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‘The Federal Reserve is not your friend’: Trump quest to remake the Fed hinges on Judy Shelton

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Judy Shelton has preached an overriding message in recent years: The Federal Reserve has too much power over the economy and needs to be reined in.

Shelton, a conservative scholar and adviser to President Trump’s 2016 presidential bid, has described the Fed as “very close to central planning” and asked, “Why do we need a central bank?”

She argued in a 2015 commentary that many of the Fed’s actions have “rigged” the economy “in favor of Wall Street and the wealthiest 1 percent.”

Part of the solution, she says, is for the nation to move closer to something akin to the gold standard, which the nation fully abandoned in 1971. “We make America great again by making America’s money great again,” Shelton wrote in an essay last year.

Despite her provocative views — or perhaps because of them — Shelton is now one of Trump’s leading candidates to serve on its governing board. He said that he intends to nominate her and economist Christopher Waller, the research director at the Federal Reserve Bank of St. Louis, to round out the Fed’s seven-member board.

Shelton’s unorthodox views and her political pedigree underscore how intent Trump is on pushing the Fed in a new direction. They also set up a test for how far Senate Republicans are willing to go down that path.

The president wants the Fed to substantially cut interest rates, a move that would boost growth during his reelection campaign.

But Shelton could shape policy at the central bank for years, as one of the open Fed board positions ends in 2024 and the other in 2030.

Trump has expressed exasperation with Fed Chair Jerome H. Powell, whom he picked about two years ago. Some economists speculate that Trump could try to move Shelton into the Fed chair position, either by attempting to fire Powell or in a potential second term.

“The Senate should treat her nomination as if it’s confirming a Fed chairman and not a governor,” said Michael Strain, director of economic policy studies at the American Enterprise Institute. “Given how clear the president has been that he’s unhappy with Chair Powell, it’s quite reasonable that he’s trying to set up the next chairman here.”

Trump previously tried to nominate two conservative allies — Stephen Moore and Herman Cain — for the open positions, but their candidacies collapsed amid concerns about their backgrounds and qualifications.

No similar issues have emerged about Shelton or Waller, although a wide range of economists have described Shelton's views as outside the mainstream, and sometimes contradictory.

In the aftermath of the Great Recession, when Barack Obama was president, Shelton frequently criticized "ultralow" interest rates.

"The Federal Reserve is not your friend," she wrote in the Weekly Standard in 2013. "Loose monetary policy is bad for you and for your economic prospects."

Now she advocates for lower rates "as expeditiously as possible," arguing that the Fed should not hold back Trump's pro-growth agenda and that the central bank has been effectively subsidizing banks by keeping rates high.

She called for a large 50 basis point cut in interest rates when the Fed meets later this month. Wall Street investors expect a more modest 25 basis point move.

Some economists also expressed concern about Shelton saying in a 2015 talk, "I don't trust the statistics on GDP growth or on inflation."

In a series of e-mails, Shelton defended her views, saying that she remains "skeptical about the accuracy and consistency" of economic statistics because they do not always capture technological innovation accurately. She added that "we need to be sure that data used for policy-making decision is accurate and appropriate."

On interest rates, Shelton said she has been a long-time critic of the Fed paying banks interest on the extra reserves they park at the central bank. She said the Fed is discouraging banks from lending by "essentially pay[ing] banks to do nothing." She wants that practice phased out.

She is also critical of quantitative easing, by which the Fed buys bonds to drive down interest rates, a practice Trump strongly supports.

On gold, she noted that former Fed Chair Alan Greenspan has also spoken favorably of a gold standard. She says that she's not looking to immediately return to having every dollar linked to a piece of gold, but she favors a "universal benchmark" so that the dollar, euro and other currencies do not fluctuate as much as they do now.

Waller declined to comment for this story.

Shelton and Waller are unlikely to join the board before the end of the year, if at all. The White House is still vetting them and has yet to send their nominations to the Senate, where it typically takes months for a vote.

Waller has generated a mostly positive reaction from Wall Street, GOP senators and Fed watchers. His research and public remarks appear to favor slightly lower interest rates, as Trump wants, but he also has argued forcefully for keeping the Fed independent of political interference.

"If I was going to make a robot to be on the Fed, he'd be it," said Sen. Kevin Cramer (R-N.D.), a member of the Senate Banking Committee that oversees the central bank.

Shelton is more controversial.

In discussions with 18 Wall Street economists and financial lobbyists, all supported Waller, but only three backed Shelton with enthusiasm.

“Ten Judy Sheltons at the Fed would be too much, but one could be just fine. I think others will learn from Judy at the Fed,” said George Selgin, director of the Center for Monetary and Financial Alternatives at the Cato Institute.

Five people said Shelton would be an acceptable Fed governor because they view her as a step up from Cain and Moore.

