How the Phillips Curve shaped Economic Expertise: the debates on the Humphrey-Hawkins Act in the 1970s

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Introduction

On October 28, 1978, during a ceremony gathering labor, civil rights and other liberal political leaders, Jimmy Carter signed the Full Employment and Balanced Growth Act, known as the “Humphrey-Hawkins Act”. Named after its main sponsors—the then late Democrat senator of Minnesota, Hubert Humphrey, and the Democrat Representative of California, Augustus Hawkins, the Act committed the federal government to reduce as soon as 1983 unemployment to 4 percent and inflation to 3 percent. It also required the Federal Reserve (Fed) to report twice a year on how monetary policies would help to pursue these goals and it instituted massive jobs programs. Although the bill project initially targeted only unemployment, the legislative battle in Congress led to integrating a numerical goal for inflation, along the unemployment goal. During the ceremony, Carter stressed the necessity to focus on inflation as much as on unemployment: “I must warn you that our fight against inflation must succeed if we are to attain our unemployment goals” (Walsh, 1978). Carter thus legitimated that the two macroeconomic goals should be put on an equal footing.1

The integration of a numerical inflation goal was seen as a victory for the Republican opposition to the bill. Consequently, the enactment of an amended version of the Humphrey-Hawkins bill remains mainly regarded by historians as a failure of the Democratic Party and as a testimony of the moving political ratio of power in the 1970s. Greider (1989) saw it as an “ironic token of how much the mainstream political opinion” (96) had changed at the time. It was a “doomed effort” by “liberal stalwarts” that would become an “empty symbol” (96). With the introduction of the inflation goal, the “doctrine of monetarism was riding to victory on the legislative carcass of the fading orthodoxy of Keynes” (97). Similarly, Biven (2002) regarded the bill as “the last hurrah of those whose mindsets took shape in the New Deal-Great Society policy era” (33). From a different perspective, Cowie (2012) claimed that it was a significant legislation, and lamented this “New Deal that never happened” (261).2

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1 Today, the Humphrey-Hawkins Act is regarded as the source of the Fed dual mandate (Thornton, 2012).
2 Andelic (2019) has recently proposed a contrasting viewpoint on the Humphrey-Hawkins, arguing against the determinism and fatalism displayed by historians on the period. He underlines that the large support behind the bill proved that a powerful alliance between old New Dealers and the “rights-conscious New Politics faction” (74) was possible in the 1970s, far from the idea of a crumbling liberal consensus.
However, despite its partially unfruitful conclusion, the process, which led from the elaboration of the first draft, in 1974, to the enactment of the bill, was full of reversals. The Humphrey-Hawkins bill concentrated debates among politicians, activists and unions, as well as among economists. It thus represents a catalyst of the existing tensions in economic expertise and policymaking in the 1970s. From the point of view of economic history, the period marked a break with the relative stability of the post WWII years. The term ‘stagflation’ was coined to describe the common rise of inflation and unemployment. After a first peak around 6% in 1968, following the Vietnam War, inflation became two digits in 1974 after the first oil shock (U.S. Bureau of Labor Statistics). The U.S. entered recession and unemployment reached 9% in 1975. Both variables decreased after that but unemployment was still around 6% at the time of the bill enactment, and inflation was fluctuating between 5 and 7%, far above the 1960s levels. The debates on the Humphrey-Hawkins Act held in a period of high macroeconomic instability, policy disappointments (notably following Nixon’s wage-price controls) and uncertainty about the abilities of economists.

Indeed, the rise of both inflation and unemployment, if it did not totally come as a surprise, became the new phenomenon to explain. Today, this phenomenon is seen as a major turning point in the history of macroeconomics. A textbook narrative regards the 1960s as dominated by the belief in the (standard) Phillips Curve—labelled after Bill Phillips's (1958) work—that is the existence of a negative correlation between inflation and unemployment. This belief would have encouraged policymakers to stimulate aggregate demand to reduce unemployment at the cost of some supplementary points of inflation—regarded as a lesser evil in exchange of low unemployment. However, Milton Friedman (1968) would have demonstrated that, because of inflation expectations and the existence of a ‘natural rate of unemployment’, there was no trade-off between inflation and unemployment in the long run. Unemployment can be maintained below the natural or equilibrium rate, only at the cost of accelerating inflation, which makes the dynamics of such a policy unstable. The beginning of the stagflation would have appeared as an empirical confirmation of Friedman theoretical demonstration, and would have dismissed the reference to the Phillips curve in the 1970s. Forder (2014) debunked piece by piece this story and showed that the references to the Phillips curve—in academic works as in policymaking—were scarce in the 1960s. Paradoxically, the literature on the Phillips curve grew in the 1970s, notably to explain the disappearance of the standard correlation between inflation and unemployment. As I will show in this article, the Phillips curve, even if contested, constituted a rallying point for many economists to debate on the Humphrey-Hawkins Act and, ironically in comparison to the standard narrative, to warn politicians and the public against the likely inflationary consequences of the bill.

Besides being an insightful entry point to observe the reaction of economic expertise in front of the stagflation, the Humphrey-Hawkins Act also constitutes an advantageous point of observation to analyze the transformations of economic policy at that time. The 1970s are regarded as a period of transition between two distinct political eras, from the dominance of the liberal and Keynesian paradigm with John F. Kennedy’s and Lyndon B. Johnson’s presidencies in the 1960s, to Ronald Reagan’s election in 1980. Several explanations are generally proposed to account for this change. A first set highlights the impact of economic transformations on the political equilibrium and economic
The change in the political equilibrium would also result from the fracture in the Democrat camp that had developed since the late 1960s—opposing the old New Dealers and those who favored the development of new rights for political minorities (Andelic, 2019, 74)—and the progressive move of southern white Democrat voters to the Republican Party. Ideology is also given a primary role, with the emergence and popularization of free markets thinkers in the 1970s (Burgin, 2012; Mirowski and Plehwe, 2009). A fourth set of explanations relies on the successful coalition of business and conservative movements to impose new ideas and change policies (Phillips-fein, 2009; Waterhouse, 2013).

If all these stories bear some truth to account for the history of the Humphrey-Hawkins Act, following Berman (2019b), I propose a fifth approach: the spreading of an economic ‘style of thinking’. Hirschman et Berman (2014) distinguish three ways economists affect economic policy: by the general authority of the profession, by the presence of economists in decision (or close-to-decision) positions, and finally by the transformation of the ‘cognitive infrastructure’. The latter designates the spreading of an “economic style of reasoning” which involves “the establishment of economic policy devices that produce knowledge and help make decisions” (781). In the 1970s, the authority of economists was well recognized and many institutions influent in the policymaking process welcomed economists, whether it was the Council of Economic Advisors (CEA), the Joint Economic Committee (JEC) or the young Congressional Budget Office (CBO). In this article, I relate how the economists in these institutions shaped the cognitive infrastructure of the debates on the Humphrey-Hawkins Act. In this story, the Phillips curve concept was a crucial device, used to assess the empirical consequences of the bill.

This article analyses the debates between economists from the elaboration of the bill to its enactment and exposes how a consensus emerged on the interpretation of the bill among a majority of economists. I identify three groups of economists. The first one is composed of older economists, mostly trained in the 1930s and 1940s, without a PhD for the larger part, and entered in the Administration just before or during WWII. They were influential in New Deal policies and economic planning—like Leon Keyserling and Robert Nathan—and constituted in the 1970s the true supporters of the Humphrey-Hawkins bill. An important feature of this group was its opposition to a certain kind of Keynesian policies, best exemplified by Kennedy’s 1964 tax cuts. A second group gathered the radical opponents to the bill (Armen Alchian, William Allen, James Buchanan or Milton Friedman) : they are academic economists known for their defense of free-markets. Their criticisms against the bill did not rely on any formal economic arguments or any empirical studies, but rather stems from their general opposition to government interventionism. The third group was decisive in the final formulation of the Humphrey-Hawkins Act. The economists within this group shared two basic characteristics : they had academic credentials (they had a Phd in economics and held academic positions before or at the time of the debates) and they used empirical and formal arguments with references to academic articles. The great majority did not oppose the bill, and some were rather supportive. Some were influential because of their institutional positions (Lawrence Klein advised Carter during the 1976 campaign, Charles Schultze chaired the CEA, Alice Rivlin was head of the CBO)

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3 See, for instance, Krippner (2011) on how inflation in the 1970s favored financialization which transformed in turn the implementation of monetary policy.
while others simply testified before Congress (like Robert Hall for instance). All shared the same analytical apparatus, relying on the existence of a trade-off between inflation and unemployment. I defend that this group was unintentionally instrumental to limit the ambitions of the proposed law, to put inflation and unemployment on an equal footing, and therefore to favor the addition of a numerical inflation goal to the unemployment one.

