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NOMINATIONS OF JUDY SHELTON AND CHRISTOPHER WALLER

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

JUDY SHELTON, OF CALIFORNIA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CHRISTOPHER WALLER, OF MINNESOTA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 13, 2020

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C O N T E N T S

THURSDAY, FEBRUARY 13, 2020

	Page
Opening statement of Chairman Crapo	1
Prepared statement	37
Opening statements, comments, or prepared statements of:	
Senator Brown	2
Prepared statement	38

NOMINEES

Judy Shelton, of California, to be a Member of the Board of Governors of the Federal Reserve System	5
Prepared statement	39
Biographical sketch of nominee	41
Responses to written questions of:	
Senator Brown	70
Senator Sasse	78
Senator Rounds	82
Senator Reed	84
Senator Menendez	88
Senator Tester	89
Senator Warren	94
Senator Schatz	102
Senator Cortez Masto	105
Senator Sinema	114
Christopher Waller, of Minnesota, to be a Member of the Board of Governors of the Federal Reserve System	6
Prepared statement	53
Biographical sketch of nominee	54
Responses to written questions of:	
Senator Brown	115
Senator Sasse	117
Senator Tillis	118
Senator Reed	122
Senator Tester	124
Senator Warren	126
Senator Schatz	134
Senator Cortez Masto	134
Senator Sinema	142

Additional Material Supplied for the Record

Letter from the Project on Government Oversight	143
"The War on Judy Shelton", by the Editorial Board, *Wall Street Journal*, 2/12/2020	145
Letter of Support for nominee Christopher Waller	148
"Banking and Government: An Unholy Alliance", Judy Shelton, *Cato Journal*	152
"North America Doesn't Need Borders", by Judy Shelton, *Wall Street Journal*, 8/29/2000	157
"Trump Fed Pick Missed Almost Half of Board Meetings", Paul Kiernan, *Wall Street Journal*, 7/15/2019	160

NOMINATIONS OF JUDY SHELTON AND CHRISTOPHER WALLER

THURSDAY, FEBRUARY 13, 2020

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 9:02 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. This hearing will come to order.

This morning we will consider the nominations of the Honorable Judy Shelton to be a member of the Board of Governors of the Federal Reserve System and Dr. Christopher Waller to be a member of the Board of Governors of the Federal Reserve System. Welcome, and congratulations to each of you for your nominations.

I see friends and family in the room today, and I welcome them as well.

We are fortunate to have these two highly qualified nominees appearing today. These positions are critical to ensuring a safe, sound, and vibrant financial system and a healthy, growing economy.

The Federal Reserve was created by Congress as the Nation's central bank to promote a stable economy and a safer, more flexible financial system.

Among the Federal Reserve's responsibilities is conducting the Nation's monetary policy with the mandate of promoting maximum employment, stable prices, and moderate long-term interest rates.

In addition to its monetary policy role, it oversees a significant portion of the banking sector, including large, regional, and community banks, as well as certain nonbanks, and aims to foster a safe and efficient payment and settlement system.

With this in mind, it is important that we nominate and confirm well qualified candidates with different perspectives to the positions of Governors to ensure robust debate and more effective decisions.

Before turning to Dr. Shelton and Dr. Waller, I am entering into the record a letter from over 100 economists supporting the nomination of Dr. Waller and also an article from the *Wall Street Journal* supporting Dr. Shelton titled, "The War on Judy Shelton".

Dr. Shelton most recently served as the Executive Director for the European Bank for Reconstruction and Development and was confirmed by voice vote in the Senate in 2018.

Dr. Shelton's experience working for nonprofits and academic institutions forged her deep knowledge of democracy, economic theory, and monetary policy that will broaden and diversify the Fed's perspective.

Dr. Waller has served as the Research Director at the Federal Reserve Bank of St. Louis for the last 11 years and aided the president of the St. Louis Fed in analyzing the economy and recommending U.S. monetary actions.

His research on monetary theory and the microfoundations of money and payment systems will be valuable, as we are seeing a rise in cryptocurrencies and digital currency in this country and abroad.

I am confident that Dr. Shelton and Dr. Waller will bring strong leadership to the Federal Reserve System.

As Governors at the Federal Reserve, Dr. Shelton and Dr. Waller will play key roles in carrying out the Fed's regulatory and supervisory activities consistent with the law, while also playing an important role in striking the balance between tailored regulations and supervision and safety and soundness.

I appreciate the positive meetings I had with each of you leading to today's hearing. I look forward to continuing a robust discussion on the following topics:

The importance of right-sizing regulations and tailoring the supervisory framework to support a vibrant, growing economy while also ensuring a safe and sound financial system;

Assessing market-based fixes to maintain stability in money markets;

The development of central bank digital currencies and other technological innovations in the financial space, which we also discussed with Chairman Powell yesterday;

And continuing to encourage the Federal Reserve to submit all rules to Congress under the Congressional Review Act, as well as to submit all significant guidance for purposes of the Congressional Review Act.

I look forward to working with Dr. Shelton and Dr. Waller on these and other areas where the Fed and Congress can act to further reduce unnecessary burdens and promote economic growth.

Congratulations again on your nominations, and I thank you and your families for your willingness to serve.

Senator Brown.

OPENING STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman. Welcome, and thank you for beginning this hearing earlier because a vote is coming.

Ms. Shelton and Mr. Waller, I would like to extend my greetings to you, your family, and your friends who have joined you. Welcome.

Fed independence matters. We know economies with independent central banks have less price volatility, fewer bank panics, and more stable economies.

One of the nominees, though, today before us does not believe in an independent Fed and has spent her entire career advocating for policies that would make our economy more volatile, give families and businesses even more to worry about in an uncertain world.

The point of the independent Federal Reserve is to be a steady, guiding hand—to worry about the big picture of the economy so hardworking families do not have to.

But for Ms. Shelton, these are not hazards to avoid. They are the goal. We all understand that on economic issues there are conservatives and liberals, and most people fall somewhere in the middle on that continuum. But Ms. Shelton is not a conservative. She is far outside the mainstream. She is off the ideological spectrum.

For three decades, Ms. Shelton has been a prominent advocate for returning to the gold standard.

In making the case for Ms. Shelton's nomination, her friend James Grant wrote in the *Wall Street Journal* that, "[w]ith the nomination of Judy Shelton to the Fed, the discussion has tilted to gold. Gold is money, or a legacy form of money, Ms. Shelton contends, and the gold standard is a reputable, even superior, form of monetary organization."

People can agree to disagree on certain issues, but we do not get our own facts, and the facts are clear. If we as a Nation had followed Ms. Shelton's advice and had not advanced beyond the gold standard nearly a half century ago, our Nation would have bounced from boom to bust, without the monetary tools necessary to pull us out of recessions.

Depressions would have been deeper and longer; millions of working families would have suffered even more, for no reason, and for certainly inexplicable reasons to them.

That is not the end of the story. In multiple writings, Ms. Shelton clearly voiced her opposition to FDIC deposit insurance—the insurance that everyone takes for granted that has been part of our culture and our economy for so many years, the insurance, most importantly, that protects the savings of hardworking Americans. In other words, she thinks that if a bank fails—and we all remember far too vividly 10, 12 years ago, when they did indeed fail—then all the families whose savings and paychecks are stored in that bank should just lose all their money.

Passing Federal deposit insurance was one of President Roosevelt's first acts during the Great Depression for a reason. That guarantee—that your money is safe in the bank—is the bedrock of our modern economy.

This is not some intellectual exercise about moral hazard. This is the real world. I dare anyone to explain to working families in Idaho or Pennsylvania or Alabama or Louisiana or Minnesota or New Jersey or Rhode Island, I dare anyone to explain to working families that experienced bank closures in the Great Recession or the savings and loan crisis that FDIC insurance is "a hugely distorting factor."

But with Ms. Shelton, it does not stop there.

The money in your wallet is backed by the full faith and credit of the U.S. Government. Yet Ms. Shelton advocated for doing away with the dollar and replacing it with a common currency for North America. I am serious.

To make NAFTA more effective, she mused that the dollar could be replaced with a common currency for North America called the "Amero."

At other times she has called for the creation of a generic, global currency, backed by gold.

That kind of globalist—probably no better word than that—that kind of globalist ideology does not belong anywhere near our fiscal and monetary policy. The American dollar is the world's reserve currency; it should stay that way. We want it that way. We agree that it should be that way, and we are proud of it.

The bottom line is Ms. Shelton has too many alarming ideas and has flip-flopped on too many important issues to be confirmed for this job.

We know she will say exactly what the President wants her to say—further threatening the independence of the Fed.

She was an interest rate hawk, until President Trump wanted lower rates. She opposed tariffs on China before she was for them.

And based upon what I and other Committee Members heard in meetings with her, it appears that Ms. Shelton has changed pretty much all of her positions—on everything from the gold standard, to Bretton Woods, to a steadfast opposition to FDIC insurance.

That is not the steadying hand required at the Fed.

Eleven years into this recovery, more than ever the Fed needs to be independent and careful—not reactive to every tweet coming out of the White House.

A vote for Ms. Shelton is a vote against Fed independence and our Nation's reputation as a financial bulwark for the whole world.

Our other nominee to the Board, Mr. Waller is an economist whose work has been subject to peer review and whose analysis has helped direct the research path undertaken by the St. Louis Fed. I look forward to hearing more about how he will hold Wall Street accountable if he is confirmed.

Last, Mr. Chairman, I want to note that there should have been a third chair at this table. We are not exactly sure why, but Ms. Jessie Liu was supposed to be considered by this Committee today. Her nomination was withdrawn 36 hours ago, although the Treasury Secretary told me publicly yesterday he knew for 2 days, so I do not think the Chair of this Committee and I know I did not know as Ranking Member.

The position she was nominated for is responsible for overseeing our country's work preventing terrorist and drug cartel financing and enforcing economic sanctions. Now that her nomination has been withdrawn, that position will remain empty. Once again, to protect himself, the President of the United States put our national security at risk.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Brown, thank you.

I will now administer the oath. Would you both please rise and raise your right hand? Do you swear or affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Ms. SHELTON. I do.

Mr. WALLER. I do.

Chairman CRAPO. And do you agree to appear and testify before any duly constituted Committee of the Senate?

Ms. SHELTON. I do.

Mr. WALLER. I do.

Chairman CRAPO. Thank you. You may be seated.

Your written statements will be made a part of the record in their entirety. And before you begin your statements, I invite you to introduce your family in attendance. Thank you. And you may start, Ms. Shelton.

STATEMENT OF JUDY SHELTON, OF CALIFORNIA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Ms. SHELTON. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today. I am honored that the President has nominated me to serve as a member of the Board of Governors of the Federal Reserve System, and I am grateful to this Committee for considering me for the position.

I am also deeply grateful for the support of my husband of 42 years, Gil, who is here today along with our son, Gibb. And I want to give special thanks to my mother, Janette Potter, and the healthy contingent of family members seated behind me: John and Sharman, Jim and Kristy, Rick and Suzi. They all flew out from California yesterday to be here today with me. It means a lot.

For nearly four decades, going back to my years as a doctoral student at the University of Utah, I have focused on the impact of monetary policy on economic performance. My studies encompass current financial and economic conditions as well as historical antecedents tracing back to our Constitution. One thing is very clear: The power to regulate the value of U.S. money is granted to Congress.

Congress created the Federal Reserve as an independent agency and through the Federal Reserve Reform Act of 1977 charged it with the mandate to promote maximum employment, stable prices, and moderate long-term interest rates. Our central bank has been entrusted with considerable power to carry out its responsibilities. Along with the political independence and operational autonomy granted to the Federal Reserve comes an obligation to be wholly accountable both to Congress and to the public.

If confirmed, my priority will be to support monetary policy that facilitates productive economic growth while also ensuring the soundness and stability of the U.S. financial system. In exercising the Federal Reserve's regulatory oversight, I will support policies that are effective, efficient, and appropriately tailored to financial institutions, allowing them to better serve their customers and communities in ways consistent with maintaining a safe financial system.

I am well prepared to conscientiously fulfill the duties of the position for which I have been nominated based on my background and experience. The first college course I ever taught was "Money and Banking". As a research scholar at the Hoover Institution at Stanford University, I analyzed the relationship between monetary policy and economic sustainability in the context of geopolitical competition. My first book accurately predicted the collapse of the Soviet Union; my second book examined the impact of currency movements on trade.

I have testified numerous times as an expert witness before congressional committees in both the House and Senate. As U.S. Executive Director of the European Bank for Reconstruction and Development, I demonstrated strong leadership to achieve high-priority objectives in accordance with U.S. strategic interests. Combining academic perspective with real-world insights, I hope to contribute intellectual diversity as a Governor and would work collegially to promote sound money and sound finances.

In closing, I wish to emphasize my commitment to honor the constitutional authority of Congress to regulate the value of U.S. money. By fulfilling the statutory mandate Congress has assigned to the Federal Reserve, we ensure that America's money remains the world's most respected currency and its most trusted standard of value.

Thank you again for the privilege of appearing before you today. I look forward to your questions.

Chairman CRAPO. Thank you.

Dr. Waller.

STATEMENT OF CHRISTOPHER WALLER, OF MINNESOTA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. WALLER. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today. I am honored to have been nominated by the President for this prestigious position and grateful to the Committee for its consideration of my nomination. I would be humbled to be able to serve my country in this capacity.

I am also thankful for the support of my family members who are here with me today: my loving wife, Laurie; my three children, Sarah, Maggie, and Sam; and my mother, Ann, who has been my hero throughout my life.

For the last 11 years, I have served as the Director of Research at the Federal Reserve Bank of St. Louis. During that time, I have attended over 60 Federal Open Market Committee meetings, and I have served as the main policy advisor to my bank president. As a result of this experience, I fully understand and support the dual mandate of the Federal Reserve. I also understand and appreciate the Federal Reserve's role in pursing policies to ensure a safe and stable financial system. If I am confirmed, I will continue to advocate for policies that achieve our dual mandate and maintain financial stability.

I believe that my background and experience makes me uniquely qualified to fulfill the responsibilities of a Federal Reserve Governor. In my decade-long experience as a senior Reserve Bank official, I was deeply involved in policy issues confronting the Federal Reserve. But in my role, I also spent a substantial amount of time talking to members of our community about how monetary policy affected their lives and their businesses. That public input affected how I thought about policy and its consequences. I also learned how valuable it was to communicate clearly to the public what our policies were and why we were pursuing them.

In addition to my experience as a Federal Reserve official, I was an academic for over 25 years, and I did a substantial amount of research on monetary theory, monetary policy, and central bank design. I have written extensively on the importance of central bank independence for the conduct of monetary policy. My research also focused on how the central bank can be made accountable to the electorate without giving up its independence. In particular, I studied the importance of the nomination and confirmation process in achieving central bank accountability.

The Federal Reserve has been given tremendous responsibility by Congress to use its policies to improve the lives of the citizenry. Congress has also given the Federal Reserve tremendous freedom to pursue those policies as needed. But in return, it must be accountable to the public for its actions and be able to explain what those policies are and why they are being pursued. If I am confirmed, I pledge to work with my colleagues to implement policies that help us meet our dual mandate. I also pledge to be accountable for those actions and to be transparent as to why those actions were taken.

Thank you again for the privilege to appear before you today, and I look forward to your questions.

Chairman CRAPO. Thank you very much, and I will begin the questioning with a couple of questions for each of you to answer. You do not need to give long answers to these as long as it is the right answer.

[Laughter.]

Chairman CRAPO. First, do you agree with the importance of right-sizing regulations and tailoring the supervisory framework to support a vibrant, growing economy while also ensuring a safe and sound financial system?

Ms. SHELTON. Yes, I do, Mr. Chairman.

Mr. WALLER. Yes, I do as well.

Chairman CRAPO. Thank you.

Senator BROWN. That was the right answer.

Chairman CRAPO. That was the right answer.

Do you agree that it is important to encourage the Federal Reserve to submit all rules to Congress under the Congressional Review Act as well as to submit all significant guidance for purposes of the CRA?

Ms. SHELTON. Absolutely.

Mr. WALLER. Yes, I do.

Chairman CRAPO. All right. Thank you.

Again, this is for both of you, and you can give a longer answer to this one. The Federal Reserve independence is critical to enacting monetary policy and for addressing long-term economic objectives. I know I and I think every single member of this Committee and Member of the Senate wants to assure that the Federal Reserve is independent. There is strong bipartisan support for maintaining Fed independence. What are your perspectives on the Federal Reserve maintaining its independence? Ms. Shelton, you may start.

Ms. SHELTON. Thank you very much for the question, Mr. Chairman. I believe that the independence of the Federal Reserve is a vital aspect of its credibility with the public. Congress has granted tremendous powers to the Federal Reserve, and citizens have to be assured that monetary authorities will be relying on their own best judgment and their own analytical capabilities in making their decisions, not subject to political pressure.

Chairman CRAPO. Dr. Waller.

Mr. WALLER. I have lived and breathed central bank independence for 35 years, both in my academic career and in my job as a Federal Reserve official. It is absolutely critical to do the right policies to get the best economic performance and to look at the data to determine how you want to set policy as opposed to partisan influences.

Chairman CRAPO. Thank you. And then this question is—I am going to ask both of you to answer it, but I want to start with Dr. Shelton. Dr. Shelton, some have tried to characterize your support for the gold standard as outside the mainstream thought and disqualifying for this position. What exactly are your views on monetary policy and the gold standard?

Ms. SHELTON. I would not advocate going back to a prior historical monetary arrangement. I think it is really important to acknowledge that the power to regulate the value of U.S. money is given to Congress by our Constitution, and Congress has created the Federal Reserve as an independent agency and given it its monetary mandate. That is a framework under which I will make decisions, if confirmed as a member of the Board of Governors. I have looked at historical systems going back to the beginning of our country because I think you can gain valuable insights by comparing economic performance under one set of monetary rules versus another. But money only moves forward, and we see it evolving faster than ever these days. And so I only use it to give perspective on money.

Chairman CRAPO. Thank you. And I would like your views on this, too, Dr. Waller.

Mr. WALLER. First, I have studied monetary theory for the last 20 years, have studied both asset-based monetary systems as well as fiat monetary system which we currently have. The fiat monetary system is pretty much what we have around the world. It works well as long as it is well managed by the central bank. There is no need to have the inefficiency of tying things to a metallic standard or any other real asset if needed.

Chairman CRAPO. All right. Thank you.

Senator Brown.

Senator BROWN. Thanks, Mr. Chairman.

I want to talk about Fed independence in a slightly different way from the Chairman. I appreciate his questions.

