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How the Phillips Curve Shaped Full Employment Policy in the 1970s: the Debates on the Humphrey-Hawkins Act

Aurélien Goutsmedt¹

Abstract

This article relates the history of economists' influence in shaping the content of the Humphrey-Hawkins Act (1978) and its immediate consequences. The Act committed the federal government to reduce as soon as 1983 unemployment to 4 percent and inflation to 3 percent. Initially, the Humphrey-Hawkins bill was conceived as a project to favor the economic integration of African Americans and economic planning and only targeted the unemployment rate. The Republican senators successfully pushed for integrating a numerical inflation target during the debates in Congress. The Act eventually appeared as putting on equal footing inflation and unemployment.

I argue that the economists in Carter's administration, and notably the Council of Economic Advisers, were instrumental, even if unintentionally, in favoring the integration of an inflation target and such an interpretation of the bill. In the negotiations that opposed them to the supporters of the bill, as well as in the analysis of the bill they produced, they insisted on the existence of a trade-off between inflation and unemployment and constantly referred to the famous Phillips curve. They endeavored to anchor their expertise on academic publications,

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which strengthened the role of the Phillips curve in shaping the debates. Both the business organizations and senators used this reference to the trade-off to undermine the bill and favor the integration of an inflation target.

Introduction

On October 28, 1978, during a ceremony gathering labor and civil rights organizations 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 from California's 21st District (south of Los Angeles County), 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 to report twice a year on how monetary policy would help to pursue these goals and it instituted new jobs programs. Although the bill project initially targeted only unemployment, the legislative battle in Congress led to integrating a numerical target for inflation, along with the unemployment target. 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. Today, the Humphrey-Hawkins Act is regarded as the source of the Fed's dual mandate (Thornton, 2012).

The integration of a numerical inflation target was seen as a victory for the Republican opposition to the bill. Consequently, the enactment of a largely amended version of the Humphrey-Hawkins bill remains regarded by historians as a failure of the Democratic Party, a testimony of the moving political ratio of power and the transformations of the economic

intellectual landscape in the 1970s. Greider (1989) characterized it as an “ironic token of how much the mainstream political opinion” (96) had changed at the time. It represented 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).² Similarly, Biven (2002) described 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) defended the Humphrey-Hawkins initial bill as significant legislation, and lamented this “New Deal that never happened” (261).³

However, despite its unfruitful conclusion, the process, which led from the elaboration of the first draft in 1974 to the ratification 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.

The period marked a break with the relative economic stability of the 1950s and 1960s. The term ‘stagflation’ was coined to describe the common rise of inflation and unemployment. After the first peak of 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 then but unemployment was still around 6% at the time of the bill ratification, 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, economic policy

² We will see that, conversely to Greider's interpretation, it is dubious that monetarism had much influence on the fate of the act.

³ More recently, Andelic (2019) has defended a different viewpoint on the bill, 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.

disappointments (notably following Nixon's wage-price controls), and uncertainty about economists' abilities to provide solutions for current economic challenges.

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 (questionable) textbook narrative regards the 1960s as dominated by the belief in the (simple) Phillips Curve—labeled after A.W.H. 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 for low unemployment. However, the textbook narrative continues, Edmund Phelps (1967) and Milton Friedman (1968) demonstrated that, because unemployment can depart from its 'natural rate of unemployment' only during the period when expectations of inflation deviate from actual inflation, there was actually 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.⁴ The beginning of the stagflation would have appeared as empirical confirmation of Friedman's theoretical demonstration and would have dismissed the reference to the Phillips curve in the 1970s. Forder (2014) debunks 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 try to understand 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

⁴ This idea of a never ending rise of inflation if the actual rate of unemployment remains under the natural rate of unemployment was coined the 'accelerationist hypothesis' (Goutsmedt and Rubin, 2019).

in comparison to the standard narrative, to warn politicians and the public against the likely inflationary consequences of the bill.⁵

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: the effect of economic transformations on the political equilibrium and economic policies (e.g., Krippner, 2011); the fracture in the Democratic Party that had developed since the late 1960s—opposing the old New Dealers to those who prioritized the development of new rights for political minorities (Andelic, 2019, 74) or to new moderate and younger legislators (Geismer, 2014); ideology and the emergence and popularization of free markets thinkers in the 1970s (e.g., Burgin, 2012; Mirowski and Plehwe, 2009); 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 2022, chap. 1), I propose a fifth approach: the spreading of an “economic style of reasoning”. Hirschman and Berman (2014) distinguish three ways economists affect economic policy: by the general authority of the profession, by the involvement of economists in political decisions, 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

⁵ If the supporters of the bill use the term ‘trade-off’, the other economists involved in hearings or internal reports and memos tend to use alternatively ‘trade-off’ and ‘Phillips curve’, and refer more explicitly to the Phillips curve academic literature that was developing in the 1970s.

knowledge and help make decisions” (781). In the 1970s, economists' authority was well recognized in the U.S. (Fourcade, 2009, chap. 2) and many influent institutions in the policymaking process, like the Council of Economic Advisors (CEA), the Joint Economic Committee (JEC), or the new Congressional Budget Office (CBO), welcomed economists.⁶ 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 and the concept contributed to *frame* the debate as an issue of managing simultaneously inflation and unemployment.

Many historians, political scientists, and economists have related in varying degrees of detail the story of the Humphrey-Hawkins Act, while dealing more generally with the transformations of economic policy in the 1970s (outside of those cited above, see also: Mucciaroni, 1990, chap. 4; Meltzer, 2010: 985-992; Roof, 2011, chap. 5). But it is only more recently that a more comprehensive history of the bill has been proposed by Andelic (2019), who focuses on the political coalition supporting the bill.⁷ The following article complements Andelic's contribution by analyzing the debates between economists from the elaboration of the bill to its enactment and describes how a consensus emerged on the interpretation of the bill among a majority of economists. The article relies on a large set of archives collected in the *Jimmy Carter Library* (JLC). These documents help to understand the viewpoint 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. I also tracked economists' public interventions about the bill and their testimonies during the Congress hearings organized in 1976, for the bill first submission, and in 1978.

⁶ See Bernstein (2001) for a history of the building of economic expertise within the CEA.

⁷ With a more militant spirit, Ginsburg (2012) and Baker et al. (2017) evoke the original aim of the Act as a source of inspiration for current full-employment policies.