This article relies on different types of materials. The Humphrey-Hawkins bill concentrated public attention in the 1970s and newspapers and magazines covered the topic on several occasions. I thus tracked economists public interventions about the bill. I also used several testimonies of economists during Congress hearings organized in 1976, for the bill first submission, and in 1978. Finally, I rely on documents (speeches, memos, letters) collected in the Jimmy Carter Presidential Library in Atlanta. These documents help to understand the point of view of Carter’s Administration on the different versions of the bill, as to observe the negotiations between the Administration and the original supporters of the bill.

In the first section, I relate the beginning of the projected law in the early 1970s, which resulted from the fusion of two movements: one around Hawkins, defending the importance of employment to favor the integration of minorities to the US society; another around Humphrey and the defense of economic planning. Keyserling was the most influential economist in the birth of the Humphrey-Hawkins bill and he was typical of the opposition to Keynesianism that characterized the supporters of the bill. In the second section, I describe how the Phillips curve progressively became an issue for the bill, notably during the first round of congressional testimonies in 1976. The bill earned great support during the Democrat Primary campaign, except from Carter’s team. After Carter becoming the candidate of the Party, negotiations engaged with the Humphrey-Hawkins bill supporters. Nevertheless, the negotiations lasted until the fall of 1977 and testified of the tension between Carter’s administration and the left-wing of the Democratic Party. The economists in the CEA opposed the bill in its current form because of its inflationary risks and the way it tied the hands of the government. They used estimations of the ‘non-accelerating inflation rate of unemployment’ (NAIRU) to reject the numerical target for unemployment, seen as too low. However, the bill was finally endorsed by Carter’s administration before Congress. The third section related the debates occurring in 1978 in Congress and around the amendment proposed by the Republicans to add a numerical inflation goal. Even if no support to this amendment came from economists, its defense relied on the principle that it constituted a mean to equilibrate the bill, as a numerical goal for unemployment was proposed. Despite the opposition of both the sponsors of the bill and Carter’s administration, the Congress adopted the amendment. The last section explained how the Humphrey-Hawkins Act was quickly discredited: after the new rise of prices in 1979, due in part to the second oil shock, Carter’s Administration considered that the Act was untenable and they delayed the fulfillment of the unemployment goal. This decision led to a new conflict with the left-wing of the Democratic Party, weakened Carter for the 1980 campaign to come, and undermined the Humphrey-Hawkins Act—before the final blow following Reagan’s election.
1. The radicalism of the first Humphrey-Hawkins bill

The first joint version of the Humphrey-Hawkins bill was introduced in Congress on March 12, 1976, by Hawkins in the House of Representatives, and by Humphrey in the Senate. The bill resulted from the merging of two different movements: the union of African American organizations behind Hawkins, to raise as a priority the issue of minorities’ employment; the defense of economic planning, behind Humphrey. These two movements shared a common reject of the supposed Keynesian consensus—seen as the management of macroeconomic aggregates through fiscal policy—which was prevalent in the 1960s and early 1970s.

1.1. Hawkins’s argumentation and the UCLA symposium (1973)

Hawkins supported Roosevelt in 1932 and was convinced that the New Deal measures favored the empowerment of African Americans. Elected in 1962 in a newly created district (with the Los Angeles neighborhood of Watts), he became the first Black member of the Congress from a western State and stayed in Congress until 1991. He was the principal author of Title VII of the 1964 Civil Rights Act, which outlawed employment discrimination based on race, religion, sex, or national origin, and established the Equal Employment Opportunity Commission.

Hawkins considered that employment constituted the key to African-Americans integration (Andelic, 2019, 80). With unemployment rising in the first years of the 1970s, the employment issue progressively arrived at the forefront of politics. In February 1972, Hawkins gathered several social scientists to discuss full employment and elaborate a bill project (Anderson, 2008, 93). Three economists assisted the meeting: Leon Keyserling, the former Chairman of the Council of Economic Advisors (CEA) under Harry Truman; Robert Browne, founder of several African-American self-help programs and of the Black Economic Research Center in Harlem in 1969; Bernard Anderson, from the Wharton School of the University of Pennsylvania.

Keyserling and Browne were central in the writing of the first version of what would become the Humphrey-Hawkins Act. They were joined by Bertram Gross, former executive secretary of the CEA between 1946 and 1952, who contributed to the writing of the first versions of the 1946 Employment Act. The goal of the bill they wrote was to constrain the government to guarantee “a job for everyone who wanted to work and was able to work” (Ginsburg, 2012, 130). It targeted people generally counted as outside of the labor force—and so ignored in the rate of unemployment figure—like women, older and younger people, or racial minorities. The creation of public jobs would occupy a crucial role to fulfil this goal. However, the most controversial part was the inclusion of a legal and enforceable “right” to employment.

In October 1973, Hawkins and Paul Bullock organized a “Symposium on Full Employment Policy” at the University of California, Los Angeles (UCLA) to discuss a first draft of the bill (Bullock, 1973). In his introduction, Hawkins stated, “Official unemployment has always stayed far beyond any tolerable level of “frictional” unemployment—and

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4 Paul Bullock was a labor economist holding a position at the Institute of Industrial Relations of UCLA, which aimed at favoring connections between social scientists and unions. He had wrote a report on the 1965 riots in the Watts and was a member of the Watts Labor Community Action Committee (Los Angeles Times 1986), what put him in touch with Hawkins.
unemployment among Blacks and some other ethnic minorities has always been at least twice the White unemployment levels” (1). He then criticized the “officially-estimated labor force” for not taking into account many people able and willing to work. Finding jobs for this group would enable to remove “inflationary shortages and bottlenecks” (1) and so to reduce both unemployment and inflation. Here appears what has been a crucial point of contention in the debates around the Humphrey-Hawkins bill: the belief whether there was a trade-off between inflation and unemployment.

Beyond regarding inflation and unemployment as positively correlated—and thus rejecting any trade-off—Hawkins defended a broader vision of employment that did not reduce to a mere economic issue. Indeed, Hawkins concluded by highlighting the difference between “the narrow, statistical idea of ‘full employment’ measured in terms of some ‘tolerable’ level of unemployment and the more human and socially meaningful concept of personal rights to an opportunity for useful employment at fair rates of compensation.” (1) Full employment is not only necessary to increase goods production and avoid wasting productive forces, but it also represents a crucial way to reduce exclusion, crime and health problems in minority’s groups, and thus favor economic, political and social integration.⁵

Following Hawkins’s introduction, a panel of economists discussed “the Macroeconomics of Full Employment”. Like the California congressional representative, Gross, who contributed to the writing of the bill, defended the “human freedom” behind the goal of full employment. He regretted that post-1929 economic policies led full employment to become “crystallized, technically and professionally into a statistical artifact” which “moved attention ... to the ‘tolerable’ level of unemployment artificially defined as...being somewhere between 2 and 6 percent of between 59 and 62 percent of the adult population” (5). He claimed that he supported Hawkins’s project as it would create “a missing administrative machinery” (7) and involve “comprehensive economic planning” (8).