Mr. Waller, I will start with you. Do you think that Chairman Powell has done a good job making independent decisions regardless of what the President tweets at him?

Mr. WALLER. I think Chairman Powell has been very professional in his job in carrying out policy as best he can and building a consensus on the Committee.

Senator BROWN. I will ask you the exact same question, Ms. Shelton. Do you think Chair Powell has done a good job making independent decisions regardless of what the President tweets at him?

Ms. SHELTON. Thank you, Ranking Member Brown. I think Chair Powell and every member of the Federal Open Market Committee is sufficiently self-possessed to rely on their own judgment. I do not think any of them are influenced by political pressure.

Senator BROWN. So is it OK that the President of the United States tweets at them and calls—the President who appointed him tweets at him and calls his names and said he is not doing good things for the economy, that is just OK?

Ms. SHELTON. Well, I do not censor what other people say, but I do believe that every American, every Member of Congress, and even the President has the right to criticize our Federal Reserve.

Senator BROWN. Based on what the President says about Chair Powell, Ms. Shelton, it looks like the Fed—and you could watch this and we all in this Committee and both parties are Fed watchers to a degree. You could watch these attacks by the President on his Chairman, our Chairman now. It looks like the President and the Federal Reserve are not working well together. Do you think the Chairman is doing a bad job accommodating the President's wishes?

Ms. SHELTON. I do not think it is the job of the Federal Reserve to accommodate political agendas. What I am saying is that the Fed operates independently, as it should, working for the best interests of the Nation.

Senator BROWN. Understanding that will be your answer to the next question, but go with me a little bit here. What do you think about the President's criticisms of Chairman Powell.

Ms. SHELTON. As I said——

Senator BROWN. Is the President right? Is Chairman Powell right?

Ms. SHELTON. As I said, I am not censoring what other people——

Senator BROWN. I am not asking you to censor. I am just saying we have something we have never seen in American history where the President of the United States consistently attacks his own nominee whom many of us, myself included, up here voted for, trying to get him to do different things on economic policy. What do you think about what the President—not censoring him, but what do you think about the President's advice to Chairman Powell and what he tells him to do?

Ms. SHELTON. I think what we have seen historically is some Fed Chairmen have felt they were being pressured behind the scenes. In some ways, it is refreshing if that is out in the open. And as I say, everyone—certainly business journalists dissect every word that is uttered by a Federal Reserve official, and it is available, all the information. Anyone can make a comment at any time.

Senator BROWN. Mr. Waller, I think that the Chairman of the Federal Reserve has done a pretty good job remaining independent. When he was here yesterday—he testified yesterday—Senator Kennedy and Senator Rounds and Chair Crapo and Senator Tester, and I am leaving out a couple, all emphasized, emphatically emphasized, certainly complimented the Chairman on his independence, but emphasized how important independence is.

Do you pledge to be independent regardless of what President Trump tells you to do?

Mr. WALLER. Thank you, Senator Brown. I pledge to do what is best for the economy in terms of how we read the data and what is best to do to achieve our dual mandate. That is how I view the job, and that is what I intend to do.

Senator BROWN. Ms. Shelton, do you pledge to be independent in your decision making regardless of what the President tells you to do?

Ms. SHELTON. I pledge to be independent in my decision making, and, frankly, no one tells me what to do.

Senator BROWN. My last comment and question, Mr. Chairman.

Ms. Shelton, going back three decades, you have written extensively some 95 articles and books, including several op-eds in the last couple of years. Can you explain to the Committee why you have published in *Cato* or in the *Wall Street Journal* time and again praise for one set of provocative beliefs, like the U.S. should revert to the gold standard, that low interest rates steal from investors, that the Fed is an interloper in the marketplace and should be abolished, now when you come before Congress you claim you are firmly in the mainstream of economic thought? I am troubled with that. You have a paper trail for 30 years. You seem to be the new Judy Shelton, not the old Judy Shelton. What are we to make of that?

Ms. SHELTON. Senator, I think I have been intellectually consistent since I wrote a book in 1994 called *Money Meltdown: Restoring Order to the Global Currency System*. I do not claim to be in the mainstream of economists, but I do not think that is necessarily a virtue.

Senator BROWN. You are not an economist for one thing, right?

Ms. SHELTON. I am an economist, sir.

Senator BROWN. I thought your Ph.D. was in something else.

Ms. SHELTON. My Ph.D. from the University of Utah was administered through the Finance Department as majoring in international finance and economics, but it is a business administration degree through their school, yes.

Senator BROWN. OK.

Chairman CRAPO. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

I think, Dr. Waller and Dr. Shelton, both of you have extensive experience and you are academically qualified. I have no problem with that.

Dr. Shelton, I am troubled by some of your writings and some of the articles that you—well, that others have written about your writings and some of the stands, and this is a good time to air them out, I suppose.

I think the question to me—and I have been on this Committee a long time, and we have Senator Brown. We are more than Fed watchers. We are tasked with the Senate to evaluate all of you before you are confirmed or not confirmed.

Some people say, Dr. Shelton, that you are basically an outlier, that you are not mainstream, you do not have mainstream views in the economy. Most people think—not everybody—that the role of the Federal Reserve, as stated by law, is price stability and full employment. Those are goals that we try to reach.

When you are nominated to the Federal Reserve and confirmed by the Senate, generally it is for a long term, probably the longest term that we have, up to 14 years, I believe. So our views, I believe, should be mainstream.

If people deem—and a lot of people have—that you are an outlier, not a mainstream player, if you were on the Fed, how would you work with the other members? Could you work with them on the goal of price stability and full employment? Or would you be really an outlier?

Ms. SHELTON. Thank you, Senator Shelby. I would look very much forward to working with my colleagues at the Federal Reserve. I have great respect for their capabilities and for their judgment. I think I would bring my own perspective, but I think the intellectual diversity strengthens the discussion and would be welcomed. So that is what I would hope to bring, but certainly with the goal of working with the people who are there as together we would try to formulate monetary policy most conducive to productive economic growth.

Senator SHELBY. You know, you have talked about it and other people have written about the gold standard. If we had all the gold in the world, all of it has been mined and all the jewelry and storage, it would not be worth, I believe, anything what our economies are worth, what the GDP of this country is worth or the GDP of the European Union or China or Japan and so forth. Would that basically be true?

Ms. SHELTON. That is true.

Senator SHELBY. So when you talk about the gold standard, that obviously was coming—the gold standard came in the old economy when we had a barter economy, statistical, didn't we, in a sense? Is that fair?

Ms. SHELTON. We have had a barter economy, yeah.

Senator SHELBY. We have progressed beyond that and it is the confidence of the Nation and the people and the economy backing all of the wealth behind it. Is that what we deem valuable today?

Ms. SHELTON. Definitely.

Senator SHELBY. So talk to us a little bit about your views on the gold standard, which we have given up long ago, and the other people in the world? I do not know anybody who is relying on it now. Do you still believe that is important? And why? Where are you?

Ms. SHELTON. Thank you, Senator Shelby. Well, first, I totally agree with your assessment. You never go back with money. It keeps moving forward into the future. And I am surprised that people attempt to say they must have some thought about me advocating a gold standard, and I suppose they are talking about the classical international gold standard. I would just point out that there is about $1.8 trillion in outstanding Federal Reserve notes. That is just the currency. Most of it is held outside the country.

If you looked at the market value of the U.S. Government's total holdings of gold, it would be less than even a quarter of that amount, and that is just the most basic form of money. So I am not really sure what anyone——

Senator SHELBY. That is a commodity, isn't it?

Ms. SHELTON. It is a commodity. It has a historical use as a monetary surrogate. But it is mixed use today. So as I have said, it is useful to look at something that worked from 1870 to 1913 when the U.S. was a participant in the classical gold standard. It is worth it to look at the Bretton Woods gold exchange standard where the U.S. was the anchor from 1944 to 1971. But that was 50 years ago when we had any kind of a monetary role for gold. We certainly have to just be looking toward the future.

Senator SHELBY. Have you advocated a return to the Bretton Woods program?

Ms. SHELTON. What I have said about the Bretton Woods agreement is that it did establish a level monetary playing field in terms of exchange rates.

Senator SHELBY. That is when the world was in disarray right after the—about the time the Second World War ended.

Ms. SHELTON. Precisely, and a lot of Nations still struggling. The war was not over when Bretton Woods was being put together by the United States. We are thinking, "Is this going to be worth it to win?" Because if we are going back to what we had in the 1930s, when you had competitive devaluation, you had retaliatory tariffs, and that created a downward spiral in international trade, that is not worth fighting for. So the United States actually set up the Bretton Woods agreement to give hope that there would be a better future and that investment would flow to its highest use around the world, and that people would not use competitive depreciation to undermine the principles of free trade.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Dr. Shelton, you are being considered for a very important position today. Can you think of a "more stimulating challenge" than serving on the Fed?

Ms. SHELTON. A more stimulating challenge?

Senator MENENDEZ. Than serving on the Fed.

Ms. SHELTON. It seems to me that would be the ultimate for someone who has studied monetary policy and economic performance.

Senator MENENDEZ. Can you think of a "more meaningful responsibility" than serving on the Fed?

Ms. SHELTON. I think it is a gravely responsible position.

Senator MENENDEZ. And can you think of a more important role than "safeguarding our Nation's vital interests and deeply rooted values" by serving on the Fed?

Ms. SHELTON. No, Senator Menendez.

Senator MENENDEZ. Those are serious words about serious responsibilities that will impact every American. But I question whether you fully understand the gravity of those words.

Just 2 years ago, you appeared before the Senate

Foreign Relations Committee on which I am the Ranking Member for your nomination as the U.S. Executive Director of the European Bank for Reconstruction and Development. In your testimony before the Committee, you said, "Given my background in analyzing the strategic implications of global financial developments and my strong commitment to democracy, I cannot imagine a more stimulating challenge, a more meaningful responsibility than to take the role of safeguarding our Nation's vital interests and deeply rooted values at the EBRD." I agreed with you then.

Yet during your brief tenure, which you withdrew from prematurely, you missed 11 of 26 Board meetings. You were the U.S. representative to the Bank. You were in a Senate-confirmed position, but you made it just to slightly over half of the Board's meetings.

Dr. Shelton, would you give someone a promotion if they missed almost half the most important proceedings that they were assigned to?

Ms. SHELTON. Thank you for the question, Senator Menendez. It is a matter of public record that actually my attendance was closer to 70 percent. But let me explain something about the way a multilateral——

Senator MENENDEZ. You dispute the numbers I just——

Ms. SHELTON. Absolutely, I do.

Senator MENENDEZ. ——of how many you missed?

Ms. SHELTON. Not only that, but there is a perfect correlation, which I would like to explain. When I was not there, I was in Washington meeting with the people to whom I reported at the Treasury Department. I was conferring with my interagency colleagues——

Senator MENENDEZ. That is why we have telephones. As a matter of fact, Ambassadors are given telephones. They are given ways to communicate so they do not leave their posts. It is unique that each of the meetings you missed, you claim that you were in D.C., but you needed to be at the Bank voting on behalf of the United States in these all-important issues.

You know, I just cannot imagine that the Foreign Relations Committee would give an ambassador a higher position if they were not there nearly half the time that they were supposed to be. So if you are confirmed, do you expect to serve your full term on the Fed?

Ms. SHELTON. I do.

Senator MENENDEZ. You do. Well, that is what you told the Foreign Relations Committee when you were confirmed as the Director of the EBRD, and here you are. So I fail to understand how I can take that answer seriously. Showing up is a basic requirement of a job, and if any of us missed half of our votes, half of our hearings, I do not think our constituents would send us back.

Let me ask you this on a different topic. If we did not have the Federal deposit insurance, do you think consumers would trust a small, unknown financial institution with their money, or would they turn to bigger institutions with better name recognition?

Ms. SHELTON. Senator Menendez, I totally support Federal deposit insurance. We have had it since 1933. I think it is essential to reassuring depositors that they can safely put their money into American banks.

This idea that I am somehow against deposit insurance, I tried to find out where that even came from. The only reference I could find to me even commenting on deposit insurance goes back 25 years where, in the course of explaining the theory of moral hazard, I said that if there is Government insurance, in theory a bank might engage in riskier financial behavior seeking profits because they would be protected by the Government insurance. And I feel strongly——

Senator MENENDEZ. Well, we had a lot of that which led us to the Great Recession, not because of financial insurance, but at the end of the day, one of your writings suggested that the deposit insurance increases risk in our financial system. But now you are telling us you support deposit insurance.

So I am concerned how do we—have you ever told the President of your views that North America needs no borders?

Ms. SHELTON. No, and if you are referring to something I wrote in 2000, I would be happy to explain the context of this rumor. I was talking nothing to do with——

Senator MENENDEZ. It is not a rumor. It is what you wrote.

Ms. SHELTON. Well, it was nothing to do with immigration. In 2000, as I am sure you are aware, for the first time in 70 years, Mexico elected a President who had not been a member of the ruling party. And Vicente Fox was saying that he recognized Mexico was experiencing a collapse in its currency every 6 years coinciding with their electoral cycle. He wanted to be something new, and he wanted to bring Mexico's finances into order, balance the budget, align their regulatory approach to banking to something closer to what we have in the United States. And I thought that should be encouraged. I think we want a prosperous, stable economy on our border. And I also feel that it is only fair for Mexicans to have a chance to be successful in their own country. So that is what that article was about.

Senator MENENDEZ. I am happy to submit for the record, Mr. Chairman, some articles that speak quite differently to the view you just expressed on this and some of the other things I have raised with you, and we will let the members decide in their judgment.

Thank you.

Chairman CRAPO. Thank you.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. And thank you to both the nominees for being here today and for the discussion we had in my office separately earlier this week.

Let me just say for the record I think that using a price rule that might include precious metals is an intellectually defensible approach to monetary policy, just for the record.

Senator KENNEDY. Is or isn't?

Senator TOOMEY. Is a defensible approach.

Dr. Shelton, I understand that you have long advocated for a stable international monetary system, stability in exchange rates, and I doubt there would be any disagreement that that is certainly preferable to the alternative. The concern I have is that we do not get to control other countries' monetary behavior. We do not have a vote on what they do. And I am concerned about the extent to which you advocate for our monetary policy to be influenced and reactive to the foreign exchange behavior of other countries.

So in August of 2019, in a *Wall Street Journal* article, an interview that you gave on CNBC was characterized—it said, "Ms. Shelton said in an interview on CNBC Thursday that central banks in Europe, China, and Japan are all devaluing their currencies against the dollar through monetary policy. When asked if the U.S.

should follow suit, she said yes." Looking at the interview, it does look like that is an accurate characterization to me.

In July of 2019, you wrote in a *Wall Street Journal* piece, and I quote, "When the United States' trading partners engage in currency manipulation, it is not competing—it is cheating. That is why it is vital to weigh the implications of U.S. monetary policy on the dollar's exchange rate value against other currencies."

In September of last year, in a *Wall Street Journal* op-ed, you clarified your view that the Fed should fight this alleged cheating. You said, and I quote: "In an era of worldwide currency exchange, America's central bank should not ignore the effects of movements spurred by other major central banks. With no consistent free trade principles governing global monetary policy, the Fed must take proactive steps to ensure that the U.S. can compete successfully."

So I guess my direct question, after reading these things that you have said and written, is: Is it your view that if a major American trading partner were to significantly devalue its currency intentionally, aren't you saying that the U.S. should match that devaluation and the Fed should play a role in achieving that devaluation?

Ms. SHELTON. Well, thank you, Senator Toomey, for the question and also for our discussion the other day, which I thought was very substantive. And I agree with what you were saying, that monetary policy executed by the Federal Reserve is directed at achieving our domestic economic objectives, and they have been outlined very clearly by Congress.

I have said that among the factors that we need to consider, if I were to become a member of the Board of Governors, is the political context of the global economy and global finance. And I think we have to be aware of what other central banks are doing. Last year, 49 central banks lowered their interest rate, which caused their currencies to depreciate relative to the dollar, and it was not until July that our Federal Reserve decided likewise to lower a quarter point, as they did the next meeting and the next——

Senator TOOMEY. Yeah, so I know I only have 5 minutes, and we are down to 1. My question is—and I think the only rational conclusion one can come to from reading what you have written and what you have said is that you believe the Fed should actively seek to devalue our currency if other countries are doing that. And I think that is a very, very dangerous path to go down. This beggar thy neighbor mutual currency devaluation is not in our interest, and it is not in the mandate of the Fed to pursue it. I do not think it is achievable. You have got multiple currencies. Which ones would you be watching? Would it be the euro or the yuan? They could be moving in different directions. And a Fed that has famously been unable to achieve its inflation target for lo these many years, why we should think that the Fed by changing monetary policy is going to be able to achieve some currency target I think is very, very unlikely.

So I just want to stress I think this is a dangerous path to go down, and the recent body of your work certainly seems to be advocating for that intervention.

Ms. SHELTON. If I may, Senator?

Senator TOOMEY. Sure.

Ms. SHELTON. It would be anathema to me to suggest that we devalue our money to gain a trade advantage. What I am saying is within the context of the framework for deciding monetary policy, we also have to look at the impact on employment and on stable prices. And if other central banks engage in those unfair practices, it can affect employment, especially our manufacturers who have to compete——

Senator TOOMEY. But we can observe that from domestic data. We do not have to reference foreign exchange rates to determine whether there is an adverse problem with employment in the U.S.

Sorry, Mr. Chairman.

Chairman CRAPO. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman. I want to thank you and the Ranking Member for having this hearing.

I want to thank both of you for being here in front of the Committee and for your willingness to serve on the Fed.

I am going to start with you, Ms. Shelton. Do you think it is a good idea to sell our public lands?

Ms. SHELTON. I am sorry?

Senator TESTER. Do you think it is a good idea to sell off our public lands?

Ms. SHELTON. To sell off public lands? Senator Tester, honestly I have never considered that, and I do not have any opinion.

Senator TESTER. OK. In a 2009 book that you wrote, you said for the purpose of balancing our budget, we should consider—and I paraphrase—selling the Postal Service, Amtrak, and Federal lands.

Ms. SHELTON. I do not recall taking that position. It is not something I am strongly advocating.

Senator TESTER. Well, it is an important issue. Where do you live?

Ms. SHELTON. I live in Fredericksburg, Virginia.

Senator TESTER. OK. So they probably do not have a lot of Federal lands in Fredericksburg, Virginia. In Montana, we do have a lot of public lands. And if we have got people out there in positions of power that are in the position of making sure that unemployment is maximized, as we do in the Fed, and we have people that have written about selling off things like the Postal Service and Amtrak and our Federal land holdings, that is a problem. Would you see it as a problem?

