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THE PRESIDENT HAS SEEN.
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 10 1976

MEMORANDUM FOR THE PRESIDENT

From : James T. Lynn 

Subject : Humphrey-Hawkins Bill 

The Humphrey-Hawkins Bill has not been moving through the Congress as quickly as originally anticipated. Although reported out by the House Education and Labor Committee, Mr. Hawkins does not want a vote before the Democratic Convention.

The Bill is also facing heavy weather in the Senate. There is talk that it will be substantially rewritten in the Committee on Banking, Housing, and Urban Affairs.

The Democrats face a serious problem in that the Bill, as now written, has been actively opposed by eminent, liberal-Democratic economists such as Charles Schultze on the grounds that it would be too inflationary. Other eminent Democratic economists, such as Otto Eckstein, have pointedly refused to endorse it.

It is very probable that to save face something called Humphrey-Hawkins will eventually be passed by the Congress. However, it is conceivable that it will be watered down so much that it is meaningless.

Prior to the second thoughts among Democrats, a group of House Republicans led by Congressmen Kemp and Esch strongly believed that they needed a substitute measure. They drafted

a Bill which repackaged the tax initiatives recommended in your Budget. These included deeper personal and corporate tax cuts and special tax incentives such as our plans for broadened stock ownership and accelerated depreciation in high unemployment areas. Unfortunately, Congressman Esch added a Youth Incentive Program and Youth Conservation Employment which would add \$3.8 billion to our 1977 Budget and \$6.4 billion in outlays in 1979. Congressman Kemp added additional tax cuts leading to revenue losses of \$20 billion in 1977 and \$27 billion in 1979, even after taking into account generous "feedback" effects on receipts resulting from the economic stimulus created by the Bill. Given these huge extra costs and the inflationary potential of the Bill, I do not see how the Administration can lend support to this substitute bill as a whole. Of course, we can praise the general thrust of reliance on the private sector and those specifics that reflect your policies. This issue will be discussed further at an Economic Policy Board meeting on June 11.

I believe that the formulation of our final strategy with regard to Humphrey-Hawkins must await the outcome of the reconsideration now underway by Congressional Democrats. In the interim, we should, of course, continue to attack the version reported out of the House Committee.

THE WHITE HOUSE
WASHINGTON

May 24, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN
ALAN GREENSPAN

FROM: JAMES E. CONNOR *JEC*

SUBJECT: Humphrey-Hawkins Bill

The attached editorial from the Wall Street Journal of May 20 was returned in the outbox with the following notation to you:

" 5/20/76 -- John Rhodes called. Should House Republicans offer substitute for Humphrey Hawkins or just try to beat it? "

Please follow-up with the appropriate action.

cc: Dick Cheney

THE WHITE HOUSE
WASHINGTON

Jim:

QUESTION IS:

Should the Cheney notation
"hang-tough, veto" be added to
the Lynn/Greenspan memo as
additional direction, or has
Cheney already called and just
made note at bottom of P's note?????

Sara

*Jim said do
not include
Cheney notes x*

THE WHITE HOUSE
WASHINGTON

Jim Lynn) Alan Rosenberg

5/20/76

John Rhodes called.

Should House Republicans
offer substitute for Humphrey
Hawkins or just try to
beat it?

call Rhodes -
hang tough - veto

The New Humphrey-Hawkins Bill

The new, revised version of the Humphrey-Hawkins bill that is now before Congress has only one virtue. It is not as bad as the old, unrevised version. Because political liberals have come to use "Humphrey-Hawkins" as a saliva test, congressional Democrats had to write a bill with that title that Jimmy Carter could swallow hard and support.

The old bill would have more or less made it illegal for the United States to have more than 3% adult unemployment in 18 months after the bill's enactment. An unemployed person could sue the government if he or she were not offered a satisfactory job and the federal courts would order one up. Senator Humphrey didn't drop this provision because he suddenly realized some people would find it mind-boggling, but because it "seemed to be putting the cart before the horse—providing a legal guarantee before we set up the job-creation mechanisms necessary to provide the jobs."

The new bill would set 3% as the adult unemployment goal within four years of enactment, and if the government could not attain that goal through the wise use of monetary and fiscal policy, it would have to hire the unemployed until it got to 3%. The "mechanism" that the bill embodies is essentially nothing more than a solemn directive to the President and the Federal Reserve to be wise and conduct the correct policies, even if they would rather be incorrect. If in this way the goal is attained on schedule, the cost of Humphrey-Hawkins would be a mere \$50 million, the cost of hiring people to make sure wise policies are followed.

Except that we don't like to see \$50 million wasted, it might be in-

teresting to observe an experiment in legislated wisdom. Unfortunately, the bill doesn't explicitly state what constitutes wise policy. Presumably the President would be permitted to conform to its provisions by stating that drastic tax and spending cuts will produce economic expansion. Or the Fed could insist that monetary expansion produces higher interest rates and rates of inflation. This isn't what Senator Humphrey has in mind, for it isn't his brand of wisdom.

Because these ideological tensions remain the same, the bill would change nothing except that in the end the government would have to hire a lot of unemployed people, paying them by taxing those who are employed. This is the theoretical flaw in Humphrey-Hawkins, the erroneous assumption that if the government hires the unemployed, the unemployment rate will fall.

As the privately employed are taxed to finance public jobs for the unemployed, they themselves become unemployed. The more producers are taxed the less they will produce. Following Humphrey-Hawkins logic, New York City over a dozen years added nearly 150,000 public jobs. All along the way taxes rose, productivity fell and the unemployment rate climbed. In the same period federal spending went from \$100 billion to \$400 billion, and what has happened to the unemployment rate?

Elsewhere on this page, Senator Taft of Ohio offers further critical commentary in this vein. If jobs are destroyed when taxes go up, isn't it reasonable to suppose that jobs are created when taxes go down? Perhaps a third version of Humphrey-Hawkins would incorporate and legislate this wisdom.