Mizuho Brief: Fed

MIZUHO

Economics & Strategy | Asia ex-Japan

17 September 2025 |
Vishnu Varathan | Head Macro Research, Asia ex-Japan

Fed Independence & The Third Mandate

"The ability to speak does not make you intelligent" - **Qui-Gon Jinn, Star Wars, Episode I: The Phantom Menace**

Back

In a Nutshell:

- Granted that **Stephen Miran's contemporaneous White House appointment alongside his Federal Reserve Board confirmation** is **troubling** by itself.
- But what's potentially **far more problematic for Fed independence** is **Miran's allusion to** the **"third mandate".**
- Which refers Section 2A of the Federal Reserve Act outlining *"moderate long-term interest rates"* as one of the FOMC's objectives, alongside "price stability" and "maximum employment".
- ***If** aggressively perceived and overly pursued as the overriding remit,* **active policy efforts to anchor/lower long-end yields threaten to seriously compromise the Fed's autonomy/independence**.
- Monetary **policy credibility inadvertently undermined** as a consequence will **perversely back-fire**, ***raising long-term rates to account for debasement risks****.*
- In which case more aggressive rate cuts may **lead to** QE-type policies heavy on "Operation Twist"/YCC flavour ***to forcibly anchor yields***.
- This in turn threatens to **exacerbate the adverse feedback loop of USD debasement/pressures** and **fiscal dominance**.

> SEC. 2A. The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates. [12 U.S.C. 225a]

- **Stephen Miran's appointment to the Fed Board**, **now confirmed by the Senate**, to (temporarily) take the place vacated by Fed Kugler could **potentially cast** (even more) **doubts on Fed independence**.
- Not just **because of his refusal to relinquish his contemporaneous White House appointment/office**, **which raises obvious conflict of interest** (political bias) **issues.**
- But ***more problematically*** from his **overt allusions to** the **Fed's "third mandate"** "*to promote effectively … moderate long-term interest rates*".
- That **the so-called "third mandate"** is in fact **enshrined in** Section 2A [see extract below] of **the Federal Reserve Act** (Fed Act) of 1913 renders this a **potentially serious affront to Fed independence**.

- Even more acutely so, **if the "third mandate" is weaponized as a direct, overriding policy objective *rather than*** *being treated as an indirect* ***by-product from the Fed's "dual mandate"***.*
- What's more, **faith in Fed independence could turn** *more precarious if the Administration coerces the overt adoption of the "third mandate" by the FOMC.*
- To be sure, **markets derive comfort from**, the **Fed's well-defined and time-tested "dual mandate" for good reasons**.
- Notably because it serves as *objective, transparent, policy trade-off calculus based on which the Fed may exercise policy autonomy* (to verifiably address departures from, and attaining balance towards, this "dual mandate").
- But with the "third mandate" both Fed autonomy and **markets' ability to objectively** (and more assuredly) **gauge Fed independence risk being eroded**.
- Crucially, **consequent dangers of "fiscal dominance"***** may mount quickly, *as perceptions of monetary policy credibility are degraded and* **faith in the USD is undermined amid growing debasement risks**.
- Any signs of **"third mandate" creep into FOMC remit** will materially raise the **threat of perverse policy-market response** and **adverse** (policy) **credibility-confidence** (in USD and USTs) **loops**.

- Sequentially this may end up following a path of aggressive policy easing and sharpening trade-offs,