Then, Alan Sweezy (California Institute of Technologie) and Charles Holt (the Urban Institute) exposed their views full employment and the bill. Both insisted on the inflationary risks of macroeconomic policies aiming at full employment. Sweezy acknowledged that inflation could come from bottlenecks mechanisms but also underlined that inflation would rise if unemployment fell under a certain level. The issue was to know if full employment standed beyond this inflationary level or not (11). He referred to Robert Hall’s (1971) distinction between “movement along the Phillips curve and shifts of the curve itself” (Bullock, 1973, 11). According to Sweezy, the main stake for policymakers in the 1970s was to be able to move the curve itself (graphically, to the left)—and thus to improve the trade-off between inflation and unemployment. Similarly, Holt warned the audience against the inability of macroeconomic policies to help to reach full employment and highlighted the role of “structural policies” to move the Phillips curve.⁶

Even if endorsing the goal of the bill, both economists used the Phillips curve to warn against the risk implied by expansionary policies aiming at reaching full employment. In his comments, Gross raised against this use of the Phillips curve and the idea that one cannot improve employment in the US without increasing inflation. He considered the Phillips curve

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⁵ Hawkins introduced with the exact same words the first version of the bill in Congress in June 1974 (Schantz et Schmidt 1979, 370).

⁶ According to Forder (2014), Holt (1968; 1969).was the first to discuss structural policies—targetting structural unemployment, by opposition to frictional or conjonctural unemployment—in a Phillips curve framework.
biased because of the improper way to measure the rate of unemployment, excluding many people (21).

Gross’s reaction, as well as Hawkins’s speech, examplified the position of the Humphrey-Hawkins bill supporters regarding macroeconomic policy. They did not believe in an inflation-unemployment trade-off and refused stop-and-go policies as unemployment constituted the priority. In an interview to *Challenge* just after having launched the bill in Congress, Hawkins criticized the “roller-coaster ride approach” of the government since World War II, relying on the belief of “old-time business cycle” (Hawkins 1975, 22). He defended a more “humanistic capitalism”, refusing that unemployment could be a variable to adjust for policymakers.

On June 26, 1974, Hawkins introduced with Henry S. Reuss (Democrat, Wisconsin) the “Equal Opportunity and Full Employment Bill”. In early 1975, a coalition of labor unions, religious and civil rights groups created the Full Employment Action Council (FEAC), in order to lobby for Hawkins’s bill. Co-chaired by Murray H. Finley (Amalgamated Clothing Makers Union) and Coretta Scott King, President of the Martin Luther King Jr. Center and King’s widow, the FEAC never stopped pressuring the government and the Congress during the next years to make the bill passed.

1.2. Humphrey and the economic planning movement

The economic planning ideas became fashionable once again in the early 1970s. Herbert Stein, the chairman of Nixon’s CEA acknowledged before the American Economic Association (AEA) that “maybe, we need an economic planning agency” (Andelic 2019, 77). In February 1975, Wassily Leontief (Harvard), Robert V. Roosa, former Treasury secretary under Kennedy, and Leonard Woodcock, the president of the United Auto Workers, joined to create the Initiative Committee for National Economic Planning. Roosa declared to the *New York Times* that “we can no longer afford the waste of a wholly unplanned, nor of a sporadic and partially planned, use of resources” (New York Times 1975). The planning approach was motivated by the current economic situation in the US, characterized by consequences of bad harvests and energy shortages. National economic planning, by producing new data and establishing long-term goals, would protect the US economy against “the next crisis, and the next, each contributing one more turn to the inflationary spiral” (Leontief 1974). The promoters of economic planning believed that fiscal and monetary policies were insufficient alone to fulfil national goals and that a broader approach was necessary.

The initiative defended the creation of an Office of Economic Planning in the White House and a congressional Joint Planning Committee (mimicking the Joint Economic Committee, JEC, established by the 1946 Employment Act). Seventy signatories supported the proposition. Among them were Ray Marshall, the future Labor Secretary of Jimmy Carter, Robert Eisner, who would defend the Humphrey-Hawkins bill along with Keyserling, and

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7 The initiative was also co-chaired by, among others, John Kenneth Galbraith (Harvard), Robert Heilbroner (New School), Robert Lekachman (Lehman College) and Robert Nathan, President of R. Nathan Associates (Klein, Box 26, Folder “Correspondence S, 1975”).
Lawrence Klein, who would be the chair of Carter’s economic task force during the 1976 campaign (Klein, Box 26, Folder "Correspondence S, 1975").

Abram Chayes, a Harvard law professor, wrote the first draft of a projected law defending economic planning. This legislation was endorsed by Hubert Humphrey, Senator of Minnesota from 1959 to 1964, and then reelected from 1971 to 1978. After having been the Vice President of Lyndon Johnson, he had lost the presidential campaign against Nixon in 1968 and became chair of the JEC. Under Humphrey, the JEC would become a platform to defend economic planning and full employment (Andelic, 2019, 78).

With Senator Javits (Republican, New York), he introduced the “Balanced Growth and Economic Planning Act” on May 21, 1975. During the hearings of the project in June, Woodcock defended that the Humphrey-Javits bill should be merged with Hawkins’s law project to unify the efforts towards planning and full employment (see Schantz and Schmidt, 370). Humphrey and Hawkins met regularly in 1975 to discuss a collaboration on a common project for full employment. The Humphrey-Javits bill was finally never submitted to vote in Congress, but the idea of a “balanced growth” was integrated into the Humphrey-Hawkins bill, introduced on March 12, 1976 with a joint press conference.

The next week, the JEC organized a conference to celebrate the 30th anniversary of the Employment Act. In the introduction of the conference, Humphrey rejected the “traditional theories that rely largely on manipulation of fiscal and monetary policies to adjust the business cycles” and called for a “new economics” (Rowen 1976). Indeed, what unified Hawkins and Humphrey was a common reject of a kind of Keynesian consensus, best exemplified by Kennedy’s 1963 tax cuts. They attacked macroeconomic adjustment by fiscal and monetary policies as the belief in the inflation-unemployment trade-off, considering that it led to neglect the consequences on poor people.

1.3. Rising against the Keynesian consensus

Keyserling was the best representative of this opposition to a particular form of Keynesianism. In the 1960s, he opposed the “academic economists” of the “New Economics” and criticized Kennedy’s tax cuts for favoring the wealthiest (Pickens 2009, 188-89). He considered that economic planning was the best way to promote social justice: “The orgy of tax reductions... has helped the monetary policy to distribute income regressively, which is inimical to optimum growth, priorities and social justice” (192). Keyserling displayed a strong optimism regarding economic growth: it is the best way to reduce unemployment, but also inflation. Consequently, he rejected any trade-off between inflation and unemployment.

Keyserling joined the FEAC in January 1975 and became the chair of the economic task force of the group. During a conference on full employment organized by the FEAC, he argued against the trade-off belief: “the point to be made is not that full employment is more important than the control of inflation: the point to be made is that full employment is the best way to stop inflation” (194). In the first “pamphlet” published by Keyserling for the FEAC, he defended that the belief in the “trade-off theory”—this “imaginary dilemma”—constituted the “main error in current economic policies” (Keyserling 1975, 4-5).

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8 One of the pioneers of large-scale macroeconomic models, Klein (1978) argued in his AEA presidential address that due to the economic situation of the 1970s, standard Keynesian models were not sufficient anymore. In the 1970s, he endeavored to develop the “supply-side” of the Wharton model, and labelled his approach the “Keynes-Leontief” modeling (see Goutsmedt 2017).
Gross and Lekachman contributed to the writing of this pamphlet. In other writings for the FEAC, Keyserling would be joined by Eisner and Nathan. All shared his opposition to standard macroeconomic policies and the trade-off. Keyserling also expressed doubts about the usefulness of large-scale macroeconometric models and preferred the simple study of historical data. In these pamphlets, he also insisted on the necessity for long term planning which should avoid imbalances between sectors. On this matter, he used to joke about how Keynesian expansionary policy overlooked these likely imbalances:

“If the economy is tight, let’s restrain it. If the economy is slack, let’s stimulate it.” But here’s the way we have done it. We have done it, like a fellow driving up to a gasoline station and saying, “fill her up.” When the attendant says, “shall I pour the gas into the cooling system and the water into the tires and the oil into the gas tank,” the economists within the Government say, “what difference does it make? Haven’t you heard of Lord Keynes?” This is not responsive to the way the economy works. The economy gets into trouble because there are imbalances, defects in the structure, in the structure of the labor force, in the structure of the fiscal and monetary arrangements, in the distribution of national income, and when you seek to fill it up you can’t just fill it up.