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 World War II. They were influential in New Deal policies and economic planning—like Leon Keyserling and Robert Nathan—and represented in the 1970s the fervent 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 PhD economists in complete opposition to the bill (Armen Alchian, William Allen, James Buchanan, or Milton Friedman): they were academic economists known for their defense of free markets. Even if their contributions to economics were substantial, when debating the bill, their criticisms did not rely on any formal or empirical arguments but rather stemmed from their general opposition to government interventionism. The third group was decisive in the final formulation of the Act. The economists within this group shared two basic characteristics: first, like the second group, they had academic credentials (they had a PhD in economics and held academic positions before or at the time of the debates) but, second, they used empirical and formal arguments with references to academic articles. The great majority did not oppose the bill, and many 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) while others simply testified before Congress (like Robert Hall). All shared the same analytical apparatus, relying on the Phillips curve existence of a trade-off between inflation and unemployment. I maintain that, in framing the debate in terms of a trade-off, this group was unintentionally instrumental to limit the ambitions of the proposed law, putting inflation and unemployment on an equal footing, and therefore to favor the addition of a numerical inflation goal to the unemployment one.

1. The radicality of the first Humphrey-Hawkins bill

The first joint version of the 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 rejection 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.

For Hawkins, employment was key for African Americans' integration (Andelic, 2019, 80). With unemployment rising in the early 1970s, the issue 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: Keyserling, the former Chairman of the 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 (University of Pennsylvania).

Keyserling and Browne contributed to the writing of the first version of what would become the Humphrey-Hawkins bill. They were joined by Bertram Gross, former executive secretary of the CEA between 1946 and 1952, who had contributed to 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 groups with lower labor force participation rates—women, older and younger people, and racial minorities—and thus partly hidden from the denominator of the rate of unemployment. The creation of public jobs would be instrumental to fulfil this goal. However, the most radical 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 the bill's first draft (Bullock, 1973).⁸ Hawkins introduced the conference: “Official unemployment has always stayed far beyond any tolerable level of ‘frictional’ unemployment—and 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 remove “inflationary shortages and bottlenecks” (1) and so reduce both unemployment and inflation. Here appears 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. Hawkins highlighted the difference between “the narrow, statistical

⁸ Paul Bullock was a labor economist from the Institute of Industrial Relations at UCLA, which encouraged connections between social scientists and unions. He had wrote a report on the 1965 Watts riots and sat in the Watts Labor Community Action Committee (Los Angeles Times 1986), which put him in touch with Hawkins.

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 contributes to reducing exclusion, crime, and health problems in minorities groups, and thus to favoring economic, political, and social integration.

Following Hawkins’s introduction, a panel of economists discussed “the Macroeconomics of Full Employment.” Like Hawkins, Gross, who contributed to the bill draft, defended the “human freedom” behind the full employment goal. 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).

Then, Alan Sweezy (California Institute of Technology) and Charles Holt (the Urban Institute) presented their views on 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 anyway if unemployment fell under a certain level. The issue was to know if full employment was beyond this inflationary level or not (11). He referred here to the Phillips curve, “one of those remarkable concepts which has turned out to be indispensable as a shorthand way of discussing a complex relation” and cited Robert Hall’s (1971) distinction between “movement along the Phillips curve and shifts of the curve itself” (Bullock, 1973, 11). For Sweezy, the main stake for policymakers in the 1970s was to move the curve itself (graphically, to the left) by using “wage-price controls” or “incomes policy”—rather than

aggregate demand stimulation that led to movements *along* the curve—and thus to improve the trade-off between inflation and unemployment (13).⁹ Similarly, Holt warned the audience that the U.S. "Phillips Curve is so placed that an unemployment rate much below 5 percent will tend to generate inflation rates that will be considered by many to be high" (15). Thus, he argued, macroeconomic policies were unable to reach full employment alone and highlighted the role of "structural policies" to move down the Phillips curve.¹⁰

Both economists endorsed the bill goal but raised concerns about the inflationary risks of policies targeting full employment, and framed their argument by using the Phillips Curve. In his comments, Gross raised against this use and the idea that one cannot improve employment in the U.S. without increasing inflation. He considered the Phillips curve unhelpful because of the improper way to measure the rate of unemployment, which, Gross argued, excluded many people willing to work but not counted in the labor force (21).

Gross's reaction, as well as Hawkins's speech, exemplified 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 with *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.

⁹ In other words, with a lower curve, the same rate of unemployment would imply a lower rate of inflation.

¹⁰ According to Forder (2014, 128), Holt (1970a) was one of the first to discuss structural/manpower policy—targetting structural unemployment, by opposition to frictional or conjonctural unemployment—in a Phillips curve framework and thus to dig into the idea of "moving the curve" itself.

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) to lobby for the bill. Co-chaired by Murray H. Finley (Amalgamated Clothing Makers Union) and Coretta Scott King, President of the Martin Luther King Jr. Center, the FEAC would never stop pressuring the government and Congress during the next years to make the bill passed.

1.2. Humphrey and economic planning

Another group was instrumental in the elaboration of the Humphrey-Hawkins bill. Economic planning ideas had become fashionable in the early 1970s (Andelic 2019, 77). In February 1975, the Harvard economist Wassily Leontief, Robert V. Roosa, former Treasury secretary under Kennedy, and Leonard Woodcock, president of the United Auto Workers, created the Initiative Committee for National Economic Planning.¹¹ Roosa declared to the *New York Times*: “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 U.S. economic situation and the consequences of bad harvests and energy shortages. National economic planning, by producing new data and establishing long-term goals, would protect the U.S. 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 fulfill 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 JEC, established by the 1946 Employment Act).

¹¹ The initiative was 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", David M. Rubenstein Rare Book & Manuscript Library, Duke University).

Humphrey, who served as senator from Minnesota from 1959 to 1964, and again from 1971 to 1978, endorsed the proposed legislation. 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 Jacob 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 proposed that the Humphrey-Javits bill should be merged with Hawkins’s bill to unify the efforts towards planning and full employment (Schantz and Schmidt, 370). Humphrey and Hawkins met regularly in 1975 to discuss such a collaboration. The Humphrey-Javits bill was never submitted to vote in Congress, but the idea of a “balanced growth” was integrated into the Humphrey-Hawkins bill, introduced on March 1976 with a joint press conference.

The next week, the JEC organized a conference to celebrate the 30th anniversary of the Employment Act. Introducing 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 that they both rejected standard Keynesian policies. They attacked macroeconomic adjustment by fiscal and monetary policies as the belief in the inflation-unemployment trade-off, considering that it led policymakers to neglect the consequences on poor people.

