistent rate being the Federal Reserve's longer-term inflation objective, even when actual inflation was persistently high.[8] The Federal Reserve's consistent belief in the desirability of price stability implies that it was not, in fact, inclined to see boosts to inflation as beneficial for economic activity or to seek deviations from price stability for the purpose of stimulating output above its potential level.

Our conclusions also differ from those of Meltzer (2009), whose account of the Great Inflation of the 1970s is centered on the view that Federal Reserve policymakers assigned a low weight to price stability (and a correspondingly high weight to real goals) in their assessment of the U.S. welfare function. We find, in contrast, that pre-1979 Federal Reserve officials—in common with those in succeeding decades—not only valued price stability highly but also viewed its attainment as essential to the sustained achievement of national goals regarding production and employment. Having such a mindset, policymakers would not—and did not—view high inflation as something to which they and the community had to acquiesce, in order for real goals to be attained. In that light, the high-inflation outcomes of the 1970s should be viewed as reflecting the inadequate appreciation in that era's central bankers of monetary policy's centrality to the control of inflation; correspondingly, they should *not* be viewed as evidence of an official position that elevated inflation rates are desirable.[9]

This article proceeds as follows. In Section 2, we discuss our methodology. Section 3 contains a detailed analysis of the various economic arguments for price stability that Federal Reserve policymakers have made over time and how their arguments have related to specific channels linking inflation and the economy. Section 4 reconciles our finding that policymakers consistently favored price stability with protracted episodes of high inflation. Section 5 gives some concluding remarks.

2. MEANS OF ASCERTAINING VIEWS OF THE FEDERAL RESERVE LEADERSHIP

Our analysis draws out the perspective on price stability held by the makers of U.S. monetary policy by focusing on the views held by the Federal Reserve leadership, especially successive Federal Reserve Chairs. With respect particularly to the William McChesney Martin, Jr., era that spanned most of the

7. Sargent, Williams, and Zha (2006) are part of a tradition that sees U.S. policymaking in the 1960s and 1970s as heavily influenced by 1960s-vintage U.S. economic research that suggested that the long-run Phillips curve was nonvertical and that higher inflation could buy lower unemployment. As detailed below, we find that, on the contrary, U.S. policymakers, including those at the Federal Reserve, valued price stability throughout this period. In particular, they rejected the notion of a long-run Phillips-curve tradeoff (see Section 4.1).

8. López-Salido, Markowitz, and Nelson (2025) show that an inflation-target series obtained for the period from 1951 to 2011 on the basis of policymakers' statements differs very substantially from inflation-target series that have been estimated by researchers.

9. See Section 4.3.

twenty years to 1970, we also draw upon statements made by the Vice Chairs of the FOMC and the Federal Reserve Board. During the Martin era, these individuals played a substantial role in helping to provide explanations to the general public and Congress of the economic thinking behind monetary policy.

Our source material consists predominantly of public statements by policymakers. These mainly comprise speeches and Congressional testimonies that are available in word-searchable scanned files in the Federal Reserve Bank of St. Louis's FRASER database. We also supplement this information with public statements not included in FRASER, such as material in question-and-answer sessions of Congressional testimony.

It is beyond the scope of this article to provide a comprehensive analysis of the strengths and weaknesses of different approaches to ascertaining the evolution of U.S. monetary policymakers' views and intentions. But it is appropriate to make some remarks about why we believe that the methodology employed in our analysis is sound. To that end, we now consider a number of possible concerns that might be raised about our approach of focusing on public statements, made in real time, of the Federal Reserve leadership.

Representativeness of the quotations that we use. Any analysis that brings out the views of policymakers by considering specific statements needs to confront the issue of whether the quotations are representative. We are confident that the statements that we provide are representative. We draw on a database (FRASER) that covers a very large sample of Federal Reserve policymaker statements, although it does not, of course, comprise the "universe" (that is, the population) of those statements. With respect to all the periods that we consider, it was the norm that different speeches and statements by a Chair often made the same points about price stability and its relation to the economy.[10] Because of this, even though we use one or two quotations as the basis for attributing a view to a Chair, it would be straightforward to obtain multiple alternative quotations that relay the same view. Consequently, we are confident that the quotations that we provide concerning successive Chairs' convictions about the importance of price stability are representative quotations. In contrast, standard attributions to Chairs made in much of the research literature (such as claims that policymakers in the 1970s assigned a low priority to inflation control) do not receive backing in the public statements.

Bona fides of public statements about price stability. It might be conjectured that public statements made over time by central bankers in favor of price stability need to be discounted on the grounds that officials perhaps lacked an incentive to talk favorably about inflation. We believe that such conjectures may be unduly influenced by the modern widespread acceptance of the case for price stability. During the 1950s and 1960s, trends in U.S. economic thinking were much more favorably disposed toward mild deviations from price stability (say, 3 percent inflation or more). As we will see, successive Federal Reserve policymakers resisted and spoke out against these views. Policymakers in the 1950s and 1960s were therefore making the case for price stability when the economics profession was ill-disposed toward this case and was suggesting that there were real benefits that would flow from secular inflation. Consequently, we do not find it plausible that policymakers' articulation of the benefits of price stability was insincere or *pro forma*.

Merits of public statements versus FOMC meeting transcripts. FOMC meeting transcripts are a valuable source of information on policymakers' views. Our own analysis concentrates, however, on policymaker statements that were available publicly in real time. Our focus on public statements reflects our interest in understanding policymakers' views of the implications of price stability for economic performance. Statements to the general public and to Congressional committees are among those in which Federal Reserve officials would be most likely to detail their views about the implications of deviations

10. It was not uncommon for speeches by Chairs in the periods that we study to have directly overlapping passages. Beyond this, however, Chairs and other members of the Federal Reserve leadership frequently repeated the same point in different words across speeches and testimony.

from price stability. Such material is likely to appear only sporadically in FOMC meeting deliberations, as recorded in transcripts and minutes. If policymakers agree among themselves on the desirability of price stability, they are likely to take the case for price stability as common ground; therefore, to a substantial extent, they may often leave that case unspoken or express it only in shorthand form, when they make interventions in FOMC meetings. The longer-term relationship between inflation and economic performance is likely to be considered far more explicitly when policymakers talk in public—and feel a need to spell out the ultimate goals that monetary policy is pursuing and the rationale for those goals.

Two other points about transcripts deserve mention. First, concentration on transcripts can often lead to the neglect of important information in public statements. There is a danger of regarding material in the transcripts as "revealing" information about policymakers' views even when policymakers in FOMC meetings were articulating points that they also aired publicly. One example comes from the discussion of the 1979 meeting transcripts by Goodfriend and King (2005, p. 281): "we find—to our surprise—that Volcker and other FOMC members likewise regarded the long-term interest rates as indicative of inflation expectations." In fact, Volcker had stressed long-term interest rates as an indicator of inflation expectations in statements that he made even before 1979, as well as in many public statements as Federal Reserve Chair from 1979 onward.

Second, although it is tempting to suggest that, in high-inflation periods, FOMC meeting transcripts may reveal a conscious desire to inflate that may not be disclosed in public statements, the FOMC meeting transcripts of the 1960s and 1970s have failed to back up suggestions of this kind. Romer and Romer (2002) stress, as we do, continuity in U.S. macroeconomic objectives of policymaking from the Martin era onward—in particular, Federal Reserve officials' emphasis on the benefits of price stability. They do so by using FOMC meeting transcripts as their principal source. In contrast, Meltzer (2009), despite his insistence that the 1970s inflation reflected a conscious policy choice by the Federal Reserve, did not provide compelling transcript evidence to this effect, even though transcripts were used heavily in his study.[11] That is, although Meltzer's (2009) study drew extensively on contemporaneous documentary material, including transcripts, his conclusion (p. 838) that "maintaining the internal value of money was of lesser interest" to the 1970s FOMC was not firmly based on this material.[12]

Manual versus automatic word-searching. Though we rely heavily on an electronic archive (FRASER), we have analyzed the content via our own searching of the archive and by reading downloaded items, rather than by undertaking fully automatic searches for words or phrases. The latter approach (using, for example, machine-learning techniques) could usefully complement the approach that we take. We note, however, a couple of ways in which our approach is unlikely to be dominated by fully automatic search procedures. First, a mechanical search for the number of times the word "inflation" is mentioned is unlikely to shed very clear light on central banks' perspective on the relationship between inflation and the aggregate economy, because inflation may often be mentioned in contexts in which its structural link to the economy is not under discussion. (This may occur, for example, when a speech simply notes that a series under examination is adjusted for inflation.) Second, a manual search may permit more sensitive allowance for shifts in policymaker terminology over time—and so could find relevant

11. Note that cases in which policymakers were knowingly expansionary do not in themselves amount to cases in which they were deliberately generating high inflation. In particular, it is clear that the Arthur Burns-led FOMC believed that its expansionary moves in 1971 and 1972 were consistent with moving toward price stability. See Nelson (2020, pp. 331-332).

12. Meltzer's (2005) related account of the Great Inflation was criticized by Romer (2005) because it relied heavily on the lecture delivered by Burns (1979). This criticism was justified. The Burns (1979) lecture was written well after Burns left office and, to some extent, seemed to reflect an after-the-fact embrace on his part of accounts in which U.S. monetary policy actions played an important role in generating the 1970s inflation. Burns had actually taken strong issue (both publicly and privately) with these accounts when he was Federal Reserve Chair (in 1970-1978). The 1979 Burns lecture was likely heavily influenced by the emergence in the U.S. economics profession in the late 1970s of a consensus that monetary policy played a central role in inflation outcomes, and so it did not provide a reliable portrayal of the views that he actually took on matters during his tenure as Chair.

discussions that an automatic search may miss. For example, Paul Volcker often used "stability" to mean "price stability." An automated search might miss these references to price stability.