Supported by this team of economic experts and the FEAC, Humphrey and Hawkins introduce their bill in Congress in March 1976 under a new title: “the Full Employment and Balanced Growth Act”. The bill has been deeply redrafted in comparison to Hawkins’s first version, under the influence of Humphrey and the AFL-CIO (Ginsburg 2012, 131). Worried about scaring the business community and the more moderate Democrats, the authors removed the right to sue the government for being unemployed and kept more modest in terms of public jobs creation. Nevertheless, it remained radical by advocating a 3% unemployment rate goal, as conserving the idea of the State being an employer in last resort.

Even if hearings were run in spring 1976 before the vote of the bill, Humphrey and Hawkins knew that it had very few chances to pass, and target the coming Democrat Primary election. Unfortunately for them, the future winner of the Primary was the most reluctant candidate concerning the Humphrey-Hawkins bill.

2. The macroeconomists’ reaction: do not forget the Phillips Curve

After the introduction of the bill before the 94th Congress, the next step in its history was the interaction between the supporters of the bill and Carter’s team, which was averse to the bill. The negotiations during the Democrat Party primary led Carter to endorse it eventually. However, another round of strained negotiations and redrafting in spring 1977

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9 Eisner had been the economic adviser of George McGovern for his 1972 presidential campaign against Nixon. As for Nathan, he worked with Simon Kuznets during World War II and had a crucial influence on Roosevelt about economic planning, when he was chairman of the War Production Board’s planning committee (Lacey 2011). He advised Humphrey during his 1968 Presidential Campaign (Nathan 1989).


11 Committee on Banking, Housing, and Urban Affairs United States Senate. Hearings Second Session on Amendment N°1703 on S.50. p. 69
turned out to be necessary for Carter’s Administration to push for the bill in Congress. In this tortuous progress, the issues of both the trade-off and the rate of unemployment to target appeared central.

2.1. The Negotiations during the Democrat Primary Campaign

More than other candidates in the Democratic primary campaign, Carter was concerned with the rate of inflation in the 1970s. Thus, he feared the potential inflationary pressure created by the Humphrey-Hawkins bill, as well as its costs for public budget. All Democratic candidates endorsed the Humphrey-Hawkins bill during the campaign, with the exception of Carter (Andelic 2019, 84).

Carter’s principal adviser was Klein, who chaired the economic policy task force. Lester Thurow (Massachusetts Institute of Technology) and Michael Wachter, a colleague of Klein at the University of Pennsylvania, were part of the team (Biven 2002, 24-25).12 Quoted by an article in Time magazine, Klein regarded the bill as highly perfectible: “This bill could become an albatross, but no bill goes through Congress without amendments, and I can envision 10 amendments that would make this a good bill” (Time 1976). Consequently, after the primaries, Carter’s team engaged negotiations with Humphrey and Hawkins. They were reluctant to adopt a constraining numerical target. The 3% goal was clarified to apply for adults above 20. Wachter defended a target of 5,5 percent overall, while Klein regarded 4-4,5 percent as acceptable if incomes policy were implemented (Biven 2002, 33). Carter’s team pushed for adding an unambiguous commitment to price stability in the proposed law and a list of structural policies against inflation were integrated. Eventually, Carter accepted a 4% overall unemployment target in order to assure African American votes (Andelic 2019, 84).

However, the supporters of the bill know that Carter’s endorsement was no guarantee the Administration would support the bill in Congress. Indeed, after Klein’s refusal for being chairman of the CEA (Biven 2002, 25), Charles Schultze, who also raised doubts about the bill, was appointed. After his Ph.D. from the University of Maryland, Schulze entered Kennedy’s Administration as Assistant Director of the Bureau of the Budget in 1962, and stand as Director between 1965 and 1968. Nevertheless, he did not abandon economic research and, after his leave from the Bureau of Budget, he joined the Brooking Economic Panel. In 1971, he published an article in the Brookings Papers on Economic Activity about the shift of the Phillips curve in the 1960s (Schultze 1971).

Testifying before the Senate Subcommittee on unemployment in spring 1976 about the Humphrey-Hawkins bill, he submitted a contribution titled: “Inflation and Unemployment: the dilemma of the Humphrey-Hawkins Jobs bill” (Schultze 1976). Schultze state that structural policies alone could not reduce unemployment sufficiently and, thus, standard macroeconomic policies would be necessary. However, these policies would imply an inflationary risk. He estimated that under 5,5 percent overall unemployment, or 4,5 percent for adult, inflation would increase (67). Consequently, the Humphrey-Hawkins bill, by targeting a 3% rate for adult would lead to increasing inflation. Schultze then discussed the accelerationist hypothesis and argued that, in any case, the outcome inflation would be too

12 Martin Feldstein, the future chairman of Reagan’s CEA, attended to several meetings before abandoning the group.
high and would lead to political pressure to reduce it.\textsuperscript{13} Schultze’s conclusion was clear-cut: “The stumbling block to low unemployment is inflation. The supporter of a full employment policy must of necessity become a searcher for ways to reduce the inflation that accompanies full employment” (67).

Considering the CEA chairman’s position and Carter’s worries about inflation, it was clear in January 1977, after the introduction of a new version of the Humphrey-Hawkins bill in Congress, that a new round of negotiations would be necessary.

2.2. The big struggle: Humphrey-Hawkins supporters against the Carter Administration

While the Administration seemed to leave the bill in the shelf, Humphrey and Hawkins decided to increase the pressure on the government in June 1977. Supported by influential African American leaders like Vernon Jordan, from the National Urban League, and Roy Wilkins from the National Association for the Advancement of Colored People (NAACP), they accused the Administration, in a letter to the President, to bury the full employment project and insisted on the “importance and urgency of this matter”\textsuperscript{14}. However, for the Economic Policy Group (EPG) of Carter, the bill was unacceptable and the EPG was considering submitting a bill of its own\textsuperscript{15}. The Humphrey-Hawkins bill was at an all-time low.

The EPG agreed on several features of the bill, as the President proposing two-years goals for unemployment, inflation and output, with the Congress reporting on these goals and proposing its own goals\textsuperscript{16}. The FED would have to pursue its policy in accordance with these goals. Nevertheless, numerous obstacles remained, notably around the belief in the trade-off between inflation and unemployment, and on the numerical goal to set for unemployment.

Indeed, Keyserling kept opposing the existence of a trade-off. In a January 1977 pamphlet defending the bill, he rejected the trade-off for two reasons. First, in any case, the trade-off appeared as morally undefendable, given that it implies to let unemployment grow to decrease inflation if necessary.\textsuperscript{17} Such a policy would be “unjust and immoral” as it far “outweighed the costs of inflation”.\textsuperscript{18} The second reason was that the “theory of the ‘trade-
off”’ remained unsupported empirically. He cited several historical examples where no negative correlation appeared between the two variables. He even referred to the Economic Report of Ford in 1976 in which Arthur Burns, the Chairman of the FED, contested the existence of such a trade-off. Keyserling went further by defending that if correlation there was, it was a positive one. Inflation during recession was due to the recession itself, because of bottlenecks in the supply chain, and not to time lags and past trends in aggregate demand and wage increases. Consequently, the belief in the trade-off, by encouraging restrictive policy to reduce inflation, creates recessions that actually raise inflation.

