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January 30, 2020

Dr. Judy Shelton
Care of: Office of the Congressional Liaison
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Dr. Shelton:

I write regarding my significant concerns with your nomination to the Board of Governors of the Federal Reserve (the Fed). On January 16, 2020, President Trump announced his intent to nominate you for the remainder of a 14-year term expiring January 31, 2024.¹ As a member of the Senate Committee on Banking, Housing, and Urban Affairs, whose jurisdiction includes your nomination, it is my responsibility to carefully scrutinize your views and record on issues relevant to the job for which you are nominated, and I have attached a list of questions to this letter accordingly. The decisions that you will be asked to make if you are confirmed affect the health of our economy and the wellbeing of every single American family. Given the gravity of the task you will face if your nomination is approved and you become a Governor of the Federal Reserve System, it is critical that you are able to provide assurances that you can make decisions about the economy independently of politics, with good judgment, and based on sound data.

The seven members of the Board of Governors have ultimate control over the policies of the Federal Reserve, and, once confirmed by the Senate, generally serve for at least a 14-year term.² These powerful individuals are tasked with pursuing full employment and stable prices by adjusting the monetary supply and interest rates, supervising banks to protect consumer rights, preserving the stability of the nation's financial system by monitoring systemic risk, and operating the nation's payments system and providing other financial services to the government and to financial institutions.³ And while the Federal Reserve should be accountable to the public, Congress designed it to be largely independent of short-term political pressures by instituting

¹ The White House, "President Donald J. Trump Announces Intent to Nominate Individuals to Key Administration Positions," January 16, 2020, <https://www.whitehouse.gov/presidential-actions/president-donald-j-trump-announces-intent-nominate-individuals-key-administration-posts-26/>.

² Board of Governors of the Federal Reserve System, "Board Members," March 1, 2017, <https://www.federalreserve.gov/aboutthefed/bios/board/default.htm>.

³ Board of Governors of the Federal Reserve System, "What is the purpose of the Federal Reserve System," March 1, 2017, <https://www.federalreserve.gov/faqs.htm>.

lengthy, staggered terms for its Governors, separating it from the Congressional appropriations process, and prohibiting administration officials from serving on its Board.⁴

The Federal Reserve's structure and extraordinary responsibilities require that its Governors are willing and able to act based on evidence, with care and attention to the best interests of the American people, and independent of short-term political pressure, such as from the President. Your history indicates you are unable to do so.

History of Inaccurate and Radical Statements Related to Economic Policy and the Role of the Fed

- You are well-known for your advocacy for a return to some form of a gold standard. In this type of monetary system, the value of the dollar would be tied to the value of gold and the ability of governments to fight recessions and combat inflation would be severely limited.⁵ In 2012, the University of Chicago's International Global Markets Panel, a group of top economists from a variety of ideological persuasions, was asked if "defining a 'dollar' as a specific number of ounces of gold would result in better price-stability and employment outcomes for the average American."⁶ Of the nearly 40 economists who responded, all indicated that they disagreed or strongly disagreed with that premise.⁷ While you have downplayed that position since your nomination was announced, I'm concerned that your change of heart reflects a political calculation rather than a true evolution in your thinking.⁸
- In your 1994 book "Money Meltdown," you made the disturbing claim that "the existence of federal deposit insurance schemes... undermines the integrity of the banking industry in the United States by steering it in the direction of excessively risky loan portfolios."⁹ In the same book, you argued that "eliminating federal deposit insurance would restore the essential character of banking as a vehicle for channeling financial capital into productive investments."¹⁰ In reality, deposit insurance is widely accepted as an integral part of the framework of the U.S. financial system, and played a vital role in protecting consumers from losses and stabilizing the financial sector during the global financial crisis.¹¹
- In May 2019, you sat for an interview with the Financial Times in the Trump International Hotel in Washington, D.C. in which you compared the Fed's authority to

⁴ Board of Governors of the Federal Reserve System, "What does it mean that the Federal Reserve is "independent within the government," https://www.federalreserve.gov/faqs/about_12799.htm.

⁵ Politico, "Trump Fed pick's push for gold troubles lawmakers," Victoria Guida, July 28, 2019, <https://www.politico.com/story/2019/07/28/judy-shelton-fed-gold-standard-dollar-1616538>.