1.3. Rising against the Keynesian consensus

Among the group of economists who would support the bill until its final enactment, Keyserling would become its most vocal representative. After an M.A in law at Harvard (1931), Keyserling began a PhD with Rexford Guy Tugwell as a supervisor that he would never finish

(Brazelton, 1997, 189). Indeed, he became the legislative assistant of Senator Robert Wagner in 1933 and was closely involved in several major legislations of the New Deal period (Pickens, 2009, chap. 2-3; Mudge, 2018, 195). After World War II, Harry Truman appointed Keyserling in the first CEA and Keyserling became its second chairman in May 1950. During his time at the CEA, he had a crucial influence on Truman and was instrumental in the rise of economic growth as a major political goal for the Democratic Party (Collins, 2002, 37).

Keyserling's lack of a PhD made him suspicious and critical of academic economists' contributions to public policy (Bernstein, 2001, 113-114).¹² In the 1960s, his main target became the proponents of the "New Economics" from Harvard and the Massachusetts Institute of Technology (MIT) who populated the CEA.¹³ Keyserling criticized the 1964 tax cuts which he saw as favoring the wealthiest (Pickens 2009, 188-89). He considered that economic planning was a better way to promote social justice and that "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).¹⁴

Keyserling joined the FEAC in January 1975 and became the chair of its economic task force. Outside of contributing to the writing of the first joint version of the Humphrey-Hawkins bill, Keyserling used the FEAC as a platform to circulate pamphlets supporting the bill and criticizing the Keynesian consensus underlying economic policy since 1960. He advocated long-term planning which should avoid imbalances between sectors. On this matter, he used to joke about how Keynesian expansionary policies overlooked these likely imbalances:

¹² Keyserling used to "returned [academics'] supposed snubs and disdain with a highly developed and oft-expressed animus of his own" and he distinguished, in his own words, "those who have been challenged by the responsibilities of practical action" from "the economist who has to maintain only a theoretical position, or to write his name imperishably (in his belief) into the literature of his profession" (Collins, 2002, 28).

¹³ "New Economics" was the label used by journalists to designate the economic doctrine of Kennedy's and Johnson's CEA, shaped by Paul Samuelson, Robert Solow, Walter Heller, James Tobin and Arthur Okun (Romani, 2018).

¹⁴ On the other side, Tobin mocked Keyserling's "old-style Democratic liberalism" (Collins, 2002, 51).

“If the economy is tight, let’s restrain it. If the economy is slack, let’s stimulate 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 ... of the labor force, ... of the fiscal and monetary arrangements, ... and when you seek to fill it up you can’t just fill it up.¹⁵

However, Keyserling’s main target was the belief in the inflation-unemployment trade-off. During a conference organized by the FEAC, he argued: “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” (in Pickens, 2009, 194). In his first pamphlet for the FEAC, Keyserling argued that the belief in the “trade-off theory”—this “imaginary dilemma”—constituted the “main error in current economic policies” (Keyserling, 1975, 4-5).¹⁶ He listed several U.S. and overseas episodes and corresponding data he saw as invalidating the trade-off.¹⁷ He also endeavored that the costs of a high rate of unemployment were higher than the costs of inflation.

¹⁵ Committee on Banking, Housing, and Urban Affairs U.S. Senate. *Hearings Second Session on Amendment N°1703 on S.50*. 69.

¹⁶ Keyserling used to talk vaguely of the “trade-off theory” and the belief in a “dilemma” for economic policy but never mentioned the Phillips Curve or any related work related.

¹⁷ Keyserling simply pointed to the rate of growth, inflation and unemployment for different years or displayed some graphics. In general, Keyserling rejected the usefulness of large-scale macroeconomic models and preferred the simple study of historical data. Committee on Banking, Housing, and Urban Affairs United States Senate. *Hearings Second Session on Amendment N°1703 on S.50*. 69.

Gross, Nathan, and Eisner joined Keyserling in the writing of some FEAC pamphlets. As Keyserling, the first two were convinced ‘New Dealers’, who entered into the federal government service before or during the war. And as Keyserling, they did not have a PhD.¹⁸ Eisner, Professor at Northwestern University with a Ph.D from Johns Hopkins University, was clearly the most academic figure in the group.¹⁹

Supported by this team of economic experts and the FEAC, Humphrey and Hawkins introduced 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 retaining the idea of the Federal government being an employer in last resort.

Although hearings were held in the spring of 1976, Humphrey and Hawkins knew that their bill had little chance of passing. Their goal was to have it endorsed in the Democratic platform for the presidential election in November. Unfortunately for them, Jimmy Carter, the future Democratic presidential nominee, was the candidate most skeptical about the bill.

¹⁸ Nathan 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 became an important character of the Americans for Democratic Action in the 1950s and was involved in many presidential campaign (Mudge, 2018, 202-203). He advised Humphrey during his 1968 Presidential Campaign.

¹⁹ Eisner had been the economic adviser of George McGovern for his 1972 presidential campaign against Nixon.

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

After the introduction of the bill before the 94th Congress, the bill had two parallel lives: hearings were organized by the Congress to discuss the bill (see Section 3), while lobbying and negotiations took place within the Democratic Party.

2.1 The Negotiations during the Democrat Primary Campaign

Relatively conservative in terms of macroeconomic policy, Carter was the candidate of the Democratic primary campaign the more concerned with the rate of inflation (Hargrove and Morley, 1984, 459; Kalman, 2010, chap. 8). 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, except Carter (Andelic, 2019, 84).

Klein, chaired Carter's economic policy task force in which one also found Michael Wachter, Klein's colleague at the University of Pennsylvania (Biven, 2002, 24-25). Quoted by the *Time* magazine, Klein regarded the bill as highly perfectible: it "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). After securing the Democratic nomination, Carter's team engaged negotiations with Humphrey and Hawkins. They were reluctant to adopt a constraining numerical target. The 3 percent goal was clarified to apply for adults above 20. Wachter assessed that the "full employment-unemployment rate" should be 5.5 percent overall, and Klein considered 4 or 4.5 percent as acceptable if incomes policy were implemented (Biven, 2002, 33). Carter's team pushed for adding in the proposed law an unambiguous commitment to price stability and a list of structural policies against inflation. Eventually,

Carter accepted a 4 percent overall unemployment target in order to get more votes from African Americans (Andelic, 2019, 84).