Keyserling’s position, and so Humphrey and Hawkins’s one, could not be more at stake with Carter’s economic experts thought on the matter. Carter tended to be relatively conservative on economic issues: he regarded public deficit as a bias of Keynesian policies and feared inflation (Biven 2002, 59-60). Lance, his head of the Office of Management and Budget (OMB), and Schultze put inflation and unemployment at least on an equal footing. Nevertheless, Carter knew that he could not discard the Humphrey-Hawkins bill without alienated the liberal wing of the Democratic Party, with which he had some difficulty to maintain sound relations. Thus, intense negotiations engaged as soon as spring 1977 between Carter’s administration and the Humphrey and Hawkins’s team to find an agreement on a new draft of the bill.

In a letter sent to Hawkins on May 27, 1977, Schultze argued: “As the President has stated on many occasions, this Administration is committed to the objective of achieving a fully employed economy while at the same time reducing the rate of inflation". He estimated that the current bill did not reflect sufficiently the commitment of the Administration against inflation. Besides, Schultze considered that “achievement and maintenance of full employment cannot be realized unless inflation is brought under better control”. Yet, the framing of the bill prohibited the use of macroeconomic policy to limit inflation until the reaching of full employment, and so it deprived the government of any flexibility in the macroeconomic management of the US economy.

However, Humphrey and Hawkins announced that they would refuse any formulation that would open the door for accepting the trade-off. Humphrey and Hawkins stuck to a formulation banishing any policy against inflation which would imply unemployment to increase or to stay high: “Attainment of the goals for the reduction of unemployment and for the attainment of reasonable price stability shall be pursued by methods which are mutually

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19 Keyserling’s reference here was quite adventurous. For if Burns actually called into question the existence of a trade-off, it was to highlight more strongly the inflationary risks of any expansionary policy. In a 1976 testimony before the JEC, he used the same argument to reject the Humphrey-Hawkins bill (Joint Economic Committee, Thirtieth Anniversary of the Employment Act of 1946. p.151).


21 Until the end, Schultz defended the idea that the bill granted equal treatment to inflation and policy. In a memo for Carter dating from February 1978, he explained that the Humphrey-Hawkins bill “does not subordinate price stability to reaching full employment—both of these goals are given equal priority”. Notes, Schultz, August 3 1978, Humphrey-Hawkins Bill [2], Schultz’s files paper, Box 36, Records of the Council of Economic Adviser, Jimmy Carter Library.

reinforcing, and neither of the goals shall be modified or weakened in the pursuit of others on the ground that the weakening of one objective advances the other objective”. Considering Humphrey and Hawkins determination, Carter’s staff tried to propose a middle-way formulation that would allow a minimum of flexibility: “In attaining the goals for the reduction of unemployment and reasonable price stability, priority shall be given to methods which are mutually reinforcing”. The blockage on this formulation remained for months until Humphrey and Hawkins’s team eventually accepted the Administration formulation. However, if they surrender on this point, it was because they obtained what they wanted on another stumbling block: the unemployment numerical target.

Whereas the post Democratic Primary version defined a numerical target of 3 percent of unemployment for adults, and 4 percent overall, Carter’s team tried to backtrack. Indeed, they wanted the government to have more flexibility in its policies, and also feared the inflationary risks implied by such targets. Schultze argued the case to Hawkins in its May 1977 letter, explaining that “because of continuing changes in the composition of the labor force and the difficulty of determining the possible effectiveness of programs now underway to reduce structural unemployment”, they cannot be sure of their ability to reduce the unemployment at the targeted levels. He proposed to inscribe in the bill a 4,75 per cent target in four years and to define it as an “interim target”.

Worrying for the inflationary risks of a too low target, the CEA tried to estimate what would be the level under which inflation would accelerate. George Johnson of the CEA staff produced a survey on the different estimations of the NAIRU. Labelled after the work of Franco Modigliani and Lucas Papademos (1975), it designated the level of unemployment under which inflation would increase quickly. Johnson found that in average, the NAIRU was around 5,5 percent, and the CEA used Johnson’s memo to argue that a 4 percent rate of unemployment was unattainable for 1982 or 1983.

However, the issue of the inflationary rate of unemployment did not go without debates within the Administration itself. Marshall, the Labor Secretary, was actually more enthusiast—or at least less afraid—about the full employment bill than Lance or Schultze.

24 Memo, Gramley to Schultze, September 26 1977.
25 Carter’s Administration also feared that a low target would scare the business community. Notes, Pros and Cons of Options on the Numerical Goal for Unemployment in the Humphrey-Hawkins Bill, October 15 1977, Humphrey-Hawkins Bill [10], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, Jimmy Carter Library.
27 Memo, Johnson to Schultze, October 13 1977, Humphrey-Hawkins Bill [11], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, Jimmy Carter Library. Johnson got his Ph.D. from Berkeley in 1966, and then moved to the University of Maryland. His research work focused on the impact of unions on wages. During his time in the CEA staff, he continued research, and worked with Arthur Blakemore, another CEA staff member, on a research article on the effect of employment policy on the “rate of unemployment consistent with nonaccelerating inflation” (Johnson et Blakemore 1979).
28 In their article, Modigliani and Papademos talked of the « Non Inflationary Rate of Unemployment » or NIRU. Even if it was later associated to the natural rate of unemployment of Friedman, Lucas and Papademos considered both situation, that is Friedman’s case— inflation increases indefinitely under the equilibrium rate—and an inflation rate that would accelerate only until a certain level, depending on how much actual unemployment is under the equilibrium rate.
29 Johnson cited Modigliani et Papademos (1975) who estimated the NAIRU at 5,7%, Hall (1974) and Wachter (1976) at 5,5%. It should be noted that at the time, Hall talked of an “equilibrium rate of unemployment”, and not a NAIRU, and Wachter used the term “full-employment unemployment rate”.

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The Labor Department defended that the NAIRU would be 4.3% in 1984. They relied on a memo by Donald Nichols, who estimated that due to change in the composition of the population, the non-inflationary rate would decrease, tending towards a fork of 4.3 and 5 percent.\textsuperscript{30} He considered that public job creation, which would target low wage sectors, which are less inflationary, and structural policies could enable to reach the 4% target, even if perhaps not in 1983. However, the CEA disagreed with this interpretation. Peter Clark, from the CEA staff, wrote a memo specifying that Nichols’s analysis was over-optimistic, mainly because of the inappropriate data he used.\textsuperscript{31} He estimated a NAIRU between 5.1 and 5.3 in 1984, which implied a gap too wide for reaching the 4% target with structural policies.\textsuperscript{32}

Even if political reasons and personal preferences were also involved, economic expertise pushed Carter’s Administration to reject the 4 percent overall rate of unemployment as a feasible target for 1982 or 1983. In the same time, it turned out to be impossible for Humphrey and Hawkins to abandon what had become one of the main points of their bill. Carter fearing to alienate the left-wing of the Democratic Party and the civil-rights groups, and the supporters of the Humphrey-Hawkins wanting to assure strong support to the bill by the Administration and the whole Democratic Party, both camps reach a pragmatic agreement on this point. The government would pursue a 4 percent target for 1983 (and not 1982), but the bill would allow the President to change the target after 1981 if economic conditions had dramatically changed.

Overall, Carter’s Administration seemed to have succeeded in reducing the ambitions of the projected law. Even if they made concessions on the target issue, the state as employer in last resort part was reduced and the rhetoric on planning and balanced growth partially disappeared.\textsuperscript{33} Nevertheless, the highest step was still to climb: make the bill pass in front of the Republican opposition.

\textsuperscript{30} Memo, Nichols to Labor Secretary, October 4 1977, Humphrey-Hawkins Bill [11], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, Jimmy Carter Library. Nichols got his PhD from Yale in 1968 with Tobin as a supervisor, working on the link between growth and unemployment. In 1977, he worked in the Department of labor as deputy assistant secretary. In Nichols’s memo, the increase of people being counted outside of the active population was seen as a good thing, as it enables to decrease the non-inflationary rate of unemployment—the supply of labor being reduced. We are thus far of the inclusive view of Gross and Hawkins defended in the UCLA symposium.