In sum, we see our particular means of ascertaining the perspective held by the Federal Reserve leadership on price stability as being complementary with other approaches—but as having some key advantages over those approaches.

3. THE FEDERAL RESERVE'S ECONOMIC RATIONALE FOR PRICE STABILITY: THE OUTPUT COSTS OF INFLATION

The intersection of the real economy and nominal variables—and, in particular, the costs that deviations from price stability imply for the performance of the economy—have had pride of place in the arguments against inflation articulated by policymakers. As we now show, this has consistently been the case under successive Federal Reserve leaderships since the 1950s. Specifically, in this section, we consider the principal costs of inflation that have been relayed in successive periods by Federal Reserve Chairs and other senior U.S. monetary policy officials. We show that real costs of inflation have been repeatedly and prominently articulated by successive officials. The outlines that policymakers have given of the costs of inflation have conveyed judgments that inflation has an adverse impact on the distribution of income (Section 3.1), on the execution of economic-stabilization policy (Section 3.2), and on the long-run behavior of potential output, its components, and its growth rate (Section 3.3). We further explore policymakers' views on the link between potential output and inflation by concluding this section with an examination of specific transmission channels that Federal Reserve officials stressed over time (Section 3.4).

3.1. Real distributional costs of inflation

A cost of inflation that has been expounded by successive Federal Reserve Chairs has been the adverse effect on the distribution of income, including harm to low- and fixed-income recipients. For example, Martin (1953, p. 6) made the observation: "Inflation is a sneak thief. It seems to be putting money into our pockets when in fact it is robbing the saver, the pensioner, the retired workman, the aged —those least able to defend themselves."[13] Martin's successor Arthur Burns made a similar remark in 1974: "Because of its capricious effects on the income and wealth of a nation's families and businesses, inflation inevitably causes disillusionment and discontent. It robs millions of citizens who… have set aside funds for the education of their children or their own retirement. It hits many of the poor and elderly especially hard."[14]

Paul Volcker, too, mentioned inflation's distributional costs. Volcker (1979, p. 2) stated that "the impact of inflation is uneven. Those on fixed incomes suffer." He likewise noted in 1980 that "the poorest people in the economy are hurt by inflation" while also observing, "Inflation places tremendous pressures on the budgets of many households."[15] Volcker, however, also cast this as one element of numerous economic costs imposed by entrenched inflation: "Beginning in the mid-1960s, inflation increasingly became a way of life, and in the process distorted economic incentives, sapped our productive energies, and caused arbitrary and capricious transfers of income and wealth."[16]

13. Similarly, some years later, Federal Reserve Board Vice Chairman Balderston (1957, p. 8) stated that "Inflation causes an unfair redistribution of wealth and disrupts the social and political fabric."

14. Burns (1974a, p. 7 [1978, p. 164]).

15. The quotations are respectively from Volcker's testimony of July 24, 1980, in Committee on Ways and Means, U.S. House of Representatives (1980, p. 395) and of November 19, 1980, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1980c, p. 9).

16. Submitted testimony of March 2, 1982 (Volcker, 1982, p. 3).

As Volcker's comments implied, inflation tended to be seen as having multiple adverse repercussions for the behavior of the real economy beyond its effect on straining household budgets. These costs, in fact, have been stressed by multiple Federal Reserve Chairs: a variance cost implying that stabilization policy is impeded and a level or growth-rate cost manifested in lower potential output.[17] We discuss these in the next two subsections.

3.2. Disruption to economic stabilization

Federal Reserve Chairs have often stressed price stability as a state needed to secure sustained full employment in the economy, as this stability prevents rising output from being interrupted more often than necessary by downturns. It has repeatedly been the case over the years that leading U.S. monetary policy officials have advanced the argument that inflation, once it emerges, will eventually have to be dealt with, with a tightening of aggregate demand being part of the policy response.[18] That being the case, inflation will eventually be followed by a period of slower output growth and of elevated rates of unemployment; and the more that inflation is allowed to rise, the greater the subsequent correction.

Along these lines, Martin (1957, p. 7) contended: "If inflation is allowed to pursue its course, it feeds upon itself in such a way that, when the inevitable correction finally comes, unemployment will be that much worse." He concluded, "Price stability is essential to sustainable growth."[19] Martin (1961, p. 8) correspondingly remarked "If we permit prices to rise rapidly, we will not long sustain high levels of employment…" This perspective on inflation was also given by a senior Federal Reserve Board official, Winfield W. Riefler (assistant to the Chairman): In a 1959 public submission, he stated that inflation "increases instability—high levels of activity cannot be sustained for long when inflation is expected to prevail."[20]

In taking the position just described, Martin felt vindicated by the experience of price stability and economic growth seen during his tenure as Federal Reserve Chair. He believed that this period had provided a new empirical confirmation of his position on price stability: "I think it's quite significant if you stop to think about it that we only broke the back of the American inflation in the period [from] 1957 to 1960. And when we got the wonderful stability in prices that we had from 1961 up to the middle of 1965 we had the most dramatic growth I think that this country has experienced in many years. And I question very much whether[,] without the stability of prices[,] you will get permanent, sustainable, worthwhile growth and employment."[21] Figures 1 (panels a to c) show the patterns that Martin was describing.[22]

17. The distributional costs continued to be stressed in discussions of inflation by succeeding Federal Reserve leaderships. For example, FOMC Vice Chair William J. McDonough (1997, p. 3) stated that "inflation also tends to fall particularly hard on the less fortunate in society, often the last to get employment and the first to lose it." More recently, see, for example, Powell's (2023, p. 3) observation that "high inflation imposes significant hardship, as it erodes purchasing power, especially for those least able to meet the higher costs of essentials like food, housing, and transportation."

18. This argument dovetails well with the logic underlying the expectations-augmented Phillips curve. It nonetheless applies more broadly to any case in which a rise in inflation tends to squeeze out the real increase in spending provided by any given growth of nominal aggregate demand. It was accordingly a concern in policy circles even before the Phillips-curve literature developed. In particular, Martin (1966, p. 114) recalled that, in a conversation with John Maynard Keynes in the mid-1940s, Keynes made the observation that the postwar "problem that we're going to face is how to keep inflation from getting ahead of us so that we will not have the inevitable corrections that come while inflation gets ahead of you and you have [greater unemployment than] if you had restrained the inflation at the proper time."

19. Testimony of August 13, 1957, in Committee on Finance, U.S. Senate (1957, p. 1262). Also quoted in Orphanides and Williams (2013, p. 258).

20. Riefler (1959, p. 3369).

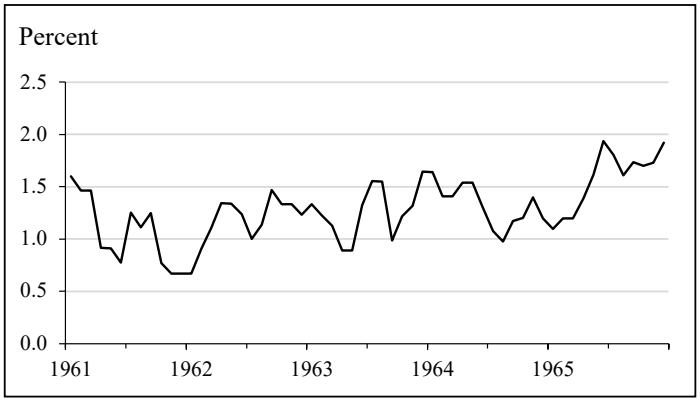
21. Martin (1966, p. 114).

22. It is also worth stressing that fixed exchange rates prevailed over the Martin era. In these circumstances, movements in the exchange rate were not available as a means of achieving overall U.S. external payments balance, with U.S. dollar devaluation being seen for a long time as inappropriate or infeasible. In that environment, major U.S. balance-of-payments deficits had emerged by the start of the 1960s. In response, policymakers cited price stability as one of the conditions necessary to attain ►

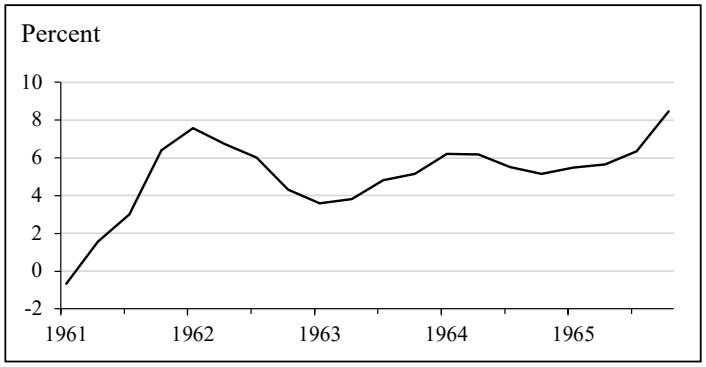
Figure 1

Economic Outcomes, 1961-1965

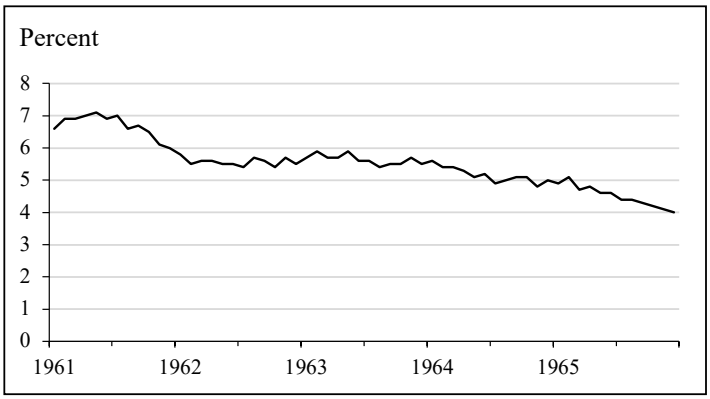
(a) CPI inflation (12-month percent change), January 1961 to December 1965



(b) Real GDP growth (4-quarter percent change), 1961:Q1–1965:Q4



(c) Unemployment rate (percent), January 1961 to December 1965



SOURCE: FRED, Federal Reserve Bank of St. Louis.