However, the supporters of the bill knew that Carter's endorsement was no guarantee the Administration would support the bill in Congress. Indeed, after Klein refused to become chairman of the CEA (Biven 2002, 25), Charles Schultze, who had raised strong doubts about the bill, was appointed. After receiving his PhD from the University of Maryland, Schultze entered Kennedy's Administration as Assistant Director of the Bureau of the Budget in 1962, and stand as director between 1965 and 1968. After his leave from the Bureau, he joined the Brookings Institution. 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, Schultze submitted a contribution indicating its adherence to the trade-off view: "Inflation and Unemployment: the dilemma of the Humphrey-Hawkins Jobs bill" (Schultze, 1976). Schultze wrote that structural policies alone could not reduce unemployment sufficiently to meet the target and, thus, standard macroeconomic policies would be necessary. However, these policies implied an inflationary risk. He claimed that regarding past experience, an overall rate of unemployment under 5.5 percent overall would trigger inflation (67). Consequently, the Humphrey-Hawkins bill, by targeting 4 percent overall, would be inflationary. Schultze then discussed the possibility of the accelerationist hypothesis that would imply a continuous increase of inflation, which would be politically untenable. However, he argued that even without this accelerationist phenomenon, the level of inflation resulting from the implementation of the bill would be too high and his 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).²⁰

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 Carter’s administration

While the Administration left the bill on the shelf, Humphrey and Hawkins decided to increase the pressure on the government in June 1977. 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”.²¹ However, for the Economic Policy Group (EPG) of Carter, the bill was unacceptable and the EPG was considering submitting a bill of its own.²² The chances for passage of the Humphrey-Hawkins bill appeared to be at an all-time low.

The EPG agreed on several features of the bill, but obstacles remained about the trade-off issue, and the numerical goal to set for unemployment.²³ 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, even if the trade-off “worked, resulting policies would be

²⁰ It is clear here that Schultze’s warnings about inflation were not linked to any adherence to Friedman’s idea of a natural rate of unemployment.

²¹ Letter, Humphrey and Hawkins to the President, June 9 1977, Humphrey-Hawkins Bill [8], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC.

²² Memo, Blumenthal to the President, June 6 1977, Humphrey-Hawkins Bill [8], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC and Memo, Eizenstat to the President, June 9 1977, Humphrey-Hawkins Bill [8], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC.

²³ Memo, Blumenthal to the President, June 6 1977.

morally undefendable, given that it implied to let unemployment grow to decrease inflation.²⁴ Such policies would be “unjust and immoral” as their consequences would “[outweigh] the costs of inflation”.²⁵ The second reason was that the “theory of the ‘trade-off’” remained unsupported empirically. He displayed growth and inflation rates for different periods and argued that there was no observable positive correlation. He even referred to Ford’s 1976 *Economic Report* in which Arthur Burns, the Chairman of the Fed, contested the existence of such a trade-off.²⁶ Keyserling went further by defending that if a correlation there was, it was a positive one. Inflation during recessions 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.²⁷ Consequently, the belief in the trade-off, by encouraging restrictive policy to reduce inflation, created recessions that actually raised inflation.

The positions of Keyserling, Humphrey, and Hawkins could not have been more at odds with that of Carter’s economic experts. Carter tended to be relatively conservative on economic issues: he regarded public deficits as a bias of Keynesian policies and feared inflation (Biven 2002; Schultze’s interview in Hargrove and Morley, 1984). Bert Lance, his head of the Office of Management and Budget (OMB), and Schultze put inflation and unemployment at least on an equal footing.²⁸ Nevertheless, Carter knew that he could not discard the Humphrey-Hawkins

²⁴ Report, The Humphrey-Hawkins Bill “Full Employment and Balanced Growth Act of 1977” (S.50 and H.R. 50) - Towards Goals for America, January 1977, Humphrey-Hawkins Bill [7], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC. 37.

²⁵ Humphrey and Hawkins were attentive to the human costs of unemployment. In 1976, the JEC, under the direction of Humphrey, ordered a medical sociologist to report on the economic costs of mental illness, morbidity and crime due to unemployment (JEC, *Thirtieth Anniversary of the Employment Act of 1946 - A National Conference on Full Employment*. 94th Congress. 2nd Session. Washington: US Government Printing Office. March 18-19, 1976. 39-42).

²⁶ Keyserling’s reference here was quite adventurous. For if Burns actually called into question the existence of a trade-off, it was to highlight the inflationary risks of any expansionary policy. Burns used the same argument before the JEC to reject the Humphrey-Hawkins bill (JEC. *Thirtieth Anniversary of the Employment Act of 1946*. 151).

²⁷ Report, The Humphrey-Hawkins Bill “Full Employment and Balanced Growth Act of 1977”, 38-39. The idea that past trends in wage increases, or “inflation inertia”, were crucial for many Keynesians to account for the stagflation and were integrated into Phillips curve equations (Goutsmedt and Rubin 2018; Goutsmedt 2021).

²⁸ Until the end, Schultze defended the idea that the bill granted equal treatment to inflation and policy. In a memo, he defended that the bill “does not subordinate price stability to reaching full employment—both of these goals

bill without alienating the left-wing of the Democratic Party, with which he had some difficulty in maintaining sound relations. Thus, intense negotiations engaged again in spring 1977 to find an agreement on a new draft.

In a letter to Hawkins in May, 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”.²⁹ He argued that the current bill did not reflect sufficiently the administration’s commitment against inflation. Besides, Schultze claimed 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 before reaching full employment, and so it deprived the government of any flexibility in the macroeconomic management of the U.S. economy.

However, Humphrey and Hawkins announced that they would oppose any formulation that would open the door to accepting the trade-off. They stuck to a formulation banishing any policy against inflation which would imply high or rising unemployment: “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 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”.³⁰ Considering Humphrey and Hawkins’s 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

are given equal priority”. Notes, Schultze, August 3 1978, Humphrey-Hawkins Bill [2], Schultze’s files paper, Box 36, Records of the Council of Economic Adviser, JLC.

²⁹ Notes, Schultze, Draft for the Economic Policy Group on H.R. 50, May 23 1977, Humphrey-Hawkins Bill [8], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC.