\textsuperscript{31} Clark got his Ph.D. from Harvard in 1970 and worked as a fiscal analyst at the Congressional Budget Office (CBO) before to move to the CEA. His position as staff economist in the CEA led him to change his research interest towards macroeconomic issues, and focused on the natural rate of unemployment and the potential GDP. During, his time in the CEA, his work was the basis for the upward revision of the official employment rate and the downward revision of potential GDP (Clark 1979).

\textsuperscript{32} Memo, Clark to Gramley, October 12 1977, Humphrey-Hawkins Bill [11], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, Jimmy Carter Library. Clark also cited the work of Perry (1977) who estimated an even higher NAIRU, between 5.5 and 5.7 percent for 1984.

\textsuperscript{33} The 1976 version of the proposed law required that the President developed a “Full-Employment and Balanced Growth Plan”. The Administration opposed this requirement as it would create a “costly mechanism” and would also risk to threaten the business community (Memo, Gramley to Schultze, July 12 1977, Humphrey-Hawkins Bill [7], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, Jimmy Carter Library). The requirement was eventually removed from the new version.
3. The Unsupportive Consensus of economists

An essential part of the process that ended by the enactment of the Humphrey-Hawkins bill was the hearings and testimonies before Congress. Many economists were asked for an opinion, whether it was for the first round of hearings, in 1976, on the previous version, or for the second round, in spring 1978. The bill also concentrated attention in newspapers and magazines, which offered a tribune for economists to give their opinion on the law. Most economists seemed unconvinced by the bill—even if some supported its spirit.

Like during the negotiations between Carter’s team and Humphrey and Hawkins’s one, the trade-off and the bill inflationary risks constituted a recurrent issue during the hearings process. The economists close to Humphrey, Hawkins and Keyserling argued with vigor against the existence of a trade-off. In the hearings for the 30th anniversary of the Employment Act, Lekachman criticized the 1946 act for having encouraged a reading of “full employment as a possible trade-off against other objectives” and he feared that the same reading would appear in the Humphrey-Hawkins bill if its wording was not strengthened.34 Lekachman also attacked Paul McCracken, the former Nixon’s CEA Chairman, for defending a trade-off perspective. Believing in the trade-off had for consequences bad results for fighting against inflation as well as against unemployment. However, McCracken stuck to the trade-off, affirming that economists were “now going too far in suggesting that there is no relationship at all”.35

In the same hearings, other economists, closer to the 1960s Keynesian consensus, also defended a trade-off vision. Frank Morris, president of the Federal Reserve Bank of Boston, warned the audience against the inflationary risks of the bill, which would lead to reduce unemployment too much, in comparison to what would be possible at that time. Indeed, he considered that frictional unemployment was well above 3 percent, and targeting such a level would generate substantial increases in wages. As Walter Heller also talked of the trade-off in his intervention, Keyserling expressed his amazement as he considered the period when Heller was the Chairman of the CEA as a period of a positive correlation between inflation and unemployment.36 John Galbraith also raised similar worries in another round of hearings, on May 1976. He saw the 3 percent rate of unemployment for adult as too low and likely to “be disastrously inflationary.”37 He thus prevented his “liberal friends not to engage in the wishful economics that causes them to hope that there is some still undiscovered fiscal or monetary magic which will combine low unemployment with a low level of inflation” (86). If he supported the planning prescriptions of the bill—later to be removed in the negotiations with Carter’s Administration—as the “strong stand against unemployment”, he supported “an equally unequivocal stand against inflation too.”38 As Galbraith, Thurrow also defended a

38 Committee on Banking, Housing, and Urban Affairs United States Senate. Hearings Second Session on S.50, 88.
strong stance against inflation and considered a numerical goal as a good idea, to equilibrate the numerical unemployment target.\textsuperscript{39}

Robert Hall (MIT), as the economists quoted above, also supported in a certain extent the bill that he considered as “a move in the right direction.”\textsuperscript{40} However, he estimated that the 3 percent target was unattainable except for short period in which inflation would rise. Hall adopted a standard accelerationist view, considering that inflation would be stable at a rate of unemployment between 5 and 6 percent, but would accelerate indefinitely below this rate. Hall considered that expansionary policy was necessary at that time, but fixing such a low target would lead to inflation and “disillusionment”.\textsuperscript{41} He finally regarded 5.8% as a more appropriate target, many people being unemployed only for a short period of time at this rate—opinion with which Hawkins strongly disagreed during the hearings.\textsuperscript{42} Klein also warned the audience against inflationary risks but strongly supported the bill, in 1978 hearings before the Committee on Human Resources. He blamed economists and politicians for abandoning 4% as the full employment goal. Klein advocated structural policies to reach the goal of the bill, and explained that, as the effects of such policies could be long to appear, it would be difficult to attain 4 percent within 5 years.\textsuperscript{43} Nevertheless, he argued that the new version of the bill was far better than the previous one, but would suffer from the memory of the “many things wrong with earlier versions”:

There is definitely a feeling of antipathy and fear and hostility in the business and financial community. It probably goes back a great deal to the earlier versions of the bill. I think a very careful reassessment of the new bill is important. I think it requires a considerable educational process to put it forward, perhaps under a different name. The ideas, I think are really good, done properly, and one can perhaps change the view of the business community in this way.\textsuperscript{44}

One crucial piece of work in Humphrey-Hawkins bill evaluation was the report of the Congressional Budget Office (CBO). The CBO was instrumental in the 1970s for importing the economic style of thought in Congress, “as well as for tying together academic economics and the world of policy” (Berman 2019, 23). The Congress created the CBO in 1974, following conflicts with Nixon’s Administration, in order to establish its independence by producing reports and data on budgetary matters. The creation of the CBO was ambitious: besides offering cost estimations of legislation, the CBO would conduct autonomous economic analysis of the likely effects of policies with the use of economic models. Its first director, Alice Rivlin, an economist with a PhD from Harvard and affiliated to the Brookings, hired several


\textsuperscript{43} Committee on Human Resources and Committee on Banking, Housing, and Urban Affairs, United State Senates, \textit{Full Employment and Balanced Growth Act of 1978 joint hearing}. 14.

\textsuperscript{44} Committee on Human Resources and Committee on Banking, Housing, and Urban Affairs, United State Senates, \textit{Full Employment and Balanced Growth Act of 1978 joint hearing}. 53.
persons holding a PhD in economics, and the CBO quickly became an institution “centered on the economist” (24-25).

In 1976, Nancy Barret (PhD from Harvard) and Michael S. Owen prepared a report on the Humphrey-Hawkins bill for the CBO. Rivlin would use this report to testify before the Senate Committee on Banking, Housing and Urban Affairs in May 1976. The report stated that it existed a negative trade-off between inflation and unemployment, except in periods of wage and price controls and oil shocks. Barret and Owen estimated how much inflation would increase if unemployment reached 4.5 percent and 3.5 percent. Considering the inflationary risks of the bill, what was at stake for the authors was to improve the trade-off by structural policies. Consequently, “as a long-range goal, therefore, pursuit of a 3 percent adult unemployment target would seem more realistic (in terms of its potential inflationary consequences) than if it is viewed as a short range target”. In other words, the report assessed that four or five years were too short to fulfil the unemployment goal without substantial inflationary consequences.