⁶ Chicago Booth, "Gold Standard," January 12, 2012, <http://www.igmchicago.org/surveys/gold-standard>

⁷ Id.

⁸ Tweet by Victoria Guida, July 29, 2019, <https://twitter.com/vtg2/status/1155809443092807686>

⁹ "Money Meltdown," Judy Shelton, 1994.

¹⁰ Id.

¹¹ Federal Deposit Insurance Corporation Staff Paper, "Deposit Insurance Funding: Assuring Confidence," Diane Ellis, November 2013, <https://www.fdic.gov/deposit/insurance/assuringconfidence.pdf>.

“Soviet” style power and made comments that suggest you disagree with the basic purpose and mission of the Federal Reserve.¹² You asked, “how can...slightly less than a dozen people meeting eight times a year, decide what the cost of capital should be versus some kind of organically, market supply determined rate?”¹³ In the same interview, you also “suggested [the Fed] should not even be in the business of setting interest rates.”¹⁴ These comments raise serious questions about your understanding of the Fed’s operations and your commitment to carrying out its mission.

History of Forming Views on Policy Based on Political Loyalties

- As late as 2016, during the previous administration, you argued that the Fed’s low interest rates stimulated the economy “at the expense of people with ordinary bank savings accounts and retirees on fixed-income pensions.”¹⁵ Today, you have reversed your position, claiming that “Things have changed.”¹⁶ You now support substantial cuts to the federal funds rate and have argued for eliminating the Fed’s practice of paying interest on excess bank reserves.¹⁷ This drastic switch in your opinion to reflect President Trump’s preferences suggests that your judgments are informed by political opportunism rather than sound economic analysis that a Fed Governor is expected to undertake when making decisions that will affect millions of Americans.
- In 2009, you claimed that we were in an era of “unprecedented spending, unending deficits, and what I consider an unconscionable accumulation of debt,”¹⁸ In recent years, however, when federal debt relative to the size of the economy is projected to be twice its average over the past 50 years,¹⁹ you not only refrained from criticizing the policies the led to these trends since the change in administration, such as the Tax Cuts and Jobs Act, but also claimed that the “economy is primed to grow.”²⁰ This example again suggests that you are unable to remove your political bias from your views of the economy.

¹² Financial Times, “Fed candidate slams bank’s ‘Soviet’ power over markets,” James Politi, May 31, 2019, <https://www.ft.com/content/46c4b186-8308-11e9-b592-5fe435b57a3b>.

¹³ Id.

¹⁴ Id.

¹⁵ Financial Times, “Trump is right to take aim at the ‘political’ Fed,” Judy Shelton, September 28, 2016, <https://www.ft.com/content/c253d1b8-84cf-11e6-8897-2359a58ac7a5>

¹⁶ Wall Street Journal, “Potential Fed Nominee Would Seek Shake-Up of Interest-Rate Policy,” Nick Timiraos, May 21, 2019, <https://www.wsj.com/articles/potential-fed-nominee-would-seek-shake-up-of-interest-rate-policy-11558464417..>

¹⁷ Washington Post, “Trump Fed pick Judy Shelton calls for 50-basis-point cut to interest rates in July,” Heather Long, July 22, 2019, <https://www.washingtonpost.com/business/2019/07/22/trump-fed-nominee-judy-shelton-calls-basis-point-cut-interest-rates-july/>.

¹⁸ Q&A with Judy Shelton, November 4, 2009, <https://www.c-span.org/video/?c40377/user-clip-clip-qa-judy-shelton>.

¹⁹ Congressional Budget Office, “An Update to the Budget and Economic Outlook: 2019 to 2029,” August 2019, https://www.cbo.gov/system/files/2019-08/55551-CBO-outlook-update_0.pdf.

²⁰ CNBC, “Trump’s Fed pick Judy Shelton is a fan of the gold standard and other unusual economic policies,” Thomas Franck, July 2, 2019, <https://www.cnbc.com/2019/07/03/trumps-federal-reserve-pick-judy-sheltons-economic-policies.html>.