Ms. SHELTON. I understand what you said, that that would be a problem for the local economy or the area that you are speaking of, but——

Senator TESTER. But not generally for the country?

Ms. SHELTON. Well, I think it is always disconcerting to change employment or make some transition away——

Senator TESTER. Well, I think it is also important to note that these public lands drive an economy in Montana, and Montana has only got a million people, a little over a million people, but it is about $7 billion to our economy in Montana. So somebody who would advocate this would have pretty significant impacts on the 72,000 people who work in the outdoor industry in Montana.

Ms. SHELTON. I believe, Senator Tester, that that is a decision up to Congress. It would have nothing to do with the Federal Reserve.

Senator TESTER. You are right, but it does have impacts on people that are in positions of power, and I will tell you, as has been pointed out with previous questioners, the Federal Reserve is a position of power.

One of the things that I like in folks is consistency, and I want to quote you, something that you wrote very recently, 6 months ago, because you have said today—and correct me if I am wrong—that you are for independence of the Fed.

Ms. SHELTON. Absolutely.

Senator TESTER. Six months ago, in a *Wall Street Journal* op-ed you wrote, and I will quote this directly: "It would be in keeping with the historical mandate if the Fed were to pursue a more coordinated relationship with both Congress and the President."

If that is not shipping the independence of the Fed out the door, tell me what it is.

Ms. SHELTON. Senator Tester, that article was explaining the legislation that has shaped the role of the Federal Reserve, especially with regard to its accountability. I was quoting from the 1978 Humphrey–Hawkins Act, which was passed by Congress a year after the Federal Reserve Reform Act. And what I was explaining is that that legislative language actually sets out six economic objectives for the country, and then it says, "Attainment of these objectives should be facilitated by improved coordination among the President, the Congress, and the Board of Governors of the Federal Reserve."

Senator TESTER. And in my opinion——

Ms. SHELTON. That is in the law. I did not write that.

Senator TESTER. Well, I am telling you that if you believe that we need to pursue a more coordinated relationship with both Congress and the President, but I think these questions about the President's tweeting and potential of me having influence on the Fed, which I do not think should be correct, is real.

Ms. SHELTON. Honestly, it surprised me to read that in the language——

Senator TESTER. But you wrote it.

Ms. SHELTON. ——of the legislation. It surprised me to read it, and then I merely revealed that, and I have been subsequently surprised that it is attributed to me rather than to Congress who wrote it.

Senator TESTER. Because you wrote it. You wrote it in a September *Wall Street*——

Ms. SHELTON. I was quoting from the legislation.

Senator TESTER. ——*Journal* article. OK. Let us go a different direction. The gold standard, also in the *Wall Street Journal*, let us return to the gold standard, and you hoped that Vice President Pence would hasten a return to the gold standard. You talked about a new Bretton Woods to be held in Mar-a-Lago. If that is not advocating for a return to the gold standard, I mean, what is?

Ms. SHELTON. Well, I would differentiate that the Bretton Woods agreement was a gold exchange standard when only the United States as the anchor had any kind of convertibility responsibilities. What I was suggesting there is that having a stable, international, level monetary playing field is very supportive of free trade, consistent with the principles of comparative advantage and mutual benefit——

Senator TESTER. Dr. Shelton, I really appreciate your willingness to serve. I do. But I am going to tell you something. When I read things and they say the things as directly as you said them—which I appreciate, by the way—and then you come in here and, by the way, can try to justify them, the dog does not hunt. I am just telling you, it does not. You have a lifetime of writings, and not once are there things in there that would indicate anything other than what I pointed out in this Committee meeting, whether it is the sale of public lands, whether it is the sale of the Postal Service, whether it is the gold standard, whether it is independence of the Fed.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

First of all, welcome to the Committee. I would like to go back just a little bit. We had the opportunity to have Chairman Powell in front of us yesterday, and I would like to just remind my colleagues of what Chairman Powell said yesterday about what we called "groupthink." Chairman Powell agreed with me that groupthink is unhealthy, and he said, "I am strongly inclined to think that you need to hear all sides of a case." And to that end, Dr. Waller and Dr. Shelton, I think both of you would provide the Board with a fresh perspective, and I think that is healthy.

I did want to have the opportunity to maybe delve into just a couple of separate items, and I am going to begin with Dr. Waller. I think you have been neglected here a little bit, and I would like to talk about—you are from the St. Louis Fed. Can you talk a little bit about what the differences are between what you see in the Upper Midwest with regard to the ag economy versus what we find in a lot of the rest of the economy, which has really been significant in terms of its growth, and yet the ag economy has been very slow and perhaps in large part because they have been on the tip of the spear of the trade negotiations that have been going on.

Can you share a little bit about what you have seen in your previous work?

Mr. WALLER. Yeah, thank you, Senator. So as I mentioned in my opening statement, a large part of my job at the St. Louis Fed is to talk to the members of our community, bankers, business people, and we have a big ag action. In fact, our district is the largest soybean producer in the United States. So, clearly, the trade wars with China had a huge impact on our ag sector, and we hear that all the time when we go out and talk.

We are hoping that some of the deals that have been signed will reverse this and there will not be a persistent decline in farm income. Also hopefully this will put some support under land prices, which have been drifting down for the last 5 years, which potentially could create some problems for rural and ag banks if that continues. We are keeping an eye on that. But we are hoping that some of the trade uncertainty with China will sort of alleviate this pressure.

Senator ROUNDS. Thank you.

Dr. Shelton, they have made it very clear that they think that you come from a unique perspective with regard to your discussions in an academic sense with regard to the gold standard. They have suggested or at least some of your critics have suggested that you would not be independent.

I have looked at some of your writings. It would appear to me that you have taken almost a devil's advocate approach in some cases. I think the Chairman of the Fed, Chairman Powell, has made it clear that he looks for differing points of view. And yet at the same time, I think each time we ask you questions, we lead the question a little bit.

I would like to give you just a few minutes—and I have got 1 minute and 53 seconds left, but would you take some time here and just explain what your thought is with regard to the gold standard and perhaps a little bit about what you see your role as a member of the Board with regard to both being a team member, but also being an independent member as well. In South Dakota, we value that independent point of view, and we think it is important. I would like you to share your thoughts without being led into any question.

Ms. SHELTON. Thank you. I appreciate that, Senator Rounds. I keep going back to the fact that the power to regulate the value of U.S. money is granted by our Constitution to Congress. It is in Article I, Section 8. And in the very same sentence, Congress is given the power to define official weights and measures for our country, because money was meant to be a measure, to be a standard of value. And I think that money has to work the same for everyone in the economy. And it is important that it serve that purpose as a reliable measure so that people can plan their lives.

I do not see how you can have a free market economy if people cannot rely on the most vital tool that makes markets work. It is through money that we transmit market signals, and you need clarity of those signals or supply and demand can figure out what is the optimal solution.

So I think that the importance of feeling responsible in discussions at the Federal Reserve is a responsibility to remember that the money has to work for everyone, and that in a sense it is a moral contract between the Government and the citizens.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Smith.

Senator SMITH. Thank you, Mr. Chair and Ranking Member Brown. And thanks to both of you for being here and for your willingness to serve, and welcome to your families also.

As you can see, many of us on the Committee have great interest and concerns about the independence of the Fed, so I want to just pursue this a little bit.

Dr. Waller, you believe that the Fed was designed to be an independent institution, yes?

Mr. WALLER. Yes, I do.

Senator SMITH. And do you think that independence is an important feature of what allows the Fed to work?

Mr. WALLER. Yes, I do. The structure of the Fed, this process, everything is designed to give the Fed the responsibility to conduct monetary policy as it sees fit, according to achieving the goals that Congress has laid out for us. So Congress gives us the goals; then they give us the freedom to do what we think is best to meet those goals.

Senator SMITH. Because the opposite of an independent Fed is a Fed that is politicized, a Fed that would allow sort of the short-term interests of a political leader to trump what is in the best interests of Americans and the American economy in the long run. That is really the choice: independence of the Fed or politicization of the Fed.

So what would be your judgment of a statement like this—this is a quote—noting that "do not see any reference to independence in the legislation that has defined the role of the Federal Reserve for the United States," or think it is healthy that, again, "criticism from the White House of the Fed is out in the open." What do you think of that, Dr. Waller?

Mr. WALLER. Well, the institutional design of the central bank is what gives us its independence, the combination of having politically confirmed Board members plus regional Fed presidents who are not political appointees provides a check on the political aspect. The overlapping long terms of office give you some protection in the sense of being able to think in the long run for the good of the country and how you develop policies. The fact that we do not make policy by one person, that it is actually a group that has to make that decision, requires some degree of consensus on how you develop policy. That is the tough job of the Chairman.

Senator SMITH. But the fact that, in this statement, there is not reference to independence in the legislation that defined the role of the Federal Reserve of the United States, do you think that that means that there is not independence?

Mr. WALLER. No. Like I said, as far as I view it, it is the institutional design that is what gives you your independence.

Senator SMITH. So, Dr. Shelton, let me ask you the same initial question. Do you believe in the independence?

Ms. SHELTON. Absolutely, Senator Smith.

Senator SMITH. So if that is the case, what did you mean when you told a UBS executive in an interview 4 months ago that you "do not see any reference to independence in the legislation that has defined the role of the Federal Reserve for the United States"? What did you mean by that statement?

Ms. SHELTON. In researching the language of the 1977 Federal Reserve Reform Act and in the Humphrey–Hawkins legislation, I was searching for exactly that, to make this statement. As I say, I was surprised it is not asserted more clearly. But as Dr. Waller was saying, the operational autonomy of the Federal Reserve assures its independence over and above its political independence, which is guaranteed by having members who think for themselves, as I believe every member of the Federal Open Market Committee does. And, I mean, the only one who can reverse an interest rate decision of the Federal Reserve are the members of the FOMC themselves, as they did last year.

Senator SMITH. So you also said that you think that it is healthy that "criticism from the White House of the Fed is out in the open." So do you think it is healthy for the President to criticize the Fed?

Ms. SHELTON. Well, as I have said, I think in the past some Federal Reserve officials have suggested they were quietly pressured, so at least it is transparent. But I have also said I do not censor what someone else says, and I believe everyone has the right to criticize the Federal Reserve, including the President, including every Member of Congress, and every citizen.

Senator SMITH. But isn't what the President is doing here, isn't this an attempt to influence the Fed, which wouldn't that suggest that the President does not believe in the independence of the Fed because he is, in fact, attempting to use his significant power in order to influence the Fed? Doesn't that mean that he does not himself believe in the independence of the Fed?

Ms. SHELTON. I do not think people in that position of responsibility as someone serving on the Fed is easily intimidated. I think that is what you are looking for, is people who think for themselves. And that is why I appreciate this Committee judging nominees for exactly that characteristic. So I do not think that anyone on the FOMC is affected by political pressure.

Senator SMITH. Well, you know, my view is this is clearly the President attempting to undermine the independence of the Fed, and this is an issue that I am very concerned about. I know I am out of time, Mr. Chair, but thank you very much.

Chairman CRAPO. Thank you.

Senator Kennedy.

Senator KENNEDY. Dr. Shelton, I want you to assume a couple of facts for me. Assume that you are queen for a day and you are running the Federal Reserve and you have unfettered discretion. Assume that economic circumstances in the United States and the world are the same as they are right now, except the bottom has fallen out of consumer confidence and spending, unemployment has jumped from 3.5 percent to 6.5 percent in a very short period of time, and we are in a recession. How would you get us out?

Ms. SHELTON. Well, thank you for the question.

Senator KENNEDY. You are welcome.

Ms. SHELTON. It is hard to imagine that situation, but the first——

Senator KENNEDY. Assume it is true, and tell me, if you could, because they only give us 5 minutes, how you would get us out.

Ms. SHELTON. It would not be up to me, even if I were queen or Chairman. That is the importance of——

Senator KENNEDY. Well, let us assume for a second——

Ms. SHELTON. ——having the discussion.

Senator KENNEDY. You are using my time, Doc. Please assume what I just told you and you are running the Federal Reserve and you do not have to answer to anybody. What would you do? I think you understand the question.

Ms. SHELTON. I would go to the mandate, and I would talk with the other members of the FOMC about the appropriate monetary policy to help restore——

Senator KENNEDY. What is the appropriate monetary policy? What would you do? You do not have to talk to anybody. What would you do? How are you going to get us out of the recession?

Ms. SHELTON. Well, the problem we have now is we are very close to zero on interest rates.

Senator KENNEDY. Yes, ma'am. What would you do to get us out of the recession?

Ms. SHELTON. I think we are down to the other tools that the Federal Reserve has.

Senator KENNEDY. Would you lower interest rates?

Ms. SHELTON. I would never go negative. I mean, I am averse to that idea. And so the alternative is——

Senator KENNEDY. I am sorry. I am not trying to be rude, but——

Ms. SHELTON. ——quantitative easing.

Senator KENNEDY. ——they just give us 5 minutes. Would you take them to zero?

Ms. SHELTON. At the maximum, and I do not like to say you would eliminate courses of action, but I would be very reluctant to go below that. The Fed can always engage in purchases of assets——

Senator KENNEDY. So you would take them to zero, but you would not go negative?

Ms. SHELTON. I think it undermines the financial structure.

Senator KENNEDY. You would go to quantitative easing?

Ms. SHELTON. Very reluctantly, but I think first I would make it clear that there are limits to monetary policy. At some point you really cannot stimulate growth. I would call for fiscal——

Senator KENNEDY. Yes, ma'am. Again, I am sorry to interrupt, but you would go to quantitative easing.

Ms. SHELTON. That is your only alternative. If you think that——

Senator KENNEDY. What volume would you use? Now, we have gone from 3½ to 6½ interest rate, bottom fallen out of consumer confidence. How much are you going to buy a month?

Ms. SHELTON. Well, every round of QE has been less effective than the prior rounds.

Senator KENNEDY. I understand. How much are you going to buy a month?

Ms. SHELTON. I would probably look at what the most recent one was, so we are looking at approximately $80 billion a month.

Senator KENNEDY. OK. Do you think Congress ought to start— well, we are already deficit spending. We are already like a problem gambler chasing his losses. But would you recommend fiscal stimulus and that we have a stimulus package?

Ms. SHELTON. Obviously, that is up to Congress, not the Federal Reserve.

Senator KENNEDY. I understand. I am asking your recommendation. I get that.

Ms. SHELTON. Well, there might be incentives——

Senator KENNEDY. Would you recommend that we go to a stimulus package?

Ms. SHELTON. It depends what it is. If it is just spending more or projects that are not shovel ready, I do not think that is good.

But if you can restore business confidence and encourage business capital investment through tax reform, that could be helpful.

Senator KENNEDY. OK. So you think we should just increase deficit spending?

Ms. SHELTON. I do not like deficits, but——

Senator KENNEDY. I understand. I am just asking what you would do.

Ms. SHELTON. In an emergency situation, I think the most important thing is to restore that consumer and business confidence.

Senator KENNEDY. I get that. Would you recommend that we deficit spend dramatically?

Ms. SHELTON. Reluctantly, if it appears that there is stimulus potential in doing so, but that would be——

Senator KENNEDY. That is a yes?

Ms. SHELTON. ——Congress' decision.

Senator KENNEDY. That is a yes?

Ms. SHELTON. If you are down to the wire.

Senator KENNEDY. OK. I have got 38 seconds. Dr. Waller, could you answer my question? What would you do?

Mr. WALLER. Yeah, this would be the standard monetary policy toolkit. You would cut interest rates probably as low as you could to zero. Step two, you would typically use forward guidance, which was trying to signal to the markets how long you intend to keep interest rates low.

Senator KENNEDY. You would try and talk them down.

Mr. WALLER. Try and talk them down. I would agree you would need some fiscal support since we are constrained by the lower bound, because I personally would not want to go negative——

Senator KENNEDY. Would you do quantitative easing?

Mr. WALLER. Quantitative easing would be a possibility if you wanted to try to lower longer-term——

Senator KENNEDY. How much?

Mr. WALLER. That would be a quantitative measure. I do not know——

Senator KENNEDY. What does your gut tell you?

Mr. WALLER. My gut tell me?

Senator KENNEDY. Yeah. We have gone from 3½ to 6½. I am talking fast, Mr. Chairman.

Chairman CRAPO. You are out of time.

Senator KENNEDY. I am going to land this plane.

[Laughter.]

Mr. WALLER. I will throw out a number: 500 million.

Senator KENNEDY. 500 hundred million, thank you. Thank you.

Chairman CRAPO. Thank you.

Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. I appreciated the line of questioning. It was really enlightening.

So, Dr. Shelton, let me ask you this: In July of 2015, you presented at the Cato University, and at that event, in response to a question, you said, and I quote: "I do not trust Government statistics on GDP growth or on inflation." So what specifically about those statistics do you distrust?

Ms. SHELTON. I think it is a challenge to look at, particularly with regard to inflation, the variety of indices. We are mostly familiar with the Consumer Price Index. The Fed uses the Personal Consumption Expenditures Index. I am not sure that either really captures the impact of technological innovation; that is, a basket of goods priced at a certain level today might be delivering a lot more in terms of services than, say, a telephone from 20 years ago. And so I am not saying I distrust. I am just saying that it is difficult to measure consistently through time Consumer Price Indices and use that as the main tool for making monetary policy.

Senator CORTEZ MASTO. Are there other Government statistics that you feel the same way about?

Ms. SHELTON. I am not sure what ones I would suggest.

Senator CORTEZ MASTO. Let me ask you this: There has been a lot of talk about the gold standard in your previous writings and your position on eliminating the Federal deposit insurance. I was looking at your book, *Money Meltdown*, that you wrote in 1994, and really the last paragraph on the section that talks about gold convertibility, you basically state that eliminating the Federal deposit insurance would restore the essential character of banking as a vehicle for channeling financial capital into productive investments while striving to meet the risk and timing preferences of depositors.

So if you were appointed to the Federal Reserve, would you still consider that as an opportunity or an option to focus on and advocate for the elimination of the Federal deposit insurance?

Ms. SHELTON. Senator, no. I think that having deposit insurance is essential to maintain trust in the American banking sector, and I was merely using an example to explain moral hazard by suggesting that in the presence of Government insurance, the owners of the bank, a failing bank, may be motivated to engage in more risky behavior than they would in the absence of Government insurance. And I think it is important that the owners of the bank bear the brunt of the cost of paying for failure rather than having the Government step in.