Rivlin supported the conclusion of the report and declared that “the Congress...needs to recognize that there are two goals to be pursued and that it will be difficult to do both, but that it is necessary to work on the anti-inflation front very hard if the unemployment rate is to be lowered significantly.” For Rivlin, “the bill should be more balanced” (81). In other hearings in April, before the Committee on Education and Labor, Hawkins vehemently criticized the defense of the trade-off by Rivlin. Rivlin defended herself by arguing that “inflation...is a problem that everyone ought to think” and that “economists really have to be in all honesty quite cautious and uncertain about what would happen if you have sustained rapid growth in the economy as you approach level of unemployment of 4.5 or 4 or 3.5 percent” (Hearing 29, 235). Harassed by Hawkins with questions on the trade-off and her opinion on the bill, she made precise that the “role” of the CBO was not to “take a position on a particular bill” but to “be useful to the Congress in answering questions such as: what do you think would happen if the economy did this or that” (238). However, Hawkins did not accept Rivlin’s point on inflation and argued that by contesting the feasibility of reaching 3 percent unemployment for adults, the CBO was “affect[ing] the handling of legislation”. He considered that in the future, the CBO should be more transparent on what models they use and “what [they] put into the computer” (238). For Hawkins, Humphrey and Keyserling, an inevitable frustration raised during the hearings by being constantly opposed to the trade-off issue. However, it remained crucial for most macroeconomists that testified between 1976 and 1978, and it often led them to warn against the inflationary risks of the bill.

Outside of these timid supports and unconvinced opinions, a strong opposition organized to derail the enactment of the bill. Obviously, the trade-off argument was a good point of departure to criticize Humphrey and Hawkins’s project. Muray Weidenbaum wrote in Challenge that the defenders of the bill did not understand the trade-off between inflation

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45 Committee on Banking, Housing, and Urban Affairs United States Senate. *Hearings Second Session on S.50.* 74-75.
46 By the reading of the report, no obvious indication enable to say if the authors supported an accelerationist view or not. This point was not crucial for their argumentation.
47 Committee on Banking, Housing, and Urban Affairs United States Senate. *Hearings Second Session on S.50.* 68.
48 Answering Senator Proxmire’s questions, Rivlin defended the trade-off vision that should not be discarded because of its disappearance in the last years. This disappearance was explained by external shocks which raised inflation for Rivlin, but it did not mean that the trade-off no longer existed (Page).
and unemployment. For him, the high unemployment at that time “stems from the efforts in recent years to reduce an extremely high and damaging inflation rate” (Weidenbaum 1976, 23). Such a policy was necessary because high inflation would have damaged growth. The simple consequence of the bill would be to push for new expansionary policies that would create inflation, which in turn would force the government to run restrictive policies and increase unemployment. In his regular column in *Newsweek*, Milton Friedman rejected the proposed law, yet focusing on its public employment features. He argued that it would lead to a massive increase in public jobs, funded by either more taxes, more debts, or more inflation (Friedman 1976).

The business community also raised his voice against the bill. In the late 1970s, they used to “[play] the politics of inflation in the debate over unemployment” and they were supported by “key congressional allies” who “[viewed] policy choices in terms of that classic trade-off” (Waterhouse 2013, 132). The Business Roundtable, one of the most influential associations of employers, was active in this process: they mandated Ross Wilhelm, from the University of Michigan, to build a case against the inflationary costs of the Humphrey-Hawkins bill. They released a press statement on September 1977 to state their case against the bill (archives 138).

The hearings process was also the place for the expression of a more radical opposition by economists. Many pointed out that such a piece of legislation would increase the implication of the government in the economy, at the risk of worsening the situation. With a somewhat Hayekian style, Alan Greenspan, PhD from Columbia and then chairman of Nixon’s CEA, warned the Committee on Banking, Housing and Urban Affairs against the limits of economics for setting up such precise numerical targets:

*The approach incorporated in S.50 [the Humphrey-Hawkins bill] relies heavily on the ability of the economics profession to plan or to outline fairly precisely the path that must be followed to achieve and then maintain full employment. I find the thrust of this argument troublesome. It presumes a detailed forecasting capability which is far beyond any realistic assessment of the present or immediately foreseeable capability of the economics profession... A modern industrial economic system based even partly on market phenomena is so complex that any model or statistical abstraction, no matter how complex, is still a gross oversimplification of the dynamics of the system. Models can never expect to achieve more than very rough approximations of the dynamics of the real world. These approximations are most useful, but they fall significantly short of the analytic and forecasting requirements of the approach envisioned in S.50.*

*(Hearings 4, 32)*

He then argued that politicians would manipulate the goals for electorate purpose, what would lead to over-optimistic targets and make the bill unreliable (33). During the same hearings, William Allen, from the University of California in Los Angeles (UCLA), followed Greenspan’s remarks, first by strongly opposing the bill—“because it incorporates

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50 Add on the other “big three” associations’ opposition to the bill.
bad economics, bad history, bad psychology, and... even bad politics” (Hearings 4, 103)—and second by highlighting the limits of economics—“we simply do not know enough to pursue effective coordinated discretionary policy” (103). In summary, for Allen, the issue was not to fix some targets, but “to adopt a stable sort of policy, which is not fine-tuning but quite the opposite, and you stick to that” (109). Very similarly to Allen, James Buchanan opposed the bill (329) and referred to his forthcoming book with Wagner (1977), Democracy in Deficits, where they challenged “Keynesian” macroeconomic policies and advocated an “economic constitution” of stable rules of policy.  

If this radical opposition raised arguments that fitted with the Republicans’ state of mind, the Democratic majority in Congress forced the Republican Party to find other strategies to reduce the ambitions of the bill. Republican senators began to defend the integration of a numerical goal for inflation, along the unemployment goal.

4. The battle in Congress

After the agreement on a new version reached between the supporters of the Humphrey-Hawkins bill and Carter’s Administration, the bill had to be voted in the House of Representatives and the Senate. The bill was introduced the first day of the 95th Congress and was reported first in the House, by the Employment Opportunity Subcommittee of the House, Labor and Education Committee. Republican representatives proposed amendments for adding a 3% inflation rate goal for 1983, which was rejected but led to some compromises in the bill (Schantz et Schmidt 1979, 372). The subcommittee approved the bill and it was eventually voted by the House with 257 votes against 152, on March 16, 1978. However, the issue of a numerical inflation goal stayed at the foreground and would crystallize the debates in the Senate.

Indeed, the path of the bill appeared more tortuous in the Senate. The bill was jointly referred by the Committee on Human Resources and the Committee on Banking, Housing and Urban Affairs. The first one, led by Gaylord Nelson (Democrat) and Javits (Republican), reported the bill without major changes on April 13, 1978. However, the Banking committee added substantial amendments before approving the bill on June 28, 1978 (273). The amendments set forth a goal of 0% of inflation and a balanced budget for 1983, as a limit of federal spending to 20% of the GDP.

This amended version was unacceptable for the Humphrey’s and Hawkins’s teams, as well as for Carter’s Administration. The opposition organized against the numerical inflation goal. The common ground for opposing the inflation goal relied on the current stagflation. For the Humphrey-Hawkins bill supporters, as for Carter’s Administration, inflation is linked to supply shocks on many occasions. The 1973 oil shock and the bad crops of the time explained most of the rise in inflation. On this occasion, the consequences on inflation “could not have been avoided by attempting to lift the rate of unemployment to much closer to the rate of price inflation” (Memo 34). In other words, many events could change inflation without

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51 Similar arguments could be found in Musgrave’s and Alchian’s testimonies. The former rejected the bill because it would interfere with the normal functioning of markets (185-86). The latter opposed it because it would foster a more “authoritarian system” and a “less liberal society” (325).

52 It was required that « the third and subsequent (Presidential) economic report set forth programs to reduce inflation” (Schantz et Schmidt 1979, 372).
having any link to unemployment. Fixing a numerical goal for inflation similarly to the goal for unemployment would just lead to limit the fulfilment of the latter.\textsuperscript{53}

Keyserling also developed a second type of argument that echoed his opposition to the trade-off view. Keyserling refused to put inflation and unemployment on put on the same foot. Whereas unemployment “involves human and moral considerations”, inflation rates are just “means toward other ultimate objectives” (Memo 34). For Keyserling, it had no meaning to set forth a numerical goal for inflation in the bill.