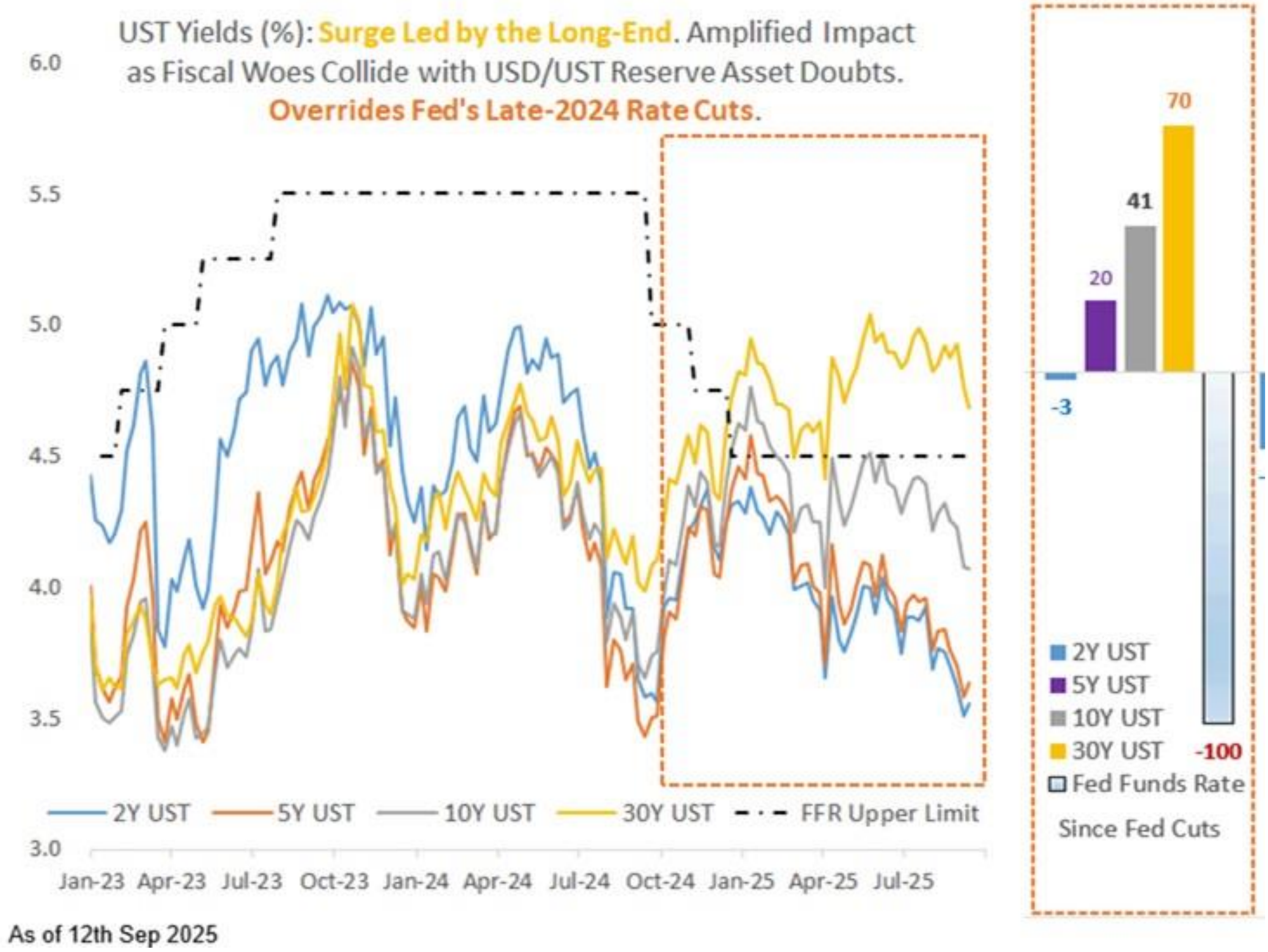
i. Initially, the "third mandate" imaginably makes the **case for far more aggressive, compensatory rate cuts**, **given long-end yields have risen, *not fallen*, since last year's 100bp cut.**

ii. *But **perversely**,* insofar that the cuts come at the expense of perceived independence, it **may lead to more stickiness and/or upside risk in long-end yields as circular USD debasement** and **fiscal dominance risks mount**.

iii. Consequently, **frustration with the inability to "transmit" rate cuts to the long-end** compels/convinces the **revival of Fed balance sheet programs** with *a strong "Operation Twist"/YCC* flavour **to forcibly anchor long-yields**.

iv. Inevitably, this may end up **exacerbating** the **USD debasement-fiscal dominance-Fed balance sheet reliance adverse feedback loop**.

- The upshot is that **invoking the Fed Act to assert the "third mandate"**, even if it may be argued **on legal grounds**, **risks being a policy minefield** that *entails spectacular and prohibitively costly failure* on the **optics of Fed politicization**.