◄ balance-of-payments equilibrium. For example, Martin (1961, p. 8) described matters in these terms: "If we permit prices to rise rapidly, we will not long sustain high levels of employment nor high rates of growth[,] and we will not be able to establish equilibrium in our balance of payments." In the era of largely pegged exchange rates of the 1950s and 1960s, therefore, U.S. policymakers saw inflation as liable to generate external imbalances in addition to domestic economic instability. Subsequently, the advent of greater exchange-rate flexibility under Martin's successors meant that the Federal Reserve Chairs over most of the 1970s, Arthur Burns and G. William Miller, did not typically highlight balance-of-payments deficits as a cost of inflation.

Subsequent Federal Reserve Chairs echoed Martin's sentiments regarding inflation's adverse consequences for domestic economic activity. For example, Arthur Burns stated that lower inflation "is a key requisite to the achievement of sustainable economic growth and lower unemployment."[23] In 1980, Paul Volcker affirmed that "there is basic agreement… that [the] American economy is going to operate better in an atmosphere of price stability."[24] And Volcker (1985b, p. 6) observed that price stability was the "prerequisite… for sustained and balanced growth."

The long-run-vertical expectations-augmented Phillips curve way of looking at inflation was accepted at the policymaking level during Volcker's tenure.[25] Consequently, Volcker's articulation of the argument that inflation hindered the success of stabilization policy was closely linked to this modern view of the Phillips curve, with its focus on rising inflation expectations as a development worsening both inflation and unemployment. For example, he suggested that the unemployment rate in the vicinity of 8 percent (its rate in the aftermath of the 1980 recession) should be considered a "residual effect of what we have been doing in past years." Volcker suggested that unemployment would not have reached this high level if the United States had not allowed inflation to reach the levels that it had attained. Correspondingly, he stressed the need for policies that permitted a situation in which the unemployment rate could decline against a background of price stability (or in which the unemployment rate and inflation could decline together).[26] Along similar lines, Volcker remarked in this period: "The insidious pattern of rising rates of inflation *and* unemployment in succeeding cycles needs to be broken."[27] He testified that in the presence of inflation and recession, "stimulative policies…, far from assuring more growth over time, by aggravating the inflationary process and psychology, they would threaten more instability and unemployment."[28]

The same sentiment about the link between price stability and the execution of stabilization policy underlay policymaker statements in later decades. For example, in a Congressional hearing on March 20, 1997, Alan Greenspan noted that "what we tend to focus on is to make sure that the inflation rate stays down… [as] it is our judgment that if we allow that to get away, we will at the end of the day find that we have set in motion a set of forces which will bring the long-sustained stable recovery to an end."[29]

A specific aspect of this argument figured prominently in the case for inflation targeting made in economic research in the 1990s (see, for example, Bernanke and Mishkin, 1997, pp. 104-107). This was the notion that a credible inflation objective makes it more possible for the central bank to ease its policy

23. Burns (1977a, p. 7 [1978, p. 472]).

24. Testimony of July 22, 1980, in Committee on Banking, Housing, and Urban Affairs, U.S. Senate (1980b, p. 124). Earlier, on October 17, 1979, Volcker testified that inflation "undermine[s] our ability to deal with… cyclical problems" (Joint Economic Committee, U.S. Congress, 1980, p. 15).

25. This was true of the Greenspan period, too—a situation reflected in Romer and Romer's (2002) treatment of the combined Volcker-Greenspan period as governed by "the modern consensus." Although the emphasis in the present article is on policymakers' perceptions of long-run connections between inflation and other variables, it should be stressed that this consensus also implied an acceptance of a short-run inflation/unemployment (inverse) relationship and associated short-run tradeoff. For example, Greenspan (1987b, pp. 1-2) observed that "the art of central banking is to balance the conflicting objectives facing the policymaker." See also his written submission, included in his July 1987 nomination materials, that the Volcker disinflationary moves necessarily entailed a "painful short-run economic fallout" (in Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 1987, p. 64).

26. The quotation and the other points described come from Volcker's testimony of February 26, 1981, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 114).

27. From Volcker's written testimony of July 23, 1980, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1980b, p. 24). See also his spoken remarks at the same hearing (p. 12) as well as related observations given by Volcker before another Congressional committee two days later (Committee on Ways and Means, U.S. House of Representatives, 1980, p. 326).

28. From Volcker's testimony of February 19, 1980, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1980a, p. 3). Similarly, a year later Volcker testified: "Attempts to stimulate the economy without dealing with inflation are bound, in the end, to be self-defeating" (Remarks of February 26, 1981, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 1981, p. 112).

29. In Joint Economic Committee, U.S. Congress (1997, p. 38).

stance during periods of economic weakening, without its actions being misconstrued as implying a desire for higher inflation. In fact, Volcker (1985c, pp. 15-16) had explicitly endorsed this notion and suggested that it was beginning to characterize U.S. policymaking: "There was, for instance, no inconsistency in my mind between a continuing priority concern about inflation and our recent decision to, in the jargon, 'ease money' by lowering the discount rate… The sensitivity of some to any action that could be interpreted as inflationary is an understandable, if mistaken, heritage of the absence of effective consistent governmental policies to deal with inflation over years. One reward of a record of greater stability—and a credible commitment to maintain that stability—will in fact be greater operational flexibility for the monetary authorities."

Under Chair Bernanke and subsequently, this particular line of reasoning would appear in the consensus statement's indication that keeping "inflation expectations firmly anchored" has the effect of "enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances" (Federal Open Market Committee, 2012).

3.3. Adverse implications of inflation for long-run real economic performance

Beyond their discussions of inflation as a factor that could impede sustained economic expansion, leading Federal Reserve policymakers stressed adverse influences of inflation on the *longer-run path of real economic activity*. Particularly in the period spanning the Martin through the Greenspan eras, the Federal Reserve leadership postulated the empirical relevance of a negative long-run connection between inflation and economic potential—through which inflation would exert an adverse influence on potential output, its growth rate, and the components of potential output, including productivity.[30]

The notion that extreme inflations (of high double-digit rates or beyond) generate permanent and adverse effects on the real economy is not controversial and had longstanding acceptance at the Federal Reserve, largely on the basis of inflation experiences outside the United States. In light of such experiences, senior Federal Reserve official E.A. Goldenweiser (1941, p. 292) noted that extreme inflations produce "at the worst, a complete wiping out of all savings and the ultimate collapse of the economy."

It is more controversial, however, to suggest that more moderate inflation rates have powerful negative effects on real output. Nevertheless, Federal Reserve leaderships have argued, in public interventions over several decades, that as an empirical matter there are appreciable negative influences of inflation on the long-run value of output in the United States even in the case of inflation rates at or below 10 percent. For example, Chairman Martin's remarks upon taking office included the warning (1951a, p. 1): "Unless inflation is controlled, it could prove to be an even more serious threat to the vitality of our country than the more spectacular aggressions of enemies outside our borders." The Federal Reserve explicitly expressed this threat as being to economic growth: For example, Riefler's (1959) submission to a Congressional inquiry was titled "Inflation: Enemy of Growth," while Martin (1952, p. 4) expressed his position very strongly: "Inflation can be even more serious to the growth and development of our country than an enemy from without our borders."[31]

Both in the course of the main period of disinflationary policy (1979 to 1982) and during the period after 1982 of further progress toward price stability, Paul Volcker repeatedly stressed the notion that inflation, at the rates like those that the United States had experienced in the 1970s, had negative long-run repercussions for real economic activity.

30. As described below, policymakers explicitly indicated a negative long-run influence of inflation on employment. Of course, some of the references made by officials to "employment" may have been intended to encompass a broader set of measures of labor market conditions than simply the aggregate of workers employed.

31. In a similar vein, during the mid-1970s Arthur Burns (1974b, p. 1) remarked that "inflation has now reached a stage where it is endangering our economic and political future." Also in Burns (1978, pp. 181-182).

