

# THE FULL EMPLOYMENT MANDATE OF THE FEDERAL RESERVE

Its Origins and Importance



## ACKNOWLEDGMENTS

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# The Full Employment Mandate of the Federal Reserve: Its Origins and Importance

## Executive Summary

As we approach the 40th anniversary of the landmark Humphrey-Hawkins Act, this report underscores how the Federal Reserve's full employment mandate has made the Fed more accountable to working people. The report first traces the historical origins of the full employment mandate and highlights the pivotal but little-known role racial justice activists played in its creation. From the 1930's and through the rise of the civil rights movement, racial justice activists including Coretta Scott King, called for a coordinated federal effort to attain full employment. They envisioned an economy where every person who seeks employment can secure a job. King joined Congressional leaders Augustus Hawkins and Hubert Humphrey in eventually passing the landmark 1978 Full Employment and Balanced Growth Act (Humphrey-Hawkins) which legally required the Fed to pursue maximum employment. The report then turns to Federal Reserve monetary policy in the 1990's which offers an instructive model of what a full employment economy can look like. This real-world case study from our recent history shows that when labor markets tighten, workers begin to see broad-based wage gains, and persistent economic inequalities are reduced. Finally, the report underscores the continued importance of the full employment mandate today while providing an overview of proposed policies to eliminate or significantly curtail its effectiveness. In light of these findings, this report calls on Federal Reserve policymakers to use all tools at their disposal to fully realize the Fed's full employment mandate. Members of Congress must publicly affirm the importance of full employment while committing to reject any efforts to weaken or eliminate the full employment mandate. In particular, the Senate must reject nominees to the Board of Governors who have called for the narrowing of the Fed's mandate or who support policies that would undermine the Fed's ability to pursue full employment.



## Key Findings

Section I traces the historical origins of the full employment mandate, detailing the racial justice impetus behind the call for a full employment economy:

- During the 1930's, and through the rise of the civil rights movement of the 1950's and 60's, racial justice activists called for a coordinated federal effort to attain full employment. This was borne out of the recognition that economic recessions cause deep inequities and magnify already-existing labor market disparities. African American workers recognized structural reasons lurked behind the fact that they were twice as likely to be out of work.
- Civil rights leader Coretta Scott King played a pivotal, but not widely recognized, role in advocating for full employment. As a founder of the National Committee for Full Employment/ Full Employment Action Council, King joined Congressional leaders Augustus Hawkins and Hubert Humphrey in calling for and eventually passing the landmark 1978 Full Employment and Balanced Growth Act (Humphrey-Hawkins Act).

Section II looks to the Fed's policies in the 1990's, which offers an instructive model for what a full employment economy looks like and illustrates the importance of the mandate:

- If the Fed did not have a full employment mandate during this period, and was singularly focused on ensuring price stability, it would have likely raised interest rates in response to an unwarranted concern about inflation.
- Despite the conventional wisdom at the time that unemployment below 6.0 percent would spark inflation, the Fed resisted calls to raise interest rates and explored the bounds of its full employment mandate.
- These low unemployment rates of the 1990's had many positive dividends, including higher wages, higher output, and lower rates of inequality in the economy. This real-world case study shows that when labor markets tighten, workers begin to see broad-based wage gains and persistent economic inequalities are reduced.

Section III underscores the continued importance of the full employment mandate today while providing an overview of proposed policies to eliminate or significantly curtail the effectiveness of the Fed's dual mandate:

- In recent years, the full employment mandate has increasingly been under attack. Some Members of Congress and prominent members of the Trump administration have advocated for the outright elimination of the full employment mandate and have introduced legislation to that effect.
  - Congress is also considering legislation that would constrain the Fed's ability to achieve its full employment mandate. In particular, House Republicans have unified behind legislation requiring the Fed to adopt strict, rules-based monetary policy, specifically the so-called "Taylor Rule."

- If the Fed had been required to follow a Taylor Rule in the wake of the Great Recession, it would have led to constrained growth and smaller job gains for working Americans.
- Based on the Federal Open Market Committee voting records, the 12 Federal Reserve Bank presidents have traditionally been more conservative and prioritized raising interest rates over ensuring full employment. Any proposed policies that expand the Reserve Bank presidents' power would likely diminish the full employment goal.

## Recommendations

In light of these findings, this report calls on:

- Federal Reserve policymakers to use all tools at their disposal to fully realize the Fed's full employment mandate.
- Members of Congress to publicly affirm the importance of full employment and commit to reject any efforts to weaken or eliminate the full employment mandate.
- Members of Congress to only consider nominees who are committed to the full employment mandate as the Trump administration begins nominating Federal Reserve Board of Governors appointees. Moreover, Members of Congress should seek public commitments to uphold the full employment mandate from prospective Board of Governor candidates during confirmation hearings.
- The Senate to reject nominees to the Board of Governors who have called for the narrowing of the Fed's mandate or who support policies that would undermine the Fed's ability to pursue full employment.



Fed Up activists in Jackson Hole, Wyoming calling for Full Employment during the Fed's Annual conference, August 25, 2015.

## Introduction

Since its creation in 1913, the Federal Reserve and its monetary policies have had a substantial impact on overall economic conditions and the labor market. With the passage of the 1978 Full Employment and Balanced Growth Act (also referred to as the Humphrey-Hawkins Act), the Federal Reserve was specifically required to “promote full employment and production, increased real income, balanced growth...adequate productivity growth, proper attention to national priorities, achievement of an improved trade balance [...] and reasonable price stability.”<sup>1</sup> Humphrey-Hawkins clarified the role that monetary policy can play in improving the employment picture and required the Fed to weigh the impact that its interest rate policy would have on the job market. The law also created a mechanism for the Fed to communicate and collaborate with elected lawmakers, and explicitly established the Fed as a federal government institution with a mission to serve the public interest by promoting full employment.<sup>2</sup>

As we approach the 40th anniversary of the Humphrey-Hawkins Act, this report underscores how the Fed’s full employment mandate has achieved its purpose of making the Fed more accountable to the interests of working people. The full employment mandate, when taken seriously by Federal Reserve officials and the Congressional representatives they report to, strengthens the labor market and ensures that more people secure gainful employment. This report looks back to offer important historical insights into the formation of the full employment mandate as well as case studies on instances when Fed policy decisively supported and benefitted from the full employment mandate. These surface important insights to inform the Fed’s approach to the full employment mandate in the coming years. In particular, the report highlights 1) the important but largely forgotten contributions of the civil rights movement in two landmark pieces of legislation establishing full employment as a government imperative (Employment Act of 1946 and the Humphrey-Hawkins Act of 1978), and the ways in which full employment remains a vital objective for communities of color 2) offers a case study from the 1990’s when policymakers at the Fed prioritized their full employment mandate, yielding new insights into what a full employment economy truly looks like, and 3) examines the full employment mandate in our current economic and political climate, cautioning against proposed ideas that would threaten full employment and offering proposed reforms the Fed should adopt to fully realize the vision laid out in the Humphrey-Hawkins Act.

## Section I: The Civil Rights Movement and the Push for Full Employment

One of the most important goals of the civil rights movement was the quest for full employment. Since the 1930’s and 40’s, and through the rise of the modern civil rights movement that would see some of its most significant victories in the 1950’s and 60’s, civil rights activists have pointed out the deep disparities that result from economic recessions and how these magnified already-existing labor market inequities. Civil rights activists called for a coordinated federal effort to attain full employment as the means of achieving a more fair and just economy. These efforts helped create changes to federal law via the Employment Act of 1946 and Humphrey-Hawkins Act of 1978. The thrust of both laws was greater participation in monetary and fiscal policy decisions by the American people, and greater collaboration by economic institutions, including the Federal Reserve, to represent the public interest by achieving full employment.