These and many other statements you have made in your public career strongly suggest that you lack the capacity to exercise the care, consistency, and political independence expected of members of the Board of Governors by policymakers and the American public across the political spectrum.

In order to better understand your history of statements and actions that call into question your economic expertise and judgment, as well as your apparent inability to make economic judgments divorced of political calculations, I ask that you respond to the following questions no later than February 13, 2020.

Sincerely,



Elizabeth Warren
United States Senator

1. In a Wall Street Journal Op-ed, you attacked the concept of the independence of the Federal Reserve by stating that “it would be in keeping with its historical mandate if the Fed were to pursue a more coordinated relationship with both the Congress and the president.”²¹ Describe the elements of this “coordinated relationship” that you envision.
 - a. Is referring to the Federal Reserve Chair as a “bonehead” and “enemy”²², as the President has done in his tweets a part of this relationship? Do you believe such statements are appropriate?
 - b. If confirmed, how would you consider the views of the President in your decision-making?
 - c. When the Fed disagrees with the president on how to achieve a certain goal, is it your view that the Fed should give deference to the President?
2. Do you still support eliminating deposit insurance? If so, what new evidence or new data has caused your view to change?
3. Do you still support returning to the gold standard? If so, what new evidence or new data has caused your view to change?
 - a. You have recently suggested that international leaders should meet at President Trump’s privately owned Mar-a-Lago resort to design a new monetary system.²³ Can you further clarify the purpose of this summit?
 - i. Why do you believe that Mar-a-Lago is the ideal place to have such a summit?
4. In a 2009 interview, you stated that you were “so tired of the criticism –this was even among Republicans- of Wall Street greed or predatory lending,” with respect to the role they played in causing the financial crisis.²⁴
 - a. What factors do you think caused the 2008 financial crisis?
 - b. Do you believe that Wall Street greed played any role in causing the financial crisis?

²¹ Wall Street Journal Opinion, “The Fed’s Mandate is Up to Congress and the President,” Judy Shelton, September 16, 2019, <https://www.wsj.com/articles/the-feds-mandate-is-up-to-congress-and-the-president-11568673581>.

²² Washington Post, “Trump has ‘cordial’ meeting with Fed Chair Powell after calling him a ‘bonehead,’” Heather Long, <https://www.washingtonpost.com/business/2019/11/18/trump-has-cordial-meeting-with-fed-chair-powell-after-calling-him-bonehead/>.

²³ Washington Post, “Trump’s potential Fed pick Judy Shelton wants to see lower rates ‘as expeditiously as possible,’” Heather Long, June 19, 2019, <https://www.washingtonpost.com/business/2019/06/19/fed-meets-trumps-potential-next-pick-wants-see-lower-rates-fast-possible/>.

²⁴ Q&A with Judy Shelton, November 4, 2009, <https://www.c-span.org/video/?289812-1/qa-judy-shelton>.

- c. Do you believe that predatory lending exists?
5. In 2017, you referred to President Trump as a disrupter and said “we need a disruptive voice on the Fed as well.”²⁵
- a. Can you clarify exactly what you meant by that statement?
- b. If confirmed to the Fed, do you see yourself as a “disrupter”?
6. In 2017, you stated that “allowing currency competition would be a very positive thing to do”²⁶ and that you “like the idea that these currencies might start to give a little competition to our own Federal Reserve.” Can you please clarify what you meant by this statement, why you believe that having multiple currencies would be efficient, and what regulatory regime you would envision for these currencies?

²⁵ Washington Post, “Trump’s potential Fed pick Judy Shelton wants to see lower rates ‘as expeditiously as possible,’” Heather Long, June 19, 2019, <https://www.washingtonpost.com/business/2019/06/19/fed-meets-trumps-potential-next-pick-wants-see-lower-rates-fast-possible/>.

²⁶ Washington Post, “‘The Federal Reserve is not your friend’: Trump quest to remake the Fed hinges on Judy Shelton,” Heather Long and Emily Davies, July 23, 2019, https://www.washingtonpost.com/business/economy/the-federal-reserve-is-not-your-friend-trump-quest-to-remake-the-fed-hinges-on-judy-shelton/2019/07/22/d6440a3e-a35e-11e9-b8c8-75dae2607e60_story.html.