In making this case, Volcker emphasized the importance of real economic performance as a national goal and monetary policy objective. While Volcker did see price stability as a desirable goal in itself, he suggested that real variables figured more highly in welfare. Testifying in February 1981, Volcker observed that "in an ultimate sense, the object of economic policy is to achieve high conditions of employment, high conditions of growth, rising standards of living for Americans."[32] He consequently remarked with regard to the employment goal: "I give it the highest priority." But Volcker emphasized that price stability was a necessary condition for high employment: "We have to deal, in the present timeframe, with the inflationary problem or, in my judgment, we will never succeed in reaching the employment goal."[33]

In addition to reducing long-run employment, inflation, according to Volcker, reduced potential output further by pulling down the level and growth rate of productivity. In testimony given on July 24, 1980, Volcker remarked: "We're not going to get the growth and productivity and sustained recovery we want, if we don't break this pattern of successively higher levels of inflation in every cyclical movement of the American economy."[34] He further testified on September 10, 1980: "I am convinced that the stability and vigor of our economy will not be restored over time unless the ominous cycle of rising levels of inflation in successive periods of expansion can be brought to a halt."[35]

Volcker's position on these matters implied a belief that price stability was a necessary condition for securing satisfactory all-around economic performance.[36] He summed up his perspective on February 26, 1981: "our own approach and policies are designed to recognize what I think is a very hard fact of life: That if we try to ignore the inflation side of the equation, those fundamental and needed objectives for employment and growth will not, in fact, be reached. That is what has happened in the last few years."[37]

The 1979-1982 main phase of disinflationary policy and its aftermath therefore saw the Volcker Federal Reserve give a mixed account of the long-run effects of monetary policy, rather than one based on full long-run neutrality of the real economy with regard to nominal variables. On the one hand, in arguing for disinflation Volcker stressed natural-rate ideas by indicating that monetary restriction would permanently lower inflation while only temporarily raising the unemployment rate. But, on the other hand, he also strongly emphasized key areas of violations of long-run superneutrality of money, by suggesting that deviations from price stability affected potential output, including by worsening the long-run level and growth rate of the U.S. economy.[38] As Volcker noted in summing up his first term as

32. In Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 117).

33. In Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 118).

34. In Committee on the Budget, U.S. Senate (1980, p. 231). In his nomination materials in July 1979, he wrote (see Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 1979, p. 16): "I believe that ultimately the only sound foundation for continuing growth and prosperity of the American economy is much greater price stability."

35. In Committee on the Budget, U.S. House of Representatives (1980, p. 156). Volcker made similar statements in later rounds of Congressional hearings, including on February 5, 1981 (Joint Economic Committee, U.S. Congress, 1981, p. 19), when he stated that "[the country would not] lay a solid groundwork for recovery and sustained prosperity without dealing with this inflation problem" and on February 26, 1981 (Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 1981, p. 8), when he remarked that "the goals of employment, productivity, and growth, which must be the basic objectives of policy—will not be dealt with successfully unless we are successful in dealing with this inflation problem."

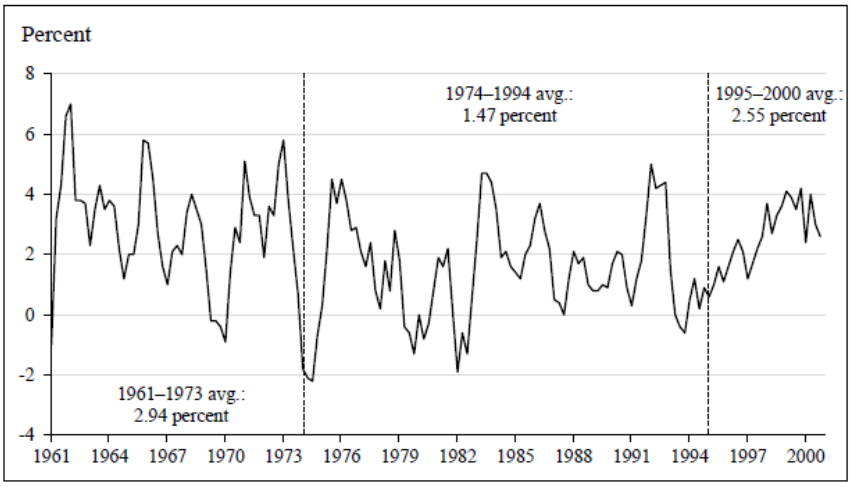
36. Volcker articulated his views at a time when economic research—most prominently that of Martin Feldstein (for example, Feldstein and Summers, 1979)—pointed to adverse influences of inflation on saving and investment, operating in part via the U.S. tax system. The Volcker-era Federal Reserve likely was reinforced in its view of the costs of inflation by the findings reported in this research. Nevertheless, the emphasis that Volcker placed on a linkage between inflation and productivity growth likely rested on arguments beyond those advanced by Feldstein. Indeed, Feldstein (1978, pp. 190-191) had noted that impediments to saving of the kind emphasized in his research primarily implied a lower long-run output level, rather than a reduced growth rate.

37. In Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 112).

38. In this context, the cyclical and longer-run patterns of productivity growth need to be strongly distinguished from one another, owing to the differences in the linkages between monetary policy and the two types of behavior. At least through the mid-1980s, U.S. business cycles were noted as tending to feature procyclical productivity behavior—that is, productivity growth rose ►

Figure 2

U.S. Productivity Growth (4-quarter percent change), 1961:Q1–2000:Q4



SOURCE: Nonfarm business sector output per hour in FRED, Federal Reserve Bank of St. Louis.

Chair, "I have indicated many times that if we did not face up to the inflation problem, ultimately we would have had a worse problem in the economy."[39]

The centrality of inflation in the diagnosis of poor real economic performance was evident in Volcker's references during 1981 to "the inflation problem that lies at the heart of so much of our economic malaise."[40] In the peak inflation year, 1980, he noted that "inflation has been the single most disruptive element on the economic scene."[41] The same judgment applied to the 1970s: "the lesson of the last decade very clearly [is] that the inflationary problems go hand in hand with these other problems of rising unemployment, decline in productivity, and declining growth."[42]

Volcker's diagnosis of an *inflation/economic-growth* linkage was made in the wake of the downturn in productivity growth in the 1970s (see Figure 2). During the tenure of Alan Greenspan as Chair (1987 onward), this perceived linkage continued to receive stress. In particular, Greenspan's emphasis on the

◂ above its longer-term rate in economic expansions and was slower, or negative, during recessions (see, for example, Bernanke and Powell, 1986). This pattern was straightforwardly interpretable as being, in part, a manifestation of the short-run nonneutrality of monetary policy. Under this interpretation, the level and growth rate of productivity were among the output-related variables boosted in the short run by stabilization-policy actions that stimulated nominal aggregate demand. This interpretation was also consistent with the notion—implied by the long-run neutrality of monetary policy actions for real variables, as well—that the effects of monetary policy on productivity wore off over time. That notion was embedded in Chairman Volcker's remark (see ABC, 1979, p. 3) that monetary policy (by implication, monetary expansion) could not address weakness in U.S. productivity: "It is nothing that is directly susceptible to monetary policy." As we document in the text, however, beyond this standard view (which pertained to the aggregate-demand-related effects of monetary policy), Volcker articulated a further position—according to which productivity (both its level and growth rate) and monetary policy were related in the long run, via aggregate-supply channels. The implication was that, beyond the cyclical horizon, monetary policy did affect productivity growth, in a direction opposite in sign to its short-run influence, through inflation bearing adversely on potential output growth.

39. Testimony of July 20, 1983, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1983, p. 215).

40. Volcker (1981, p. 3). In his testimony of February 26, 1981, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 8), Volcker amplified this message by observing (p. 129): "We have an enormous inflationary problem that is… at the very root of many of our economic difficulties."

41. Testimony of November 19, 1980, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1980c, p. 9).

42. Testimony of February 26, 1981, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 8). Volcker saw the prior decade's pattern as part of a historical regularity, observing in Volcker (1983c) that "reduced long-run growth… [has] tended to accompany inflation in the past."

postulated relationship between inflation and growth was bolstered by the distinct upturn in U.S. productivity growth that appeared, alongside continuing low inflation, in the mid-1990s (an upturn also shown in Figure 2).

With regard to Volcker specifically, the linkage between low productivity growth and high inflation was prominent in his statements in his first term in office, but it receded in his discussions of inflation during his second term as Chair. After a revival in 1983-1984 (the first couple of years of the United States' post-disinflation economic expansion), aggregate productivity growth fell back to values closer to the slow growth rates of the 1970s, even though the lower-inflation environment established since 1982 continued and further progress toward price stability was attained. By the end of his tenure, Volcker was taking slow productivity growth to be a continuing feature of the U.S. economy (one present since the early 1970s).[43]

In contrast, Alan Greenspan's tenure saw renewed emphasis by the Federal Reserve leadership on the idea that deviations from price stability implied lower longer-term economic growth, including weaker productivity growth. For example, at the start of 1997, Greenspan stated: "It is becoming increasingly evident that a key ingredient in achieving the highest possible levels of productivity, real incomes, and living standards over the long run is maintenance of price stability… Clearly price stability should and will remain the central goal of our activities."[44] Conversely, he suggested that a take-off of inflation would ultimately curtail both growth in employment and "our fundamental goal of maximum sustainable growth."[45]

Throughout his tenure as Federal Reserve Chair, Alan Greenspan repeatedly expressed the judgment that a state of ongoing price stability not only helped output proceed along its potential path but also made potential output higher—in both level and growth terms—than otherwise. For example, a speech that Greenspan gave in his first month in office contained the statement, "The goals of monetary policy, of course, are to promote sustainable economic growth and minimal unemployment[,] and this presupposes appropriate price stability."[46] Near the end of 1987, he reaffirmed this view: "The mandate for economic policy in the United States and elsewhere should be to maintain the maximum growth in real income and output that is feasible over the long run. A necessary condition for accomplishing that important objective is a stable price level."[47]

A decade on, Greenspan (1997c) outlined his position on the structural linkage between price stability and productivity growth in terms of price stability reducing the costs assessed to be associated with business projects: "In my view, improving productivity and standards of living necessitates increasing incentives to risk-taking. To encourage people to take prudent risks, the potential rewards must be perceived to exceed the possible losses. Maintaining low inflation rates reduces the levels of future uncertainties and, hence, increases the scope of investment opportunities. It is here that the Federal Reserve can most contribute to long-term growth."[48]

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43. See, for example, his remarks of July 21, 1987, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1987, pp. 8, 44).