## The Employment Act of 1946

The call for full employment—an economy where every person who seeks employment can secure a job—arose as part of broader transnational stirrings in the wake of the Depression and the winding down of World War II. As many looked out towards the end of the war, it was unclear whether a return to a peacetime economy would also return all working people, especially women and communities of color, to the precarious economic conditions they experienced before. The war had also demonstrated that, with political will, the government had a host of options available in manufacturing goods and services. The impulse to maintain a rising standard of living for the majority of working people crystallized as President Roosevelt’s famed 1941 call for “freedom from want.” It found later expression in Roosevelt’s 1944 State of the Union Address when he called for an “Economic Bill of Rights,” which affirmed, “the right to a useful and remunerative job [and...] the right to earn enough to provide adequate food and clothing and recreation.”<sup>3</sup> It was similarly endorsed in the 1945 Charter of the United Nations, which stated, that “higher standards of living, full employment, and conditions of economic and social progress and development,” were necessary for peace and international stability.<sup>4</sup> Black freedom movement organizers and working-class organizations like the Congress of Industrial Organizations (CIO) put full employment as the key issue on their agenda. Willard Townsend, a leading Black trade unionist, explained many of the key issues in a July 1944 speech at Fisk University:

“Will peace destroy the gains toward full employment of the Negro? What will be his status at the end of hostilities? A depressed economy has always meant but one thing for the Negro worker—widespread unemployment. If we have an economy of full employment, it will establish a framework favorable to the continuing occupational advancement of the black worker; and to the removal of white worker’s fear of him as economic rival.”<sup>5</sup>

African American workers experienced racist violence and “hate strikes” as they tried to advance in occupational status. Full employment intended to ensure that returning Black soldiers would not leave the threat of violence at the hands of the Axis Powers only to encounter violence at home.

Similarly, the CIO worried what the conclusion of the war would mean for all the women who had newly entered the waged workforce. They explained this in their 1944 *Women’s Guide to Political Action*: “If jobs become so scarce that women must give up employment, jobs will also be scarce for men. We will be on the road to another depression—and another war.”<sup>6</sup> Full employment was one of the most necessary tools to mollify the impacts of racial and gender-based discrimination.

In the mid-1940’s, ideas about full employment enjoyed broad consensus. It was not just activists that argued for full employment. The Department of Agriculture issued pamphlets with titles like “What Peace Can Mean to American Farmers: Maintenance of Full Employment.” While the National Resources Planning Board produced the pamphlet “After the War—Full Employment.”<sup>7</sup> Written by influential Harvard economist Alvin Hansen (who also served as a Special Economic Advisor to the Federal Reserve) the 1942 pamphlet received suggestions from members of the Federal Reserve. Similarly, Chairman of the New York Fed, Beardsley Ruml, was one of two key advisors for the Planning Board. The pamphlet declared on its opening page the importance of full employment: “A positive program of post-war economic expansion and full employment, boldly conceived and vigorously pursued, is imperative. Democracies, if they are going to lead the world out of chaos and insecurity, must first and foremost offer their people opportunity, employment, and a rising standard



of living.”<sup>8</sup> The average American was convinced as well. When *Fortune* magazine ran a poll in 1944 that asked “Do you think the Federal Government should provide jobs for everyone able and willing to work, but who cannot get a job in private employment?” 67.7 percent of respondents said yes.<sup>9</sup> For many constituencies, from diverse social and economic positions, full employment was the key issue on the post-war agenda.

The wide-ranging social consensus led to the introduction of the Full Employment Bill of 1945, which soon ran up against the political and racial constraints of Jim Crow America. The 1945 bill emphasized that “all Americans able to work and seeking work have the right to useful, remunerative, regular and full-time employment. And it is the policy of the United States to assure the existence at all times of sufficient employment opportunities to enable all Americans [...] to freely exercise this right.”<sup>10</sup> The bill passed the Senate 71-10 before being met with stern opposition in the House, where it ultimately faltered as a result of Midwestern Republicans and Southern Democrats.

The power of these politicians such as Carter Manasco and William Whittington to derail the proposed Full Employment Bill of 1945 was premised on Jim Crow voting exclusions that had enhanced the power of the former Confederacy in Congress. Whittington, a Mississippi Congressman, exemplified how the anti-democratic accumulations of wealth and power could undermine full employment proposals. Whittington’s social power emanated from his membership in the Delta Council—the aristocratic political organization comprised of leading cotton growers and businesspeople of the region; and his political power rested on the foundation of white supremacy. A Jim Crow electorate put him in office

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without opposition, and with a mere 4,000 votes in a district with 435,000 people. Similarly, Manasco, Chair of the House Expenditures Committee, hailed from Alabama’s Seventh District. Elections in his district often brought out less than 10 percent of the population. He presided over the home of Coretta Scott King’s family in Perry County as well as many of the pivotal sites of the struggle for voting rights, including Selma and Birmingham. Seeking to maintain the racial and economic structure of his district, Manasco opposed the bill on the grounds that farm workers might leave in search of more gainful employment.<sup>11</sup> The Full Employment Bill had potential to change the prevailing system of racial and labor relations premised on the subordination of African Americans. Consequently, the bill faced opposition from business and farm lobbies, who sought to replace the bill with one that was less threatening.<sup>12</sup>

As a result, there were significant differences between the 1945 Full Employment bill and the eventual 1946 Employment Act. Proposals that established an affirmative right to full-time employment and planning mechanisms to achieve it were removed.<sup>13</sup> Nevertheless, in spite of the ways that the 1945 bill had its most transformative elements withdrawn, the consensus for full employment was strong enough to pass the 1946 Employment Act. The law sought to establish more coherent economic planning. Thus, it created Council of Economic Advisors (CEA) and Congress’s Joint Economic Committee (JEC) to support the federal government’s responsibility to ensure “maximum employment”—a compromise in order to avoid specific prescriptions for full employment.<sup>14</sup> Notwithstanding some shortcomings, the Act was tremendously significant for reconceptualizing the responsibilities of the federal government. It has rightfully been called the

“Magna Carta of the American Economy.”<sup>15</sup> As President Truman described in his signing statement:

“The Act declares that it is ‘the continuing policy and responsibility of the federal Government...to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining...conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work.’”<sup>16</sup>

The form that full employment would take was still to be determined, but the Act designated this as a crucial moral and political responsibility of government, and created the CEA and the JEC in order to affirm the federal government’s signal importance in economic policymaking.<sup>17</sup>

## Full Employment & the Civil Rights Movement in the 1950’s and 60’s

The quest for full employment would evolve over the subsequent decades. In the years since the war, economic life had seen great changes but African American workers remained twice as likely to be unemployed. When this constant feature of the structural inequities in the labor market began to combine with increased automation and mechanization of a number of key industries in the late 1950’s, and after the significant recession of 1957-58, civil rights activists renewed their commitment to full employment.