“The Trump administration will keep pushing these low-interest-rate advocates to join the Federal Reserve Board,” said Chris Rupkey, chief financial economist at MUFG Bank. “We might as well take the latest offering in case the next crop of candidates gets even worse.”

Republican senators generally sound upbeat about Shelton’s prospects, praising her credentials and her “healthy” and “diverse” perspective.

“She has a good, solid technical background. She knows an economics textbook from a J. Crew catalogue,” said Sen. John Neely Kennedy (R-La.), a member of the banking committee. “I think she’s a good choice.”

“She would bring a diversity to that group that would add value,” Cramer said, but he noted there is “some controversy” about her attendance record in her current job that he wants to ask her about.

Shelton is serving as U.S. director at the European Bank for Reconstruction and Development (EBRD), for which she has relocated to London. Shelton has attended about 60 percent of director meetings, according to board minutes.

In response to questions about her attendance, Shelton said she has been asked to travel to Washington to advise government officials and has always ensured a U.S. representative attends EBRD meetings. She noted she was an active participant in five-day meetings in places such as Sarajevo, Bosnia and Herzegovina.

Those who know Shelton, 65, describe her as smart, kind and a respectful debater. She sends thank-you notes after meetings and tweets photos of picturesque places in addition to Fed commentary. Shelton and her husband, Gilbert, live in rural Virginia, about an hour from Washington.

Shelton told C-SPAN that she enjoys living away from Washington because she’s not “a good sound-bite person” and prefers to sit at home in jeans and a T-shirt “pounding away on my keyboard.”

Supporters stress that she is an expert in international central banking at a time when the Fed has to pay greater attention to what’s going on in Europe, China and beyond.

She earned a PhD in business administration from the University of Utah, and was the only woman in her graduating class. She became a fellow at Stanford’s Hoover Institution and published her first book in 1989, “The Coming Soviet Crash,” which predicted the end of the Soviet Union and earned widespread praise.

She chaired the National Endowment for Democracy, taught for several years at a business school in Mexico, and has been an advocate for lower taxes, free trade and “open borders” with Mexico, ideas that were common among business-minded conservatives until Trump’s campaign.

In the 1990s, Shelton began writing and speaking extensively in favor of sound money. Her second book, “Money Meltdown” in 1994, received a more tepid response.

Shelton and her husband have been loyal Republicans, donating to more than a dozen GOP lawmakers over the years. Shelton has donated to two sitting senators, Mitt Romney (R-Utah) in 2012 and Lamar Alexander (R-Tenn.) in 1999, according to OpenSecrets data. Shelton also advised Robert J. Dole’s 1996 presidential campaign, helping to persuade him to run on a platform of lower taxes.

Shelton’s financial disclosures for the EBRD directorship showed a net worth of \$16 million to \$70 million. She says she has already sold the bank stocks she used to hold and would follow the Fed’s conflict of interest rules if she is confirmed.

The White House is defending Shelton from critics. Larry Kudlow, Trump’s top economic adviser who led the search to fill the final two spots on the Fed board, is a longtime friend of Shelton’s.

“There’s no way Judy Shelton is radical,” he said. She’s a “PhD economist in the monetary field for how many decades?”

The president met with Waller and Shelton for about 45 minutes in early July. A key part of the discussion was that both candidates think the economic concept known as the Phillips curve is no longer valid, Kudlow said, meaning they do not think a low unemployment rate and robust growth are likely to trigger inflation.

The Fed typically raises interest rates to keep inflation in check, so if no inflation threat is on the horizon, some experts argue, that is a case for the Fed to lower rates.

In a Cabinet recent meeting Trump lamented that he does not have more control over the Fed.

“In China, the rates are whatever President Xi wants. He’s his own Fed,” Trump said, claiming the U.S. economy would be “even better” if the Fed had not raised rates so high.

Waller has spent the past decade at the St. Louis Fed and was chairman of the University of Notre Dame’s Economics Department before that. His research and public comments show support for central bank independence; a distaste for negative interest rates, which he calls “taxes in sheep’s clothing”; and some skepticism that conventional economic models still hold.

James Bullard, president of the St. Louis Fed and Waller’s boss, was the only Fed leader to vote for a rate cut in June. He suggested that Waller has similar views.

“Obviously, we have worked together a lot. We do think alike in many dimensions,” Bullard said last week.

Many economists brush off Shelton’s push to return to something like the gold standard, arguing it won’t happen. But she also has advocated for expanding “private currencies,” that could compete with the U.S. dollar, a heated topic currently before the Fed as Facebook announces plans to create its own currency.

“Allowing currency competition would be a very positive thing to do,” Shelton said in 2017 on the Gold Newsletter podcast. “I like the idea that these currencies might start to give a little competition to our own Federal Reserve.”