44. Greenspan (1997a).

45. In testimony of March 20, 1997, in Joint Economic Committee (1997, p. 24). Greenspan noted this at the same hearing (Joint Economic Committee, 1997, p. 40): "[Price stability] is a goal… we direct our actions toward because we need that to sustain long-term economic growth, which is our primary objective."

46. Greenspan (1987a, p. 3). Greenspan had correspondingly observed earlier (in his confirmation hearing of July 21, 1987) that "what the Fed is trying to do is to set an environment in which steady long-term maximum economic growth is feasible in our economy… That is the primary goal… [and] allow[ing] the inflation genie to get out of the bottle… will clearly undercut that goal." (Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 1987, p. 56.)

47. Greenspan (1987c, p. 8). Similarly, in describing U.S. monetary policy as conducted in the first six months of his tenure, Greenspan (1988, p. 7) told a Congressional committee: "The Committee continued to focus on maintaining the economic expansion and on progress toward price stability, which was seen as a necessary condition for long-term sustained economic growth."

48. In a similar vein, when serving on the Federal Reserve Board under Greenspan, Bernanke (2003) offered the judgment: "Price stability promotes economic growth and welfare by increasing the efficiency of the market mechanism, facilitating long-term ►

Greenspan's other statements indicated that part of the channel linking low inflation and higher investment and economic growth was through real interest rates. He judged that high inflation, once entrenched, was likely to be associated with not only higher nominal interest rates but also higher real interest rates (as might occur if inflation raised uncertainty). In 1992, Greenspan expressed the wish for economic policy "to create the type of noninflationary environment that lowers the cost of capital in real terms, and maximizes the capability of getting significant long-term growth out of the system."[49]

Notwithstanding such reasoning, a stress on a strong inflation/growth linkage was against the grain of the theoretical position prevailing in much economic analysis that superneutrality prevailed in the long run. Even in the Greenspan years, however, Federal Reserve policymakers stressed that the contribution that price stability could make to economic growth was an incremental one and that potential output growth was mostly driven by processes separate from considerations related to inflation. For example, Greenspan (1998) suggested that a "new industrial revolution" was underway, and Greenspan's (2000) discussion of the recent productivity upsurge correspondingly focused on real developments—specifically, information technology—while Vice Chair Alice M. Rivlin (1997) remarked that "monetary policy cannot do much to determine how high the sustainable growth rate is." But it is notable that they regarded productivity growth as also being importantly affected by inflation.

The ambiguity of the empirical evidence on inflation and growth (see, for example, Judson and Orphanides, 1999) and the theoretical presumption in favor of superneutrality (especially when it comes to output *growth*, rather than its level) probably help explain why, in the post-Greenspan era, key authoritative Federal Reserve documents—such as the consensus statement—have tended not to list higher economic growth as a benefit of price stability (at least vis-a-vis moderate inflation rates).

3.4. Channels linking inflation and long-run economic performance

What were the channels that policymakers saw as lying behind these major violations of monetary superneutrality? As indicated below, the precise mechanisms cited as producing adverse implications of inflation for the behavior of real variables differed over time and across different leaderships of the Federal Reserve. It was consistently the case, however, that the highlighted mechanisms included those associated with relative price dispersion and with capital markets. We now consider each of these broad mechanisms.

Relative price dispersion. Across the tenures of multiple Federal Reserve Chairs, part of the Federal Reserve leadership's advocacy of price stability has rested on the fact that different prices (including costs) adjust at different speeds to an ongoing process of inflation and that the resulting disruption to the relative price structure generates distortions to resource allocation. Slower-adjusting prices (for example, nominal wages) do catch up in time to the new inflation rate. But the different adjustment speeds could be a factor making for variations in output.[50]

Beyond its effect on the variance of output, successive Federal Reserve policymakers have also viewed this relative-price mechanism as adversely influencing the level and growth rate of potential output, by creating uncertainty and misjudgments about the constellation of prices likely to prevail in the future.

◄ planning, and minimizing distortions created by the interaction of inflation and the tax code, accounting rules, financial contracts, and the like."

49. Testimony of March 3, 1992, in Joint Economic Committee, U.S. Congress (1992, p. 127). The following year, in testimony given on October 13, 1993, Greenspan suggested moving to a "lower [value of] the inflation rate—even [in the case of bringing it] under 5 percent—is consistent with higher growth rates in productivity." (Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 1994, p. 40.)

50. Along these lines, Martin (1957, p. 7) suggested that "as costs go up, it becomes increasingly hard to pass those costs along to the customer in the form of price increases, and it becomes increasingly easy to misjudge or miscalculate the market… The cutback in production leads to a cutback in employment."

In this vein, Martin (1960, p. 10) had argued the following: "Quite aside from its other evils, inflation brings about misapplications of resources that actually reduce the true value of current production." His assistant, Winfield Riefler, had spelled out a process by which inflation "fosters the misallocation of capital" (Riefler, 1959, p. 3369) by connecting the process to relative price dispersion: "individual costs and prices do not move at the same relative rates during a period of inflation… In such a period, therefore, it is much more difficult for management to judge accurately as between the future efficiencies of differing productive techniques than it is in a period of more stable cost relationships."[51]

As Federal Reserve Chair, Arthur Burns similarly postulated the disturbance to relative prices as an adverse influence on firms' decisions: "inflation is totally inimical to a healthy business environment. Having little basis for projecting how inflation will affect their enterprises…, they feel bewildered in attempting to judge their future costs or their future selling prices."[52]

Alan Greenspan also endorsed an important channel running from inflation to economic growth via relative-price disruption: "Price stability implies reduced uncertainty in the forecasts of relative prices crucial for investment decisions… For such reasons, price stability can have a substantial positive effect on the prospects for long-run economic growth."[53]

In contrast, Chair Paul Volcker was less prone to talk about relative-price-based channels explicitly. Instead, he treated them implicitly, grouped under the heading of "the instability and distortions growing out of inflation" (Volcker, 1981, p. 3) and in observations such as this: "Inflation can create distortions in an economy, resulting in reduced economic efficiency."[54] In common, however, with earlier and later Federal Reserve Chairs, Volcker did frequently stress that inflation acted adversely on the saving-and-investment process; one of his many statements on the subject being his observation that "inflation has many undesirable economic effects… [that] include distortions of the pattern of investment and capital accumulation."[55] It is worth analyzing this capital-market channel, linking inflation to potential output, as a distinct category.

Incentives to save and impairment of capital market functioning. As a factor operating through channels separate from relative price dispersion, Federal Reserve officials have consistently cited inflation as having adverse long-term implications for saving, investment, and their interaction. Riefler (1959, p. 3369) argued that inflation "distorts the saving-investment process." With regard to saving more specifically, Martin (1952, p. 4) contended that inflation "penalizes the thrifty and industrious," and Burns (1974a, p. 7) suggested that inflation "robs millions of citizens who… have set aside funds for the education of their children or their own retirement."[56] In the same vein, Greenspan (1989, p. 16) maintained that the growth-enhancing aspects of price stability included the "elimination of the distortionary effects of inflation taxes on asset returns."

Volcker himself also highlighted the disincentive to saving associated with uncertainty about the future inflation rate.[57] But he particularly pointed to the notion that saving and investment would decline jointly in response to inflation, contending: "Inflation… distorts spending and saving decisions, inhibits productivity-expanding business capital formation, erodes the foundations of the domestic and international financial systems, and in the process saps confidence at home and abroad in our future."[58]

51. Riefler (1959, p. 3370).

52. Burns (1977b, p. 11 [1978, p. 46]).

53. Greenspan (1989, p. 16).

54. Volcker (1983a).

55. Volcker (1983c).

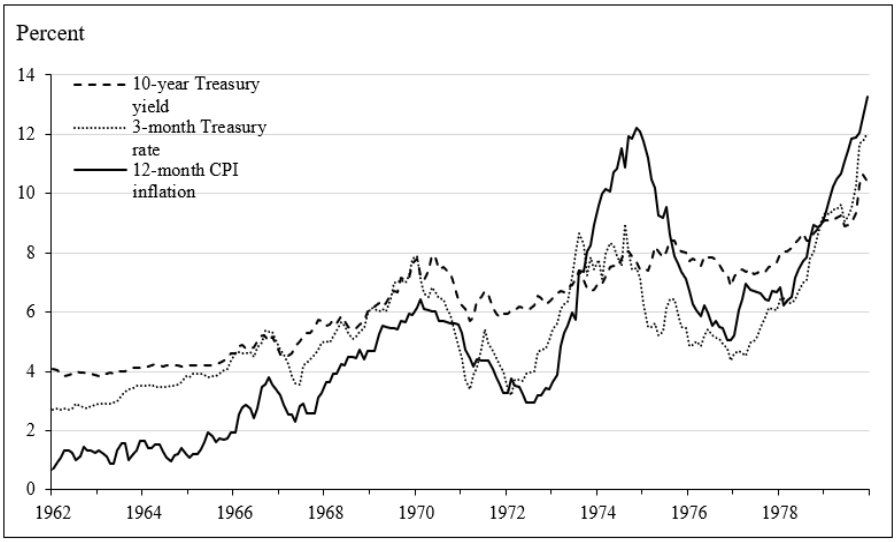
56. Also in Burns (1978, p. 164).

