



Fed nominee Shelton has policy views ‘appealing’ to Trump

Brian Cheung

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Although both nominees have yet to be officially nominated by the White House, those inside the Washington beltway expect both candidates to be thoroughly vetted, with a particular focus on Shelton. As of late, Shelton appears to have made public statements that closely track the monetary policy needs of the president.

While Waller, a career economist who taught at Notre Dame before heading to the St. Louis Fed, appears to have little history of political ties, Shelton may face some questions on whether she has altered her economic thinking to fit the monetary policy needs of the administration.

“Our sense is that Shelton’s path to confirmation is slightly narrower,” Compass Point’s Isaac Boltansky wrote in a note Wednesday morning, adding that Waller appears to be a more “conventional pick.”

This is Trump’s third try at filling the remaining two seats on the board.

Last year, Trump nominated Carnegie Mellon economist Marvin Goodfriend and former Fed official Nellie Liang, only to have those nominations expire and withdrawn, respectively. As Trump boiled over the Fed’s decision to raise interest rates under Fed Chairman Jerome Powell, he nominated campaign adviser Stephen Moore and former pizza executive Herman Cain.

Both were heavily criticized for their close ties to Trump; Cain ultimately bowed out citing low pay, and Moore withdrew his nomination shortly after his controversial writings about women resurfaced.

‘Appealing’ to the White House

Since entering the rumor mill as a possible Fed candidate, Shelton has publicly called for lower interest rates. Shelton, who is the U.S. executive director of the European Bank for Reconstruction and Development, told The Washington Post June 19 that she would like to lower the federal funds rate “as fast, as efficiently, as expeditiously as possible,” even to zero.

On June 28, Shelton told The Wall Street Journal that she is worried about other central banks easing policy while the Fed stays on hold, speculating that other countries are doing so to devalue their currency to “gain an export advantage.”

Both of those viewpoints appear to align with Trump's disappointment with current Fed policy. He has called for as much as a 100 basis point cut in interest rates, arguing that the Fed's rate hikes in 2018 dampened the effect of his tax cuts.

And a week and a half before Shelton's remarks on currency devaluation, Trump fired off a tweetstorm alleging that the European Central Bank is easing monetary policy to pump up the U.S. dollar and depress U.S. exports.

"Very unfair to the United States!" Trump tweeted June 18.

But Shelton's history hints at an economist who may not favor a policy as easy as she has publicly messaged. Boltansky says that Shelton has made a "seismic shift" in thinking monetary policy as of late. In a 2015 paper for the libertarian think tank Cato Institute, Shelton posited that governments "suppressed interest rates through accommodative monetary policies" to finance sovereign debt. She has advocated for a more "rules-based" approach to monetary policy anchored by gold.

Shelton appears to have dialed back her public comments in favor of quantitative tightening, the process of the Fed unwinding its balance sheet to undo the asset purchases it made to counter the negative impacts of the financial crisis (quantitative easing). Trump has repeatedly argued that quantitative tightening constrains economic growth, at times calling on the Fed to actually restart quantitative easing.

Shelton has advocated for eliminating the Fed's process of paying interest on reserves that U.S. banks park at the Fed, an in-the-weeds mechanism that the central bank uses to steer the benchmark interest rate to its target. Reducing bank deposits left at the Fed reduces the liabilities on the central bank's balance sheet, meaning the Fed would similarly have to reduce its asset holdings to keep the books balanced.

Bank reserves, or deposits parked at the Fed, totaled about \$1.6 trillion as of mid-February 2019. Fed Chair Powell said today he could see the central bank reducing its holding of assets to a level where demand for reserves is at about \$1 trillion.

In short, her proposal would suggest further asset roll-offs and more quantitative tightening, the opposite of what Trump would like to see at the central bank.

George Selgin, a senior fellow at the libertarian think tank Cato Institute, told Yahoo Finance that Shelton appears to be holding back on this view, instead choosing to publicly harp on lower rates to win Trump's favor.

"That combination makes her more appealing to Trump but it sounds like she's going all out for easy money but I think, in fact, she favors shrinking the balance sheet as well," Selgin said.