As A. Philip Randolph set out to organize the March on Washington for Jobs and Freedom in early 1963, the jobs component was at the forefront of his agenda—so much so that an initial name was the “Emancipation March for Jobs.” Although it is most remembered for Martin Luther King’s “I Have a Dream” speech, and its role in helping elicit the Civil Rights Act and the Voting Rights Act, its central demand—full employment—has gone both unfulfilled and, for many, unknown. This was not due to inadequate effort but the challenges of achieving legislation. At the march, a number of the 250,000 in attendance held signs reading “Civil Rights + Full Employment = Freedom.” Many had, undoubtedly, read the organizing manual, which had emphasized the demands for “a massive Federal Public Works Program to provide jobs for all the unemployed, and Federal legislation to promote an expanding economy.”<sup>18</sup> Unfortunately, these demands went unacknowledged by those who might be able to translate this vision into policy.

For both Congress and one of the March’s most important observers, President Kennedy, the jobs demands were overlooked.<sup>19</sup> In a meeting with the March leaders shortly after the event to discuss recently introduced civil rights legislation, Randolph pressed Kennedy about automation and joblessness but Kennedy skirted the issue. Instead, he told the activists to focus on what “the Jewish community has done, on educating their children, on making them stay in school and all the rest.”<sup>20</sup> However, the 10.7 percent unemployment for “non-white” workers was double the rate for white workers. As the activists understood, no amount of commitment to education could solve this problem.<sup>21</sup>

Given persistent unemployment in the African American community, Randolph and his closest ally in the civil rights struggle, Bayard Rustin, continued to work towards achieving full employment. In the years after the March, they collaborated with President Truman’s former CEA Chair Leon Keyserling to craft the “Freedom Budget for All Americans.” The Freedom Budget sought to rectify what Randolph and Rustin saw as some of the deficiencies from the March on Washington—namely the need for the civil rights movement to help use its newly-won power in the voting booth to go beyond voting for individual legislators, but towards crafting legislation. In particular, the Freedom Budget called for

“more effective public control of the Federal Reserve System” and asked for greater coordination of fiscal and monetary policies.<sup>22</sup>

As riots and rebellions broke out across the U.S. in the years after the March on Washington, many other civil rights activists focused attention on full employment as well. Dr. Martin Luther King, Jr. was one of many endorsers of the Freedom Budget. Dr. King spoke often about the urgency of the situation and inadequacy of the funding provided to the War on Poverty. In a pamphlet about the Freedom Budget, Dr. King stressed the necessity of it:

“We must dedicate ourselves to the legislative task to see that it is immediately and fully achieved...The Freedom Budget is essential if the Negro people are to make further social progress. It is essential if we are to maintain social peace...It is a moral commitment to the fundamental principles on which this nation was founded.”<sup>23</sup>

But moral commitments alone did not win legislation, especially when politicians elected from Jim Crow districts remained in control of some of the most important Congressional committees.

Less than a year and half after penning those words, Dr. King was dead, but the vision of full employment remained alive. In the days after his assassination, Coretta Scott King wanted to ensure that his work continued. Four days after his assassination, she spoke on the steps of the Memphis City Hall. She told the crowd of supporters and mourners that “we must carry on because this is the way he would have wanted it.” And she made sure to clarify what the goals were: “every man deserves a right to a job or an income so that he can pursue liberty, life, and happiness. Our great nation, as he often said, has the resources, but his question was: Do we have the will?”<sup>24</sup> Over the subsequent years Scott King would shape her own movement to generate such a political will.





## Coretta Scott King and the Humphrey-Hawkins Act of 1978

Glancing at the political landscape in 1974, Scott King could see the growing urgency of the economic situation. The stagflation crisis had been devastating for the most marginalized workers and their families. Accordingly, Scott King began work to create the National Committee for Full Employment/ Full Employment Action Council (NCFE/FEAC) in order to continue the struggle for full employment.

Around this same time, legislators like Augustus Hawkins and Hubert Humphrey were working towards similar ends in their own spheres of influence. In October 1973, Hawkins helped organize a conference between researchers and policymakers on the topic at UCLA. In his introductory remarks, Hawkins traced some of the legacies of the 1946 Employment Act and a path forward:

“Thirty years ago, as the war-time election of 1944 came close, both the Democratic and Republican candidates pledged themselves to ‘jobs for all’ in the postwar period...Under the Employment Act, America took two important steps in the right direction. First, it expressed the country’s determination never again to tolerate a mass depression. Second, it set up the first beginnings of democratic machinery for national policy making and planning.”

However, Hawkins noted that significant unemployment remained, especially for African Americans: “Much more work remains to be done,” he explained, “the brutal fact remains that the full employment levels achieved during World War II have never again been attained.”<sup>25</sup>

One of the key impediments at the time to greater coordination of economic policy was a Federal Reserve that was inattentive to both the policy implications of the Employment Act, and even the Joint Economic Committee itself. At the UCLA symposium, Loughlin McHugh a Senior Economist for the JEC, explained that they had trouble even getting data from the Fed. “We on the Joint Economic



Committee Staff—and the members of the committee—have been trying for years to get [Fed Chair] Arthur Burns and his predecessors to tell us why it is that they changed the money supply by so much over such and such a period. Burns finally agreed to send us a quarterly report, and it's nothing more than a draft of an article that's going to appear in a forthcoming Federal Reserve Bulletin." And further, McHugh noted the importance of the Fed's accountability to Congress and the American people. "The Federal Reserve is not an independent agency. It is a creature of Congress. I think in some way or another we ought to get this point across to the members of Congress and to the American people."<sup>26</sup>

Over the coming years, as interest rates and unemployment rates ascended, NCFE/FEAC continued to build their movement, while Hawkins and Humphrey drafted and introduced legislation to ameliorate the crisis of unemployment. Hawkins drew explicitly on the stifled efforts of prior years. As he explained, "we must not replay the drama of events which led to the watering down and lessening of the full employment commitment contained in the Employment Act of 1946. The three decades that have since passed, combined with the current situation, thrust before us the urgent need for a commitment to the goals of genuine full employment and the guaranteed right to a job for each individual who wants to work." Hawkins was concerned about how "full employment" itself had become a mystified concept. He described how important it was to clarify this in the legislation, stating "full employment is redefined as 'a situation under which there are useful and rewarding employment opportunities for all adult Americans willing and able to work,' in contrast to the current practice of setting a tolerable level of official unemployment for a narrowly defined labor force."<sup>27</sup> This sentiment echoed that of NCFE/FEAC, which sought to refute the "sophisticated 'numbers game' whereby 'full employment' is defined as an ever-increasing percentage of unemployment."<sup>28</sup>

As unemployment spiked to a post-Great Depression high of nine percent in May 1975, the urgent need for full employment legislation revealed itself with ever greater force. Representative Hawkins—a founding member of the Congressional Black Caucus (CBC—teamed with Senator Humphrey to author legislation requiring national economic planning to achieve full employment. The early versions of the proposed bill for what would become the Humphrey-Hawkins Act created a Job Guarantee Office and established the government as the "employer of last resort" to ensure that all who wanted a job had one, at prevailing wages and where they were located. Labor and civil rights groups like NCFE/FEAC coalesced to push candidates in the 1976 elections to announce their support for the bill, including Democratic presidential candidate Jimmy Carter. (By the time Carter came out in support, the bill had become so strongly associated with civil rights figures that President Gerald Ford accused Carter of pandering to minorities.) When Carter took office in 1977, the national unemployment rate remained high, with the Black unemployment rate at 14.5 percent. Humphrey-Hawkins remained a leading legislative priority for King, CBC members, and labor leaders. President Carter, however, was hearing demands from economic advisers and business interests that the bill should be counterbalanced with language addressing their concerns about inflation.<sup>29</sup>

