

THE HOUR

GOP senators face new loyalty test: Whether to approve Trump's controversial Fed nominee Shelton

Heather Long and Erica Werner

July 10, 2020

President Donald Trump's unconventional pick for a seat on the Federal Reserve Board, Judy Shelton, will face tough questions next week from some key GOP senators. Her performance at her hearing could make or break her confirmation.

An outspoken critic of the Federal Reserve, Shelton is best known for her controversial views on monetary policy. She has suggested that the United States does not need a fully independent central bank and has advocated for the nation to return to something akin to the gold standard. Several GOP senators on the Banking Committee said they have questions for her. The Senate Banking Committee is split along party lines, 13 to 12, so yes votes from all Republicans will probably be necessary to advance her confirmation.

"There are a lot of questions about her," said Sen. Richard Shelby, R-Ala., a senior member of the Banking Committee, which must approve Fed nominations. "I have a few, but I'm not the only one."

Shelby said he planned to listen closely to her answers at the Feb. 13 hearing, which will also include Trump's other nominee, economist Christopher Waller of the Federal Reserve Bank of St. Louis. Democrats on the Banking Committee are likely to vote against Shelton.

"I have an interest in having solid, mainstream people on the Fed," Shelby said in an interview. "Some people say that she's not, others say she is. Let's see what she says."

How Shelton responds to lawmakers' questions could make or break her nomination, according to five banking lobbyists who spoke on the condition of anonymity to talk freely about the confirmation hearing. Although much media attention has focused on Shelton's views about gold, the banking community is more alarmed by her desire to end federal deposit insurance, which secures account holders' deposits of up to \$250,000 at U.S. banks, and her recent questioning of the Fed's overnight borrowing market, referred to as repo operations, which helps the Fed keep cash flowing through the financial system.

Trump's last four Fed nominees failed to make it through the confirmation process, a rare defeat for the White House with a GOP-controlled Senate. Politically, it would be difficult for Republican senators to go up against Shelton after just voting to acquit the president of impeachment charges. And Trump's reelection campaign is humming along with substantial funding.

Although many of Shelton's views are outside the mainstream, many Republicans and financial insiders say she presents little risk to the Fed - or the broader economy. If confirmed, she would be one of seven members of the Board of Governors and one of 12 voting members on the Fed's committee that sets interest rates, meaning her influence would be narrow.

"I don't think she belongs on the [Fed] board, but it's not going to be the apocalypse," said Tony Fratto, a former Treasury official under President George W. Bush who runs a consulting firm. "She's not going to change the direction of monetary policy."

Some observers have voiced concern that Trump is positioning Shelton to be the Fed's next chair, a role that would give her extensive influence and power to enact more unconventional policies. Trump appointed current Fed Chair Jerome Powell, though the president has frequently expressed regret over that decision and looked for ways to remove him. Powell's term ends in early 2022.

"Anyone who thinks Shelton would be just one of 12 votes on monetary policy hasn't been paying attention to her courtship of the White House and Trump's feud with the Fed. You can't support Powell and vote to confirm her," said Sam Bell, an avid Fed watcher and the founder of Employ America, a policy group that advocates for full employment and higher wages.

Sen. Mike Crapo, R-Idaho, chair of the banking committee, is moving quickly to push through the nominations, which has alarmed some in the industry who would prefer a well-vetted process.

"This fast tracking of the Shelton nomination is mind boggling. It is as if they have not read anything she has said," tweeted Diane Swonk, chief economist at Grant Thornton. "She is not only unqualified, she is dangerous. She has advocated policies removing deposit insurance and policies that would undermine community banking."

But Shelton has already won over Sen. Kevin Cramer, R-N.D., who played a key role in sinking businessman Herman Cain's Fed nomination last year. Cramer met with Shelton on Tuesday and said he intends to support her despite "what some might consider her more exotic views."

"I kind of like having somebody that challenges status quo like Judy on it," Cramer said. "I wouldn't want five members like her."

Sen. Thom Tillis, R-N.C., another Banking Committee member, also anticipated a lively confirmation hearing. But like many Republicans, he brushed off some of her more contentious views by arguing that they don't matter, since there's no way the United States is going to return to the gold standard anytime soon.

"I'm sure the gold-standard question will come up. Honestly, there's no way to do it given where we are with our balance sheet," Tillis said. "There's just no way the math works right now."

Sen. Patrick Toomey, R-Pa., has also expressed concern about trying to move the United States back to the gold standard, which most economists say is a mistake that would severely hamper the nation's ability to climb out of a recession. Toomey's office declined to comment on Shelton this week.

Sen. Elizabeth Warren, D-Mass., a high-profile banking committee member, has called Shelton's views "radical" and questioned the nominee's apparently flip-flopping views on interest rates.

In the wake of the Great Recession, when Barack Obama was president, Shelton frequently criticized "ultralow" interest rates. But in recent months, she has become an advocate of lower interest rates, a view critics say is more politically driven to align with Trump.

In past interviews with The Washington Post, Shelton has stressed that she does not speak with Trump and has always been an independent thinker. Shelton served as an informal adviser to Trump's 2016 campaign and was his pick for U.S. executive director to the European Bank for Reconstruction and Development, a position for which she was confirmed by the Senate in 2018.

Shelton, who holds a PhD in business administration from the University of Utah, spent much of her career writing books and heading up the Sound Money Project, an economic research body. "We make America great again by making America's money great again," Shelton wrote in a 2018 essay for the libertarian Cato Institute.

Waller, the other Fed nominee to go before the Banking Committee next week, has spent the past decade as an economist and research director at the St. Louis Fed. He is an outspoken supporter of Fed independence and is widely viewed as a noncontroversial nominee. Banking lobbyists said pairing Waller and Shelton together was a shrewd move by the White House that could help ease Shelton's confirmation.

The Post surveyed 18 Wall Street economists and financial lobbyists last summer shortly after Trump floated the two candidates' names on Twitter. All supported Waller, but only eight said Shelton should be confirmed

A senior Trump administration official, who spoke on the condition of anonymity to discuss private deliberations, said that the administration does not anticipate any problems getting Shelton confirmed. Her meetings with senators have been successful, the official said, and "her confirmation process in committee remains on track."

One of Trump's previous Fed nominees, Marvin Goodfriend, weathered a rough confirmation hearing in early 2018. He struggled to explain why he was wrong in predicting that high inflation would ruin the economy in the aftermath of the Great Recession, as the Fed lowered rates and stimulated the economy. (Goodfriend died in December.) Republican leaders did not think they had enough votes to confirm him and never brought him up to be confirmed by the full Senate. Shelton's nomination risks a similar fate if she cannot make it through her hearing relatively unscathed.