³⁰ Memo, Gramley to Schultze, September 26 1977, Humphrey-Hawkins Bill [7], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC.

shall be given to methods which are mutually reinforcing”.³¹ The blockage remained for months until Humphrey and Hawkins’s team eventually accepted the administration formulation. However, if they surrendered, it was because they obtained what they wanted on another stumbling block: the numerical target for the unemployment rate.

Whereas the version agreed to in the run-up to the 1976 election had defined the target to be 3 percent of unemployment for adults and 4 percent overall, Carter’s administration tried to backtrack. Indeed, they wanted the government to have more flexibility in its policies, and feared the inflationary risks implied by such targets.³² Schultze defended the case to Hawkins in his 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.³³ He proposed a 4.75 percent “interim target” in four years.

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 “Non-Accelerating Inflation Rate of Unemployment” (NAIRU), a label modeled after the coinage of Franco Modigliani and Lucas Papademos (1975).³⁴ NAIRU designated the level of unemployment under which inflation would increase quickly.³⁵ Johnson found that on average,

³¹ Memo, Gramley to Schultze, September 26 1977.

³² 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 Advisers, JLC.

³³ Notes, Schultze, Draft for the Economic Policy Group on H.R. 50, May 23 1977.

³⁴ Memo, Johnson to Schultze, October 13 1977, Humphrey-Hawkins Bill [11], Schultze’s files paper, Box 37, Records of the Council of Economic Advisers, JLC. Johnson received his Ph.D. from the University of California, Berkeley in 1966. During his time in the CEA, he worked with Arthur Blakemore, another CEA staff member, on an article, published in the *American Economic Journal*, about the effect of employment policy on the “rate of unemployment consistent with nonaccelerating inflation” (Johnson and Blakemore, 1979).

³⁵ Even if it was later associated to Friedman’s natural rate of unemployment, Modigliani and Papademos considered both situation, that is Friedman’s case—inflation increases indefinitely under the equilibrium rate—

NAIRU was estimated around 5.5 percent in the academic literature.³⁶ The CEA thus used the numerous estimations of the Phillips curve and NAIRU published in academic journals—often in the *Brookings Papers*, where many economists close to the Keynesian consensus were publishing—to argue that a 4 percent rate of unemployment was unattainable for 1982 or 1983.³⁷ Here again, monetarism and Friedman’s natural rate of unemployment were not decisive to justify this position against the 4 percent target.

Even if political strategy 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. However, it turned out to be impossible for Humphrey and Hawkins to abandon what had become one of the major points of their bill. However, Carter fearing to alienate the left-wing of the Democratic Party and the civil-rights groups on the one hand, and, on the other hand, the supporters of the Humphrey-Hawkins bill wanting to assure strong support to the bill by the administration and the whole Democratic Party, both camps reached a pragmatic agreement. 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.

and an inflation rate that would accelerate only until a certain level, depending on how much actual unemployment is under the equilibrium rate—in this case it would exist a long-run trade-off.

³⁶ Johnson cited Modigliani and Papademos (1975) who estimated NAIRU at 5,7%, Hall (1974) and Wachter (1976) at 5,5%. However, Hall talked of an “equilibrium rate of unemployment”, and not a NAIRU, and Wachter used the term “full-employment unemployment rate”.

³⁷ However, the issue of the inflationary rate of unemployment did not go without debates within the administration itself. Ray Marshall, the Labor Secretary, was actually more enthusiast—or at least less afraid—about the bill than Lance or Schultze (Pickens 2009, 204). The Labor Department, relying on Donald Nichols’ report (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, JLC), argued that NAIRU would be 4.3 percent in 1984. In his report, Nichols, who received his PhD in Yale under the supervision of Tobin, viewed the increase of people being counted outside of the active population as a good thing, as it would decrease the non-inflationary rate of unemployment—the supply of labor being reduced. We are thus far from the inclusive view of Gross and Hawkins defended in the UCLA symposium.

Overall, Carter's administration succeeded in reducing the ambitions of the projected law. Even if they made concessions on the unemployment target, the role of the Federal government as employer of last resort was eliminated and the rhetoric on planning and balanced growth partially disappeared.³⁸ Nevertheless, the highest hurdle remained – namely, to pass the bill in face of Republican opposition.

3. The Economists' Fear of an Inflationary Law

An essential part of the process that ended in the enactment of the Humphrey-Hawkins bill was the hearings and testimonies before Congress. Many economists were asked for an opinion in two rounds, one on an early draft in 1976, the other on the revised bill in the spring of 1978. Economists also debated the bill in the press. Most seemed unconvinced, even if some supported the bill spirit.

As in the negotiations between Carter's and the Humphrey-Hawkins's team, 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. During hearings for the 30th anniversary of the Employment Act, Robert Lekachman, who contributed to some FEAC pamphlets, 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 for the Humphrey-Hawkins bill if its wording was not strengthened. Lekachman also attacked Paul McCracken, formerly Nixon's CEA chairman, for defending the "Phillips Curve doctrine." Believing in the trade-

³⁸ The 1976 version of the proposed law required that the President developed a "Full-Employment and Balanced Growth Plan". The Administration opposed this requirement that would create a "costly mechanism" and would also 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, JLC). This requirement was removed from the new version.

off, he argued, led to bad results both for inflation and for unemployment.³⁹ Byron Johnson, an economist from the University of Colorado and a former Democrat Representative, also argued that “economists are doing humanity a great dis-service by hiding behind the “Phillips Curve” and thus supporting even tacitly the proposition that higher unemployment is needed to stop inflation.”⁴⁰

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, considered that frictional unemployment was well above 3 percent, and targeting such a level would generate substantial increases in wages.⁴¹ Walter Heller also mentioned the trade-off in his testimony and Keyserling expressed his amazement as he considered the period when Heller was the CEA Chairman as a period of a positive correlation between inflation and unemployment.⁴² John Galbraith raised similar worries to those of Heller in another round of hearings in May 1976. He saw the 3 percent rate of unemployment for adults as too low and likely to “be disastrously inflationary.”⁴³ He thus advised 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.”⁴⁴

³⁹ JEC. *Thirtieth Anniversary of the Employment Act of 1946*. 106-108.

⁴⁰ 192.

⁴¹ 202.

⁴² 302.

⁴³ Committee on Banking, Housing, and Urban Affairs United States Senate. *Hearings Second Session on S.50*. 94th Congress. 2nd Session. Washington: US Government Printing Office, May 20, 21 and 25, 1976, 86.

⁴⁴ Committee on Banking. *Hearings Second Session on S.50*, 88.