Senator Humphrey, who chaired the Joint Economic Committee (JEC), traveled with the JEC, holding hearings on how the economic crisis was impacting people throughout the country. At the time—and still today—unemployment was considered the necessary antidote to inflation, however, many of those suffering most from both refuted this analysis. The civil rights and labor organizer Addie Wyatt inveighed against these ideas at the Chicago hearings. She explained to Humphrey and the committee, "As much as we dislike inflation, we can see no cure for its evils in heavy doses of unemployment. Such medicine is not only ineffective, it is in itself worse than the disease it fails to cure."<sup>30</sup> By contrast, Robert Mayo, President of the Chicago Federal Reserve, also spoke at the

hearings. He held to the opposing view, which dominated at the Fed, that inflation should take greater priority than unemployment. As he explained, “inflationary attitudes have taken on an increasingly prominent role in our society... If we focus successively, gentlemen, on the correction of short run unemployment problems, serious as though they are, without thought of the consequences on purchasing power, we will have failed to consider fully the priorities which our resources should meet. We will have failed the true goals of the Employment Act.”<sup>31</sup> This confrontation spoke to the key issues of inflation, unemployment, and public policy in the postwar U.S. The problem, for civil rights activists like Wyatt, was that although Mayo would bewail his displeasure with unemployment, it was not his community that was being treated as collateral damage in the war against inflation. As Scott King had put it during the Atlanta hearings, “the unemployed are not pawns to be sacrificed in some economic chess game.”<sup>32</sup>

The civil rights movement’s demands for greater democratic governance over their lives was extending into what the Fed considered its domain. But this came into conflict with members of the Fed like Mayo and Burns. At the time the *New York Times* described Burns’ attitude toward Congress as “a threat to the financial stability of the Republic,” and “inherently inflation-prone.”<sup>33</sup> Burns’ resentment toward democratic governance in economic affairs resounded during an address one year after leaving the Fed. As he commented, the “persistence [of inflation] reflects the...the philosophic and political currents of thought that have impinged on economic life since the Great Depression and particularly since the mid-1960s.”<sup>34</sup> This conflict over democratic governance of economic life is one element of what the Humphrey-Hawkins Act sought to settle.

After a tumultuous journey to become law, the Full Employment and Balanced Growth Act of 1978 emphasized greater coordination between fiscal and monetary policy, toward the goal of full employment. In his signing statement, President Carter explained the law’s importance: “this Nation is putting its long-term economic goal of full employment with stable prices into law. This act requires that the Congress and the President and the Federal Reserve Board cooperate in probably an unprecedented way in indicating each year the policies that will be followed to achieve these goals,” he announced. The law now required the Fed to submit semiannual written reports about what they were doing to fulfill the goals of the new law, as well as providing Congress with semiannual testimony about their actions. Coretta Scott King similarly noted the law’s signal importance during the same press conference:

**“This is indeed a great historical occasion, perhaps as significant as the signing of the Civil Rights Act of 1964 and the Voting Rights Act of 1965. Perhaps in the future, history will record that it may be even more significant, Mr. President, because I think it deals with an issue on a basic human right that’s the most basic of all human rights, the right to a job. And that is a central priority now of our economic policy with the signing of this act into law today.”**

**—Coretta Scott King  
Upon the signing of the  
Humphrey-Hawkins  
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As Scott King illuminated, the law provided a compass to orient economic policymakers. However, this was not envisioned as the end of the journey. Indeed, the law also called for the unemployment rate to be reduced to no more than 3 percent for people over twenty-years-old within five years—something that was not and has never been achieved since the law was signed.<sup>36</sup> For Humphrey, Scott King and the many others who pursued full employment, the law was a first step, not the last. After all, the law’s proponents had granted numerous concessions during the legislative process, weakening the full employment mandate from a “commitment” to a “goal,” and scrapping the pledge that government would be the “employer of last resort.”<sup>37</sup> President Carter acknowledged this incrementalism during the press conference, quoting Hubert Humphrey in saying, “A Humphrey-Hawkins bill is a first step, but an indispensable one, toward an era of full employment, steady economic growth, and reasonable price stability. It is no panacea. It is no miracle cure, but with it, national economic policy will be required to be directed toward achieving specific, measurable economic goals.”

Nearly forty years after Humphrey-Hawkins was signed into law, a full employment economy that fulfills Coretta Scott King’s vision for racial and economic justice has yet to be achieved. Significant racial disparities in wages, unemployment, labor force participation, and other key measurements of economic conditions persist. Humphrey-Hawkins has demonstrated progress, however, by stipulating that monetary policy is a necessary part of the equation and by holding the Federal Reserve accountable to the ways that its policies impact unemployment. Section II will provide specific examples of how the Fed’s full employment mandate has proven useful toward facilitating economic growth and alleviating racial disparities since its enactment.

## Section II: The Quest for Full Employment in the 1990’s

The Humphrey-Hawkins Act was passed toward the end of a decade in which Americans had experienced unusually high inflation. This meant the economic and central banking policymakers at the time were predisposed to be highly concerned about runaway inflation. In fact, the Humphrey-Hawkins Act initially tasked the Federal Reserve with achieving zero percent inflation by 1988, even though economists and policymakers have since agreed that completely flat price growth is neither achievable nor desirable.<sup>38</sup> For decades after the “Great Inflation” of the 1970’s, economists and Federal Reserve officials prioritized price stability, and even viewed full employment through the lens of what was possible to prevent inflation.

While the Fed has never formally provided its definition of full employment, the main measure the Fed policymakers use as their goal for unemployment is known as the NAIRU—the Non-Accelerating Inflation Rate of Unemployment. Despite a high degree of uncertainty regarding the level of unemployment that can be achieved without sparking inflation, Fed officials historically prioritized their price stability objective by raising interest rates when the actual unemployment rate approached their estimate of the NAIRU. In the 1990’s, however, Federal Reserve Chair Alan Greenspan led the Fed in bucking this conventional wisdom, and kept interest rates low even as the unemployment rate drifted below the NAIRU estimates. This decision allowed the Fed to truly test the bounds of full employment for the first time, resulting in a robust economy with tight labor markets and reduced labor market discrimination.

This history of the Fed's conduct in the 1990's illustrates the importance of the Fed's full employment mandate and provides a window into what economic conditions are possible if the Fed properly balances and respects its full employment objective. Our present economic conditions can be viewed as being in a somewhat similar situation to the 1990's, and the Fed's policy decisions at the time offer important insights to apply today. At the time, the Fed pursued a path that not only ensured price stability but secured larger job gains and a sustained and equitable growth for more American people. Were it not for the full employment mandate, would not have taken this path, resulting in fewer jobs and worsened general welfare.

## **The 1990's: A Decade of Growth and Stability**

The economy's performance in the 1990's was better than in any decade since the 1960's. The GDP growth rate averaged over 3.4 percent in the decade, compared to a growth rate of 3.3 percent in the 1980's, 3.2 percent in the 1970's, 1.6 percent in the 2000's and 2.0 percent in the period from 2010 to 2017. While the unemployment rate peaked at 7.8 percent following the 1990-91 recession, it then fell throughout the rest of the decade, reaching 4.0 percent as a year-round average in 2000.