* For the record, the Fed's **"dual mandate"** is a reference t**o;**

i. "stable prices", which is associated with the Fed's 2% inflation target and;
ii. "maximum employment"** (or commonly known as "full" employment) that is associated with unemployment rate around 4%) and

** "maximum employment", used interchangeably with "full employment", is strictly speaking, unobservable and non-static. But is widely recognized to be around 4% in the case of the US, once unavoidable labour market friction is accounted for.

*** "Fiscal dominance" refers to a situation in which Fed policies (and independence) are subordinated to fiscal (debt financing) objectives, therefore eroding Fed credibility. Consequently, lifting long-end UST yields alongside pressuring the USD in the case of the US.

Guatemala: This document does not constitute an offering under the rules of the Ley del Mercado de Valores y Mercancías (Stock Exchange Act, Decree 34-96 of the Congress of the Republic of Guatemala), and any of its amendments, including without limitation, Decree 49-2008 of the Congress of the Republic of Guatemala, and its applicable regulation (Governmental Accord 557-97). The document will not be registered for public offering with the Securities Market Registry of Guatemala (Registro del Mercado de Valores y Mercancías), because the products will not be offered or sold: (1) to any person in an open market, directly or indirectly, by means of mass communication; (2) through a third party or intermediary to any individual person or entity that is considered an institutional investor, including entities that are under the supervision of the Guatemalan Superintendency of Banks (Superintendencia de Bancos), the Guatemalan banking regulator, the Guatemalan Social Security Institute (Instituto Guatemalteco de Seguridad Social) and its affiliates; (3) through a third party or intermediary to any entity or vehicle used for purposes of collective investment; or (4) to more than 35 individual persons or entities.

Hong Kong: This document, when distributed in Hong Kong ("**HK**"), is distributed by MHSA or MBHK, depending of the Mizuho entity which you are a client of.

Japan: This document is intended only for certain categories of persons to whom a foreign securities broker is allowed to carry out regulated activities under the relevant articles of the Financial Instruments and Exchange Act (the "**Act**") and the subordinate legislative instruments (as amended), including but not limited to Financial Services Providers who are engaged in an Investment Management and certain Financial Institutions subject to conditions and limitations in Article 17-3(i) of the Order for Enforcement of the Act. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. This document is solely for the purpose of supplying general information and shall not constitute any investment or financial advice in relation to any products or services.

Malaysia: These documents shall be distributed solely to existing subscribers or clients of Mizuho Securities, and do not constitute an invitation, offer, or recommendation to subscribe for or purchase any securities mentioned therein. These materials also do not, whether directly or indirectly, refer to a prospectus in respect of securities of a corporation; in the case of a unit trust scheme or prescribed investment scheme, a prospectus in respect of any unit of the unit trust scheme or prescribed investment scheme, as the case may be; an issue, intended issue, offer, intended offer, invitation or intended invitation in respect of securities; or another notice that refers to a prospectus in relation to an issue, intended issue, offer, intended offer, invitation or intended invitation in respect of securities. Whilst there may be statements concerning securities and/or derivatives of a certain corporation or entity in these materials, we wish to highlight that these do not constitute, whether directly or indirectly, any form of advice, recommendation, encouragement, promotion, analysis, report or inducement to take any action , i.e., to buy, sell, or hold any securities and/or derivatives, nor is it a form of inducement for the reader to take any position regarding a particular class, sector, or instrument in relation to the securities and/or derivatives so mentioned.

New Zealand: This document is intended only for persons who are "wholesale investors" and "wholesale clients" under the Financial Markets Conduct Act 2013 ("**FMCA**"), as persons who are an "investment business", meet relevant investment activity criteria, are "large" or are a "government agency", in each case within the meaning of clauses 37 to 40 of Schedule 1 of the FMCA. It is not intended for, and should not be reproduced or distributed in any form to any other person in New Zealand. This document is distributed in New Zealand by MHSA or MHSS, which are licensed in their respective jurisdictions but are not registered as overseas companies or financial service providers in New Zealand or licensed under the FMCA. Nothing in this document constitutes or is supplied in connection with a regulated offer nor an offer to the public within the meaning of the FMCA.