Senator CORTEZ MASTO. OK. Along with my colleagues, I am concerned—and let me just say this, because you have a history of writings, and you should be proud of them. They are your writings, they are your belief, and based on your background and experience. But when you come before us for this position, it seems like you are taking a 180-degree position on all of this just to be appointed to this position. So how do we trust that whether you are before us today and who you are today versus your writings in the past, who are we getting that is going to be on the Federal Reserve?

And one final thing. You said you are from Fredericksburg, Virginia, but you are going to be representing California on the Federal Reserve. Explain that to me.

Ms. SHELTON. I believe that issue you mentioned there at the end is decided by other people. I am not involved with that. But my understanding is that all the Governors are assigned effectively to a district and that my correlation with the San Francisco district bank is quite strong. I was born and raised in California. My family behind me can verify that. And I went to school in California, in Oregon, my graduate work in Utah, all States within the San Francisco district. My husband and I own homes in Utah and California. My first position after receiving my doctorate was at the

Hoover Institution in San Francisco—or in Palo Alto, very near to San Francisco. So I have a very strong affiliation with California and feel close to that area.

Senator CORTEZ MASTO. Thank you. So who are we getting? Who are we getting on the Board: the woman who wrote extensively and should be proud of it, or the woman who sits before us today and is countering everything that she has said in the past? Help me with that.

Ms. SHELTON. Senator, you are getting the authentic Judy Shelton. I feel I have been intellectually consistent throughout my career, always focusing on monetary policy that is conducive to productive economic growth.

Senator CORTEZ MASTO. OK. Thank you.

Chairman CRAPO. Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. Thank you both. I know there has been a lot of talk about gold today. There is an old saying, "Worth its weight in gold," which goes back to the fact that early coins actually were weighed. That is why peso means "weight" and the British pound is called the "pound," and lira means "pound," which has the same Latin root word as Libra, the digital currency that Facebook and others have proposed as well, which brings me to my point that I want to talk about with Ms. Shelton, the need for digital currency to maintain the dollar's primacy in the world. These examples are just a few of how throughout history currencies have always had the same properties, whether they are liquid, they are stable, they are stores of values, they eliminate inefficiencies of bartering, and whether or not we need to add a new property to our currency, namely, that it be digital.

To be clear, I am not talking here about cryptocurrencies or anything like that. I am talking about a central bank digital currency because that is exactly the direction that China intends to go with the digital yuan.

China, like a lot of fragile developing economies, you might say, needs digital currencies primarily internally because they do not have the kind of institutions that we have, whether that institution is the dollar, whether that institution is the Federal Reserve, or simply the rule of law and rights of property and contract.

For the United States, we need the digital currency a little bit less, I would argue, internally but, rather, to help preserve the primacy of the dollar worldwide, so, for instance, China has wide-scale use of digital payment systems inside of China. But they hope to use the digital yuan worldwide to replace the dollar as the reserve currency, with all of the economic benefits that that brings to the United States, and especially the security benefit it brings to enforce sanctions. So just to use an example, China buys a lot of agricultural products from Argentina. They do not contract those and transact in pesos or in yuan but in dollars, which, again, gives us great leverage in enforcing our sanctions worldwide.

If we do not move to add digitization to the dollar as a feature of those timeless historical properties of currency, I worry a lot that a digital yuan could ultimately replace the reserve currency, just as we replaced the pound in the last century.

So, Ms. Shelton, could you talk to us a little bit about what you on the Federal Reserve Board and what the Federal Reserve as a whole can do to help protect the dollar's reserve currency, and especially address the need to have digitization as a potential property of the dollar?

Ms. SHELTON. Thank you, Senator Cotton. I think that is an extremely important discussion, and I agree with your assessment. I think we are compelled to think about that. The dollar is the most important instrument of soft power that we have around the world. And, yes, it is the dominant reserve currency. But we cannot rest on our laurels in that regard because, as you suggested, rival Nations are working very diligently to have an alternative to the dollar. And while they cannot beat us as a currency, they can add features, because there is a demand for digital access to banking services, to payments, and I think it is very important that we get ahead of the curve to ensure that the dollar offers, continues to offer the best currency in the world, the most respected, the most utilized, and we need FinTech innovation to keep us going in the right direction and to be a leader instead of passively observing what other countries might do.

Senator COTTON. And, again, to reiterate, I am speaking primarily about the primacy of the dollar worldwide, not domestic purposes. Governor Brainard gave what I thought was a pretty good speech last week about central bank digital currencies. She cited some of the reasons why developing economies need it, such as, you know, high degrees of cash use and weak financial institutions and underdeveloped payment systems and a risk of inflation in domestic currencies. You know, we do not face those nearly to the same degree. What I am talking about is the need to have a dollar that is competitive in world markets, that has—it has earned its position over the last century, which is why we replaced the pound, and it has maintained that position against competitors like, say, the euro and still to this day the yuan. I do not want to see a day when we wake up and have a Sputnik moment with our currency in which we are no longer the world's reserve currency.

My time has expired. Thank you both for your willingness to serve.

Chairman CRAPO. Thank you.

Senator Jones.

Senator JONES. Thank you, Mr. Chairman. Thank you both for being here today. Dr. Waller, thank you for your work. I appreciate it. I know you have not had as many questions. We have not had the chance to meet, but I appreciate that. I do want to direct my questioning to Dr. Shelton.

Dr. Shelton, in 2011 there was a guy named Bernard von NotHaus. He is the creator of a fictional currency called the "Liberty Dollar". He was convicted by a North Carolina Federal jury by making, possessing, and selling $60 million worth of his own precious metal-backed currency. The U.S. Mint had actually had to issue a warning about this because he was putting on this—they had to issue a warning that it was not legal tender even though it was marked with dollar signs, the word "dollar," "U.S.A." and said "Trust in God" instead of "In God We Trust." The prosecutor from North Carolina in that case called him—accused him of domestic terrorism. He had written in his book that he denied 9/11 had happened and compared it to those people who think that Lee Harvey Oswald did not kill President Kennedy.

I would call this guy an "outlier." My colleague Senator Shelby had talked about outliers, completely out of the mainstream with regard to things. But in a 2012 interview, you called this guy the "Rosa Parks of monetary policy."

Now, I got to tell you, I am a native Alabamian. Rosa Parks has got a statue in the United States Capitol. She had, in one act of courage, defied the Jim Crow laws and tried to bring down the walls of oppression that kept a race of people from voting and for basic human and civil rights. And this guy seems to be issuing defiance on a Federal Government policy, monetary policy, and you have praised that, you said, because he is challenging what the Federal Government has done with regard to carrying out its constitutional responsibility to maintain the value of U.S. currency. At the Cato Institute, when he praised you, you said to him, "I very much admire your boldness and audacity. I think you are really challenging the Fed in a way I respect."

What am I missing? If that is not out of the mainstream of America, of history, I do not know what is. So tell me what I am missing when you think a guy like this needs to be compared—and what he is trying to do to the monetary policy in the United States, how that compares to the courage of someone like Rosa Parks?

Ms. SHELTON. Well, Senator Jones, the last thing that I would ever do is demean the courage of Rosa Parks.

Senator JONES. Well, you did. You do realize that, don't you? I mean, you did by doing that.

Ms. SHELTON. I apologize for the comparison. I truly do.

The gentleman you are referring to, he did an audacious thing. I would never condone violating——

Senator JONES. Did you admire what he did with the Liberty Dollar and $60 million and being convicted of Federal crimes in North Carolina? Do you admire that, Ms. Shelton?

Ms. SHELTON. I believe that he was testing the idea that the Constitution in Article I, Section 10, says that States can only use gold and silver as legal tender.

Senator JONES. So within the Federal Reserve, is that something you want to test? I mean, you are going to be within this, if you get confirmed. Is that something that you want to test? Are you now taking that admiration to inside the walls of the Federal Reserve? Is that what we are to think?

Ms. SHELTON. No, Senator. And as I have said a number of times this morning, it is important to acknowledge that the power to regulate the value of U.S. money is granted to Congress by the Constitution, not to the Fed. Congress created the Federal Reserve as an independent agency and gave it a monetary mandate to promote maximum employment, stable prices, and moderate long-term interest rates. And that is the framework under which I would make decisions if confirmed.

Senator JONES. You have indicated at one point that you thought that we might want to go to a standard like the euro, creating something for North America, a currency called the "Amero." Do you still believe that? Is that a good policy?

Ms. SHELTON. Well, Senator, sometimes I am asked to think out of the box and look at future scenarios.

Senator JONES. I am just asking you a quick question. I have got 30 seconds. Is that a good policy or not?

Ms. SHELTON. I just want to clarify. I am not pursuing that as an initiative, but I do think that when the currencies of our major trading partners depreciate against the dollar, it changes the terms of trade even after they have been carefully negotiated.

Senator JONES. Well, Dr. Shelton, I have got to be honest with you. I have heard the questions and answers, and I have heard several Senators here question what you have written in the past with what you are saying today. It reminds me of a comment that my old boss, Senator Heflin, who I sit in his seat now, talked about a number of people having a "confirmation conversion." But I think you said it best, that what we will get is the authentic Judy Shelton, and that is what bothers me tremendously. But thank you, Mr. Chairman.

Chairman CRAPO. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman. Thank you both for being here. Congratulations to the family. I am sure that you are proud. And to the Shelton family, your heart rate will reduce about 10 or 20 beats a minute in about 30 minutes.

Look, I want to go back. I had not planned on going through this. I watched most of the hearing in my office before I came down here, and I have heard a lot of people quoting your writings. I want to lay something out and then get you to respond to it. I want to make sure that people understand the difference. They are using quotes that you wrote that were actually quotations from other writings.

For example, I think in one article that I believe was used by Senator Tester and referenced by others, public law says Full Employment and Balanced Growth Act of 1978. In that public law, it says, "The attainment of these objectives should be facilitated by setting explicit short-term, medium-term economic goals and improve coordination among the President, the Congress, and the Board of Governors of the Federal Reserve." That is what you were quoting, right?

Ms. SHELTON. Exactly, Senator.

Senator TILLIS. And that was the basis for them thinking that you were asserting—the other Judy Shelton was asserting something else in your words. But, in fact, those were not your words, right?

Ms. SHELTON. I was quoting.

Senator TILLIS. And, in fact, they are the words of Congress.

I also want to go back—when we talk about independence—I find it remarkable, actually, on this Committee we are talking about—Chairman Powell was here yesterday, and we are talking about undue political influence on the Fed. That is what we do every day when we bring the Fed up before this Committee. We are trying to assert our political influence. And I do not think the President is any more or less entitled to do that. And I do not think any other President has failed to do it, whether they do it publicly or privately.

You made a point about, at least in this case, it is transparent. That is one thing you can say about the President and his communication style. But I think we are fooling ourselves if we think any President has not tried to have a discussion about their view of where you need to go.

But can you all cite either example—Mr. Waller, I am going to give you a chance to talk because you have been given a good pass, and then maybe with Dr. Shelton. But, Dr. Waller, give me an example where you have seen political pressure ultimately drive a political decision on the part of the Fed?

Mr. WALLER. Well, there has been a long history of what used to be called "bashing and coercion" from the Administration on the Fed.

Senator TILLIS. Yeah, it is what we do.

Mr. WALLER. So this has a long history. The question is——

Senator TILLIS. But what I am saying, in an example where that political pressure—because we are all talking about this fear, uncertainty, and doubt of the Fed being politicized. I am just trying to give an example where that political pressure actually drove the Fed to make a decision that was not founded in the dual mandate.

Mr. WALLER. So the classic example in monetary history is Richard Nixon and Arthur Burns. Nixon put a tremendous amount of pressure on Burns to keep interest rates low to help with his reelection, which apparently Burns followed through with. That is the best-known example I have.

Senator TILLIS. I will tell you that sometimes I see maybe political influence work in reverse. I am sure both of you are aware of former Governor Dudley's comments about making things go south so President Trump cannot get reelected. Do you all think that is inappropriate? I hope so.

Mr. WALLER. I thought it was totally inappropriate, speaking for the Fed.

Senator TILLIS. Dr. Shelton.

Ms. SHELTON. Most certainly.

Senator TILLIS. All right. Now I want to talk about—we also talked about independence. I agree with what everybody said on both sides of the aisle about Fed independence from undue political pressure. What I have got a real problem with and a couple of examples right now is the Fed asserting its independence from oversight or asserting its independence from the Administrative Procedures Act. Chairman Powell yesterday, in response to a question I had about LISCC and the GAO's assessment about that not having been appropriately promulgated, concerns me because I get that you need to be independent, but you have to be answerable to the laws that other regulatory agencies are answerable to.

I am not going to ask you to respond to this question now because I am going to finish on time, but the General Counsel in the middle of June last year, in response to the GAO's assessment that the LISCC guidance had really risen to a rule and should have been promulgated in that manner, said that "we are assessing whether or not our guidance is accountable to the GAO." That is an absolutely unacceptable answer. And for anybody here, you all know this, Chairman Powell can give a comment in an oversight hearing or make a speech, and it could have a ripple effect rising to a level of a rule. And to sit here and say, well, guidance is not really rulemaking, it is not material to the examination process, defies any knowledge I have of how examinations go on and what goes on in those confidential meetings.

So I am going to submit for the record roughly the same question I asked Chairman Powell yesterday, and I would like your response.

Thank you all and congratulations.

Chairman CRAPO. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. I thank both of you for being here.

Ms. Shelton, I am sure you have been covering or watching some of the articles that have been coming out with respect to your record years ago compared to now. And there does seem to be a pattern of total flip-flopping. If you look at the period of time when Bernanke and Yellen were the heads of the Federal Reserve, you criticized them for—let us see—cheap money, fake economy. You were a deficit hawk. You wanted tight money then. In 2011, you criticized the Federal Reserve for weakening the dollar to improve our exports in order to improve our economy back home.

The only pattern that I see here is a political one, not an economic one. And I think that is what concerns a lot of people because we want somebody on the Federal Reserve who is going to look at the economic facts and draw conclusions from those, not the political facts. And so I want to also ask you in that regard about the positions you have taken on the deficits and debt, and I have actually had concerns myself over the years about deficits and debt. But here is what you wrote back in 2009, which, of course, was still during the economic downturn, and so the economy was hurting. Obviously, economic stabilizers kicked into effect.

But you wrote in the *Wall Street Journal*, "Unending fiscal deficits, unconscionable accumulations of Government debt, these are trends that are shaping America's future." And you go on to predict that "there will be flight from the dollar, our Nation's money is being severely compromised, and it is going to be gloom and doom."

None of those predictions proved to be true, did they?

Ms. SHELTON. I think it was a very unhappy period in the wake of the 2008 crisis that was devastating across the country. And we engaged with the Federal Reserve seeking monetary stimulus and extreme measures, going to near zero interest rates and massive purchases of Government assets.

Senator VAN HOLLEN. Right. And I think I heard an exchange earlier with Senator Kennedy where you said that if we had that kind of economic downturn, you would look at using all those tools. Is that correct?

Ms. SHELTON. Yes, at the——

Senator VAN HOLLEN. But you were very critical—I mean, the record is pretty clear. You criticized them strongly for taking emergency provisions back then. You said the increase in the national debt was "unconscionable," even though, as you know, when you have economic downturns, your GDP goes down and your economic stabilizers go into effect, so there is more money spent on things like Medicaid.

But I guess my question is: Was it unconscionable for President Trump to add $2 trillion to that already unconscionable debt in passing the tax cut? Which has actually now taken projected debt to GDP to much higher levels than what you predicted, and our annual deficits, the last year of the Obama administration, the deficit was 3.2 percent of GDP. In 2019, it is 4.6 percent of GDP.

So my question is: In order to be consistent, did those policies supported by the President, are they unconscionable when it comes to our deficits and debt?

Ms. SHELTON. Senator Van Hollen, if I may take us back to 2009 to compare my consistency. The immediate fiscal response was an $800 billion package of Government spending that ultimately turned out not to have as stimulative an effect as we might have hoped, and there was talk of projects that were not shovel ready. We went to these extreme monetary measures likewise trying to stimulate in the wake of this meltdown. There is a cost to that. For the years from 2009——

Senator VAN HOLLEN. I am sorry. You are just not answering my question. It was a pretty simple question. Look, look. We can all—you know, people are entitled to their own opinions but not the facts. The Congressional Budget Office's analysis of the fiscal stimulus disputes exactly what you just said. And my question to you was: Is it unconscionable to increase the debt over the next 10 years by $2 trillion? If it was already at unconscionable levels back in 2009, is it unconscionable to add another $2 trillion to an already unconscionable debt? Yes or no.

Ms. SHELTON. I think we should always strive to reduce the deficit because it does put a burden on future generations.

Senator VAN HOLLEN. See, this is the problem. The problem is you have got a lot of writings, strong writings, of a very political nature. And now your responses today are totally inconsistent with the positions you have taken in the past. The only thing that has changed is who is in the White House.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Warner.

Senator WARNER. You are down to the last one. Let me thank both of you for the meetings that we had, and I enjoyed our conversations with both of you.

I do hope, Dr. Shelton, in terms of our conversation about our common ties to Virginia and where we both live and the fact that you were nominated from Virginia to the European Bank for Reconstruction, that you are not changing that status as well in terms of how the Administration has put you forward this time.

I know we talked about your *Wall Street Journal* editorial, and I went back and read it because, again, I think you put forward some views I do not necessarily agree with, but you put them forward clearly. The one thing you keep coming back to is Humphrey–Hawkins, and Senator Tillis raised it as well. The thing you did at least mention in the article, but I do not think you have mentioned in your commentary to most of the questions, at least that I have heard, is that, you know, Humphrey–Hawkins expired in 2020.

Ms. SHELTON. That is true.

Senator WARNER. It is no longer the law of the land. I am not sure that is still a fair notion. And, you know, I was going to also raise the questions Senator Van Hollen raised. Again, we talked about this issue in my office.

I feel very strongly around debt and deficit, and, again, let me be clear. I do not think either political party has much legitimacy on the issue anymore. But I do think there is very much a change in consistency in your view under what was happening under Obama, where a group of us in both parties tried to bring down the debt and deficit, to the chagrin of folks on both sides of the aisle, that suddenly got blessed under President Trump. And I know you have already addressed it, but it is of real concern to me. I do not doubt your integrity, but I question your consistency on this.

I want to go to another piece. In your writings, you said that it would be appropriate and constructive for the Fed to consider international monetary stability and interest rate decisions in an era of worldwide currency exchange. The question I feel—and I agree with many in both parties again, currency manipulation is a bad thing. But I do not think currency manipulation falls within the gambit of the Fed's responsibility. Do you want to speak to that?

