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Judy Shelton Would Be A Great Addition To The Fed's Board

Alejandro Chafuen

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In 1976, during the early days of my university studies, Nobel laureate Friedrich Hayek published a small but powerful book titled *The Denationalisation of Money*. The manipulation of money and credit was creating problems around the globe, and Hayek recommended monetary competition as a way out of the inflationary spiral.

After studying Keynesian and Chicago School economics, I had the privilege of studying under Dr. Hans Sennholz, a German economist who received his Ph.D. under Ludwig von Mises. The textbook for monetary economics at Grove City College, where Sennholz was teaching, was Mises's *Theory of Money and Credit*. The famed economist Lionel Robbins, at the London School of Economics, wrote the book's introduction and showered it with praise: "In continental circles it has long been regarded as the standard textbook on the subject. It is hoped that it will fill a similar role in English-speaking countries. I know few works which convey a more profound impression of the logical unity and the power of modern economic analysis."

The failure of most central banks to prevent inflation during the 1960s and '70s led many sound money advocates to call for a return to a true gold standard. But then things changed. Soon after Alan Greenspan was named Federal Reserve chairman in 1987, I attended a monetary conference at which Dr. Sennholz spoke. He surprised his audience of mostly diehard monetary hawks by saying: "From now on, monetary policy will cease to be a major topic of concern, because Dr. Greenspan knows what he is doing." I was one of those who were surprised. But he was right. Despite the prevalence of inflation in a number of countries, monetary issues are among those that have shown most improvement in economic freedom indices.

I think the above paragraphs are sufficient to explain my fixation on the importance of sound money. **The "soundness" of money depends on how well it serves as a medium of exchange, a unit of account and a store of value.**

not have all the answers. The Federal Reserve has not acted as irresponsibly as, say, the Argentine Central Bank, but since its creation in 1913 the dollar has lost 96% of its value. Thus in 2010 I was involved in an effort to increase focus on sound money, then located at the Atlas

Economic Research Foundation, where I had the privilege to act as co-chair with Dr. Judy Shelton.

Among those who joined the effort and contributed research and advice were Jerry Jordan, former president of the Federal Reserve Bank in Cleveland; Dr. Allan H. Meltzer of Carnegie Mellon University, author of *A History of the Federal Reserve*; and Dr. Gerald O'Driscoll, former vice president of the Federal Reserve Bank of Dallas. We also attracted talented young economists.

Not all agreed on precise policy solutions, but most agreed with Dr. Shelton's ideal of having a sound and stable dollar at home and reliable exchange rates around the world. Through her clear writings she has always aimed at making sound money more accessible to the general public, and her writings attracted more traffic to Atlas websites than those of all other authors combined.

We expected Dr. Shelton to be attacked by those who prefer government interference and the political manipulation of money, but she has also been attacked by those who do not want new ideas to challenge the cozy relationship between banks, the Fed and politicians. I do not have time to focus on all the attacks against her, so I will mention just a few specifically. I stand with those who have written in her favor, including Steve Forbes – who was calling for her nomination even before Donald Trump's inauguration – The Wall Street Journal, Jim Dorn of the Cato Institute, and American Principles Project chairman Sean Fieler.

The Wall Street Journal editorial board came to Dr Shelton's defense, anticipating two major lines of attack against her "One is that she has long supported a return to the gold standard. The other is that she has more recently abandoned that belief in monetary discipline for political reasons. Hey, no one said these critics are consistent. They're also not honest."

Shelton's views on gold are not so different than those of former Fed Chairman Alan Greenspan. They see a role for gold but not a direct return to a gold standard. In *Fixing the Dollar Now*, a book which carried an endorsement by Larry Kudlow, now Director of the National Economic Council, Dr. Shelton recommended something similar to what Alan Greenspan floated in 1981, the creation five-year Treasury notes payable in gold. Not a very radical idea.

On the topic of her monetary discipline, with the current low levels of inflation and recent market fears, she is not the only one to change her views about raising interest rates. The WSJ reminded its readers how in December of 2018 the Fed, acting on a whim, decided to raise interest rates only to reverse its decision when it saw the reaction in the markets.

In his defense of Judy Shelton, in his piece on the Daily Caller, Sean Fieler stressed the need for President Trump to play a more active role explaining why "this fight with the Fed is worth the effort." As Fieler explains, the Federal Reserve has special privileges, which allows them to play politics and, further, works hard to protect them. He writes that "Republican Kentucky Sen. Rand Paul introduced legislation to stop the Fed from lobbying Congress and asked the Fed to disclose how much it had spent on such lobbying in the past. Paul's legislation went nowhere and his letter to the Fed's inspector general received no substantive response. As a result, the Fed

remains legally free to manipulate both markets and politicians as long as it deems such manipulation necessary to achieve its objectives.”

Of particular concern was a piece by Bill Dudley, former vice-chair of the Federal Reserve Open Market Committee who wrote: “Trump’s reelection arguably presents a threat to the U.S. and global economy” and that, in this context, “Fed officials should consider how their decisions will affect the political outcome in 2020.” Fieler notes that “Dudley’s comments were so shocking that Sen. Thom Tillis, R-NC, publicly called for hearings on the Fed’s potential electoral interference.”

One of the most misleading articles in what looks like an orchestrated campaign to derail Dr. Shelton’s nomination was that of *The Economist*, which opposed her on the grounds that “the Fed is one of the few parts of America’s government not to have been afflicted by the country’s toxic partisan divides and win-at-all-costs politics.” No mention in the piece of her tenure as vice chair and chair of the National Endowment for Democracy (NED), a bipartisan organization funded mostly by Congress. Shelton joined NED’s board of directors in 2005 and served as vice chair from 2010 to 2014. She also served on NED’s Budget & Audit committee and was the designated expert on Russia, Ukraine and Belarus. After her NED tenure she was named U.S. Director of the European Bank for Reconstruction and Development. She has proven she can work in a bipartisan and non divisive manner.

The Economist was more lenient with the apparent shift in Dr. Shelton’s views, abandoning any call for interest rate hikes. She is not the only one to change, though. When conditions change, it is natural to change views on how to deal with those conditions. An outstanding economist now at the Treasury Department, who has also penned strong criticisms of central banks, once confided in me in reference to the 2008 crisis: “Alex, I had no idea that so much liquidity was needed when one of these crises comes around.” I doubt that any reader of this column has ever studied the prospect of negative ex-ante interest rates (offered when you make a deposit) in economies that are growing and are not in crisis, such as Switzerland. Although I am certain that Dr. Shelton has not changed her desire for sound money, she has adapted her views on how to get there. So have I and most of the economists in my midst.

I hope that Dr. Shelton is confirmed. But even if she is not, I am sure that she will continue devoting her many talents working for a free economy and a free society, with the Constitution and her outstanding principles as a guide.