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Trump Team Vets Fed Critic for Board Seat

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The Trump administration is vetting Judy Shelton, a conservative economist and former Trump campaign adviser, for a seat on the Federal Reserve Board, according to people familiar with the matter, putting the longtime Fed critic one step closer to a leadership role at an institution she would like to drastically change.

Ms. Shelton, 64, was recently interviewed by Larry Kudlow, the director of the National Economic Council, but has yet to meet with President Trump.

If nominated and confirmed, Ms. Shelton would take one of two open positions on the seven-member board of governors in Washington. Two of Mr. Trump's would-be nominees, Herman Cain and Stephen Moore, were withdrawn from consideration after Republican lawmakers made clear they would not support their nominations given concerns about their past treatment of, or statements about, women.

Ms. Shelton, now executive director of the European Bank for Reconstruction and Development, previously advised Mr. Trump during his presidential campaign and served on his transition team. She has regularly praised Mr. Trump's economic policies, and now favors near-zero interest rates, a position likely to curry favor with a president who has called the central bank the "biggest risk" to the economy.

In an interview, Ms. Shelton criticized the Fed's current practice of paying interest on excess money that banks keep at the Fed as a way to set the Fed's policy rate. The approach, she said, encourages banks to hold money that they would otherwise lend out, since they are being paid to keep their money idle. To help "phase out" the practice, Ms. Shelton said, she would support gradually cutting interest rates back to rock-bottom. If that spurred inflation, Ms. Shelton said, she would want to sell off the Fed's holdings of Treasury securities and other government-backed bonds to keep prices from spiraling out of control.

"It's like paying the banks to do nothing," Ms. Shelton said of the current practice. Her plan would be "effectively cutting interest rates, but not as a primary goal."

Ms. Shelton, who is friends with both Mr. Kudlow and Mr. Moore, has been a proponent of the White House's \$1.5 trillion tax cut, deregulatory approach, and continuing trade war with China, which she calls "uncomfortable" but something "we have to pursue."

“The policy changes, I think, are unleashing the potential for a high-growth, productive economy,” she said.

Ms. Shelton could have an easier road to nomination than some of Mr. Trump’s more recent picks. She was confirmed in March 2018 as head of the European Bank for Reconstruction and Development, so she has already passed a government background check and made it through Senate Foreign Relations Committee vetting. If she is nominated, the Senate Banking Committee will hold her Fed confirmation hearing.

Still, while four of Mr. Trump’s Fed nominees were confirmed, his two most recent formal nominations — Nellie Liang and Marvin Goodfriend — were never cleared by lawmakers. And neither Mr. Moore, a political commentator, nor Mr. Cain, a former presidential candidate, was ever formally nominated after concerns about past issues surfaced.

Ms. Shelton would be an unconventional pick for the Federal Reserve’s board of governors. Her preference for a linked currency — one tied to gold or some other reference point, rather than simply backed by faith in the government — would make her unique among her colleagues. She wrote in 2018 that “we make America great again by making America’s money great again.”

That stance may appeal to Mr. Trump, who has fondly recalled the gold standard.

She has also been an outspoken opponent of the Fed, criticizing the central bank’s policies as a driver of the 2008 financial crisis and its attempt to clean up the mess. “No other government institution had more influence over the creation of money and credit in the lead-up to the devastating 2008 global meltdown,” she wrote in The Wall Street Journal in April. “And the Fed’s response to the meltdown may have exacerbated the damage by lowering the incentive for banks to fund private-sector growth.”

“She would bring a different voice, a different perspective,” said James A. Dorn, vice president for monetary studies at the libertarian-leaning Cato Institute. “Judy has been much more critical of the Fed than most of the people who are currently on the board.”

Ms. Shelton holds a doctorate in business administration from the University of Utah and cut her teeth at the Hoover Institution from 1985 to 1995. She sat just down the hall from Milton Friedman, a conservative economist who developed important groundwork for modern monetary policy. Condoleezza Rice, who went on to be secretary of state under President George W. Bush, was another colleague.

She then made her way to Washington. She worked with Bob Dole’s presidential campaign back in 1996. She spent much of the 2000s writing opinion pieces, serving on corporate boards and working with the National Endowment for Democracy, most recently as chairwoman.

She began the 2016 election cycle advising Ben Carson, but began advising Mr. Trump’s campaign in August 2016, after she penned a Wall Street Journal opinion piece titled “Trump’s Contribution to Sound Money.” Steven Mnuchin, now the Treasury secretary, called and asked her to join the cause, she said. She went on to work on the Trump transition team in a Treasury role.

Ms. Shelton has been married to Gilbert Shelton, a former banker and investor, for more than 40 years. Both she and her husband regularly donate to right-leaning candidates and organizations, records show.

Since taking her post at the European Bank for Reconstruction and Development, a multilateral institution founded in 1991 to help foster post-Cold War projects in Central and Eastern Europe, Ms. Shelton has continued to watch and praise Mr. Trump's actions. She has also remained critical of the Fed, both in her writings and in a recent interview.

"It's fair to challenge the models and practices of the Federal Reserve, and to say, 'Is this is the best we could do?'" Ms. Shelton said. "Central banks, to some extent, have been a demoralizing force for free markets."