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The Evolution of the Federal Reserve's Employment Mandate

Remarks by

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Thank you. I am rarely at a loss for words, as my friends, family, and colleagues know all too well.¹ But I do find it a little hard to express everything I am feeling, to be given the Louis E. Martin Great American Award in honor of a truly great American who did so much to make ours a more perfect union. Tough to find the words, but I will try.

Louis Martin did not lack for words. He was prolific, writing and publishing millions of words in newspapers as a key figure in the heyday of Black publishing in the 1950s and 1960s. There were also the words, and I would love to know what they were, that he spoke to the advisers of presidential candidate John F. Kennedy, who helped free the Rev. Dr. Martin Luther King from a Georgia prison and arguably changed political history.² And there were those words he whispered, in the ears of presidents and politicians, that moved the nation forward on civil rights. When I think about everything Louis Martin accomplished, including the creation of the Joint Center for Political and Economic Studies, and I consider the distinguished men and women who have earned this award before me, I am humbled and very grateful.

One way I hope I can show my gratitude is by using this occasion to tell the wider world a story about the civil rights movement that should be better known and that is additionally meaningful to me for two reasons. The first reason is that this is a story about how the Federal Reserve, where I am a policymaker, came to be the first central bank in the world to make maximum employment a primary and explicit goal, coequal with its goal of price stability. And the second reason is that I had the memorable

¹ The views expressed here are my own and not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

² Louis Martin was among the civil rights leaders who sought help from the Republican and Democratic presidential campaigns in 1960 when King was sentenced in DeKalb County to 30 days of hard labor on trumped-up charges.

experience, as a Spelman College undergraduate, to hear some details about the lobbying for full employment and other economic policy objectives by one of the leaders of that movement.

It is generally agreed that the legal roots of the Fed's employment mandate are in the Employment Act of 1946, itself inspired by a 1944 speech by President Franklin Roosevelt.³ The law required all of the federal government to "promote maximum employment, production, and purchasing power."⁴ Alongside the preservation of "purchasing power," even then, the employment goal was linked to inflation. Federal Reserve Chairs cited the Employment Act as applying to monetary policy.⁵ But it was rare for the Federal Reserve to refer to this statutory mandate when explaining monetary policy decisions. For example, the Federal Reserve Board's annual report for 1975 noted that in public statements on monetary policy given during the year by the Federal Reserve Chair, he had pointed to the "the very high rates of unemployment and of idle industrial capacity then prevailing" as a factor bearing on the Federal Open Market Committee's

³ The act, which Congress passed in 1945, was inspired by Franklin Roosevelt's 1944 State of the Union message, which proposed a "Second Bill of Rights" or "Economic Bill of Rights." FDR said, "We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence." His list of rights included "the right to a useful and remunerative job," echoed by the Employment Act's recognition of "the right to a useful and remunerative job in the industries or shops or farms or mines of the nation." The full 1944 State of the Union message is available on the Franklin D. Roosevelt Presidential Library and Museum's website at <https://www.fdrlibrary.org/address-text>.

⁴ See the Declaration of Policy on page 1 of the Employment Act of 1946, available at <https://fraser.stlouisfed.org/files/docs/historical/congressional/employment-act-1946.pdf>.

⁵ See, for example, William McChesney Martin's August 13, 1957, statement before the Committee on Finance, U.S. Senate, which is available at https://fraser.stlouisfed.org/files/docs/historical/martin/martin57_0813.pdf?utm_source=direct_download. In 1971, a Federal Reserve Board lawyer, Howard Hackley, wrote a memo to Governor Sherman J. Maisel concluding that the Federal Open Market Committee was required to consider the goals of the Employment Act. See Howard Hackley (1971), "Responsibilities of the Board under the Employment Act of 1946," memorandum, Board of Governors of the Federal Reserve System, February 11.

(FOMC) decisions.⁶ But the same annual report made no reference to the Employment Act.

For some people, there wasn't any question of whether the Employment Act of 1946 should be a top priority. From its earliest days, the civil rights movement included full employment on a list of economic objectives deemed necessary to achieve the goals of freedom and political equality. Several leaders of that movement carried forward that goal into the 1960s, including the Rev. Martin Luther King and my cousin Floyd McKissick, Sr., but I would like to focus on an individual who probably did as much as anyone to establish maximum employment in 1977 as a goal assigned specifically to monetary policy.

That person was Coretta Scott King. She had been a civil rights activist since attending the 1948 Progressive National Convention, where economic rights were discussed alongside other issues. After her husband's assassination, Mrs. King carried on his work for nonviolence, civil rights, and peace, but she was particularly focused on his economic justice agenda. Four days after MLK's death, in a speech at Memphis City Hall, she said that the right to employment had been on his mind: "Every man deserves a right to a job or an income," she said. "Our great nation ... has the resources, but his question," (she means Dr. King's question) "was: Do we have the will?"⁷

A month later, she led a long-planned march in Washington known as the Poor People's Campaign, to push for bringing troops home and creating jobs and economic

⁶ See Board of Governors of the Federal Reserve System (1976) *62nd Annual Report 1975* (Washington: Board of Governors, June, p. 51, https://fraser.stlouisfed.org/files/docs/publications/arfr/1970s/arfr_1975.pdf?utm_source=direct_download.

