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Humphrey-Hawkins originalist

Supreme Court nominee Brett Kavanaugh isn't the only news-making student of original American texts. Alex J. Pollock, distinguished senior fellow at the R Street Institute in Washington, D.C., is fresh from a deep reading of the 1978 Humphrey-Hawkins Act. What it says may surprise you.

It may surprise Jerome H. Powell, who is expected to deliver his semiannual Humphrey-Hawkins testimony (on the 40th anniversary of that oft invoked legislation) on July 17. If past is prologue, the new Fed chairman will advert to the central bank's so-called dual mandate, i.e., the promotion of "price stability," which the Fed defines as a 2% rate of inflation, and "full employment," which the Fed is pleased to leave undefined.

Pollock—and we—have long wondered how stable prices could be if they're always rising. Congress is not, in fact, the source of a law to command a quintupling in the price level over the course of an 82-year lifespan, which is the clear arithmetic implication of a 2% per annum inflation target. The brain boxes at the Eccles Building and their counterparts at central banks as far away as New Zealand dreamt it up all by themselves.

Never mind by what process of reasoning the Fed settled on 2%. Pollock rather asks, What does the law say?

The Federal Reserve Reform Act of 1977, for one, does not say "price stability," as Pollock notes: "It does in particular not say 'a stable rate of inflation.' It says 'stable prices.' Does the term 'stable prices' mean perpetual inflation? What did Congress mean by 'stable prices' when it put that term into law?"

Humphrey-Hawkins, enacted the next year in response to the abomination of double-digit inflation with accompanying high rates of joblessness, foreign-exchange tumult, fiscal disarray, etc., committed the government to promote, among other blessings, "full employment, production, and real income, balanced growth, adequate productivity growth, proper attention to national priorities, and reasonable price stability."

Only "reasonable" price stability? Why not, then, "reasonably full" employment? The Carter administration had its priorities, and full employment claimed pride of place over the CPI. Still, the law established goals for unemployment (3% or less among individuals aged 20 and up) and inflation (not more than 3%) by the fifth anniversary of the first economic report required by the act, i.e., by 1984. That was just for openers. By 1988, the 10th anniversary of the act, the government was to have achieved "a rate of inflation of zero per centum."

That was the law (see 92 Stat. 1894) and presumably still is, even if, in the next breath, the law pulled its punch by adding, "*Provided*, That policies and programs for reducing the rate of inflation shall be designed so as not to impede achievement of the goals and timetables specified . . . for the reduction of unemployment."

The government missed its deadlines. In 1988, when the CPI should have hit zero, it rather registered 4.4%. Then, again, the 1988 unemployment rate averaged 5.5%, so the Fed could be held blameless. The Fed, in fact, was not held at all. In his Humphrey-Hawkins testimony of 30 years ago, then-Chairman Alan Greenspan said nothing about the 1988 inflation target of zero percent. Nor, as far as we can see, did even one senator ask him about it.

We conclude that the "dual mandate" is a kind of smokescreen, a convenient legislative cover for the Fed to do what it would have done anyway. In his great state paper of 1790, Alexander Hamilton identified "good faith" as the source of the public credit. We judge that those two words, far better than the thousands of words expended on the 1977 Federal Reserve Reform Act and the 1978 Humphrey-Hawkins Act, constitute the best basis for enlightened monetary policy. Where's the good faith in premeditated inflation?

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