Ms. SHELTON. It does not fall under the Fed's responsibility. Any other prior monetary arrangement had to be approved by Congress. I am just pointing out that in that Humphrey–Hawkins legislation, an improved trade balance and improved global competitiveness are among the six objectives that are referred to as being in the national interest where it calls for more coordination, the legislation does.

I do want to point out that in the article that you were referring to, I specifically say that Humphrey–Hawkins expired in the year——

Senator WARNER. I know you did, but I feel like in many of the conversations and some of your answers you have cited that without that full explanation, and I feel pretty strongly on your change on the debt and deficit issue. I have concerns about the Fed in terms of playing a role in currency manipulation. I think it is outside its gambit. And I want to also reference one of my colleague's points. I do not fully agree that every President and every Member of Congress is always trying to overly influence the Fed. I think the Fed independence—I think, Dr. Waller, your comment about President Nixon and Chairman Burns was a dead-on accurate one, and I think it has enormous blowback. And I guess one of the challenges that I am grappling with, Dr. Shelton, with your nomination is, you know, I think you have had a series of views that go beyond the dual mandate. I commend you, frankly, for some of the creative sets of views you have, and some of them I agree with, some I disagree with.

The challenge right now that I think is unprecedented is we have a President that goes so far beyond the norms of trying to unduly influence all independent parts of our Government, the Fed's independence being something that we generally share complete commonality with. And when your views in some of your writings, my takeaway is, frankly, would reinforce that effort to kind of more politically manipulate the Fed or go beyond the dual mandate. And with this level of influence that President Trump is willing to influence on every action, and I think, again, unprecedented in terms of his attacks on Chairman Powell, it raises grave concerns.

But I very much appreciate you both being willing to—and I appreciate both of our conversations, and, again, Dr. Shelton, I did enjoy our conversation yesterday.

Ms. SHELTON. I did, too.

Senator WARNER. I appreciate the chance to raise those final views. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you. And to our nominees, although Senator Warner thought he was last, Senator Brown would like to have another couple of questions. So I have told him he will have a couple of minutes. So does Senator Shelby.

Senator SHELBY. One minute for me.

Chairman CRAPO. Also, Senator Kennedy and Senator Warner, if you want to—I am not encouraging it—I will give you another couple minutes.

Senator WARNER. You are not encouraging more questions from Senator Kennedy and me?

Chairman CRAPO. I will tell you the vote started 10 minutes ago, so we do not have much time. Senator Brown.

Senator KENNEDY. They will not shut it down as long as Senator Shelby is here.

[Laughter.]

Chairman CRAPO. As long as we are here.

Senator BROWN. I thought we did not have much time here, Mr. Chairman.

Mr. Waller, given Ms. Shelton's answers on monetary policy and her 30 years of writing on the gold standard, would you recommend we confirm her to the Fed?

Mr. WALLER. Senator, that is your decision, not mine.

Senator BROWN. I figured that would be your answer. Let me ask it a different way. You are at the St. Louis Fed, right?

Mr. WALLER. Correct.

Senator BROWN. If you were interviewing for your Research Department, would you hire her?

Mr. WALLER. I have a very different Research Department in terms of the type of academic research we do. Judy has been much more in the public light in terms of her research. My department is all publishing for academic journals, that——

Senator BROWN. If someone brought her body of work and writing to you, would you hire her or him?

Mr. WALLER. Like I said, what her outlets are compared to what we expect our staff, they are just two different outlets for your research.

Senator BROWN. Mr. Chairman, just a last statement. The takeaway is that we do not know who we are nominating to the Federal Reserve. Ms. Shelton has disavowed 40 years of her writing, as so many on this panel have shown, to say what she needs to say to be confirmed. It is not just my colleagues on the Democratic side of the aisle who are concerned. I heard Senator Shelby's concerns. I have heard Senator Toomey's. I have heard others. But conservatives outside of this body are concerned. American Enterprise Institute Desmond Lachman urged the Senate to reject Ms. Shelton's nomination. He wrote, "Normally, a person would be in favor of either an easing monetary policy to stimulate the economy or a hard monetary policy to exert discipline on the Government.

Either way one would not expect her to hold both views at the same time, yet Ms. Shelton does exactly that."

AEI's Ramesh Ponnuru wrote, "Shelton's prescription for monetary policy has changed so dramatically, and her rationale for it makes so little sense as to make her appointment to the Fed a gamble. Does she believe what she is now saying, or is she just saying what Trump wants to hear?" This is from AEI.

If the latter, then the Fed—that the Fed, when she referred to the rigid opposition to inflation at any cost that has marked most of her career, or would she stick with whatever Trump wants?

Thank you, Mr. Chairman.

Chairman CRAPO. That was a little bit too long of a question.

[Laughter.]

Senator BROWN. That was an answer.

Chairman CRAPO. Senator Shelby.

Senator SHELBY. I will change the subject just a little bit but still in economics. For years, economists, as you both know, adhered to the Phillips curve, which describes an inverse relationship between inflation rates and unemployment rates. This was mentioned earlier today. Typically, lower unemployment has generally produced higher inflation—this is in the past, I guess—and vice versa. In recent years, as unemployment has decreased, inflation rates have remained low, thank God.

What are your thoughts on the current relationship between unemployment and inflation? And how has the relationship between the two changed over time? Is there a new equation here? Dr. Waller?

Mr. WALLER. Well, I will make two comments. First of all, if you were to go to any Ph.D. program in economics today and you were taught the fundamental model of unemployment, there is no inflation in that model. So even at that level of graduate training, nobody talks about inflation and determining the level of unemployment.

The second point——

Senator SHELBY. But when you think of price stability, you have got to be thinking the specter of inflation somewhere.

Mr. WALLER. Correct. So that was where I was going with my second point, which was that one of the things we have learned on monetary policy research is that if you have a central bank who is very committed to, say, a 2-percent inflation target and that is very credible, that their actions will keep inflation near that target, then inflation never really moves off that target no matter what happens with the unemployment rate. So the relationship looks like it has completely broken down, but it is because a central bank has so much credibility in its inflation target that nobody deviates from it.

Senator SHELBY. But if inflation stays low, does that give—as Senator Kennedy I think got into the question, would that give the Fed a tool in case of a crisis?

Mr. WALLER. I think what it does is it gives us a different way to think about how to raise interest rates, and that is, I think, what——

Senator SHELBY. But that would be a tool, would it not? A tool or option.

Mr. WALLER. Correct, right. So your credibility is everything for a central bank.

Senator SHELBY. Everything.

Mr. WALLER. That is it. I think you laid it out. It is the confidence in our currency. It is the confidence in our institution. If you lose that, you are done.

Senator SHELBY. Confidence in the economy of the Nation.

Mr. WALLER. Correct.

Senator SHELBY. In the Nation itself, right?

Mr. WALLER. Correct.

Senator SHELBY. Dr. Shelton.

Ms. SHELTON. Senator Shelby, I think that is one of the most profound developments that has happened, particularly in the last 3 years, the change in thinking and the realization at the Federal Reserve, which is steeped in the Phillips curve tradeoff mentality, that you can have low inflation and low unemployment at the same time. In fact, it is a perfect stable foundation for productive economic growth, and that is when you start to see not just the GDP increase but the increases in productivity which then justify gains in wages, and the increased output is such that you do not get inflation. So I think this is very important for the future monetary policy.

Senator SHELBY. So low unemployment and stable prices, low inflation, that is the two mandates of the Fed itself. Is that correct?

Mr. WALLER. Correct.

Ms. SHELTON. Yes.

Senator SHELBY. OK. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. All right. Thank you. And I will take the last word—oh, did you have a question?

Senator KENNEDY. A quick one.

Chairman CRAPO. I will not do it now, then.

Senator KENNEDY. Thirty seconds. Why did we have a meltdown in the repo market?

Mr. WALLER. That is going to take longer than 30 seconds.

Senator KENNEDY. Give us the *CliffsNotes* version.

Mr. WALLER. In a sense, as the Fed was draining reserves, we thought there were plenty of reserves, but it clearly was not distributed correctly. And then the puzzle that we are trying to figure out is why didn't these reserves flow from some banks to those that needed it, and that is something we have been studying and trying to understand.

Senator KENNEDY. Doctor.

Ms. SHELTON. I think that it is partially a regulatory issue in the sense that excess reserves have almost become mandatory. They are eight times higher than required reserves, and I think that the stated liquidity preferences of bank examiners makes banks feel that they need to keep that ready cash, and they were reluctant even to chase a 10½ percent overnight repo rate.

Senator KENNEDY. I am done.

Chairman CRAPO. All right. Thank you.

I would just like to make a final comment. We all knew that this was going to be a very aggressive hearing today, particularly with regard to you, Dr. Shelton. I think you have been very solid in explaining and defending your writings and your positions. And, by the way, the reason that I introduced into the record in my opening statement an article from the *Wall Street Journal* entitled "The War on Judy Shelton" was just to help make the point that this is an orchestrated, calculated effort. I think you have done very well today, and I just wanted to tell you that you have explained, I think very capably, the positions that you take and the rationale for them. And I just want to appreciate the fact that you have gone through that, and——

Senator BROWN. Mr. Chairman, if you are going to enter into the record the *Wall Street Journal* article, I would like to enter the *National Review* article.

Chairman CRAPO. Well, you just quoted it, so it can be in the record.

Senator BROWN. Thank you.

Chairman CRAPO. And with that we are done, and we are on our way to our vote. Thank you very much for being here.

Ms. SHELTON. Thank you, Mr. Chairman.

Mr. WALLER. Thank you.

[Whereupon, at 10:52 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketches of nominees, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO

This morning, we will consider the nominations of the Honorable Judy Shelton to be a Member of the Board of Governors of the Federal Reserve System and Dr. Christopher Waller to be a Member of the Board of Governors of the Federal Reserve System.

Welcome, and congratulations on your nominations to these important positions.

I see friends and family sitting behind you, and I welcome them as well.

We are fortunate to have these two highly qualified nominees appearing today.

These positions are critical to ensuring a safe, sound, and vibrant financial system, and a healthy, growing economy.

The Federal Reserve was created by Congress as the Nation's central bank to promote a stable economy, and a safer, more flexible financial system.

Among the Federal Reserve's responsibilities is conducting the Nation's monetary policy with the mandate of promoting maximum employment, stable prices, and moderate long-term interest rates.

In addition to its monetary policy role, it oversees a significant portion of the banking sector, including large, regional and community banks, as well as certain nonbanks, and aims to foster a safe and efficient payment and settlement system.

With this in mind, it is important that we nominate and confirm well-qualified candidates with different perspectives to the positions of Governors to ensure robust debate and more effective decisions.

Before turning to Dr. Shelton and Dr. Waller, I am entering into the record a letter from over one hundred economists supporting the nomination of Dr. Waller, and also an article from the *Wall Street Journal* supporting Dr. Shelton, titled, "The War on Judy Shelton".

Dr. Shelton most recently served as the Executive Director for the European Bank for Reconstruction and Development and was confirmed by voice vote in the Senate in 2018.

Dr. Shelton's experience working for nonprofits and academic institutions forged her deep knowledge of democracy, economic theory and monetary policy that will broaden and diversify the Fed's perspective.

Dr. Waller has served as the Research Director at the Federal Reserve Bank of Saint Louis for the last 11 years, and aided the President of the Saint Louis Fed in analyzing the economy and recommending U.S. monetary actions.

His research on monetary theory and the microfoundations of money and payment systems will be valuable, as we are seeing a rise in cryptocurrencies and digital currency in this country and abroad.

I am confident that Dr. Shelton and Dr. Waller will bring strong leadership to the Federal Reserve System.

As Governors at the Federal Reserve, Dr. Shelton and Dr. Waller will play key roles in carrying out the Fed's regulatory and supervisory activities consistent with the law, while also playing an important role in striking the balance between tailored regulations and supervision, and safety and soundness.

I appreciate the positive meetings I had with each of you leading up to today's hearing, and I look forward to continuing a robust discussion on the following topics:

- The importance of right-sizing regulations and tailoring the supervisory framework to support a vibrant, growing economy while also ensuring a safe and sound financial system;
- Assessing market-based fixes to maintain stability in money markets; and
- The development of central bank digital currencies and other technological innovations in the financial space, which we also discussed with Chairman Powell yesterday; and
- Continuing to encourage the Federal Reserve to submit all rules to Congress under the Congressional Review Act, as well as submit all significant guidance for purposes of the Congressional Review Act.

I look forward to working with Dr. Shelton and Dr. Waller on these and other areas where the Fed and Congress can act to further reduce unnecessary burdens and promote economic growth.

Congratulations again on your nominations, and I thank you and your families for your willingness to serve.

PREPARED STATEMENT OF SENATOR SHERROD BROWN

Ms. Shelton and Mr. Waller, I would like to extend my greetings to you, your friends, and family here today. Welcome.

Fed independence matters. We know economies with independent central banks have less price volatility, fewer bank panics, and more stable economies.

But one of the nominees before us today doesn't believe in an independent Fed, and has spent her entire career advocating for policies that would make our economy more volatile, and give families and businesses even more too worry about in an uncertain world.

The point of the independent Federal Reserve is to be a steady, guiding hand—to worry about the big picture of the economy, so hardworking families don't have to.

But for Ms. Shelton, these aren't hazards to avoid—they are the goal. We all understand that on economic issues there are conservatives and liberals, and most people fall somewhere in the middle on that continuum. But Ms. Shelton is not a conservative—she's far outside the mainstream. She's off the ideological spectrum.

For three decades, Ms. Shelton has been a prominent advocate for returning to the gold standard.

In making the case for Ms. Shelton's nomination, her friend James Grant wrote in the *Wall Street Journal* that, "[w]ith the nomination of Judy Shelton to the Federal Reserve Board, the discussion has tilted to gold. Gold is money, or a legacy form of money, Ms. Shelton contends, and the gold standard is a reputable, even superior, form of monetary organization."

People can agree to disagree on certain issues—but we don't get our own facts, and the facts are clear. If we as a Nation had followed Ms. Shelton's advice and had not advanced beyond the gold standard nearly a half century ago, our Nation would have bounced from boom to bust, without the monetary tools necessary to pull us out of recessions.

Depressions would have been deeper and longer, and millions of working families would have suffered even more, for no reason.

And that is not the end of the story. In multiple writings, Ms. Shelton clearly voiced her opposition to FDIC deposit insurance—the insurance that protects the savings of hard-working Americans. In other words, she thinks that if a bank fails—and we all remember from 2008, they do indeed fail—then all the families whose savings and paychecks are stored in that bank should just lose all their money.

Passing Federal deposit insurance was one of FDR's first acts during the Great Depression for a reason. That guarantee—that your money is safe in the bank—is at the bedrock of our modern economy.

This is not some intellectual exercise about moral hazard. This is the real world. I dare anyone to explain to working families in Georgia or Iowa or Nevada or any community that experienced bank closures in the Great Recession or the Savings and Loan crisis that the FDIC insurance is "a hugely distorting factor."

But with Ms. Shelton, it doesn't stop there.

The money in your wallet is backed by the Full Faith and Credit of the United States Government. Yet, Ms. Shelton advocated for doing away with the dollar and replacing it with a common currency for North America. I'm serious.

To make NAFTA more effective, she mused the dollar could be replaced with a common currency for North America called the "Amero."

At other times she has called for the creation of a generic, global currency, backed by gold.

That kind of globalist ideology doesn't belong anywhere near our fiscal and monetary policy. The American dollar is the world's reserve currency and it should stay that way.

The bottom line is, Ms. Shelton has too many alarming ideas and has flip-flopped on too many important issues to be confirmed for this job.

And we know she will say exactly what the President wants her to say—further threatening the independence of the Fed.

She was an interest rate hawk, until President Trump wanted lower rates. She opposed tariffs on China, before she was for them.

And based upon what I and other Committee Members heard in meetings with her, it appears that Ms. Shelton has changed all of her positions—on everything from the Gold Standard, to Bretton Woods, to a steadfast opposition to FDIC insurance.

That's not the steadying hand required at the Fed.

Eleven years into this recovery, now more than ever, the Fed needs to be independent and careful—not reactive to every whim of the President.

A vote for Shelton is a vote against Fed independence and our Nation's reputation as a financial bulwark.

Our other nominee to the Board of Governors, Mr. Waller is an economist whose work has been subject to peer review and whose analysis has helped direct the research path undertaken by the St. Louis Fed.

I look forward to learning more about how he will hold Wall Street accountable if he is confirmed.

Last, I want to note that Ms. Jessie Liu was also supposed to be considered by this Committee today until her nomination was withdrawn 36 hours ago.

The positon Ms. Liu was nominated for is responsible for overseeing our country's work preventing terrorist and drug cartel financing and enforcing economic sanctions. Now that her nomination has been withdrawn, that position will remain empty. Once again, to protect himself, the President is putting our national security at risk.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF JUDY SHELTON

TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 13, 2020

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for this opportunity to appear before you today. I am honored that the President has nominated me to serve as a member of the Board of Governors of the Federal Reserve System, and I am grateful to this Committee for considering me for the position.

I am also deeply grateful for the support of my husband of 42 years, Gil, who is here today along with our son, Gibb. And I want to give special thanks to my mother, Janette Potter, and the healthy contingent of family members seated behind me: John and Sharman, Jim and Kristy, Rick and Suzi. They all flew out from California yesterday to be here with me today. It means a lot.

For nearly four decades, going back to my years as a doctoral student at the University of Utah, I have focused on the impact of monetary policy on economic performance. My studies encompass current financial and economic conditions as well as historical antecedents tracing back to our Constitution. One thing is very clear: The power to regulate the value of U.S. money is granted to Congress.

Congress created the Federal Reserve as an independent agency and through the Federal Reserve Reform Act of 1977 charged it with the mandate to promote maximum employment, stable prices, and moderate long-term interest rates. Our central bank has been entrusted with considerable power to carry out its responsibilities. Along with the political independence and operational autonomy granted to the Federal Reserve comes an obligation to be wholly accountable both to Congress and to the public.

If confirmed, my priority will be to support monetary policy that facilitates productive economic growth while also ensuring the soundness and stability of the U.S. financial system. In exercising the Federal Reserve's regulatory oversight, I will support policies that are effective, efficient, and appropriately tailored to financial institutions—allowing them to better serve their customers and communities in ways consistent with maintaining a safe financial system.

I am well-prepared to conscientiously fulfill the duties of the position for which I have been nominated based on my background and experience. The first university course I ever taught was: "Money and Banking". As a research scholar at the Hoover Institution at Stanford University, I analyzed the relationship between monetary policy and economic sustainability in the context of geopolitical competition. My first book accurately predicted the collapse of the Soviet Union; my second book examined the impact of currency movements on trade.