Singapore: This document is distributed in Singapore by MBSG or MHSS, a holder of a capital markets services licence and an exempt financial adviser regulated by the MAS. Nothing in this document shall be construed as a recommendation, advertisement or advice to transact in any investment product mentioned herein.

Where the materials may contain a recommendation or opinion concerning an investment product, MHSS is exempted from complying with sections 34, 36 and 45 of the Financial Advisers Act 2001 of Singapore. This document is only intended for distribution to "institutional investors", "accredited investors" or "expert investors", as defined under the Financial Advisers Regulations, and is solely for the use of such investors. It shall not be distributed, forwarded, passed or disseminated to any other person.

South Korea: This document is distributed in South Korea by Mizuho Securities Asia Limited, Seoul branch solely acting as a broker of debt securities under the Korea Financial Investment Services and Capital Markets Act.

Switzerland: This document is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any financial instrument or to adopt any investment strategy mentioned in this document. The information contained on this document shall not be construed to be an advertisement for any of the financial instruments or services mentioned herein.

Taiwan: This document distributed via MHSA or MHSS from outside Taiwan shall not be re-distributed within Taiwan and does not constitute recommendation of, and may not be used as a basis for recommendation of, securities within Taiwan. This document may not be distributed to the public media or used by the public media without prior written consent of MHSA or MHSS (as the case may be).

Thailand: This document does not constitute any investment or financial advice or any general advice in relation to any products or services and, when distributed in Thailand, is intended only for "institutional investors", as defined in the Notification of the Office of the Securities and Exchange Commission No. Gor Thor. 1/2560 Re: Provision of Advice to the Public which is not classified as the undertaking of Investment Advisory Business dated 12 January 2017 (as amended). It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. The distribution of this document to such institutional investors in Thailand, is solely for the purpose of supplying general information, without charge. It neither constitutes any intention to conduct, or any engagement in any securities business, service business, investment or financial advisory business, or any other business in Thailand, for which Thai licensing is required, nor marketing, offering, solicitation or sale of any products, securities, or services to customers, potential customers or any person in Thailand.

United Arab Emirates (excluding the Dubai International Financial Centre and the Abu Dhabi Global Market): This document is intended only for persons who qualify as professional investors as defined in the Securities and Commodities Authority ("**SCA**") Rulebook. It is not intended for or should not be passed on, directly or indirectly, to other classes of persons/investors in the United Arab Emirates. The contents of this document have not been reviewed or approved by, or deposited with, the Central Bank of the United Arab Emirates, SCA or any other regulatory authority in the United Arab Emirates. If you do not understand the contents of this document you should consult an authorised financial adviser.

United Kingdom / Germany / European Economic Area: This document is being distributed in the United Kingdom by Mizuho International plc ("**MHI**"), 30 Old Bailey, London EC4M 7AU. MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. This document may be distributed in the European Economic Area by MHI or Mizuho Securities Europe GmbH ("**MHEU**"), Taunustor 1, 60310 Frankfurt, Germany. MHEU is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("**BaFin**"). For the avoidance of doubt this report is not intended for persons who are Retail Clients within the meaning of the FCA's or the BaFin's rules. Details of organizational and administrative controls for the prevention and avoidance of conflicts of interest can be found at https://www.mizuhoemea.com.

United States: This document is being distributed in the United States by Mizuho Securities USA LLC ("**MSUSA**") and is the responsibility of MSUSA. The content of publications distributed directly to US customers by non-US members of Mizuho Securities is the responsibility of such member of Mizuho Securities which distributed it. US investors must affect any order for a security that is the subject of this document through MSUSA. For more information, or to place an order for a security, please contact your MSUSA representative by telephone at 1-212-209-9300 or by mail at 1271 Avenue of the Americas, New York, NY 10020, USA. MSUSA acts as agent for non-US members of Mizuho Securities for transactions by US investors in foreign sovereign and corporate debt securities and related instruments. MSUSA does not guarantee such transactions or participate in the settlement process.