

Senate committee gives nod to Trump Fed nominee

By Nick Beams
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Trump's nominee for a vacant position on the Federal Reserve's Board of Governors, Judy Shelton, has come a step closer to obtaining the post after being approved by the Senate Banking Committee on Monday.

In a party-line vote, the 13 Republicans on the committee voted to send her nomination to the floor of the Senate over the opposition of the 12 Democrats. In a separate vote, the committee voted 18-7 to send forward the nomination of the St. Louis Fed's director of research, Chris Waller, to fill another vacancy on the bank's seven-member board.

Shelton was nominated by Trump last July after two previous nominations for the vacant positions were withdrawn when it became apparent that they would not receive the necessary support from within the Republican majority.

Confirmation hearings were held in February, and it appeared at that time that her nomination might not pass the Banking Committee after key Republican senators expressed doubts about her suitability.

Considerable attention was devoted to her earlier advocacy of a return to the gold standard and writings that even called into question the need for the Fed. In the midst of the 2008 financial crisis, Shelton wrote a piece for the *Wall Street Journal* in which she criticised the power of the Fed's Open Market Committee to fix interest rates.

"We might as well resurrect Gosplan, the old Soviet Planning Committee, and ask them to draw up the next five-year plan," she wrote.

This was followed in May 2009 with another comment piece that started with the sentence, "Let's go back to the gold standard."

But like former Fed Chairman Alan Greenspan, who was also once an advocate of the gold standard, Shelton

is nothing if not flexible.

During the period of the Obama administration, as the Fed, under Ben Bernanke and then Janet Yellen, was carrying out its quantitative easing programme and holding interest rates at record lows, she was a fierce critic. This was in line with the positions of Trump.

Then, when Trump launched his campaign against the Fed, under the chairmanship of his appointee Jerome Powell, for keeping interest rates too high, Shelton changed course, pushing for lower interest rates. She even indicated, again in line with Trump, that the Fed should use monetary policy to lower the value of the dollar to put the US in a better competitive position against its economic rivals in Europe.

Her policy shifts came under fire during the February Senate hearings, with Democrats opposing her on the grounds that she held "too many alarming ideas" and that her shifts in accordance with the positions of Trump would further undermine the fiction of Fed independence.

Democratic Senator Chris Van Hollen made the obvious point that her responses on economic policy were inconsistent, noting that the "only thing that has changed is who's in the White House."

But much has changed since those hearings and the criticism of the Fed by Trump has ceased, as the central bank has handed out trillions of dollars to Wall Street with the onset of the COVID-19 pandemic, with the fulsome support of the Democrats.

In the confirmation hearings, Shelton backed away from her previous call for a return to the gold standard, saying she "would not advocate" going back to a "prior historical monetary arrangement" and "money only ever moves forward."

While the Democrats voted as a bloc to oppose Shelton's appointment, opposition among Republican

senators, which would have swung the balance against her, dissolved.

During the confirmation hearing, Republican Senator Pat Toomey said the only rational conclusion one could reach from what she had written was that she believed the Fed should actively seek to devalue the US currency. “That’s a very, very dangerous path to go down,” he said. “This beggar-thy-neighbour currency devaluation is not in our interest, and is not in the mandate of the Fed to pursue it,” he said back in February.

But with the escalation of trade and economic warfare by the Trump administration over the past five months—with the Democrats taking an even more bellicose stance—it appears that opposition to such measures has largely dissolved.

Toomey said after the February confirmation hearing he remained concerned that Shelton was an advocate of monetary policy to devalue the dollar. However, Toomey said on Monday that in the intervening period, he had corresponded and spoken with Shelton about her views and she had “clarified to me that she will oppose using monetary policy for the purpose of devaluing the dollar.”

Shelton’s position, however, was far from unequivocal. In a letter to Toomey, she said it “would not be appropriate” for the Fed to “directly” respond to currency devaluations by other countries.

Last year, she was more forceful in an interview with the business channel CNBC, when she said other countries were “cheating, really, through currency devaluation,” and when asked whether the US should respond, replied, “Yes.”

Another Republican with doubts about Shelton, John Kennedy of Louisiana, who only recently backed her for the position, said he had spent a “lot of time” reading “Dr. Shelton’s works,” but declined say which of her writings he had consulted.

Shelton’s nomination will now go to a vote in the Senate at a time to be determined by Republican Senate leader Mitch McConnell. The nomination is still not assured. If four Republicans dissent, it will go down.

The nomination is important for two reasons. While the Fed’s Open Market Committee, which includes the Board of Governors plus five regional Fed bank presidents, decides on interest rate policy, only the board decides on the size and direction of the trillions

of dollars the Fed dispenses on its Wall Street bailout measures.

These have become front and centre in the Fed’s policy determinations since the onset of the COVID-19 pandemic and the freezing of all financial markets in mid-March.

There is also a widely held view that if Trump continues in office, he could nominate Shelton as Fed chair when Powell’s term expires in 2022.

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