57. For example, Volcker suggested (in testimony given on February 26, 1981: see Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 1981, p. 130) that low or uncertain real return on saving, combined with taxation of the whole nominal interest payment on saving, had given rise to questioning of "what is the use of saving, anyway, under these conditions?"—a mindset that Volcker considered to be one "that is infecting the country [and] that is extremely damaging to growth and productivity."

58. Testimony of November 19, 1980, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1980c, p. 9).

Figure 3

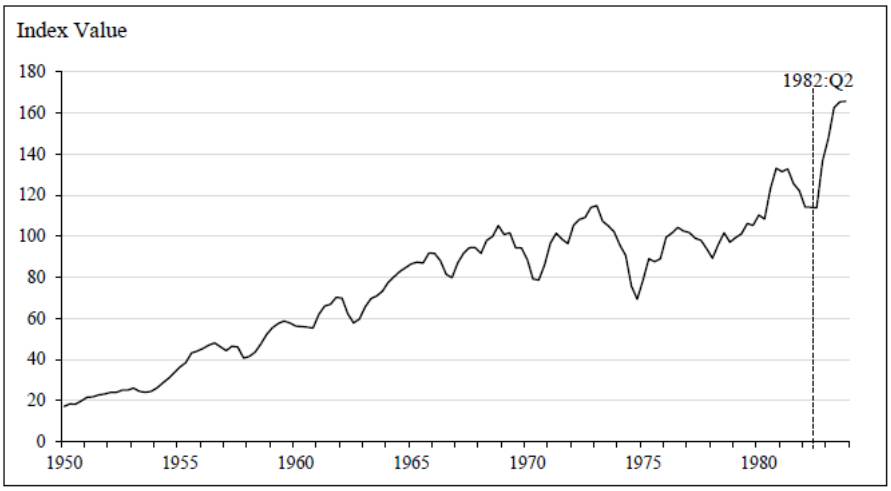
10-Year Treasury Yield, 3-Month Treasury Rate, and 12-Month CPI Inflation, 1961:Q1–1979:Q4



SOURCE: FRED, Federal Reserve Bank of St. Louis.

Figure 4

Stock Prices, 1960:Q1–1983:Q4



SOURCE: Stock price index used in Balke and Gordon (1986, pp. 806-808).

Volcker suggested that the best way to boost both saving and investment in the United States was to get rid of inflation (testimony of March 18, 1980, in Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 1980a, p. 43).

In making the case that aggregate saving and investment were exhibiting a joint decline generated by the loss of price stability in the United States, Volcker emphasized the damage that U.S. inflation had done to financial markets' and businesses' engagement in longer-term commitments. Conversely, with regard to lowering inflation, Volcker (1985a, p. 6) stressed the boost to long-term intermediation that would be generated as private-sector confidence in price stability reemerged: "As borrowing and lending

horizons are lengthened, the financial structure should be strengthened, and less 'inflation insurance' will be built into long-term interest rates."

Volcker especially cited the damage done by inflation to the mobilization of funds for businesses' spending on capital equipment. One perceived manifestation of this was the protracted slump, from the late 1960s onward, in the U.S. equity market (see Figure 4). Volcker suggested a linkage between equity prices and inflation: "The performance of the equity markets for a good many years has been another of those symptoms of our unsatisfactory economic performance, and, again, in a broad sense, it certainly seems to be affected by the kind of problems that inflation creates."[59]

Volcker saw inflation as not only reducing saving but also diverting it from conventional longer-term financial instruments into outlets less likely to be associated with the promotion of business capital formation. He suggested that an inflationary environment created speculation.[60] Volcker saw a prominent aspect of speculation as consisting of households deciding to direct their funds toward the purchase of commodities and collectibles. He believed that the diversion of resources of this kind—into "the largely futile search for ways to 'beat' inflation"—was itself productivity-reducing (Volcker, 1985a, p. 6).[61] But he put special stress on the adverse implications of this pattern of behavior for the development of the business sector's capital stock. Purchases of inflation hedges, Volcker argued, were being chosen over investing in U.S. corporations via the equity market. In this connection, he suggested that inflation had both lowered savings and diverted funds from savings instruments into such items as gold, diamonds, Persian rugs, and house extensions.[62] He saw this situation as likely to prevail until price stability was restored: "[If] public policies seem to be consistent with more inflation rather than less… savings will be impaired or directed to inflation hedges…"[63] Relatedly, Volcker (1979, p. 2) stated that hedging against inflation was "frequently built on heavy indebtedness or highly speculative investments." His verdict was also that "there are no reliable havens" against inflation.[64]

Durability of the arguments. The basic channels of relative price dispersion and impairment of capital markets have recurred in Federal Reserve policymakers' accounts of the adverse implications of inflation for real economic activity. In their descriptions of the channels, however, the details of policymakers' sketches of inflation's costs have tended to be tied to the institutions and regularities associated with particular eras. Both Martin and Burns, for example, cited the danger that inflation would lead to the imposition of price controls as a cost of inflation and a reason it caused business uncertainty.[65] As a factor associated with inflation, this danger was essentially removed when the U.S. government dismantled the remaining incomes-policy apparatus in early 1981.

Volcker's emphasis on the saving/investment linkage in describing inflation's costs also occurred against a long background of the United States having net capital outflows, and so he did not anticipate the period from the early 1980s onward when large capital inflows weakened the link between saving

59. In testimony of February 19, 1980, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1980a, p. 142). It must be noted that Volcker acknowledged, of course, that there was a considerable degree of new long-term borrowing by the U.S. private sector that did proceed in fixed-interest terms in a situation of elevated inflation. The interest rates associated with new loans of this kind were, however, sharply higher by the late 1970s, reflecting the elevated-inflation environment. Inherent in this adjustment was the danger that a subsequent and unexpectedly rapid disinflation could greatly increase the real interest cost to the borrower (that is, debt-deflation-type mechanisms would operate).

60. Testimony of May 1, 1980, in Committee on Agriculture, Nutrition and Forestry, U.S. Senate (1980, p. 246).

61. Similarly, in making the case for price stability during the Greenspan era, the FOMC's Vice Chair William J. McDonough (1997, p. 2) remarked that inflation generates "distortions that create perverse incentives to engage in nonproductive activities."

62. Testimony of February 26, 1981, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (1981, p. 129).

63. Testimony of January 7, 1981, in Committee on Banking, Housing, and Urban Affairs, U.S. Senate (1981a, p. 9).

64. As indicated below, Volcker was opposed to creating specifically inflation-proofed instruments.

65. Martin (1952, p. 7) suggested that inflation "produces disorders that result in controls and regimentation." This description was likely intended to cover both price controls and rationing. Burns (1977b, p. 11; also in Burns, 1978, p. 46) suggested that a fear of reimposition of price controls (lifted in 1974) was a feature of the 1970s inflationary environment.

and investment.[66] That said, his position that disinflation might boost the condition of U.S. capital markets was largely borne out: the end of the Great Inflation was followed by a lasting stock market revival (again, see Figure 4 above).

Adaptation to inflationary conditions. Most of the linkages between inflation and longer-term real economic activity that were postulated by Federal Reserve officials and were described above rested on the existence of arrangements in the economy that did not adapt completely to ongoing inflation. Federal Reserve officials tended not to make a sharp distinction between anticipated and unanticipated inflation in articulating the longer-term costs of deviations from price stability. This was because they were skeptical about the likelihood that the U.S. economy's institutions could be modified in ways that insulated them from inflation. Notably, Paul Volcker frequently rejected the notion that, as a practical matter, the United States could reach a state of being able to protect the real economy from the harm that would otherwise be generated by inflation.

With regard to monetary policy, the impairments to economic performance that inflation generated underlay Volcker's (1985b, p. 5) conviction that there was a "fundamental priority for [price] stability in a well-functioning economy."

The notions that the U.S. economy cannot adapt well to high inflation and that above-price-stability rates encourage expectations of still-higher rates were essentially endorsed by Chair Ben Bernanke in the period approaching the FOMC's choice of a 2 percent inflation objective (see, for example, Jefferson, 2023, for a discussion).

Planning. An element common to many Federal Reserve discussions of the cost of inflation was the disruption to private-sector planning. Arthur Burns had remarked on the topic in 1974: "As a result of… inflation, much of the planning that American business firms and households customarily do has been upset and the driving force of economic expansion has been blunted."[67] The emphasis on planning was then really brought to the fore by Volcker and Greenspan when, in their respective tenures, they expounded the case for moving from the single-digit inflation rates that followed the end of the Great Inflation to still lower rates more consistent with price stability. For example, Volcker (1983d, p. 3) argued for "preserving, and extending, the gains against inflation that have been achieved, with so much effort and sacrifice, in recent years," while also maintaining "We cannot, in my judgment, build a strong and efficient economy on the shifting sands of a depreciating currency. Inflation is the enemy of orderly planning. It breeds a psychology of short-term gains, of speculation, of neglect of the fundamentals of productivity and efficiency—in other words, it is the enemy of sustained real growth." Volcker (1985a, p. 6) correspondingly indicated that he sought a post-Great Inflation disinflationary environment in which "expectations of greater price stability… become increasingly woven into the fabric of household, business, and financial decision-making."