Robert Hall also supported to a certain extent the bill that he saw as “a move in the right direction.”⁴⁵ However, he estimated that the 3 percent target was unattainable except for short periods in which inflation would rise. Hall adopted an 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 an expansionary policy was necessary at that time, but fixing such a low target would lead to inflation and “disillusionment”.⁴⁶ He finally regarded 5.8% as a more appropriate target, many people being unemployed only for a short period at this rate.⁴⁷

In the second round of hearings in 1978, Klein also raised concerns about the inflationary consequences of the bill but still defended it. He blamed economists and politicians for having abandoned in the recent past a full employment goal at 4%. Klein advocated again structural policies to reach this goal but explained that, because the effects of such policies could be long to appear, it would be difficult to attain 4 percent within 5 years.⁴⁸

One crucial piece of work in the Humphrey-Hawkins bill evaluation was the report of the Congressional Budget Office. The CBO was instrumental in the 1970s for importing the economic style of reasoning in Congress, “as well as for tying together academic economics and the world of policy” (Berman 2022, chap. 3). Congress created the CBO in 1974, following conflicts with Nixon’s Administration, to establish its independence by producing reports and data on budgetary matters. Besides cost estimations of legislation, the CBO would conduct autonomous economic analyses of the likely effects of policies with the use of econometric

⁴⁵ Subcommittee on Manpower, Compensation and Health and Safety of the Committee on Education and Labor, House of Representatives. *Full Employment and Balanced Growth Act of 1976*. 94th Congress, second session. Washington: US Government Printing Office, April 2, 6, 8, 9, 12 and 14, 1976. 243.

⁴⁶ Subcommittee on Manpower. *Full Employment and Balanced Growth Act of 1976*. 243.

⁴⁷ Subcommittee on Manpower. *Full Employment and Balanced Growth Act of 1976*. 262.

⁴⁸ Committee on Human Resources and Committee on Banking, Housing, and Urban Affairs, United State Senates, *Full Employment and Balanced Growth Act of 1978 joint hearing*. 14.

models. Its first director, Alice Rivlin, an economist with a PhD from Harvard and affiliated to the Brookings, hired several economists with a PhD, and the CBO quickly became an institution “centered on the economist” (24-25).

In 1976, CBO’s economic staff prepared a report on the Humphrey-Hawkins bill, presented by Rivlin before the Senate Committee on Banking, Housing and Urban Affairs. The report relied on the simulations of the CBO’s “simplified wage-price model”, which used a Phillips curve to measure the consequences in terms of inflation of different policies (Congressional Budget Office, 1976, 9–11; Miller and Rolnick, 1980, 177). The report estimated how much inflation would increase if unemployment reached 4.5 percent and 3.5 percent. They argue that, considering the inflationary risks of the bill, the issue for policymakers was to improve the trade-off by structural policies. Consequently, “as a long-range goal ... 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”.⁴⁹ In other words, four or five years were too short to fulfil the unemployment target without substantial inflationary consequences.

Rivlin declared, “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” (I highlight).⁵⁰ For Rivlin, “the bill should be more balanced” (81).⁵¹ In other hearings, Hawkins criticized Rivlin’s defense of the trade-off. Rivlin answered that “inflation ... is a problem that everyone ought to think about” and that “economists really have to be in all honesty quite cautious and

⁴⁹ Committee on Banking. *Hearings Second Session on S.50*. 169.

⁵⁰ Committee on Banking. *Hearings Second Session on S.50*. 68.

⁵¹ Answering Senator Proxmire’s questions, Rivlin defended the “Phillips Curve” that should not be discarded because of its statistical disappearance in the last years. She explained this disappearance by external shocks which had raised inflation but it did not mean that “the general relationship between accelerating inflation and tight labor markets has suddenly gone away” (Committee on Banking. *Hearings Second Session on S.50*. 81).

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”.⁵²

The trade-off remained crucial for most macroeconomists that testified between 1976 and 1978 and who had the Phillips curve framework in mind. Such framing led them to warn politicians against the inflationary risks of the bill, even if many supported it. However, the trade-off issue appeared also crucial for think tanks and business organizations that opposed the bill and raised similar arguments to those of macroeconomists or the CEA.

Murray Weidenbaum argued in *Challenge* that the supporters of the bill did not understand the trade-off between inflation and unemployment.⁵³ 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 to avoid high inflation damaging growth. The mere consequence of the bill would be to push for new expansionary policies that would create inflation, which in turn would force the government to turn to disinflation policies that would increase unemployment.

In the 1970s, the business community 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

⁵² Subcommittee on Manpower. *Full Employment and Balanced Growth Act of 1976*. 235.

⁵³ Weidenbaum worked for the Center for the Study of American Business, a think tank challenging many government regulations (Blyth, 2002, 155-160). He would become the chairman of Ronald Reagan’s CEA in 1981.

Humphrey-Hawkins bill based on its inflationary costs. They released a press statement on September 1977 to state their case against the bill.⁵⁴

The Business Roundtable, along with the U.S. Chamber of Commerce and the National Association of Manufacturers (NAM)—the “Big Three” of business activism” (Waterhouse, 2013, 7)—testified about the bill before the Senate committees in 1978. The three organizations insisted on the dubious feasibility of the 4 percent unemployment target and the inflationary risks due to the trade-off. While Jack Carlson for the Chamber of Commerce referred to Schultze’s, Rivlin’s and Hall’s 1976 hearings, the NAM presented a report on the estimation of NAIRU that relied on the same academic references than the CEA and Johnson’s memo (see Section 2.2).⁵⁵ The strategy of business organizations was thus to rely on the trade-off and the CEA’s doubts about the bill to argue against it.

The academic economists who displayed the most vehement opposition to the bill during the congressional hearings did not rely on the trade-off argument. Instead, they offered general, non-technical arguments against government interventionism, stressing the limits of economic expertise. Many argued that the bill would expand the role of government in the economy, and thus worsened the current stagflation that they saw as the consequence of government’s intervention. In 1976, with a somewhat Hayekian style, Alan Greenspan, 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

⁵⁴ Memo, Eizenstat to Carp and Spring, October 6 1977, Humphrey-Hawkins [Bill][O/A 6345][4], Eizenstat, Box 221, Records of Domestic Policy Staff, JLC.