⁷ See David P. Stein (2016), "'This Nation Has Never Honestly Dealt with the Question of a Peacetime Economy': Coretta Scott King and the Struggle for a Nonviolent Economy in the 1970s," *Souls*, vol. 18(1), p. 85

opportunity, with full employment prominent on the list of demands. That march was an extension of the 1963 March on Washington for Jobs and Freedom, which was commemorated this year for its 60th anniversary. In the following years, Mrs. King used her considerable and growing stature to advocate for a broad agenda of economic empowerment, centered around the maximum-employment guarantee that had been law for decades. In 1973, the United States was hit with runaway inflation, this time accompanied by what became a deep recession—stagflation. In 1974, Mrs. King joined with elements of the labor movement to create the National Committee for Full Employment/Full Employment Action Council. She testified and walked the halls of Congress, doing just the kind of arm-twisting and coalition-building that Louis Martin was known for. That work culminated in 1975, with early versions of what would become the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey-Hawkins Act. In general terms, the law set economic priorities for the federal government centered on promoting good-paying jobs for all Americans. Humphrey-Hawkins established the objectives of maximum employment, stable prices, a balanced budget, and a balance of foreign trade, and it defined them by setting numerical goals. Coretta Scott King testified in favor of the legislation and its mandate of maximum employment.

In practice, across the government, the numerical targets and goals in the Humphrey-Hawkins Act were not treated as legally binding. But one of Humphrey-Hawkins' undeniable legacies is how, as it headed toward likely passage, its employment and inflation objectives were enshrined in the 1977 amendments to the Federal Reserve Act, establishing the dual mandate of maximum employment and stable prices.

This began a process in which the Federal Reserve increasingly tied its policy decisions to statutory goals. Starting in 1979, the Federal Reserve Board published the *Monetary Policy Report*, as required by Humphrey-Hawkins, and, along with the report's release, the Chair regularly gave testimony on the Committee's plans. In 1979, inflation remained a big challenge, and a lasting period of price stability did not return until the 1990s. In 2007, the FOMC began publishing a summary of the economic projections of its participants, including the range of estimates of the longer-run unemployment rate, an indication of their views of maximum employment. Subsequently, the FOMC responded forcefully to the deep recession caused by the 2008 financial crisis to support employment, helping usher in an expansion that eventually brought the unemployment rate to its lowest level in 50 years. It also reacted vigorously to the economic weakness associated with the pandemic, and unemployment has now returned to its pre-pandemic lows, even as we have worked to return inflation to our 2 percent objective.

Central banks around the world generally treat the stabilization of employment as an important policy objective. Yet most have employment mandates only informally or secondarily in their statutory assignments. In contrast, the Federal Reserve's mandate is clear that maximum employment is on an equal footing with price stability. But Fed policymakers recognize that the maximum level of employment is not directly measurable and that it changes over time as the structure of our economy evolves. For that reason, we do not set a fixed numerical goal for maximum employment. This is wise considering that the past three decades have shown that unemployment can fall well below the levels that economists once predicted would overheat the economy.

In a development that I suspect would please Augustus Hawkins and Coretta Scott King, in 2020, the FOMC declared that “maximum employment is a broad-based and inclusive goal.”⁸ It is now common for Fed policymakers to note with enthusiasm when long-term disparities in employment and wages between minorities and other groups narrow. The Humphrey-Hawkins Act expired in the year 2000, but the spirit of Mrs. King’s quest for full employment is alive and well.

I dare to wonder what Coretta Scott King would think about these developments, because of the experience I had as an undergraduate, meeting her and hearing her talk about her lobbying for policies to promote employment and economic opportunity. At the time, I had not yet decided to devote my career to the study of economics, but when I did, it was in part because of the belief that wise economic policy could accomplish some of the goals that Coretta Scott King devoted herself to.

Mrs. King pushed the maximum-employment mandate as hard and consistently as she did because she believed, in her words, that “unemployment lies at the root of all our major social problems.”⁹ Economists also understand that employment is the key to a healthy economy. Maximum employment boosts long-run (noninflationary) economic potential. It means that a vital resource is being used productively. A strong labor market increases labor force participation and the willingness of firms to recruit and upgrade the skills of workers. Maximum employment also promotes business investment that boosts productivity and long-run economic potential. And the full participation of all

⁸ See Board of Governors of the Federal Reserve System (2020), “Federal Open Market Committee Announces Approval of Updates to Its Statement on Longer-Run Goals and Monetary Policy Strategy,” press release, August 27, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200827a.htm>.

⁹ Video provided by the King Center of Coretta Scott King speaking at “Overcoming the Barriers to Full Employment” at Ebenezer Baptist Church, Atlanta, January 13, 1978.

segments of society should be expected to result in more ideas, including more diverse ideas, more invention, and more innovation. These are the benefits of the Fed's maximum-employment goal and part of the legacy of Coretta Scott King.

In closing, I want to thank Interim President Fulton and the board of the Joint Center for the great honor of this award, as well as the opportunity to review some important history that shaped the Federal Reserve's efforts to promote a healthy economy.