I have testified numerous times as an expert witness before congressional committees in both the House and Senate. As U.S. Executive Director of the European Bank for Reconstruction and Development, I demonstrated strong leadership to achieve high-priority objectives in accordance with U.S. strategic interests. Combining academic perspective with real-world insights, I hope to contribute intellectual diversity as a Governor and would work collegially to promote sound money and sound finances.

In closing, I wish to emphasize my commitment to honor the constitutional authority of Congress to regulate the value of U.S. money. By fulfilling the statutory mandate Congress has assigned to the Federal Reserve, we ensure that America's money remains the world's most respected currency and its most trusted standard of value.

Thank you again for the privilege of appearing before you today. I look forward to your questions.

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

Room SD-534 Dirksen Senate Office Building
Washington, D.C. 20510
(202) 224-7391

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Shelton, Judy Lynn

Position to which nominated: Governor, Board of Governors of the Federal Reserve System

Date of Nomination: January 28, 2020

Date of Birth: 06/06/1954 **Place of Birth:** Inglewood, California - USA

Marital Status: Married **Full name of spouse:** Gilbert Lawrence Shelton

Name and ages of children: n/a

Education:

Institution	Dates attended	Degrees received	Dates of degrees
University of California at Los Angeles	1972-1974	---	
Portland State University	1974-1976	B.S., Business Administration	1976
University of Utah	1977-1981	Master, Business Administration	1981
		Ph.D., Business Administration	1981

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

- Teaching Fellowship, University of Utah Graduate School of Business, doctoral program, Department of Finance.
- The Trefftzs Award for Outstanding Scholarly Achievement, Western Finance Association, 1981; included recognition for best doctoral student paper at Annual Meeting of Western Finance Association, Jackson Hole, Wyoming, June 1981, and publication in *Journal of Financial and Quantitative Analysis*, November 1981.
- National Fellow, Hoover Institution, Stanford University—postdoctoral fellowship for outstanding scholars to pursue original significant research project, 1985-87.
- "Confronting the Soviet Financial Offensive" op-ed published in the Wall Street Journal, March 1988, selected by the Wall Street Journal for publication in its 125th anniversary collection "WSJ 125: Memorable Op-eds in the Journal", July 2014; other contributions included op-eds by Milton Friedman, Henry Kissinger, President Ronald Reagan, President Bill Clinton.
- Beta Gamma Sigma Honor Society

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Empower America	Member, Board of Directors	1993-2002
Best Friends Foundation	Member, Advisory Board	1993-1998
National Commission on Economic Growth and Tax Reform	Economic Advisor	1995-1996
Cato Institute, *Cato Journal* Center for Monetary and Financial Alternatives	Member, Editorial Board Member, Executive Advisory Council	1994-present 2014-present
Hilton Hotels Corporation	Member, Board of Directors	1999-2002
Atlantic Coast Airlines	Member, Board of Directors	1999-2001
Atlas Network	Co-Director, Sound Money Project Senior Fellow	2010-2016 2010-2018
National Endowment for Democracy	Member, Board of Directors Vice Chair	2005-2014 2010-2014

	Chair	2017-2018
Cercle de l'Union Interalliee	Member	2008-present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

U.S. Executive Director, European Bank for Reconstruction and Development, London, United Kingdom, May 2018-July 2019.

Economist and author (self-employed), 1995-2018.

Visiting Professor, Duxx Graduate School of Business Leadership, Monterrey, Mexico (2-3 weeks per year), 1995-2001.

Senior Research Fellow, Hoover Institution, Stanford University, Palo Alto, California, 1993-1995.

Research Fellow, Hoover Institution, Stanford University, Palo Alto, California, 1987-1993.

National Fellow, Hoover Institution, Stanford University, Palo Alto, California, 1985-1987.

Assistant to Senior Fellow Martin Anderson, Hoover Institution, Stanford University, Palo Alto, California, 1984-1985.

Research Assistant Professor, University of Utah, Salt Lake City, Utah, 1981-1982.

Teaching Fellow, University of Utah, Salt Lake City, Utah, 1977-1981.

Registered Representative, Paine Webber & Company, Salt Lake City, Utah, 1976-1977.

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

- Served as U.S. Executive Director of the European Bank for Reconstruction and Development, reporting to the U.S. Department of the Treasury, 2018-2019.
- Provided views on the national security implications of critical international economic/financial issues as member of economic round table convened for Admiral Mike Mullen, then-Chairman of Joint Chiefs of Staff, at the Pentagon, 2009.

- Participated in strategic exercises to analyze potential geo-political scenarios involving the Soviet Union at the invitation of Andrew Marshall, then-Director of the Office of Net Assessment, Department of Defense, 1988-1989.

- Consulted at the White House at request of Robert Gates, then-Deputy National Security Advisor, on developments in the Soviet Union and Eastern Bloc nations, 1989-1991.

- Served as member of Joint Advisory Board of Economists to Governor of Virginia, 2010-2015.

Testimony before Congress:

- Nomination Hearing to be United States Executive Director of the European Bank for Reconstruction and Development before Senate Committee on Foreign Relations, March 1, 2018.

- Hearing on "Exchange Rate Stability in International Finance" before House Committee on Banking and Financial Services, May 21, 1999.

- Hearing on "Use of U.S. Dollar as Official Currency in Emerging-Market Countries" before Senate Committee on Banking, Housing, and Urban Affairs, April 22, 1999.

- Hearing on "Estimating the Size and Growth of the Soviet Economy" before Senate Committee on Foreign Relations, July 16, 1990.

- Hearing on "The Soviet Economic Crisis" before Joint Economic Committee, April 25, 1990.

- Hearing on "Commercial Lending to the Soviet Bloc" before House Committee on Foreign Affairs, November 17, 1987.

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Books

Foreword, in reprint of Thomas Jefferson's "Notes on the Establishment of a Money Unit," Atlas Economic Research Foundation (with assistance from Library of Congress)—Goetz Printing, 2013

Fixing the Dollar Now: Why US Money Lost Its Integrity and How We Can Restore It (paperback)—Atlas Economic Research Foundation, 2011

Money Meltdown: Restoring Order to the Global Currency System--Free Press, 1994

The Coming Soviet Crash: Gorbachev's Desperate Pursuit of Credit in Western Markets--Free Press, 1989

Monograph

A Guide to Sound Money--Atlas Economic Research Foundation/FreedomWorks Foundation, 2010

Academic articles

Cato Journal:

"The Case for a New International Monetary System," Vol. 38, No. 2 (Spring/Summer 2018)

"Fix What Broke: Building an Orderly and Ethical International Monetary System," Vol. 35, No. 2 (Spring/Summer 2015)

"Gold and Government," Vol. 32, No. 2 (Spring/Summer 2012)

"The IMF and Its Barbarous Relic," Vol. 30, No. 3 (Fall 2010)

"What Went Wrong?" Vol. 12, No. 3 (Winter 1993)

"Banking and Government: An Unholy Alliance," Vol. 13, No. 2 (Fall 1993)

"In Gold We Trust," *Central Banking*, Volume XXII, Number 2 (November 2011)

"Equal Access and Miller's Equilibrium," *Journal of Financial and Quantitative Analysis,* Vol. 16 Issue 4 (November 1981)

Book reviews

"Hello, Central," *The Weekly Standard,* November 7, 2016

"The Money Trap: Escaping the Grip of Global Finance," *Cato Journal*, Vol. 32, No. 3 (Fall 2012)

"Debt of Honor," *Washington Post*, October 1, 1994.

Magazine articles

The Weekly Standard:

"The Currency of Commerce," June 15, 2015
"The Politics of Money," July 21, 2014
"The Real Fed Sweepstakes," August 12, 2013
"The Commonwealth Pursues a Bold Proposal for Sound Money," February 5, 2013
"Money in Bad Faith," January 28, 2013
"Sound Money Gains a Champion," September 3, 2012
"Gold Standard or Bust," August 1, 2011

Newspaper op-eds

The Wall Street Journal:

"The Fed's Mandate Is Up to Congress and the President," September 17, 2019
"The Case for Monetary Regime Change," April 21, 2019
"A New Trumpet for Democracy," December 20, 2017
"Woodpeckers for Sound Money," October 11, 2017
"Trump as a Democracy Promoter," June 7, 2017
"Currency Manipulation Is a Real Problem," February 13, 2017
"A Trans-Atlantic Revolt Against Central Bankers," October 11, 2016
"Trump's Contribution to Sound Money," August 10, 2016
"WSJ 125: Memorable Op-eds in the Journal, 'Confronting the Soviet Financial Offensive'," July 15, 2014
"Turning the Ukrainian Crisis into the IMF's Gain," March 13, 2014
"A Currency Board for Ukraine," February 26, 2014
"The Markets Love Yellen – For Now," February 12, 2014
"Bernanke Talks, Markets Wobble: There Must Be a Better Way," May 23, 2013
"The Soviet Banking System – And Ours," July 24, 2012
"Lagarde's Golden Opportunity," July 6, 2011
"The Wrong Way to Double Exports," January 25, 2011
"Currency Chaos: Where Do We Go from Here? Weekend Interview with Robert Mundell," October 16, 2010
"The Recovery Starts with Sound Money," May 27, 2010
"One Currency Doesn't Require 'One Europe'," March 20, 2010
"The United States: Lender and Debtor?" February 17, 2010
"Chairman Bernanke's Monetary Apologia," January 8, 2010
"The Fed's Woody Allen Policy," November 11, 2009
"Message of Dollar Disdain," October 14, 2009
"Congress and the IMF's Power Grab," June 18, 2009
"The IMF's Gold Gambit," April 27, 2009
"Symposium on Fed," March 27, 2009
"Is Inflation Baked into the Budget Plan?" March 19, 2009
"Capitalism Needs a Sound Money Foundation," February 12, 2009
"Stable Money Is the Key to Recovery," November 14, 2008
"A Capitalist Manifesto," October 13, 2008
"Loose Money and the Roots of the Crisis," September 30, 2008
"The Market Will Punish Putinism," September 3, 2008
"The Weak-Dollar Threat to the World," June 9, 2008
"Security and the Falling Dollar," February 15, 2008
"One One-Dollar Dilemma," September 27, 2007
"Ruble Rumble," August 30, 2007
"Giving Mexico a Helping Hand," September 5, 2001
"North America Doesn't Need Borders," August 29, 2000
"Global Markets Need Golden Rule," July 16, 1999
"Time for a New Bretton Woods," October 15, 1998
"Whither the EMU?" views from distinguished economists, June 20, 1997
"Why the Dole Plan Adds Up," August 27, 1996
"End the Currency Poker Game," March 8, 1995
"How to Save the Dollar," July 15, 1994

"Russia-Growth First, Balanced Budgets Later," June 22, 1992
"Another Soviet Swindle," September 16, 1986
"A Red or Green Light for East-West Trade?" December 26, 1985

The Hill:

"What Trump can learn from Nixon ahead of his Putin meeting," July 11, 2018
"Voters Deserve to know what candidates think of Fed," August 29, 2016
"Trump's problem with the Fed," May 31, 2016
"What if the 'big, fat, juicy bubble' bursts?" April 15, 2016
"Global monetary turmoil is hurting economic growth," February 25, 2016
"The Fed's phony mandate," January 26, 2016
"A new sound money movement for GOP?" November 2, 2015
"GOP candidates need to take on the Fed," October 8, 2015
"The Fed, killing economic growth softly," September 22, 2015
"Time to restore sanity to the world's monetary system," August 17, 2015
"Was the euro a mistake?" July 7, 2015
"Reckoning for the Fed," May 13, 2015
"Is central banking the problem or the solution?" April 24, 2015
"Losing patience with the Fed," October 24, 2015
"The perils of monetary activism," January 7, 2015
"Beware a magnanimous Fed," October 24, 2015
"Save Ukraine from currency collapse," August 19, 2014
"Another financial meltdown on the horizon?" July 1, 2014

The New York Sun:

"Golden Opportunity Awaits to Make Common Cause at Trump-Ryan Summit," May 11, 2016
"Who Will Lead GOP to Fix What Broke After Bretton Woods?" March 20, 2016
"How a Gold-Backed Bond Could Open an Avenue to Monetary Reform," September 5, 2015
"What If Janet Yellen Is Wrong?" July 16, 2014

The Washington Post:

"Forget 'hawks' and 'doves' at the Fed. We need a level monetary playing field," July 10, 2019
"Currency in Chaos: The Human Toll," December 21, 1997
"Those Markets Aren't Crazy," May 31, 1994

Financial Times:

"Trump is right to take aim at the Fed," September 28, 2016
"A Walk in Bretton Woods: Calls for a return to fixed exchange rates deserve a respectful hearing," March 12, 1998

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Trump Presidential Transition Team – Advisor, International Affairs, Department of Treasury, 10/2016 to 01/2017

Trump Economic Advisory Council – Member, 08/2016 to 11/2016

Ben Carson Economic Advisory Team—Member, 11/2016 to 02/2016

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

07/2019—Jeff Sili, Supervisor, Caroline County, Virginia $2,500

06/2019—Robb Wittman, U.S. House of Representatives $5,600

12/2017—Robb Wittman, U.S. House of Representatives $5,400

08/2017—Jeff Sili, Supervisor, Caroline County, Virginia $1,000

08/2017– Ryan McDougle, Virginia State Senate $5,000

08/2017 – Ed Gillespie, Virginia Governor $5,000

03/2017 – Rob Wittman, U.S. House of Representatives $500

04/2016 – Rob Wittman, U.S. House of Representatives $5400

12/2015 – Jeff Bell, U.S. Senate $500

10/2015 – Tony Lippa, Sheriff, Caroline County, Virginia $1,000

10/2015 – Margaret Ransone, Virginia House of Delegates $500

09/2015 – Rob Wittman, U.S. House of Representatives $2700

09/2015 – Clay Forehand, Supervisor, Caroline County, Virginia $2,000

09/2015 – Milton Bush, Supervisor, Caroline County, Virginia $2,000

07/2015 – Nancy Long, Supervisor, Caroline County, Virginia $2,500

07/2015 – Tony Lippa, Sheriff, Caroline County, Virginia $1,250

05/2015 – William J. Howell, Virginia House of Delegates $2,500

02/2015 – Jeff Sili, Supervisor, Caroline County, Virginia $1,895

04/2015 – Jeff Sili, Supervisor, Caroline County, Virginia $1,600

08/2014—Rob Wittman, U.S. House of Representatives $1,000

08/2014 – Jeff Bell, U.S. Senate $2,600

06/2014 – Jeff Bell, U.S Senate $2,500

06/2014 – Ryan McDougle, Virginia State Senate $5,000

06/2014 – Ed Gillespie, Virginia Governor (general election) $5,200

01/2014 – Ed Gillespie, Virginia Governor (primary) $5,200

11/2013 – Mark Obenshain, Virginia Attorney General $1,000

10/2013 – Mark Obenshain, Virginia Attorney General $1,000

09/2013 – Mark Obenshain, Virginia Attorney General $1,000

09/2013—Paul Ryan, U.S. House of Representatives $2,600

11/2012—Susan Stimpson, Lieutenant Governor, Governor $1,000

08/2012 – Mitt Romney, Romney Victory, Inc. $5,000

08/2012 – Mitt Romney/Paul D. Ryan $2500

08/2012—Fund for America's Future $10,000

05/2012—Rob Bell, Attorney General, Virginia $500

03/2012—Rob Wittman, U.S. House of Representatives $1,000

09/2011—Jeff Sili, Supervisor, Caroline County, Virginia $2,000

Qualifications: State fully your qualifications to serve in the position to which you have been named.

My background and experience will enable me to contribute both an academic perspective and real-world insights to assist the Federal Reserve in achieving its statutory objectives as established by Congress.

My work has focused on the relationship between monetary policy and economic performance in the context of geo-political competition. In 1981, I earned a Ph.D. in Business Administration, specializing in finance and international economics. Subsequently, I worked for ten years as a research scholar at the Hoover Institution at Stanford University, concentrating on the veracity of international economic statistics and the impact of western capital flows on developing countries. As part of my work, I analyzed the internal monetary and financial conditions of the Soviet Union; my 1989 book *The Coming Soviet Crash* accurately predicted the collapse of the U.S.S.R. three years later. My second book *Money Meltdown* examined currency movements against the larger backdrop of global economic trade and financial developments, specifically highlighting the importance of stable money to foster productive economic growth.

Following my time at the Hoover Institution, I was a visiting professor at the DUXX Graduate School of Business Leadership in Monterrey, Mexico, where I taught courses on international finance and organized a monetary conference. I also served on two corporate boards, and I joined the board of directors of the National Endowment for Democracy (NED); I was subsequently appointed vice chairman and chairman of the NED. From 2010 to 2018, I was a senior fellow with the Atlas Network, where I served as co-director of the Sound Money Project and produced a monograph entitled *A Guide to Sound Money*. I continue to serve as co-chairman with Nobel Economics Laureate Robert Mundell at his annual Santa Colomba Conference, an international monetary conference that draws former central bank and finance officials from around the world.

Over the course of my career, I have had the honor of testifying before Congress on a number of occasions. I have served as an expert witness before the Senate Banking Committee, Senate Foreign Relations Committee, House Banking and Finance Committee, House Foreign Affairs Committee, and the Joint Economic Committee on topics such as the Soviet economy, exchange rate stability, and dollarization in emerging-market countries. Additionally, I have written extensively on macroeconomic topics and on monetary policy, including pieces in the Wall Street Journal, the New York Times, the Washington Post, Investor's Business Daily, and the Financial Times. I have also served as a member of the Editorial Board of the Cato Journal since 1994 and as a member of the Executive Advisory Council at the Center for Monetary and Financial Alternatives since 2014.

Most recently as U.S. Executive Director of the European Bank for Reconstruction and Development in London, I demonstrated strategic leadership to advance the bank's mission. Working with my onsite team and Treasury colleagues in collaboration with interagency associates, I formed effective coalitions that achieved high-priority policy objectives in accordance with U.S. interests.

Bringing these qualifications to the Board of Governors of the Federal Reserve System would enhance its intellectual diversity and improve its ability to satisfy its statutory mandates.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   I have no present employment connections with any business firm, association or organization.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   No.

3. Has anybody made you a commitment to a job after you leave government?

   No.