Importantly, the gains were broadly shared. The last four years of the decade was the only time since the early 1970's when workers up and down the wage distribution saw sustained wage gains. Real wages for workers at the 50th percentile rose by an average annual rate of 1.5 percent from 1996 to 2001. Wages for workers at the 20th percentile rose slightly faster, with an average annual rate of 2.3 percent.

These impressive economic outcomes were far from inevitable. Through the first half of the decade, it was a widely accepted view within the economics profession that unemployment rates below 6.0 percent would result in rapidly rising wages which would be passed via higher prices and vice-versa. The consensus estimate of the NAIRU was therefore 6.0 percent and an unemployment rate below that was deemed likely to trigger an inflationary spiral. According to this view, it would be necessary for the Fed to step in with higher interest rates to choke off job growth, if the unemployment rate started to fall much below the 6.0 percent safe range. Fortunately, as outlined below, the Fed did not go this route. The next section briefly recaps the history of this decade, first noting the basis and depth of the consensus on the 6.0 percent NAIRU, then detailing the Fed's decisions on interest rates, as the unemployment rate hit and then fell below the accepted estimates of the NAIRU.

## **The Course of Unemployment and Fed Policy In the 1990's Boom**

The 1990-91 recession was not especially severe, but the recovery was unusually slow. The Fed felt confident that labor market conditions in the late 1980's might induce inflation, and began raising interest rates in the last years of the decade, eventually pushing the federal funds rate to almost 10.0 percent in 1989. Once it became clear that the economy was slowing, the Fed responded by lowering interest rates but it did so very gradually. This meant that the recovery did not get much of a boost from monetary policy. At the same time, with Congress concerned about budget deficits, a budget agreement was put in place in the middle of the recession in 1990 to actually cut spending and increase taxes. This meant that fiscal policy was acting pro-cyclically, being more contractionary in a recession.

As a result of this contractionary fiscal policy and insufficiently stimulative monetary policy, unemployment continued to rise long after the recession officially ended in March of 1991. It eventually peaked at 7.8 percent in June of 1992 and then began to slowly decline, falling to 6.5 percent at the end of 1993. At the time, this was approaching the level of the accepted estimates of the Non-Accelerating Inflation Rate of Unemployment.<sup>39</sup> While different methodologies gave somewhat different estimates of the rate of unemployment the economy could handle before triggering an inflation spiral, most fell in the range of 5.6 percent to 6.4 percent. The Congressional Budget Office's estimate at the time put the NAIRU between 5.8 and 6.0 percent.<sup>40</sup> It's important to note that while these are informed estimates, there is always a degree of uncertainty on how these estimates will bear out in the actual economy.

In response to the economy approaching the generally accepted levels of full employment, the Fed started raising interest rates in February of 1994. From February of 1994 to March of 1995, the federal funds rate went from 3.0 percent to 6.0 percent. This had the predictable effect of slowing the economy with growth declining from a 4.8 percent annual rate in the first half of 1994 to just 1.4 percent in the spring and summer of 1995 as shown in **Table 1**. Despite the slowed pace of growth, the unemployment rate continued to decline, falling as low as 5.4 percent in February of 1995 before drifting modestly higher in the spring and summer.

**Table 1**

	UN Rate	Avg job Growth 6 mos	CPI YOY	Core CPI YOY	Core PCE YOY	GDP Growth prior 2Qs	Fed Funds Rate
Jan '95	5.6	320,000	2.7	2.6	2.2	4	5.5
July '95	5.7	134,000	3	3	2.2	1.4	5.75
Jan '96	5.6	172,000	2.5	3	2.1	3.2	5.5
July '96	5.5	244,000	2.8	2.7	1.8	5	5.5
Jan '97	5.3	229,000	3.3	2.6	2.2	4	5.25
July '97	4.9	240,000	2.3	2.4	1.9	4.7	5.5
Jan '98	4.6	289,000	1.7	2.2	1.5	4.2	5.5
July '98	4.5	209,000	1.7	2.2	1.1	4	5.5
Jan '99	4.3	254,000	1.6	2.4	1.2	6	4.75
July '99	4.3	228,000	2	2.1	2.2	3.3	5
Jan '00	4	281,000	2.7	1.9	1.4	6.1	5.5
July '00	4	178,000	3.7	2.4	1.7	4.5	6.5
Jan '01	4.2	109,000	3.4	2.6	1.8	1.4	6

Source: BLS, BEA, and Board of Governors of the Federal Reserve System.



In this context, the Fed made a remarkable decision based on the state of the economy and the prevailing estimates of its potential. The conventional view would have been that the Fed should keep rates steady, if not actually raise them, sapping demand and causing the unemployment rate to rise closer to the estimates of the NAIRU. It instead decided to lower the federal fund rates by a quarter of a percentage point. Though not a large decrease, the decision to move interest rates downward in this context was remarkable. With an unemployment rate of 5.4 percent, the unemployment rate was already below the widely accepted range of estimates of the NAIRU. Even though the rate of growth of employment had slowed to 134,000 a month in the first half of 1995 (from 320,000 in the second half of 1994), this was still in keeping or slightly above most estimates of the potential rate of growth of the labor force. In effect, the Fed was indicating a desire to see the economy grow more rapidly.

It is also worth noting that the rate of inflation was not especially low at this time. The overall Consumer Price Index (CPI) had risen by 2.7 percent over the prior year, with the core having risen only slightly less at 2.6 percent. The core Personal Consumption Expenditure deflator (PCE) showed a 2.2 percent rate of inflation over the prior year. This was before the Fed had adopted a 2.0 percent inflation target, but there certainly was no generally held view that inflation was too low. In effect, Greenspan and the Fed made a decision to push for stronger growth and lower unemployment, even though the generally held view among economists at the time was that this would lead to higher inflation.

The decision to push for full employment and keep interest rates low was even more striking as the rate of job growth and GDP growth began to accelerate in the second half of 1995. The economy created jobs at a monthly rate of 172,000 in the second half of 1995 and 244,000 in the first half of 1996, pushing the unemployment rate down to 5.5 percent. The rate of GDP growth picked up sharply, reaching 5.0 percent in the first half of 1996.

This was far more rapid than the generally accepted measures of the economy's growth potential. The Budget and Economic Outlook released by the Congressional Budget Office (CBO) in January of 1996 put the economy's potential growth rate for the rest of the decade at less than 2.2 percent annually.<sup>41</sup> The CBO projections are worth noting in this context, not only because CBO is itself considered an authoritative voice in policy debates, but also because its estimates are near the center of the consensus by design. CBO analyzes the range of professional forecasts and tries to locate its own projections near the center unless it has especially good grounds for differing with the consensus. In this case, there were not many forecasts that were substantially more optimistic than the ones produced by CBO at the time.

This means that the Fed was effectively making a decision not to take steps to slow the economy even though the unemployment rate was already below the accepted estimates of the NAIRU. Furthermore, the unemployment rate seemed likely to go considerably lower with both GDP and job creation growing considerably more rapidly than conventional estimate of their sustainable growth rates.

The decision by the Fed to keep interest rates low was quite controversial at time, even within the Fed. Lawrence Meyer, then a Fed governor, has recounted an episode in which he and current Chair Janet Yellen, then also a Fed governor, confronted Greenspan before a meeting in September

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of 1996.<sup>42</sup> According to Meyer's account, they complained that Greenspan had to start raising interest rates given the economy's rapid growth. Greenspan insisted that there was no evidence of inflationary pressure and managed to persuade Meyer and Yellen to agree to put off any rate hikes for the time being.