Similarly, Alan Greenspan (1997b) stressed how price stability benefited private-sector planning when he made his own argument for a low-inflation/strong-growth linkage: "continued low levels of inflation and inflation expectations have been a key support for healthy economic performance. They have helped to create a financial and economic environment conducive to strong capital spending and

66. Analyses of U.S. productivity growth in the postwar period tend to stress demographic and technological developments rather than inflation, including in the analysis of the post-1973 growth slowdown (see, for example, Fernald, 2016). Consequently, it might also be argued that Volcker overestimated the role that high inflation had played in the productivity-growth slowdown. As already indicated, after the productivity growth slowdown continued into the 1980s, Volcker did not stress the linkage as heavily as he had previously. But he reaffirmed his view that the slowdown had been partly due to the Great Inflation: "Experience of the past decade has shown that sustained economic growth can best be achieved in an environment of reasonably stable prices; the slowing of real growth in the decade of the 1970s coincided, not coincidentally in my view, with a marked acceleration of inflation." (Written testimony after the hearing of February 26, 1985, in Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 1985, p. 138.)

67. Burns (1974b, p. 182 [1978, p. 182]).

longer-range planning generally, and so to [the] sustained economic expansion." It was on this basis, Greenspan indicated, that the Federal Reserve "believes it is crucial to keep inflation contained in the near term and ultimately to move toward price stability." In fact, the notion of private-sector planning underlay the Volcker-Greenspan definition of price stability that they expressed qualitatively (and occasionally in more quantitative terms, as we detail in López-Salido, Markowitz, and Nelson, 2025).

4. POLICYMAKERS' CONSISTENT REJECTION OF HIGH INFLATION AS A POLICY OPTION

What emerges from the preceding discussion is the fact that, although the details offered about the channels running from inflation to real economic performance differed across Federal Reserve Chairs, successive leaderships of the Federal Reserve and FOMC were consistent in advocating price stability. In light of this consistency, we now elaborate on why we do not believe that the empirical deviations from price stability seen in the United States from the mid-1960s to the early 1980s provide a sound basis for inferring that policymakers sought high inflation. Specifically, we stress that policymakers rejected the notion of a long-run tradeoff between inflation and unemployment (Section 4.1) and that, although policymakers' views on the responsibility of monetary policy for inflation have differed across periods, there has been uniformity over time in seeing price stability as a desirable condition (Section 4.2).

4.1. No long-run tradeoff

On the basis of the preceding discussion, it is clear that, although Federal Reserve policymakers from the 1950s onward often saw long-run linkages between inflation and output, they did *not* see these linkages as implying a long-run Phillips-curve tradeoff. In contrast to tradeoff-based views—which suggest that permanently higher inflation can make unemployment permanently lower and output permanently higher—Federal Reserve policymakers repeatedly articulated the position that ongoing inflation was harmful to the long-run levels of output and employment.

This conclusion, drawn from the documentary evidence on policymakers' views, contrasts significantly with many accounts in research papers (including a number cited in Section 1) that have examined data on the assumption that the run-up in inflation in the 1960s and the Great Inflation of the 1970s reflected a conscious effort by pre-1979 policymakers.

The valid element underlying these accounts is that the acceptance of natural-rate-hypothesis-type notions underlay Paul Volcker's rationale (documented above) for reducing inflation through monetary policy. He was correspondingly forthright in rejecting the notion of a long-run inverse tradeoff between inflation and unemployment. For example, Volcker (1983b) suggested the following with regard to "the so-called tradeoff between controlling inflation and fighting unemployment": "In my view such a tradeoff exists, if at all, only in the short run; over the longer run, sustainable high levels of employment are consistent only with low inflation, or price stability. The experience of the last half of the 1970s and early 1980s is that high and rising inflation eventually brings with it stagnation and unemployment."[68] Volcker regarded the noninflationary expansion seen in his second term as something that "puts the lie to the notion, which once had wide acceptance, that there is a meaningful tradeoff between price stability and job growth."[69]

68. It merits underlining that this description of the long-run situation incorporated Volcker's view, discussed above, that high inflation would ultimately damage (actual and potential) output. He had relayed this view alongside his rejection of a tradeoff on prior occasions, too. For example, on February 25, 1981, Volcker ruled out a long-run tradeoff while also making this observation: "I bring in price stability because we will not be successful, in my opinion, in pursuing a full employment policy unless we take care of the inflation side of the equation while we are doing it." (Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 1981b, p. 28.)

69. Volcker (1987, p. 2). In common with many policymaker shorthand discussions of Phillips-curve ideas, this Volcker statement apparently used "job growth" as a stand-in for both resource gaps and growth in employment.

The invalid element of many Phillips-curve-oriented accounts of empirical monetary policy developments, however, is that they attribute to pre-1979 policymakers the belief that there was a tradeoff. In fact, although there were indeed nonstandard aspects in pre-1979 policymakers' views on the causes of inflation (see the next subsection), it is wrong to think that 1979 was preceded by a period in which policymakers sought high inflation in pursuit of a tradeoff associated with a perceived permanently-downward-sloping Phillips curve. Instead, as already implied and documented further in Section 4.2, price stability was the goal throughout the postwar period.[70]

It is true, as Volcker (1987) observed, that there was "wide acceptance" of long-run tradeoff views. But that acceptance—and, in particular, the usage of Phillips-curve-type ideas to advocate deviations from price stability—was a characteristic of U.S. economic-research circles, not of the monetary policymaking scene. As we will now discuss briefly, in the 1950s and later, Federal Reserve policymakers were arrayed against some in the U.S. research community who favored deliberate inflation as a means of lowering the unemployment rate.

The contrast between researchers and Federal Reserve economists on the desirability of moderate inflation (of a kind that implied a departure from price stability) during the William McChesney Martin, Jr. years was recounted by Arthur Burns, who noted that "prominent economists" in the United States in the 1950s and 1960s saw a conscious deviation from price stability as worth undertaking in order to lower the unemployment rate.[71] Although Burns did not name specific economists, one of the earliest and most prominent was leading Keynesian Seymour Harris. Harris stated the following in 1954 testimony: "I would be inclined to risk a certain amount of price instability, say, even an increase of 2 or 3 percent, and get rid of, say, one or two million unemployed. I would be ready to take that risk. The authorities don't seem to be ready to take that risk."[72]

The Federal Reserve leadership, however, explicitly took the opposite position, in both the 1950s and the 1960s.[73] For example, Martin (1956, p. 13) observed the following: "I am convinced that, apart from transitory effects, the result of inflation is the destruction of jobs and prosperity." Similarly, the FOMC's Vice Chairman Allen Sproul (1956, pp. 6-7) referred to the Federal Reserve policymakers' "belief that stability of the dollar and a growing high-level economy are compatible."

This message was repeated in the 1960s, including in an observation made by Sproul's successor, Alfred Hayes (Hayes, 1966, p. 236): "All too many citizens, including some leading businessmen, seem to assume that 'a little inflation' is a reasonable price to pay for continuing economic growth. When 'a little' meant a rather steady upward drift of about 1.5 percent per annum, there was something to be said for this view. But at 3 to 4 percent per annum a different view must be taken." Likewise, the administrations that were in office during the Martin era (including the Eisenhower, Kennedy, and Johnson administrations) all supported the price-stability goal.[74] The rejection by policymakers in the 1950s and 1960s of 3 to 4 percent inflation as an attractive alternative for the U.S. economy reflects not only the fact that price stability was a key goal at the time but also their conviction, firmly held even before the era of stagflation, that deviations from price stability do not provide a lasting economic stimulant.

In the course of the 1970s, too, Federal Reserve officialdom rejected a long-run unemployment/inflation tradeoff. For example, Arthur Burns stated in 1975: "Whatever may have been true in the past, there is no longer a meaningful tradeoff between unemployment and inflation."[75]

70. This was stressed by Romer and Romer (2002), as discussed in Section 1.

71. See Burns (1975a, p. 22 [1978, p. 212]). Burns elaborated: "During the 1950s and 1960s, they frequently argued that 'creeping inflation' was a small price to pay for full employment. Some even suggested that a little inflation was a good thing…"

72. Testimony of December 6, 1954, in Joint Committee on the Economic Report, U.S. Congress (1954, p. 146).

73. In this connection, Romer and Romer (2002, p. 19) argue that "monetary policymakers in the 1950s also had a relatively modern view of the process of disinflation."

74. With respect to Kennedy, it is notable that Seymour Harris, although himself supporting a higher inflation rate, offered the assessment (Harris, 1965, p. 47) "One of the fundamental objectives of the Kennedy Administration was price stability. The president sought to disassociate himself from a view… that the Democrats are the party of inflation."

75. Burns (1975b, p. 12 [1978, p. 221]).

4.2. Continuity in views on inflation's costs versus discontinuity on inflation's control

It deserves underlining that our finding of continuity in views on inflation over time refers to the costs of inflation—not to the Federal Reserve's position on where the ultimate responsibility lies for preventing inflation. On this latter point, there have been shifts in the Federal Reserve leadership's view over time, with major changes in what was viewed as the Federal Reserve's responsibility regarding the control of inflation. This situation is summarized in Table 1.[76]

The table highlights the point that, although successive Federal Reserve Chairs have concurred that low inflation is desirable, not all of them have viewed it as technically feasible for the *central bank* to achieve an inflation objective and so—despite their stress on the necessity for control of inflation to be a national goal—not all Federal Reserve Chairs have portrayed monetary policy as having a central role.