⁵⁵ Committee on Banking, Housing, and Urban Affairs United States Senate. *Full Employment and Balanced Growth Act of 1978*. 48-50; 248-250.

fairly precisely the path that must be followed to achieve and then maintain full employment. ... 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 ... is so complex that any model ... 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.50.⁵⁶

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 (UCLA) also opposed the bill: “it incorporates bad economics, bad history, bad psychology, and... even bad politics” (103). As Greenspan, he highlighted the limits of economics: “we simply do not know enough to pursue effective coordinated discretionary policy” (103). For Allen, the issue was not to set 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). James Buchanan attacked 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 for policy.⁵⁷

⁵⁶ Committee on Banking, Housing, and Urban Affairs United States Senate. *Hearings Second Session on S.50. 32. Amendment No. 1703 to S.50.* 95th Congress. 2nd Session. Washington: US Government Printing Office, May 8,9 and 10, 1978. 16-17.

⁵⁷ Similar arguments are 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). In his regular column in *Newsweek*, Milton Friedman too 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).

If this radical opposition raised arguments that fitted with many Republicans' state of mind, the Republican Party chose another strategy to reduce the ambitions of the bill: Republican senators defended the integration of a numerical target for inflation.

4. The battle in Congress

After the supporters of the Humphrey-Hawkins bill and Carter's Administration reached an agreement on a new version, the bill had to be voted in Congress. The Democratic Party had a large majority in the 95th Congress, both in the House with 292 representatives against 143 for the Republican Party and in the Senate with 61 Democrats against 38 Republicans.⁵⁸ Nonetheless, this majority was far from united and Carter's initial opposition to the bill and his relative economic conservatism appealed to many recently elected Democratic Legislators.⁵⁹ These internal oppositions would favor the success of the Republicans' strategy.

Republican representatives proposed amendments for adding a 3% inflation rate goal for 1983. The amendment was rejected and the House approved the bill 257 votes to 152 on March 16, 1978 (Schantz and Schmidt 1979, 372). However, the issue of a numerical inflation target would crystallize the debates in the Senate.

The path of the bill appeared more tortuous there. The bill was jointly referred by the Committee on Human Resources and the Committee on Banking, Housing and Urban Affairs. The Human Resources Committee reported the bill without major changes on April. However, the Banking Committee added substantial amendments before approving the bill on June (373).

⁵⁸ See <https://history.house.gov/Institution/Party-Divisions/Party-Divisions/> and <https://www.senate.gov/history/partydiv.htm> (accessed November 28, 2021).

⁵⁹ These new legislators were younger and reliant on suburban electors, and were not as convinced by the New Deal policies as their predecessors (Geismer 2014). One of them, Senator Gary Hart from Colorado, even claimed: "We're not bunch of little Hubert Humphreys" (Andelic 2019, 87).

The amendments set forth a goal of 0% of inflation, a balanced budget for 1983, and a limit of federal spending to 20% of the GDP.

Senator Proxmire introduced another amendment—the one which would be eventually adopted—setting a 3% inflation goal for 1983 and a 0% goal for 1988. In the hearings he organized to discuss this amendment, Proxmire justified his amendment in the face of Nathan and Keyserling’s opposition: “In my amendment . . . , I directly, explicitly confront that tradeoff problem and I think no matter what we put in Humphrey-Hawkins, you will have that tradeoff concern”.⁶⁰ He referred to George Perry of the Brookings Institution, “an eminent economist” and “no automatic knee-jerk reactionary” (104), who had just published an analysis in the *New York Times* raising concerns about the recent wage inflation following the recent drop in unemployment.⁶¹

These amendments were unacceptable to Humphrey and Hawkins, but also to the Carter administration, which did not want new constraints in addition to the unemployment target. The opposition thus organized against the numerical inflation target. For the Humphrey-Hawkins bill supporters, as for the Carter administration, recent inflation stemmed from supply shocks. The 1973 oil shock and the bad harvests explained most of the rise in inflation. Such supply-induced inflation “could not have been avoided by attempting to lift the rate of unemployment to much closer to the rate of price inflation”.⁶² In other words, many factors could increase inflation without having any link to unemployment. Fixing a numerical goal for inflation similarly to the goal for unemployment would just limit the fulfilment of the latter.⁶³

⁶⁰ Committee on Banking, Housing, and Urban Affairs United States Senate. *Full Employment and Balanced Growth Act of 1978*. 103.

⁶¹ Perry published regularly in the *Brookings Papers* about the Phillips curve and wage inflation issues, and was a fervent opponent to monetarism and new classical economics (e.g. Perry, 1978).

⁶² Notes, “Arguments against including a numerical goal and time table for inflation in H.R. 50”, Schultze, undated, Humphrey-Hawkins Bill [1], Schultze’s files paper, Box 36, Records of the Council of Economic Adviser, JLC.

⁶³ Notes, “Problems with the senate version of Humphrey-Hawkins”, Schultze, undated, Humphrey-Hawkins Bill [5], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC

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 an equal footing. Whereas unemployment “involves human and moral considerations”, inflation rates are just “means toward other ultimate objectives”.⁶⁴ 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, Okun, and Tobin—sent a letter to senators arguing against the 0 percent numerical goal for inflation, proposed by the Senate Banking Committee. They considered perfectly stable prices as damaging for the economy, in comparison to “a moderately rising price level”.⁶⁵ 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 view—the unemployment goal is superior to the inflation goal—as well as with the CEA rationale for opposing a numerical inflation goal—inflation came mostly from factors which had nothing to do with a tight labor market. In any case, despite tensions in the negotiations of the bill the preceding year, both camps seemed to join forces against the amendment.

On the other side, no economists seemed to offer any 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.⁶⁶ Allen, for instance, refused to support an inflation goal as he considered that the whole bill was mistaking and setting goal was not the solution (108). In the long list of economists whom Proxmire had

⁶⁴ Notes, “Arguments against including a numerical goal and time table for inflation in H.R. 50”.

⁶⁵ Letter, Schultze to Gould, September 18 1978, Humphrey-Hawkins Bill [5], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC.

⁶⁶ Committee on Banking. *Hearings Second Session on S.50*.

contacted for giving their opinion on that matter, no one clearly supported the numerical inflation goal. In the second round of hearings before the Banking Committee in 1978, Andrew Brimmer, a former member of the Board of Governors of the Fed, expressed his doubts about fixing numerical goal.⁶⁷ Nevertheless, he agreed with a numerical inflation target, as such a target for unemployment was already in the bill.