In the face of pressure both inside and outside the Fed, Greenspan held to the view that the Fed should focus on evidence of actual inflationary pressures, not the pressures that would be predicted from conventional models:

"We obviously are viewing an economy that at the moment does not resemble most of our textbook models. The unemployment rate is low and has remained low for quite a while. Anecdotal evidence continues to indicate tight labor markets, but with little evidence of significant wage acceleration. We also have a strong economic expansion under way, with industrial commodity prices falling even excluding the plunge in copper prices. Broader measures of price inflation are, if anything, still declining."<sup>43</sup>

Greenspan stayed with this view, even as the unemployment rate fell further later in the decade. After the economy grew by 4.0 percent in the second half of 1996 and the unemployment rate had declined to 5.2 percent, Greenspan said in March of 1997:

"We still do not have concrete evidence to suggest that the inflation rate has stopped going down. In this situation, we can allow ourselves a fairly considerable amount of time to act. Therefore, I do not think that there is any particular urgency to move in a very aggressive way. I do think we have to move, but I don't think that we have to be concerned about being behind the curve in any measurable way."<sup>44</sup>

The view pushed by Greenspan, and with which the rest of the Fed was willing to go along, was that it should set aside the conventionally accepted models and base its decisions on interest rates on evidence of actual inflationary pressures in the economy. He argued that the measures showed the opposite, inflation was slowing rather than accelerating, therefore there was no reason for the Fed to attempt to raise interest rates to clamp down on growth.

The Fed held off on interest rate hikes even as the unemployment rate fell below 5.0 percent in the summer of 1997, below 4.5 percent in the spring of 1998, and eventually reached 4.0 percent in December of 1999. In fact, Greenspan and the Fed actually cut interest rates in the fall of 1998, although the immediate motive was to restore stability to international financial markets rather than evidence of weakness in the U.S. economy.<sup>45</sup> The economy grew at a 6.0 percent annual rate in the second half of 1998.

The Fed didn't begin to raise interest rates to any substantial extent until the spring of 2000, at which point the collapse of the stock bubble was already slowing the economy. This collapse pushed the economy into recession the following year and removed any concerns that the economy might be growing too rapidly. However, the country gained an enormous dividend as a result of Greenspan and the Fed's willingness to allow the economy to grow and unemployment to fall, even if it meant a somewhat greater risk of inflation.

## The Real World Impacts of the Fed's Policy Decisions

There can be no question that the Fed would never have allowed the late 1990s boom and the consequential sharp reduction in the unemployment rate if it did not have a full employment mandate. The models in use at the time indicated that keeping rates low would trigger an unacceptable increase in the inflation rate. It was only because of the commitment to achieving full employment that the Fed took a wait-and-see approach and refrained from raising interest rates until there was actual evidence of inflationary pressures in the economy. The Fed made a conscious decision to ignore the standard views of the NAIRU and instead focus on the inflationary pressures it actually saw in the economy, and the resulting dividends were enormous.

At the most simple level, cumulative output was 6.3 percent higher over the five years 1996 to 2000 than if GDP growth had been constrained to CBO's 2.2 estimated potential growth rate. In the 2000 alone, GDP was 10.7 percent higher than if GDP growth had been constrained to remain at the potential estimated by CBO. In the 2017 economy this would imply an additional \$2 trillion in annual output or more than \$6,000 a year for every person in the country.

More importantly, the gains from the additional growth went disproportionately to those at the middle and bottom of the income ladder. This was the only time since the early 1970s when workers at the middle and bottom of the wage distribution saw sustained gains in real wages. From 1995 to 2000, the real wage for workers at the 50th percentile of the wage distribution rose by 7.7 percent. The real wage for workers at the 20<sup>th</sup> percentile rose by 11.9 percent.<sup>46</sup> The median wage for Black men rose by 8.9 percent over these years, while the median wage for Black women rose by 11.2 percent. For Hispanic men the increase was 10.2 percent, and 6.5 percent for Hispanic women.<sup>47</sup> (These numbers were likely depressed by the fact that this was a period of rapid immigration, with new immigrants generally earning lower pay than native born Hispanics or earlier immigrants.)

In addition, the unemployment rate for African Americans fell to 7.6 percent as a year-round average in 2000. While this is still far too high to be acceptable, this compares to an average rate of 11.5 percent in 1994, when the unemployment rate averaged 6.0 percent, the mid-term of the conventionally accepted estimates of NAIRU at the time. The unemployment rate for Hispanics averaged 5.7 percent in 2000, compared to 9.9 percent in 1994. Clearly the dividends from this experiment went disproportionately to people of color.

The overall CPI did cross 3.0 percent in 2000, but this was the result of a jump in world oil prices. Tighter policy by the Fed would not have averted this increase. The core inflation rates remained well under control, with the core CPI rising 2.6 percent in the year from December of 1999 to December of 2000. This is somewhat higher than the low point of 1.9 percent during this period, but it is still down from the 2.7 percent rate from June of 1995 to June of 1996. There is a similar story with the core PCE, which ended the period with a rise of just 1.8 percent year-over-year. In short, for all practical purposes there was no rise in the inflation rate over this period, with the inflation rates the economy was experiencing at the point when the recession hit in 2001 being well within the range generally considered acceptable. During this period, the greatest gains of the tighter labor market went to workers of color.

It is worth noting that there was a large uptick in the rate of productivity growth in the 1990s, which could allow for more rapid wage growth without an acceleration in the rate of inflation. By contrast, productivity growth has been extraordinarily weak in the current recovery. While this is an important



difference, the pickup in productivity growth was not expected and not recognized as a real trend until several years after the fact. A small number of economists did anticipate the speedup based on their assessment of the spread of information technology and their discussions with business people.<sup>48</sup>

In conclusion, the country clearly reaped enormous benefits from the Fed's decision to delay raising interest rates and allow the unemployment rate to fall below accepted measures of the NAIRU in the second half of the 1990's, with this list just scratching the surface. It is also worth noting that the country never did pay a price in the form of any notable uptick in the inflation rate as a result of this experiment. In sum, the experience of the 1990's provides a model for what a full employment economy looks like. When labor markets tighten, workers begin to see broad-based wage gains, and persistent economic inequalities are finally reduced. By prioritizing full employment over this period, the Fed showed that consistent, strong economic growth was possible, and got about as close to achieving both sides of its dual mandate as it ever has.

**In sum, the experience of the 1990's provides a model for what a full employment economy looks like. By prioritizing full employment over this period, the Fed showed that consistent, strong economic growth was possible, and got about as close to achieving both sides of its dual mandate as it ever has.**

## **Section III: Ensuring the Fed Prioritizes the Full Employment Mandate & Rejects Congressional Action to Weaken It**

The experience of the 1990's shows that a Federal Reserve that places value and emphasis on the full employment mandate, in turn, makes policy decisions that can result in a very robust economy. This lesson is worth recapping in the current context, both because the economy can be viewed as being in a somewhat similar situation and also because it provides insights on how Congress should view the Fed's mandate. While the Fed currently has an explicit dual mandate to pursue both high employment and price stability, there are many central banks whose mandate only requires them to pursue price stability. Because the strong economy of the 1990s was partially a result of Federal Reserve policy, narrowing the Fed's mandate to mirror other central banks risks discounting the possibility of achieving 1990's-level growth again.