As the table illustrates, the William McChesney Martin, Jr. period and, even more so, the tenure of successive Chairs since 1979 have seen the Federal Reserve emphasize the central bank's preeminence in the task of controlling inflation and the restoration of price stability in the event of a breakout in inflation. This contrasts with assigning monetary policy a subordinate role and suggesting merely that the central bank must confine itself to providing the maximum, and highly limited, contribution that it could make to controlling inflation. In this latter vein, Marriner Eccles (who served as Chair for most of the two decades prior to Martin) and, in the 1970s, Martin's immediate successors Arthur Burns and G. William Miller consistently suggested that nonmonetary factors had a bearing even on the longer-run inflation rate.[77]

Policymakers' stance on inflation's causes is not the focus of our article. But the changes in official views over time about inflation's causes are fully consistent with our finding that successive Federal Reserve leaderships uniformly viewed inflation as costly and regarded price stability as being the preferable economic condition. Policymakers' consistent aversion to inflation means that the high-inflation period of the 1970s did not signify policymakers' approval of, or acquiescence to, elevated rates of inflation. Prior to 1979, they did not perceive adequately the contribution that monetary policy would have to make in a successful effort to deliver price stability. Consequently, prolonged high inflation coexisted with policymakers' desire for price stability. It follows that policymakers' inflation objective needs to be ascertained via direct examination of their views. Attempting to infer the inflation target over these years via econometric methods—as in Sargent, Williams, and Zha (2006) and many other studies—is invalid, because high-inflation outcomes did not, in fact, reflect policymaker intentions to inflate.

In sum, during the Great Inflation period, policymakers were as critical of inflation as their counterparts in other periods. The occurrence of high inflation did not reflect a difference in policymaker goals, or in the weights on those goals, from those prevailing in adjacent periods.[78] But—in contrast to their counterparts in most other periods—policymakers during the Great Inflation characterized the main means of curing high inflation as consisting of measures other than monetary policy.[79]

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76. More detailed evidence appears in Romer and Romer (2002, 2004) and Nelson (2005, 2022).

77. And, specifically, that these factors mattered for the long-run inflation rate via channels operating beyond their influence on potential output and so on long-run economic growth.

78. The retrospectives of Alan Greenspan on the U.S. policy record of the 1970s are consistent with this characterization. Greenspan was critical of monetary policy as it had been practiced in the 1970s. He suggested that "the Federal Reserve had to do what it did" under Paul Volcker because of prior "policies in which we failed to restrain inflation" (testimony of July 21, 1987, in Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 1987, pp. 35, 36) and that, by 1979, the United States had a "legacy of failed attempts during the decade to restore stability with gradualist plans and with various incarnations of incomes policies" (Greenspan, 2004, pp. 2-3). But he also suggested that the high-inflation outcomes of the 1970s occurred "inadvertently" (Greenspan, 2004, p. 1) and that, with regard to national economic goals including price stability, "Arthur Burns dedicated his public service career to these objectives" (Greenspan, 1987b, p. 2).

79. Orphanides and Williams (2006, p. 367) summarize their own interpretation of the 1970s inflation: "the interaction of natural-rate misperceptions and a monetary policy strategy that emphasized the attainment of full employment undermined the ►

Table 1

Views Held by Selected Chairs on the Federal Reserve's Ability to Control Inflation

	Chair's view on question:		
Chair	(1) Does monetary policy have some influence on inflation?	(2) Can monetary policy on its own control inflation in the long run (and is it the only way)?	Illustrative quotation on (2)
Marriner Eccles (Chair, 1934-1948)	Yes	No	"I do not know what monetary policy could possibly be pursued to bring about a fixed price level and maintain it; I do not know how that would be possible… We possibly can exercise some control through monetary action, but I do not think we can exercise absolute control…" (Eccles testimony, March 15, 1935, pp. 311-312.)
William McChesney Martin, Jr. (Chair, 1951-1970)	Yes	Yes	"The [U.S.] central bank was designed to… create more stable values…" (Martin, October 2, 1951 [Martin, 1951b, p. 1].) "The Federal Reserve System is designed to regulate the supply of money in order to foster high levels of employment and stable prices." (Martin, December 12, 1958 [Martin, 1958, p. 1].)
Arthur F. Burns (Chair, 1970-1978)	Yes	No	"I expect this country will move into a vigorous price-wage policy. We have been moving in that direction. I think we need it." (Burns television interview, January 30, 1971 [NBC, 1971, p. 19].)
G. William Miller (Chair, 1978-1979)	Yes	No	"In sum, our arsenal of weapons against inflation is somewhat restricted…" (Letter to Committee on Ways and Means, U.S. House of Representatives, January 17, 1979.)
Paul A. Volcker (Chair, 1979-1987)	Yes	Yes	"Monetary policy is central to the process of dealing with inflation. Economic theory and experience alike indicate that inflation cannot persist without excessive growth in money and credit; or—to state the proposition in reverse—that progress toward price stability cannot be expected without appropriate restraint on the growth of money and credit." (Volcker speech, November 11, 1983 [Volcker, 1983d, p. 4].)
Alan Greenspan (Chair, 1987-2006)	Yes	Yes	Greenspan (1997a): "A central banker cannot be exempted from one very basic fact: In the long run inflation is essentially a monetary phenomenon."
Ben S. Bernanke (Chair, 2006-2014)	Yes	Yes	FOMC (2012): "the Committee has the ability to specify a longer-run goal for inflation."

5. CONCLUSION

We began this article by noting that our investigation of pre-2012 Federal Reserve policymakers' perspective on price stability—including their assessment of the main transmission channels connecting inflation and economic performance—was motivated by the coverage of the implications of inflation given in the Federal Open Market Committee's Statement on Longer-Run Goals and Monetary Policy Strategy (its consensus statement). It is worth considering our findings on past decades' policymakers' views alongside the corresponding views that are expressed in the consensus statement. We focus on the 2024 version of the statement (Federal Open Market Committee, 2024).

A key message of our results is the consistent support for price stability expressed by Federal Reserve policymakers over the second half of the twentieth century. Policymakers consistently emphasized inflation's costs and argued that economic analysis points strongly to the desirability of price stability. Federal Reserve officials repeatedly stressed that inflation tended to lower the level of real output and to increase its variance. In doing so, they pointed to the consideration that the occurrence of longer-term inflation complicates the execution of stabilization policy and damages potential output. These positions of twentieth-century policymakers anticipated the FOMC's (2024) statement that price stability "enhance[s] the Committee's ability to promote maximum employment" and that the "Committee's employment and inflation objectives are generally complementary." Consequently, a key element of continuity that we found to have characterized Federal Reserve policymakers' views over the second half of the twentieth century is also an element of continuity in twentieth century and twenty-first century policymaking.

We also found an important *change* in policymakers' views over time of inflation's implications. Because of this change, there is one major difference between past Federal Reserve views on inflation's implications for economic performance and those given in the consensus statement. Over the 55-year period spanning the William McChesney Martin, Jr., tenure as Chair through the Alan Greenspan tenure, Federal Reserve officials suggested that inflation significantly reduces potential output growth. In contrast, in the past two decades, the growth-supporting nature of price stability has continued to receive stress, but principally as a necessary condition for sustainable growth rather than as a reason to expect higher average growth. The fact that productivity growth has had periods of both strength and weakness during periods of price stability in recent decades likely has raised serious doubts about the importance of the inflation-growth connection in the United States; and the consensus statement does not postulate a linkage between price stability and longer-term growth in the economy.

We note two extensions that could be made to the analysis in this article. First, we have established the continuity over time in policymakers' belief in the merits of price stability, but we have not attempted to pin down precisely the inflation rate that they associated with price stability. Consistent with what policymakers have said over time, we have taken price stability as corresponding to a slightly positive, but low single-digit, longer-term inflation rate, and the conclusions of the current article do not hinge on what specific inflation rate corresponded in policymakers' minds to "price stability" before 2012. Our analysis has required only that policymakers perceived price stability as corresponding to the avoidance of inflation persistently in excess of 3 percent. In related work (López-Salido, Markowitz, and Nelson, 2025), we attempt to glean the Federal Reserve's numerical inflation objective in the period from 1951 to 2011. We find in that analysis that the Federal Reserve viewed its longer-term inflation goal as being close to, but somewhat below, 2 percent and that a 2 percent goal became the standard in about 1983.

◂ public's confidence in the Federal Reserve's commitment to price stability." The point stressed here is that, although Federal Reserve policymakers had a commitment to price stability during the 1970s, in that period they also doubted the contribution that monetary policy could make in achieving price stability. Such doubts shaped their reaction function over the period. This factor, in turn, interacted with the elements nominated by Orphanides and Williams.

Second, the focus in this article has been on the Federal Reserve leadership and its views on the implications of deviations from price stability. Consequently, we have not systematically investigated the processes by which the consensus Federal Reserve view, as expressed by the leadership of the central bank, materialized. Considering this matter would be an important extension of our analysis. Such an inquiry could ascertain the degree to which a new Chair sets the tone of economic thinking of the FOMC—a possibility suggested by Romer and Romer's (2004) finding that Federal Reserve Chairs (through Alan Greenspan), once in office, have mostly articulated views about the economy's workings that they held prior to their tenure. Another important area of inquiry would be to investigate the extent to which the FOMC's approach to the making of monetary policy has been shaped by the percolation of ideas advanced by Federal Reserve Bank presidents, with these ideas in turn informed by exposure to economic research. Such a long-term influence of Federal Reserve Banks on FOMC thinking would be consistent with the analysis of Bordo and Prescott (2023).

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