The lack of support by economists did not prevent the amendment from passing. Indeed, this amendment constituted a way for congressional Republicans to reduce the likely impact of the bill. With the midterm elections coming, Senate Republications threatened the Democratic majority with a filibuster, forcing supporters of the bill to back off on some amendments.⁶⁸ A conference committee was appointed 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's 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 prevented a filibuster and the bill was voted in Congress on October 15, 1978.

Carter signed the Full Employment and Balanced Growth Act on October 27, 1978. It stated that the president should submit each year an economic report setting forth "the current and foreseeable trends" in the levels of different macroeconomic variables as well as "annual numerical goals for employment and unemployment, production, real income, productivity, and prices" for the three successive calendar years.⁶⁹ This economic report should also present

⁶⁷ Committee on Banking. *Full Employment and Balanced Growth Act of 1978*.

⁶⁸ 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.

⁶⁹ Congress.gov. "H.R.50 - 95th Congress (1977-1978)" October 27, 1978. <https://www.congress.gov/bill/95th-congress/house-bill/50>.

“a program” for reaching an unemployment rate of 4 percent overall (3 percent for workers above 20) as soon as 1983 and a 3 percent inflation goal (0 percent in 1988).⁷⁰ However, more flexibility was allowed than in the original formulations: 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 burying of the Full Employment goal

Oil prices began to rise in late 1978 due to tensions in 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 U.S. Consequently, the administration saw inflation as the main economic threat and inflation became the priority in the first months of 1979.

The FEAC and Keyserling thus attacked the *President’s Economic Report* for 1979. The report, they argued, was not sufficiently ambitious for unemployment and hinged upon “the discredited and legislatively prohibited ‘trade-off’” (FEAC, 1979, 25). Hawkins claimed that the bill was “being violated” in *Challenge* (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 Schultze from May 9, Keyserling accused the Administration to have increased unemployment in early 1979 to reduce inflation, what ran against the Act.⁷¹ 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 that the *Economic Report* violated the Act in ten different ways.

⁷⁰ If after 1983 unemployment raised above the targets, the next economic report should “include ... the interim numerical goal of reducing unemployment to not more than the levels specified”.

⁷¹ Letter, Keyserling to Schultze, May 9 1979, Humphrey-Hawkins Bill [5], Schultze’s files paper, Box 37, Records of the Council of Economic Adviser, JLC.

It was Lyle Gramley, and not Schultze, who answered on behalf of the CEA to Keyserling.⁷² Already during the negotiations, he argued, it appeared obvious that Keyserling's views and those of the administration "on the sources of inflation and the difficulties of achieving low unemployment and inflation were different". He argued, "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, Schultze convinced Carter to postpone the strict application of the Act. 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 increase" 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.

This decision led to a new conflict with the left-wing of the Democratic Party, weakened Carter for the 1980 campaign to come (Collins, 2002, 171), and undermined the Humphrey-Hawkins Act.

6. Concluding Remarks

The adoption of a weakened version of the Humphrey-Hawkins bill and its small influence in the years following its enactment is the result of many factors. The economic context, with inflation becoming a major political problem, the preferences and strategic choices of Carter, the divisions of the Democratic Party, as well as the rise of a powerful

⁷² Letter, Gramley to Keyserling, May 17 1979, Briefing Book: Humphrey-Hawkins [Bill] Testimony, 9/20/80, Schultze's Briefing book files, Box 122, Records of the Council of Economic Adviser, JLC.

opposition through the business community, all played a role in the fate of the bill. Nonetheless, economic expertise and the Phillips curve concept also contributed to shaping the debates.

If economics played a role in the final form of the Humphrey-Hawkins bill, that was not because the “doctrine of monetarism” has eventually undermined “the fading orthodoxy of Keynes” (Greider, 1989, 97). In the negotiations with Humphrey and Hawkins’s team, Carter’s administration relied on estimations of the Phillips curve and NAIRU by academic economists, many published in the *Brookings Papers*. Many economists involved in the CEA, as well as the ones cited by the CEA’s publications and memos, were close to the Brookings institution.⁷³ Klein, Gramley, Modigliani, Perry, or Schultze were all close to this ‘New Economics’ which developed around the Democratic Party in the 1960s, and they could all be seen as ‘Keynesians’. They all believed in the existence of a trade-off between inflation and unemployment, without endorsing Friedman’s accelerationist story.⁷⁴ Thus, that was the Phillips curve which shaped the way the administration discussed the Humphrey-Hawkins bill and tried to limit its ambitions

In terms of the history of economic ideas, this article goes counter the standard narrative that considers that the Phillips curve was invoked in the 1960s to encourage inflationary policies. The debates about the Humphrey-Hawkins bill rather show that, even before the generalization of its accelerationist version, the Phillips curve was used in the 1970s as a device to warn politicians and the public against the inflationary risks of reducing unemployment too low and too quickly.

⁷³ The Brookings institution had developed many ties to the Democratic Party and was thus regarded at this time as a partisan institution (Bernstein, 2001, 42).

⁷⁴ Some Keynesians eventually endorsed it in the 1970s, without abandoning their defense of activist stabilization policies (Goutsmedt and Rubin, 2018).

In terms of the study of economic expertise, this article shows how a group of economists relying on the Phillips curve and close to the Democratic Party was instrumental in shaping the debates about the bill—and more instrumental here than the usual free-market thinkers usually invoked in the literature on neoliberalism (Fourcade-Gourinchas and Babb 2002; Prasad 2006; Burgin 2012)—as they could invoke the ‘scientificity’ of their approach and the ‘consensus’ of economists, in comparison to the economic experts behind Humphrey and Hawkins who, in general, did not have the same academic pedigree. The rationalization and scientization of economic policies promoted by the CEA or the CBO clashed with the supporters of the bill who appealed to a moral view on economic problems, notably on the social consequences of unemployment. While the CEA or many economists involved in the hearings referred to the “Phillips curve” and academic articles using this framework, the supporters of the bill rather talked vaguely of a “trade-off” and what they saw as its direct moral consequence: encouraging policymakers to look at the unemployment rate as a mere abstract figure they could manipulate depending on the inflation rate.

Unintentionally, the group of economists relying on the Phillips curve gave arguments to the business organizations, which strongly opposed the bill, and considered that the trade-off issue was the best way to attack the Humphrey-Hawkins project. The trade-off also constituted motivation for the Republicans’ amendments: it served to legitimate putting inflation and unemployment on an equal footing, and thus to propose a numerical inflation target, next to the unemployment target.

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