It is likely that a Fed only focused on price stability would have acted to head off the strong growth in the second half of the 1990's, sharply raising interest rates in response to some economists' concerns that growth would lead to accelerating inflation. This is what the models in use at the time predicted. In effect, Greenspan and the Fed decided to maintain low interest rates, at a risk of higher inflation, with the hope that it would allow the economy to achieve higher levels of employment. In the 1990's, this bet paid off and offered enormous dividends for the country with virtually no measurable cost in the form of higher inflation.

In the current situation, the Fed is also looking at an economy that is not behaving according to predictions of most models. The Fed, the CBO, and other forecasters have been forced to repeatedly lower their estimates of the NAIRU, as the unemployment rate has continued to drop without any evidence of increasing price pressures. Unlike the 1990's, we have yet to see any evidence of an uptick in the rate of productivity growth. But in the absence of evidence of rising inflation, there would

seem to be little harm in following the same course the Fed pursued in the late 1990's of allowing further growth and tightening in the labor market until there is evidence that inflation is exceeding an acceptable rate. In general, the benefits of a full employment economy outweigh the drawbacks of inflation at the currently manageable levels. Accordingly, the Fed today should follow the example of their predecessors in the 1990's, continuing to stimulate the economy by holding off interest rate increases until evidence of truly problematic inflation emerges.

## Threats to the Full Employment Mandate

Although the history of the 1990's suggests the value of reaffirming the Fed's commitment to full employment, the reform efforts currently being considered in Congress are mostly intended to go in the opposite direction. Numerous members of Congress have suggested eliminating the full employment portion of the Fed's mandate entirely. Legislation to that effect has been introduced in the past three sessions of Congress, and has won support from such prominent figures as Vice President Mike Pence, Speaker Paul Ryan, OMB Director Mick Mulvaney, and House Ways and Means Chair Dave Camp.<sup>49</sup> In 2008, Pence joined 50 other Republicans in co-sponsoring a bill by current House Financial Services Chair Jeb Hensarling that would have repealed the Humphrey-Hawkins Act in its entirety.<sup>50</sup>

## The Financial CHOICE Act & the Taylor Rule

In the current session of Congress, Rep. Hensarling has been pushing the "Financial CHOICE Act," which recently passed the House of Representatives with nearly unanimous Republican support. The Financial CHOICE Act would require the Fed to follow a "Taylor Rule" in setting monetary policy. The Taylor Rule, which uses estimates of potential GDP and inflation to produce an appropriate level for the federal funds rate, can be a useful guideline for central bankers to be aware of in setting policy. However, requiring the Fed to strictly follow the Taylor Rule rule without taking additional factors, data, and labor market conditions into account, would sharply curtail the Fed's discretion and ability to pursue full employment. The Financial CHOICE Act would also increase the representation of the Federal Reserve Regional Bank presidents among the voting members of the Fed's Open Market Committee (FOMC) from five to six. This change in composition to the FOMC would likely result in policy that de-prioritizes employment because regional Reserve Bank presidents, whose selection is largely determined by the corporate and financial sector, tend to favor higher interest rates. These policies are likely to prove counterproductive from the standpoint of raising growth and reducing unemployment.

It is unclear what problem these policies are meant to address. Many critics of the Fed's efforts to boost the economy following the recession, including House Speaker Paul Ryan and Stanford economist John Taylor (the originator of the Taylor Rule) repeatedly warned that the Fed's Great Recession expansionary policies would lead to inflation and a plunge in the value of the dollar. This concern was expressed directly in an open letter in November of 2010, signed by Taylor and several other prominent conservative economists, to Ben Bernanke who was Federal Reserve chair at the time.<sup>51</sup> Taylor and his fellow signatories have been proven wrong.

If these critics had proven to be right, and inflation accelerated sharply and the dollar fell, there would be a reasonable case for a fundamental reassessment of the Fed's monetary policy. However, inflation has been consistently below the Fed's 2.0 percent target in the six and a half years since

the letter was sent. Furthermore, the dollar is considerably higher by most measures than it was in November.<sup>52</sup> Given this context, it is not clear in what way the proponents of the Financial CHOICE Act hope to improve the Fed’s performance.

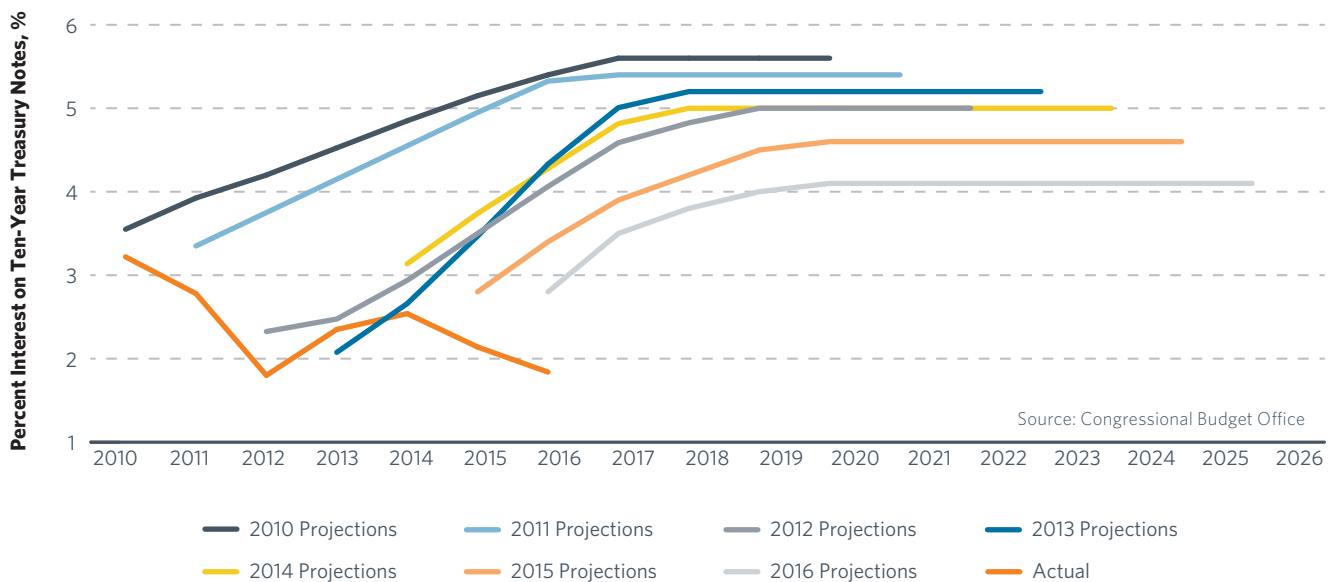
The usual rationale for the Taylor Rule is to remove uncertainty about Fed policy and to provide financial markets with clear guidance on the future direction of monetary policy.<sup>53</sup> However, strictly following a Taylor Rule can have bad economic consequences by denying the Fed the freedom to adjust to the specific economic circumstances it faces. An analysis conducted by the Fed’s Minneapolis district Bank earlier this year found that strict adherence to a Taylor Rule in the years since 2010 would have kept an additional 2.5 million people out of work.<sup>54</sup> In other words, even if Congressional Republicans keep the Fed’s full employment mandate in place, their preferred monetary policy reform, the Taylor Rule, would demonstrably undermine the Fed’s ability to achieve its full employment goal and leave millions unnecessarily out of work.