4. Do you expect to serve the full term for which you have been appointed?

   Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

   In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other conflicts of interest.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

   In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

   In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

   None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

   In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the agency's ethics official and that has been provided to this Committee. I am not aware of any other conflicts of interest.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

   None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

   None

PREPARED STATEMENT OF CHRISTOPHER WALLER

TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 13, 2020

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to appear before you today. I am honored to have been nominated by the President for this prestigious position and grateful to the Committee for its consideration of my nomination. I would be humbled to be able to serve my country in this capacity.

I am thankful for the support from my family members who are here with me today—my loving wife Laurie, my three children, Sarah, Maggie, and Sam, and my mother Ann who has been my hero throughout my life.

For the last 11 years, I have served as the Director of Research at the Federal Reserve Bank of St. Louis. During that time, I have attended over 60 Federal Open Market Committee meetings and served as the main policy advisor to my bank president. As a result of this experience, I fully understand and support the dual mandate of the Federal Reserve. I also understand and appreciate the Federal Reserve's role in pursing policies to ensure a safe and stable financial system. If I am confirmed, I will continue to advocate for policies that achieve our dual mandate and maintain financial stability.

I believe that my background and experience makes me uniquely qualified to fulfill the responsibilities of a Federal Reserve Governor. In my decade-long experience as a senior Reserve Bank official, I was deeply involved in policy issues confronting the Federal Reserve. But in my role, I also spent a substantial amount of time talking to members of our community about how monetary policy affected their lives and businesses. That public input affected how I thought about policy and its consequences. I also learned how valuable it was to communicate clearly to the public what our policies were and why we were pursuing them.

In addition to my experience as a Federal Reserve official, I was an academic for over 25 years and did a substantial amount of research on monetary theory, monetary policy, and central bank design. I have written extensively on the importance of central bank independence for the conduct of monetary policy. My research also focused on how the central bank can be made accountable to the electorate without giving up its independence. In particular, I studied the importance of the nomination and confirmation process in achieving central bank accountability.

The Federal Reserve has been given tremendous responsibility by Congress to use its policies to improve the lives of the citizenry. Congress has also given the Federal Reserve tremendous freedom to pursue those policies as needed. But in return, it must be accountable to the public for its actions and be able to explain what those policies are and why they are being pursued. If I am confirmed, I pledge to work with my colleagues to implement policies that help us meet our dual mandate. I also pledge to be accountable for those actions and to be transparent as to why those actions were taken.

Thank you again for the privilege to appear before you today, and I look forward to your questions.

Name: Waller **Christopher**

(Last) (First) (Other)

Position to which nominated: Governor, Federal Reserve Board of Governors

Date of nomination: January 28, 2020

Date of birth: **29** **April** **1959** **Place of birth: Nebraska City, NE**

(Day) (Month) (Year)

Marital Status: Married **Full name of spouse: Laurie Kathleen Waller**

Name and ages of children:

Sarah M. Waller 34, Maggie C. Waller 31, Samuel L. Waller 28

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Bemidji State Univ.	9/1977-5/1981	BS	1981
Washington State Univ.	9/1981-7/1985	MA, PhD	1984, 1985

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Alumnus of the Year 2014, Bemidji State University.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
American Economic Association		1984 to Present
Midwest Economics Association	President	2019-2020

Employment record:

List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

2009-present: Executive Vice President and Director of Research, Federal Reserve Bank of St. Louis, St. Louis, MO.

2018-present Advisor to the Center for Innovative Finance, Crypto Research Center, University of Basel, Switzerland.

2017-present Professorial Research Fellow, Deakin University, Melbourne, Australia.

July 1, 2011-2015 Professor, Economics, University of Notre Dame, South Bend, IN.

2003-June 30, 2011 Gilbert F. Schaefer Chair of Economics, University of Notre Dame, South Bend, IN.

2003-2009 Research Fellow, Nanovic Institute of European Studies and the Kellogg Institute for International Studies, University of Notre Dame, South Bend, IN.

Summer 2006 Erskine Fellow, University of Canterbury, Christchurch, New Zealand.

1998-2003 Professor and Carol Martin Gatton Chair of Macroeconomics and Monetary Economics, University of Kentucky, Lexington, KY.

1998-2003 Research Fellow, Center for European Integration Studies (ZEI), University of Bonn, Bonn, Germany.

1998-2004 Visiting Professor, EERC, National University of Kiev-Mohyla Academy, Kiev, Ukraine.

1994-1995 Visiting Scholar, Federal Reserve Bank of St. Louis and Washington University-St Louis, Saint Louis, MO.

Summer 1994 Visiting Scholar, University of Mannheim, Mannheim, Germany.

May-94 Visiting Scholar, International Finance Division, Board of Governors of the Federal Reserve System, Washington, D.C.

1992-1994 Director of Graduate Studies, Department of Economics, Indiana University, Bloomington, IN.

1992-1998 Associate Professor, Department of Economics, Indiana University, Bloomington, IN.

1985-1992 Assistant Professor, Indiana University, Bloomington, IN.

1981-1985 Teaching Assistant, Washington State University, Pullman, WA.

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Consultant, Central Intelligence Agency, on occasion from 1996-2003

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Resume is attached as an appendix.

Political Affiliations

and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet) See Attachment 1.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I will resign my current positions, although I would continue to work with the Federal Reserve Bank of St. Louis in my role as a member of the Board of Governors

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have none.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest and will follow the advice of the Board's DAEO in dealing with any potential conflicts that might arise.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest and will follow the advice of the Board's DAEO in dealing with any potential conflicts that might arise.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest and will follow the advice of the Board's DAEO in dealing with any potential conflicts that might arise.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Federal Reserve Board's Designated Agency Ethics Official (DAEO) to identify any potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Board's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest and will follow the advice of the Board's DAEO in dealing with any potential conflicts that might arise.

Civil, criminal and investigator actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

State fully your qualifications to serve in the position to which you have been named.

My academic and professional career has spanned 35 years, and my research and work on monetary policy, monetary theory, and central bank design is recognized both nationally and internationally. For the last 11 years, I have served as the Research Director at the Federal Reserve Bank of Saint Louis. During that time, I attended more than 60 Federal Open Market Committee (FOMC) meetings and aided the President of my Bank in analyzing the economy and recommending U.S. monetary policy actions. Thus, I have a rare combination of skills that make me qualified to be a Member of the Board of Governors of the Federal Reserve System.

My academic reputation is driven by my research on central bank design. Starting with my Ph.D. thesis, I began to explore various designs for the central bank that would enhance its independence while maintaining accountability to the public. In particular, I studied how long and overlapping terms of office for central bank policy makers leads to independence from politics and better economic performance. I also focused on how the nomination and confirmation process ensures the central bank is accountable to the electorate. This work was published in top economic journals and is widely cited.

This research topic became especially relevant as a matter of public policy in the late 1980's as the result of the decision to create the European Central Bank and the collapse of the Soviet Union. Europe and all of the former Soviet Republics were facing the problem of creating an entirely new central bank and designing it in a way to ensure central bank independence. Thus, my research became an important resource for establishing new central banks. Because of my expertise in this area, I began consulting at the U.S. Central Intelligence Agency on issues related to the European Union, the Euro, and the creation of the European Central Bank.

For the past 15 years, my research has focused on monetary theory and the micro-foundations of money and payment systems. This work has become extremely relevant with the emergence of crypto currencies and for better understanding the potential for non-bank payment systems. My research gives me a much-needed knowledge of the issues surrounding digital currencies. Related to this, I am currently an Advisor to the Center for Innovative Finance, which enables me to stay abreast of crypto currency developments.

My 11 years of experience as a senior Federal Reserve official has served as training for me to step into the policy role of a Governor. I have served as the main policy advisor to my Bank President who is a member of the FOMC, and I have been immersed in the plethora of issues and decisions made by the FOMC over the last decade. In my position, I have also served on the Bank's management committee, which oversees our Bank's operations. Thus, I possess a deep working knowledge of the institutional structure of the Federal Reserve and its operations.

Finally, my decade of experience has also involved engaging with the public on many issues related to monetary policy and the economy. I have spent a substantial amount of time listening to households and businesses in our district and hearing how monetary policy affects their lives. I have also spent substantial time explaining what actions the FOMC has taken and why. This has prepared me to communicate about monetary policy to the public.

January 2020

CURRICULUM VITAE

CHRISTOPHER J. WALLER

OFFICE ADDRESS

Research Division
Federal Reserve Bank of St.
Louis Saint Louis, MO 63166

Email: [redacted]
Website: https://research.stlouisfed.org/econ/waller/sel/

EDUCATION

Doctor of Philosophy,1985
Master of Arts, 1984
Washington State University, Pullman, WA

Bachelor of Science, 1981
Bemidji State University, Bemidji, MN

MAJOR FIELDS OF INTEREST

Monetary Theory, Political Economy, Macroeconomic Theory

PROFESSIONAL EXPERIENCE

Currently	Executive Vice President and Research Director, Federal Reserve Bank of St. Louis (effective June 1, 2009)
Currently	Professorial Research Fellow, Deakin University
Currently	Advisor, Center for Innovative Finance, University of Basel.

Currently	President, Midwest Economic Association.
2011-2015	Professor of Economics, University of Notre Dame.
2012, Fall	Sam Cook Visiting Professor, Washington University-St. Louis.
2003-2011	Gilbert F. Schaefer Chair of Economics, Research Fellow, Nanovic Institute of European Studies and the Kellogg Institute for International Studies, University of Notre Dame
2006 – 2007	Acting Department Chair, Dept. of Economics and Econometrics, University of Notre Dame.
2006, Summer	Erskine Fellow, University of Canterbury, New Zealand
1998 – 2003	Professor and Carol Martin Gatton Chair of Macroeconomics and Monetary Economics, University of Kentucky. Research Fellow, Center for European Integration Studies (ZEI), University of Bonn.
1998 – 2004	Visiting Professor, EERC, National University of KievMohyla Academy, Kiev, Ukraine.
1994 – 1995	Visiting Scholar, Federal Reserve Bank of St. Louis and Washington University.
1994, Summer	Visiting Scholar, University of Mannheim, Mannheim, Germany.
1994, May	Visiting Scholar, International Finance Division Board of Governors of the Federal Reserve System.
1992 – 1994	Director of Graduate Studies, Department of Economics, Indiana University.
1992 – 1998	Associate Professor Economics, Indiana University.
1985 – 1992	Assistant Professor, Indiana University.
1981 – 1985	Teaching Assistant, Washington State University.

EDITORIAL POSITIONS

Associate Editor, *Journal of Money, Credit and Banking* 2002-2011
Associate Editor, *European Economic Review* 2002-2012
Editorial Board, *Journal of Macroeconomics* 2001-2015
Editorial Board, *New Zealand Economic Papers,* 2009-Present

PUBLISHED AND ACCEPTED PAPERS

56. "Stabilization Policy at the Zero Lower Bound" (with Paola Boel). Forthcoming, **International Economic Review.**

55. "Liquidity Premiums on Government Debt and the Fiscal Theory of the Price Level." (With Aleks Berentsen). **Journal of Economic Dynamics and Control** (April 2018): 173-182.

54. "Nominal Exchange Rate Determinacy under the Threat of ounterfeiting." (With Pedro Gomis-Porqueras and Tim Kam). **American Economic Journal: Macroeconomics** (April 2017): 256-273.

53. "Monetary Policy with Asset-Backed Money" (With David Andolfatto and Aleks Berentsen). **Journal of Economic Theory** (July 2016): 166-186.

52. "Microfoundations of Money: Why They Matter." Federal Reserve Bank of St. Louis **Review**. (Fourth Quarter 2015): 289-301.

51. "Optimal Stabilization Policy with Search Externalities." (With Aleks Berentsen) **Macroeconomic Dynamics** (April 2015): 669-700.

50. "Floor Systems for Implementing Monetary Policy: Some Unpleasant Fiscal Arithmetic" (With Aleks Berentsen and Alessandro Marchesiani) **Review of Economic Dynamics** (July 2014): 523-542.

49. "The Shadow Economy as an Equilibrium Outcome" (With Pedro Gomis-Porqueras and Adrian Peralta-Alva) **Journal of Economic Dynamics and Control** (April 2014): 1-19.

48. "Optimal Disclosure Policy and Undue Diligence" (With Aleks Berentsen and David Andolfatto) **Journal of Economic Theory** (January 2014): 128-152.

47. "Demographics, Redistribution and Optimal Inflation. (With James Bullard and Carlos Garriga) Federal Reserve Bank of St. Louis **Review**. (November/December 2012): 419-439.

46. "Sovereign Debt: A Modern Greek Tragedy." (With Fernando Martin) Federal Reserve Bank of St. Louis **Review**. (September/October 2012): 321-339.

45. "Price Level Targeting and Stabilization Policy." (With Aleks Berentsen). **Journal of Money Credit and Banking** 43(S2) (October 2011): 559-580.

44. "Independence + Accountability: Why the Federal Reserve is a Well-Designed Central Bank." Federal Reserve Bank of St. Louis **Review** 93(5) (September/October 2011): 293-302.

43. "Outside Versus Inside Bonds: A Modigliani-Miller Type Result for Liquidity Constrained Households." (With Aleks Berentsen). **Journal of Economic Theory** 146 (September 2011): 18521887.

42. "Random Matching and Money in the Neoclassical Growth Model: Some Analytical Results." **Macroeconomic Dynamics** 15 (Supplement 2) (September 2011): 293-312.

41. "Money and Capital." (With S. Borağan Aruoba and Randall Wright). **Journal of Monetary Economics**. Volume 58:2; (March 2011): 98-116.

40. "Introduction to the Macroeconomic Dynamics: Special Issues on Money, Credit, and Liquidity." (With Ed Nosal and Randall Wright). **Macroeconomic Dynamics** 15 (Supplement 1) (December 2010) 1-9.

39. "Intensive vs. Extensive Margin Tradeoffs in a Simple Monetary Search Model." (With Sébastien Lotz and Andrei Shevchenko). **Les Annales d'Economie et Statistique** 86 (April/June 2008): 138148.

38. "Bargaining and the Value of Money" (With Guillaume Rocheteau and S. Borağan Aruoba). **Journal of Monetary Economics** 54:8, (November 2007): 2636–2655.

37. "Money, Credit and Banking" (With Aleks Berentsen and Gabriele Camera). Journal of Economic Theory 135 (July 2007): 171-195.

36. "Heterogeneity and Lotteries in Monetary Search Models" (With Sébastien Lotz and Andrei Shevchenko). Journal of Money, Credit and Banking 39 (March/April 2007): 703-713.

35. "Money and Risk Sharing" (With Robert Reed). Journal of Money, Credit, and Banking 38 (September 2006): 1599-1618.

34. "The Distribution of Money Balances and the Non-neutrality of Money" (With Aleks Berentsen and Gabriele Camera). International Economic Review 46 (May 2005): 465-487.

33. "Currency Competition in a Fundamental Model of Money" (With Gabriele Camera and Ben Craig). Journal of International Economics 64 (December 2004): 521– 544.

32. "The Distribution of Money and Prices in an Equilibrium with Lotteries" (With Gabriele Camera and Aleks Berentsen). Economic Theory 24 (November 2004): 887-906. [Reprinted in ***Recent Developments on Money and Finance***, G. Camera, ed., Berlin: Springer, 2006.]

31. "Currency Portfolios and Currency Exchange in a Search Economy" (With Ben Craig). Journal of Monetary Economics 51 (May 2004): 671-689.

30. "Central Banking in General Equilibrium" (With James Bullard). Journal of Money, Credit, and Banking 36 (February 2004): 95-113.

29. "Comment on 'Search, Money and Capital: A Neoclassical Dichotomy' " Journal of Money, Credit, and Banking Vol. 35, No. 6 (December 2003, Part 2): 1111-1117.

28. "A Jack of All Trades or a Master of One? Specialization, Trade and Money" (With Gabriele Camera and Robert Reed). International Economic Review 44 (November 2003): 1275-1294.

27. "Can Monetizing Trade Lower Welfare? An Example" (With Gabriele Camera and Robert Reed). Economics Letters 81 (November 2003): 179-186.

26. "Currency Restrictions, Government Transaction Policies and Currency Exchange" (With Elisabeth Curtis). Economic Theory 21 (January 2003): 19-42.

25. "Corruption: Top Down or Bottom Up?" (With Roy Gardner and Thierry Verdier). **Economic Inquiry** 40 (October 2002): 688-703.

24. "Policy Boards and Policy Smoothing" **Quarterly Journal of Economics** 115 (February 2000): 305-339.

23. "A Search Theoretic Model of Legal and Illegal Currency" (With Elisabeth Soller Curtis). **Journal of Monetary Economics** 45 (February 2000): 155-184.

22. "Dual Currency Economies as Multiple Payment Systems" (With Ben Craig). **Economic Review** Federal Reserve Bank of Cleveland, 36, 1, (2000): 2-13.

21. "Comment on 'Assessing the Political Viability of Labor Market Reform: The Case of Employment Protection' " Federal Reserve Bank of St. Louis **Review**, vol. 81, 3, (May 1999): 89-91.

20. "Central Banking as a Political Principal-Agent Problem" (With Michele Fratianni and Jürgen von Hagen). **Economic Inquiry** 35 (April 1997): 378-393.

19. "A Benefit - Cost Analysis of Disinflation" (With Christopher Neely). **Contemporary Economic Policy** 15 (January 1997): 50-64.

18. "Central Bank Independence, Economic Behavior and Optimal Term Lengths" (With Carl Walsh). **American Economic Review** 86 (December 1996): 1139-1153.

17. "Performance Contracts for Central Bankers" Federal Reserve Bank of St. Louis **Review** (September/October 1995): 1-16.

16. "A Simple Expository Model of Credit Rationing" (With Steve Lewarne). **Journal of Macroeconomics** 16 (Summer 1994): 539-546.

15. "The Choice of a Conservative Central Banker in a Multi-Sector Economy" **American Economic Review** 82 (September 1992): 1006-1012.

14. "A Bargaining Model of Partisan Appointments to the Central Bank" **Journal of Monetary Economics** 29 (June 1992): 411-428.

13. "Discretionary Monetary Policy and Socially Efficient Wage Indexation" (With David VanHoose). **Quarterly Journal of Economics** 107 (November 1992): 1451- 1460.

12. "From EMS to EMU" (With Jürgen von Hagen and Michele Fratianni). Princeton University **Essays in International Finance** No. 187 (June 1992).

11. "Discretion, Wage Indexation and Inflation" (With David VanHoose). **Southern Economic Journal** 58 (October 1991): 356-367.

10. "Bashing and Coercion in Monetary Policy" **Economic Inquiry** 29 (January 1991): 1-13.