In September 1978, a group of economists—gathering Eisner, Heller, Keyserling, Klein, Nathan, Thurrow, Arthur Okun and James Tobin—wrote a letter arguing against the 0 percent numerical goal for inflation, proposed by the Senate Banking Committee. They first considered perfectly stable prices as damaging for the economy, in comparison to “a moderately rising price level” (memo 54). The main issue was that such a goal “could set up in the public mind a trade-off between efforts to combat inflation and reduce joblessness” and thus “provide an excuse to suspend efforts to reach full employment, even if the causes of inflation have little or nothing to do with employment policies”. This argument could be seen as consistent with Keyserling’s vision—the unemployment goal is superior to the inflation goal—as well as with the CEA rationale for opposing a numerical inflation goal—infation came mostly from factors which had nothing to do with unemployment. In any case, despite the tensions in the negotiations of the bill the preceding year, both camps seemed to join forces against the amendment.

Interestingly, on the other side, no economists seemed to offer support for the numerical goal for inflation. When senator Proxmire organized hearings in 1976 on a similar amendment but for the previous version of the bill, he hardly found support from economists (Hearings 4). Allen, for instance, refused to support an inflation goal as he considered that the whole bill was mistaken and setting goal was not the solution (108). In the long list of economists Proxmire contacted for giving an opinion on the bill, no one clearly supported the numerical inflation goal. In the second hearings by the Banking Committee, in 1978, Andrew Brimmer, a former member of the Board of Governors of the Federal Reserve, expressed his doubts about fixing numerical goal (Hearings 6, 16-17). Nevertheless, he agreed with a numerical inflation goal, as such a goal for unemployment was already in the bill.

The lack of support by economists did not prevent the amendment to pass, mainly for political reasons. Indeed, this amendment constituted a way for Republican congressional representatives to reduce the likely impact of the bill. They threatened the Democratic majority of a filibuster, what forced the supporters of the bill to back off on some amendments.\textsuperscript{54} Robert Byrd, the leader of the Senate Majority, appointed an ad hoc committee to reconcile the House and the Senate versions of the bill. The final version called for a 3 percent inflation goal in 1983 and a 0 percent one in 1988. However, the bill initial goal was partially preserved by the provision that “policies and programs for reducing inflation shall be so designed so as not to impede achievement of the goal and timetables on unemployment” (Schantz and Schmidt 1979, 375). The integration of the inflation goal prevent a filibuster and the bill was finally voted in Congress on October 15, 1978.

\textsuperscript{53} This point can also be found in Schultze’s memo (53)

\textsuperscript{54} A filibuster is a legislative device allowing a senator to speak as long as he wants on the topic of his choice. Only the two thirds of the Senate can ask for the “cloture” of the debate. It constitutes a traditional way to oppose some bills in the Senate.
Carter signed the Full Employment and Balanced Growth Act on October 27, 1978. It set forth an unemployment goal of 4 percent overall for 1983 along a 3 percent inflation goal, but it allowed flexibility in goal setting. Indeed, the President was allowed to change the goals as soon as January 1980 if changes in economic circumstances required it. Carter’s Administration would soon use this provision, bringing about the last struggle with the original supporters of the bill.

5. The quick death of the Humphrey-Hawkins Act

Oil prices began to rise in late 1978 due to tension on the world oil market, following the beginning of the Iranian revolution. Together with the depreciation of the dollar, the second oil shock fostered inflation in the US. Consequently, the Administration saw inflation as the main threat against achieving the goals of the Humphrey-Hawkins bill, and it thus became the priority as soon as the first months of 1979.

The FEAC and Keyserling did not miss this evolution, and they wrote a pamphlet attacking the President’s Economic Report for 1979. They attacked the report for not being sufficiently ambitious for unemployment and relying on “the discredited and legislatively prohibited ‘trade-off’” (Archives 50, 25). Hawkins claimed nothing less that the bill was “being violated” in Challenge in September (Hawkins 1979), as the growth targets of the President’s Economic Report were insufficient to reach the 4 percent unemployment goal. In a letter to Schultz from May 9, 1979, Keyserling accused the Administration to have increased unemployment in 1979 to reduce inflation, what ran against the Act (Archives 49). He concluded: “Can anyone believe that so palpable a violation of the law can maintain the public confidence which is essential to good economic performance”, and then stated that the Economic Report violated in ten different ways the Act.

It was Lyle Gramley who answered to Keyserling on May 17 (Archives 97). He acknowledged that during the negotiations, it appeared evident that the views of Keyserling and those of the Administration “on the sources of inflation and the difficulties of achieving low unemployment and inflation were different”. He argued that “the Administration’s views came closer than yours to the consensus among economists” and then defended the choices of the Administration, regarding the current high rate of inflation.

Later in the year, Schultz convinced the President to postpone the strict application of the Humphrey-Hawkins bill. He stressed that the CEA indicated to the President that “the Humphrey-Hawkins goals were exceedingly ambitious when the Act was passed”. Considering the “OPEC price increases” and its effects on economic growth and inflation, he regarded the attainment of a 4 percent rate of unemployment by 1983 as “not only impossible”, but also as “highly inflationary”. Consequently, he proposed to delay the unemployment goal to 1985—as the Humphrey-Hawkins Act allowed him to do it as soon as January 1980—and the inflation goal to 1989.

After the postponement of the goals by the Carter’s Administration, the following election of Ronald Reagan eventually killed the original ambition of the Humphrey-Hawkins Act.55

55 Reagan opposed the bill as soon as the 1976 Republican primary campaign. Interviewed by the Time, Regan attacked Carter for being in favor of the bill which echoed fascism for him: “If ever there was a design for fascism, that’s it. Fascism was really the basis for the New Deal. It was Mussolini’s success in Italy, with his government-directed economy, that led the early New Dealers to say, “But Mussolini keeps the trains running
6. Concluding Remarks

Economists played a crucial role at different stages of the process leading to the enactment of the Humphrey-Hawkins bill. This inquiry thus reveals some interesting features of macroeconomic expertise in the 1970s. First, the Phillips curve appears as a convenient tool to deal with unemployment and inflation goals, even if it was contested. Keyserling stated that no economists seriously believed in the Phillips curve then and, he referred to Burns’s and Greenspan’s rejection of the trade-off to support his claim—ironically, both opposed the Humphrey-Hawkins bill. Nevertheless, in many hearings, as in Carter’s Administration, the Phillips curve represented a central tool to assess the consequences of the bill. In the 1970s, the Brookings Papers on Economic Activity published many works on the Phillips curve and deeply renewed the literature on the subject (Forde 2014). These papers were at the heart of the quantitative assessment of the bill by the Carter’s Administration. Besides, several members of the CEA (like Johnson, Blakemore or Clark) also contributed to the academic literature at the time.

In a certain extent, we observe a co-construction of knowledge between the academic field and economic expertise. The best example is perhaps the NAIRU: developed in 1975 by Modigliani and Papademos, it was used as soon as 1977 by the CEA to estimate the likeliness of the 4 percent unemployment goal. The CEA staff used the recent academic literature on the subject to propose different scenarios and estimations of the consequences of the bill. It also fed a debate with the Labor Department, which developed its own estimation. Even if the tools were new and imperfect, it testified of a wish to rationalize the evaluation of the bill.

The study of the Humphrey-Hawkins Act reveals that the Phillips curve was central in economic debates and that economic expertise relied on a dynamic academic literature. During the whole process, it should be noted that Friedman’s concept of a natural rate of unemployment was obviously missing. Similarly, no mention was made of Lucas’s challenge against the statistical significance of the Phillips Curve and its use for macroeconomic policies (Lucas 1972; 1976). The radical opposition to the bill did not rely on economic analysis and on recent macroeconomics, but rather on broader arguments about the capacity of economics to help the government and the disturbing effects of the latter on the US economy.

A last important about macroeconomic expertise at the time concerns the definition of full employment, which was central in the Humphrey-Hawkins Act. To be developed.

References