It is difficult to believe that anyone would consider a policy that would deny 2.5 million people the opportunity to work an improvement over current policy. And it is important to keep in mind that the additional 2.5 million people who would be jobless in the Taylor Rule scenario would be disproportionately African American and Latino, as well as people with less education. These are the people who stand most to gain from a full employment policy are at the greatest risk when the Fed needlessly restrains economic growth and job creation.

As a practical matter, since the main focus of the Fed since the Great Recession has been to provide stimulus (at least until the end of 2015, when it raised the federal funds rate for the first time since the crash), the relevant question would be whether long-term rates may have fallen further if the Fed had given better guidance. If true, this would mean that we got less benefit from Fed policies than was desired, since the long-term rates that matter most for consumption and investment did not fall as much as they could have. In other words, if the argument is that the Fed was less effective than it should have been because financial markets were not getting clear guidance, then it must be the case that long-term interest rates were higher than the Fed desired due to its poor communication of its policy. We can never know a counterfactual, but the 10-year Treasury rate has consistently been well below the level projected by the CBO over the last six years, as shown in **Figure 1**, below.

### Actual Interest Rates vs. CBO’s Projected Rates

10-Year Treasury Notes



While this is partly due to the fact that the economy has also been somewhat weaker than CBO projected, it would be difficult to make the case that if the Fed had somehow been more consistent with its policy, that the 10-year rate would have been even lower.

In fact, it is entirely possible that need to deviate from a strict Taylor Rule would lead to more uncertainty in financial markets. If actors in markets could never be certain when the Fed would adhere to the rule and when it would decide to use its discretion, it could result in much greater confusion about the future course of monetary policy than exists at present. At the very least, it is difficult to see how a requirement for loose adherence to a Taylor Rule provides better guidance to financial markets.

## Increasing the Power of the Reserve Bank Presidents

Another Fed provision in the Financial Choice Act calls for increasing the number of the regional Reserve Bank presidents who are voting members of the FOMC from five to six. This is an explicit effort to increase the power of these private officials, who, unlike the Fed's Board of Governors, are chosen through a closed-door process by the corporate boards of each Reserve Bank. It is difficult to see the justification for a move in this direction.

As it stands, the Federal Reserve System and the FOMC is an anomaly among government regulatory agencies in giving representatives of the regulated industry a direct say in the policy it implements. While there are industry advisory boards to agencies like the Federal Communications Commission and the Food and Drug Administration, the industry groups don't get to directly appoint commissioners to these agencies. By contrast, the Reserve Bank presidents are appointed through a process in which the banks within the district have an exceptional amount of input.<sup>55</sup>

The FOMC meetings include all 12 Reserve Bank presidents as participants, but only five now have a vote at any one time. The president of the New York Fed is always a voting member of the FOMC while the other 11 bank presidents rotate as voting members. This means that the seven governors should, in principle, outnumber the five voting bank presidents. However, there are often vacancies in the governor positions. As of late April 2017, there were only four sitting governors, meaning that in addition to having the dominant voice in meetings, Reserve Bank presidents also have a majority of the votes.

The CHOICE Act, by adding another vote for the Reserve Bank presidents, would further tilt the balance in their direction. An analysis of the dissents recorded by Reserve Bank presidents on FOMC votes indicates that this would push monetary policy in a more contractionary direction. An examination of the FOMC minutes since 1993, when reasons for dissents were first recorded, shows 72 dissents by Reserve Bank presidents where a clear basis for the dissent is given.

In 64 instances the dissent was in the direction of more contractionary policy, meaning that the dissenters either wanted a rate hike when the majority voted to keep rates constant or that they were opposed to a rate cut approved by the majority. These dissents almost always raised concerns about inflationary pressures. In only eight instances did the dissenting presidents want more expansionary policy (e.g. a rate cut when the majority wanted to hold rates constant).<sup>56</sup> It is worth mentioning that in only one case did the president of the New York Fed dissent from the majority.



In short, it is clear that the Bank presidents on average have been far more concerned about the risk of inflation than the governors, and paid less attention to the full employment part of the Fed's mandate. Adding an additional vote for bank presidents could be expected to further push the Fed in the direction of enforcing the price stability part of its mandate, possibly at a cost of higher unemployment.

It is very difficult to see the justification for this move. As noted earlier, the Bank presidents are appointed through an archaic process that gives excessive influence to the banks within the district. In 2015, three straight presidential vacancies at the Reserve Banks were filled by individuals with strong ties to Goldman Sachs, and two of the individuals chosen were involved in their own selection. In April, Richmond Federal Reserve President Jeffrey Lacker resigned after admitting to leaking market-sensitive information to a hedge fund—an event that underscored the typical coziness between the private Reserve Banks and the financial sector they oversee. As a matter of principle, it is difficult to see why Republicans in Congress would like to see power further removed from office holders elected through the democratic process and turned over to private officials appointed by unaccountable boards deeply influenced by the direct participation of the banking and financial sector. Furthermore, given the clear record of bias of Bank presidents towards more contractionary policy, giving them more power would likely push the Fed towards keeping inflation lower than would otherwise be the case, and unemployment higher.

Increasing the bias toward low inflation might be desirable if the economy had been suffering from excessive inflation, but the inflation rate has been consistently low and often below the Fed's 2.0 percent target for more than two decades. As with the push for requiring the Fed to follow a Taylor Rule, it is not clear what problem this policy is intended to fix.

## Trump nominees to the Board of Governors

President Trump will soon attempt to fill three vacancies to the Federal Reserve Board of Governors. Many of the prospective nominees do not recognize the importance of the full employment mandate, and if confirmed, would likely undermine the Fed's ability to achieve its full employment objective. For example, Randal Quarles has been reported as Trump's probable selection for the position of Vice Chair for Supervision. Quarles is an enthusiastic supporter of the Taylor rule.<sup>57</sup> Another reported nominee for the Board of Governors is Marvin Goodfriend, who also supports rules-based monetary policy and has endorsed the Financial CHOICE Act.<sup>58</sup> Goodfriend has explicitly called for eliminating the full employment mandate. In a March 2017 interview, Goodfriend called the full employment mandate "incoherent," and in 2012, he agreed with the suggestion that the American economy would be better if the Fed focused only on price stability, calling the Fed's efforts even to get to 7 percent unemployment a "Herculean" task.<sup>59</sup>

## Conclusion

It is clear the Federal Reserve's full employment mandate serves a critical purpose of making the Fed more accountable to the interests of working people. The racial justice implications of realizing a full employment economy were widely recognized and fought for during the civil rights movement. Given African American unemployment rates are consistently twice the rate of white workers in 2017, realizing true full employment continues to be vitally important today. As past economic conditions have illustrated, when labor markets tighten, workers begin to see broad-based wage gains and persistent economic inequalities are reduced. The Federal Reserve should continue to make monetary policy decisions that support equitable growth, prosperity, and job opportunities for all. As we approach the 40th anniversary of the landmark Humphrey-Hawkins Act, it is important for both the Federal Reserve and Congress to reaffirm the importance of the Federal Reserve's full employment mandate and to take proactive steps to ensure it remains in place. Efforts by Federal Reserve officials or Congress to weaken or undermine the Fed's full employment mandate would have adverse impacts on the economy, particularly for communities of color, and must be resisted.

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Inflation?  
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Full  
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Whose Recovery?

Whose Recovery?