9. "Administering the Window: A Game Theoretic Model of Discount Window Borrowing" **Journal of Monetary Economics** 25 (March 1990): 273-287.

8. "Generalized Neoclassical Optimization: Concave Indifference Surfaces and Free Disposal" (With L.E. Johnson and S. Vogt). **Rivista Internatzionale Di Scienze Economiche E Commerciali** (International Review of Economics and Business) 37 (September 1990): 837850.

7. "Macroeconomic Policy Games and Central Bank Politics" **Journal of Money, Credit and Banking** 21 (November 1989): 422-31.

6. "Islands, Indexation, and Monetary Policy" (with David VanHoose). **Economic Inquiry** 27 (October 1989): 705-18.

5. "Efficiency Wages, Indexation, and Macroeconomic Stabilization" **Economics Letters** 30 (1989): 125-28.

4. "Endogenous Wage Indexation and Optimal Monetary Policy With and Without a Balanced Budget" (with David VanHoose). **Journal of Economics and Business** 41 (February 1989): 2131.

3. "Optimal Monetary Policy and Alternative Wage Indexation Schemes in a Model with InterestSensitive Labor Supply" (with David VanHoose). **Journal of Macroeconomics** 11 (Spring 1989): 163-180.

2. "Reputation Building in a Monetary Policy Game" **Journal of Macroeconomics** 9 (Summer 1987): 35172.

1. "Deficit Financing and the Role of the Central Bank - A Game Theoretic Approach." **Atlantic Economic Journal** 15 (July 1987): 25-32.

BOOKS AND BOOK CHAPTERS

1. "A Formal Analysis of Incentives in Strategic Interactions Involving an International Development Cooperation Agency." (With Roy Gardner) In ***The Samaritan's Dilemma: The Political Economy of Development Aid***, C. Gibson, K. Andersson, E. Ostrom and K. Shivakumar, eds., Oxford University Press: Oxford, 2005.

2. "Monetary Policy in a Heterogeneous Space." In ***European Economic Integration: Problems and Analyses***, Etienne Farvaque and Gaël Lagadec, eds., De Boek: Brussels, 2002.

3. ***Regional Aspects of Monetary Union***, Jürgen von Hagen and Christopher J. Waller, eds., Kluwer: Boston, MA, 1999.

4. "Do Local Banks Matter for the Local Economy? In Search of a Regional Credit Channel." (With Sandra McPherson) In ***Intranational Macroeconomics***, Gregory Hess and Eric van Wincoop, eds., Cambridge University Press: Cambridge, 2000.

5. "Intranational Financial Integration: Evidence from the Canadian Banking Industry." (With Sandra Hanson McPherson). In ***Regional Aspects of Monetary Union***, Jürgen von Hagen and Christopher J. Waller, eds., Kluwer: Boston, MA, 1999.

BOOK REVIEWS

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RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM JUDY SHELTON

Q.1. In how many of your publications and books have you advocated for a return to the gold standard, or a gold-based monetary standard?

What is your most recent publication advocating for the gold standard?

A.1. My writings have included references to prior international monetary arrangements going back through U.S. history because I believe we can gain valuable insights by comparing economic growth performance under one set of monetary rules versus another. The United States was on the classical international gold standard from 1870 to 1913 and served as the anchor for the Bretton Woods gold exchange standard from 1944 to 1971. Economic growth and free trade flourished under the gold standard, which established a level international monetary playing field while preserving the national sovereignty of participating Nations; proponents of the classical international gold standard include Alan Greenspan, a former Federal Reserve Board Chairman. [1]

The Bretton Woods system restored exchange-rate stability among allied Nations at the close of World War II as an alternative to returning to the beggar-thy-neighbor era of the 1930s when Nations depreciated their currencies to gain an unfair trade advantage, a syndrome that led to economic disaster. Proponents of a new Bretton Woods-type arrangement (with or without any reference to gold) include the late Paul Volcker, also a former Board Chairman. [2]

Congress created the Federal Reserve as an independent agency and through the Federal Reserve Reform Act of 1977 charged it with the mandate to promote maximum employment, stable prices, and moderate long-term interest rates. That is the framework under which I will make monetary policy decisions if confirmed as a member of the Board of Governors.

Q.2. Of the publications you have written since your dissertation, how many were subject to peer review?

A.2. My article entitled “Equal Access and Miller’s Equilibrium” was subject to peer review prior to being published in the *Journal of Financial and Quantitative Analysis*, Vol. 16 Issue 4 (November 1981). It received the 1981 Trefftzs Award for Outstanding Scholarly Achievement from the Western Finance Association. Six other peer-reviewed articles have been published in the *Cato Journal*.

Q.3. In a 2011 article about ending the Federal Reserve, you said, “I think it would be extremely positive, but the initial effect would be so bold as to be alarming.” In a 2014 speech you said, “It’s so comfortable to be among those seeking an alternative to central banking, which increasingly seems like central planning.” Do you think the Federal Reserve should exist?

If not, please explain your position.

If so, why did you make the aforementioned statements?

[1] “Why Do We Need a Central Bank?” Interview with Alan Greenspan on Fox Business with David Asman, October 2007 *https://youtu.be/R8fubw5lz6g*.

[2] “Paul Volcker: Back to the Woods?” Seth Lipsky, *Wall Street Journal*, June 11, 2014.

A.3. Congress has chosen to exercise its power to regulate the value of U.S. money through an independent agency, the Federal Reserve, and has given it a statutory mandate to promote maximum employment, price stability, and moderate long-term interest rates. The Fed pursues these goals through its monetary policy decisions, which are aimed at contracting or expanding monetary aggregates by directly influencing the Federal funds rate. The Federal Reserve is clearly authorized to exist in compliance with the will of Congress.

Q.4. You have written extensively about your support for efforts to abolish legal tender laws, including a 2009 op-ed in the *Wall Street Journal* where you said "Let's give the Fed some competition. Abolish legal tender laws and see whose money people trust." Will you continue to advocate for that position as a Fed governor?

A.4. It would not be my role or responsibility as a member of the Board of Governors of the Federal Reserve System to determine U.S. currency policy. As I specifically explained in my opening statement at the nomination hearing before the Senate Banking Committee on February 13, 2020, the power to regulate the value of U.S. money is granted to Congress by our Constitution (Article I, Section 8). Congress created the Federal Reserve as an independent agency with the mandate to promote maximum employment, price stability, and moderate long-term interest rates. That is the framework under which I will make monetary policy decisions if confirmed as a member of the Board of Governors.

Q.5. Please explain your support for abolishing legal tender laws including your involvement in and support for efforts to have the Commonwealth of Virginia consider the creation of its own currency.

A.5. I served as a member of the Governor's Joint Advisory Board of Economists for the Commonwealth of Virginia from 2010 to 2015. I was asked in 2013 by a long-serving member of the Virginia House of Delegates to provide expertise regarding a bill he wished to sponsor calling for a back-up currency in case the Federal Reserve System suffered a major breakdown or cyberattack—a concern in the wake of attacks on several American banking institutions by the Iranian Government. The idea was to create a "Plan B" metallic-based currency, so Virginians would still be able to conduct commerce in the event of such a breakdown. The proposed alternative currency was deemed consistent with the Article I, Section 10 provision of the Constitution, which limits the powers of the States by prohibiting them from entering into treaties with foreign Nations or other actions reserved to the President with the approval of two-thirds of the U.S. Senate, or from making "anything but gold and silver coin a tender in payment of debts." The legislation (H.J. 590) sought "to study the feasibility of a monetary unit based on a metallic standard, in keeping with constitutional precepts and our Nation's founding principles, to facilitate commerce in the event of a major breakdown of the Federal Reserve System or disruption of financial services." It was supported by the Speaker of the House and was approved by the Virginia House of Delegates before being turned down in the Senate.

Q.6. Is this still your opinion? If so, please explain your position.

A.6. Federal Reserve notes comprise more than 99 percent of all U.S. currency in circulation; the remainder includes United States notes, national bank notes, and silver certificates, all of which remain legal tender. I might note that legislators in a dozen States have pursued or passed legislation of some sort to facilitate authorizing payments through metallic-linked currencies. Texas lawmakers in 2015 approved building the country's first State-backed gold depository; this past November, the citizens of Texas voted to approve an amendment to the State constitution (Texas Proposition 9) to allow the legislature to exempt precious metals held in a precious metal depository from ad valorem taxation, i.e., property taxation. Approval of Proposition 9 enacted House Bill 2859 (H.B. 2859), the legislation exempting precious metal held in precious metal depositories from property taxation, with precious metals defined as including gold, silver, and other such metals "customarily formed into bullion or specie."

Q.7. If it is not, why did you make the aforementioned statements?

Do you think Facebook should be allowed to develop its own currency for use in the United States?

A.7. The Libra concept is certainly an intriguing idea with the potential to support entrepreneurial endeavor through enhanced access to capital. It could provide a widely used medium of exchange and meaningful unit of account, facilitating trade and investment decisions. Libra represents a viable means for advancing technological improvements in payments capabilities that would improve efficiencies for consumers while also reducing costs. The ubiquity of smart phones is changing the way consumers make payments and access financial services. Developing the technologies that increase the availability of innovative services is critical to our global competitiveness. Consumers are interested in possibilities for transferring funds almost instantaneously; new digital currencies facilitate such payments and will likely find increasing demand throughout the private sector.

It is too early to tell, though, whether Libra itself would prove good for the United States regarding dollar primacy issues—not to mention oft-cited concerns about data privacy and operational resilience. In my view, much depends on how the Libra founders choose to roll out their vision, which is summed up as "a stable global cryptocurrency built on a secure network."[3] It is not clear whether Libra will be "primarily based on American dollars", as Facebook CEO Mark Zuckerberg stated at a House Financial Services hearing in October 2019,[4] or instead might involve a currency board arrangement with a basket of fiat currencies as the underlying security, perhaps reflecting the Special Drawing Right valuation utilized by the International Monetary Fund. The SDR functions as a unit of account for the IMF and is not a currency per se but rather its valuation is based on the weighted daily market values for a basket of key international currencies. The SDR basket currently

[3] "Libra Is for the World: Simple, Inclusive, Global", *https://libra.org/en-US/vision/*.

[4] "An Examination of Facebook and Its Impact on the Financial Services and Housing Sectors", Hearing before the U.S. House Committee on Financial Services, October 23, 2019, *https://financialservices.house.gov/calendar/eventsingle.aspx?EventID-404487*.

consists of the following five currencies: U.S. dollar (41.73 percent), the euro (30.93 percent), Chinese yuan (10.92 percent), Japanese yen (8.33 percent), and British pound (8.09 percent). The currencies selected for the SDR basket are reviewed by the IMF every 5 years; it is notable that the IMF decided to include the Chinese yuan (or renminbi) effective October 1, 2016. I would not wish to elevate China's currency for settling cross-border transactions by amalgamizing it with the U.S. dollar to benefit from the popularity and well-established reputation of American money as a global reserve currency.

Moreover, Facebook clearly has privacy risks, both nationally and globally, that must be addressed. The company's German unit was fined 51,000 euros ($55,000) in February 2020 for failing to name a data protection officer for its local office. This was seen as a relatively light punishment and did not affect the parent company, but it was nevertheless meant to serve as a clear warning that data protection authority must be taken seriously under the European Union's new privacy rules. The law took effect in May 2018 and sets strict rules for how companies handle personal data. The biggest privacy risks arise from the fact that Facebook amasses much more personal data than many users realize.

Q.8. You have called for the creation of a new global monetary authority—the universal gold reserve bank—that would supersede currency markets and limit the Federal Reserve's influence on U.S. monetary policy.

Is this still your position?

How would the creation of a global monetary authority benefit the United States?

A.8. I have been asked at times throughout my career to think creatively about possible future scenarios involving the evolution of money—to "brainstorm"—for purposes of encouraging people to consider new approaches and come up with their own. I believe it is important to think "out of the box" in order to go beyond groupthink in facing future monetary challenges. But I know the difference between theory and reality; I presume others do as well. If confirmed, I will work within the established monetary framework for determining appropriate interest-rate policies in accordance with the Fed's statutory mandate to promote maximum employment, stable prices, and moderate long-term interest rates.

Q.9. You have stated that "[t]he existence of Federal deposit insurance schemes that serve to insulate bank management from the discipline required to properly manage deposited resources against investment assets undermines the integrity of the banking industry in the United States by steering it in the direction of excessively risky loan portfolios . . . ."

Do you still believe FDIC insurance undermines the integrity of the banking system in the United States?

Do you believe the existence of FDIC insurance contributed to the financial crisis in 2007–08, and if so, how?

In your estimation, how many of the roughly 6,000 community banking institutions across the United States would be viable without a deposit guarantee?

A.9. I do not support eliminating deposit insurance. In my book *Money Meltdown*, published in 1994, I commented on deposit insurance in the context of explaining the concept of "moral hazard" and wrote the following: "Banks must be responsible for upholding the value of the monetary obligations they issue on the basis of held reserves or viable, well-managed loan portfolios. The existence of Federal deposit insurance schemes that serve to insulate bank management from the discipline required to properly manage deposited resources against investment assets undermines the integrity of the banking industry in the United States by steering it in the direction of excessively risky loan portfolios (as taxpayers, not the equity holders of the bank, bear a substantial part of the cost of fiduciary mismanagement)." I fully understand that banks pay fees for deposit insurance provided by the Federal Deposit Insurance Corporation, an independent Government agency established in 1933 to maintain public confidence and stability in the U.S. financial system; this is an essential mission, one I strongly support. I was simply emphasizing the importance of prudent capital and management standards being in place for banking institutions as the first bulwark against potential losses, rather than relying on Government-provided deposit insurance.

Q.10. Larry Kudlow says that the White House nominated you because you don't believe that growth leads to inflation.

In your view, what causes inflation?

A.10. Too much money chasing too few goods.

Q.11. You have said that we should have 0 percent inflation. If you were confirmed to the Board, what would you do to implement that policy?

A.11. In conducting the Nation's monetary policy, the Federal Reserve seeks to influence money and credit conditions in the economy in pursuit of maximum employment and stable prices. The first goal is defined by the Federal Reserve as having been achieved when all Americans that want to work are gainfully employed. The second goal was defined by former Fed Chairman Alan Greenspan in July 1996 as "that state in which expected changes in the general price level do not effectively alter business and household decisions."[5] Since January 2012, the Federal Open Market Committee has judged that inflation at the rate of 2 percent (as measured by the annual change in the price index for personal consumption expenditures, or PCE) is most consistent over the longer run with the Federal Reserve's statutory mandate regarding price stability. In accordance with that definition, the Federal Reserve should raise interest rates if inflation were to persistently exceed 2 percent—with the caveat that the inflation goal is now defined as a "symmetric 2 percent objective" as mentioned by Chair Powell in his most recent semiannual monetary policy report to the Congress.[6] Employing a symmetric approach means the Federal

[5] See transcript for Meeting of the Federal Open Market Committee, July 2–3, 1996. *https://www.federalreserve.go/monetarpolicy/files/FOMC19960703meeting.pdf.*

[6] *Semiannual Monetary Policy Report to the Congress*, Statement by Chair Jerome H. Powell before the Committee on Financial Services, U.S. House of Representatives, Washington, D.C., February 11, 2020.

Reserve would tolerate inflation running modestly above or below the 2 percent target.

Q.12. At what points in history has the United States had 0 percent inflation or deflation, and what has been the result of that economic environment?

A.12. Episodes of high inflation are recurrent in U.S. history. Prior to the founding of the Federal Reserve in 1913, high-inflation episodes were followed by prolonged periods of deflation, bringing prices back to their original levels. In the postwar period, inflation instead returned to positive levels, making increases in the price level permanent rather than transitory. A 2011 paper entitled "Reform of the International Monetary and Financial System", published by the Bank of England, analyzed the performance of the gold standard (1870–1913) and the Bretton Woods gold-exchange system (1948–72) relative to current monetary practices.[7] The report concludes that today's system has performed poorly relative to prior monetary regimes, "with the key failure being the system's inability to maintain financial stability and minimize the incidence of disruptive sudden changes in global capital flows." Trade and investment flows are distorted as the world's major central banks engage in subtle exchange-rate competition. The 2015 Economic Report of the President highlights the growth in middle-class incomes during the Bretton Woods system of fixed exchange rates, describing the period from 1948 to 1973 as the "Age of Shared Growth"—characterized by accelerating labor productivity, falling income inequality, and increased workforce participation.[8] Notable historical years of deflation occurred from 1930 to 1932, reflecting a market crash, Smoot–Hawley tariffs, Dust Bowl conditions, and tax hikes under President Hoover.[9] In 1939, U.S. inflation was 0.0 percent, correlating with an 8.0 percent expansion and ending of the Dust Bowl era.[10] No other instances of zero inflation in the United States occur during the period from 1929 to the present, but we do see a very low 0.4 percent inflation rate for 1955 correlated with a 7.1 percent expansion and a 0.1 percent inflation rate in 2008 correlated with the financial crisis.[11]

Q.13. What are the merits of looking at Average Hourly Earnings vs. the Employment Cost Index?

A.13. I am not sufficiently knowledgeable about the relative merits and shortcomings of these two wage gauges to give an informed response.

Q.14. You have recommended a global common currency. You wrote in the *Wall Street Journal*, "If the goal is to have a global common market, how can we ignore the parallel need for a common unit of account, a global form of money?" An article in China's People's Daily quoted a Chinese economist as saying "that the world

[7] Oliver Bush, Katie Farrant, and Michelle Wright, "Reform of the International Monetary and Financial System", Financial Stability Paper No. 13—December 2011 (London, Bank of England, 2011).

[8] "Economic Report of the President", transmitted to the Congress together with The Annual Report of the Council of Economic Advisers, February 2015, p. 31.

[9] "U.S. Inflation Rate by Year from 1929 to 2022", Kimberly Amadeo, *The Balance*, January 29, 2020.

[10] Ibid.

[11] Ibid.

urgently needs to create a diversified currency and financial system and fair and just financial order that is not dependent on the United States." Your response to that piece was "Let's do exactly that."

What would be the benefit to the United States of creating a financial order that is not dependent on the United States?

A.14. I believe the United States needs to be at the forefront of international finance and to ensure the primacy of the U.S. dollar as the world's foremost reserve currency throughout the world. According to the International Monetary Fund, the dollar makes up 62 percent of all known central bank foreign exchange reserves as of the third quarter of 2019;[12] it is involved in 90 percent of foreign exchange trading.[13] The global ubiquity of the U.S. dollar as a medium of exchange and international monetary standard functions as an effective form of soft power—an important element of our Nation's ability to project geopolitical influence.

Q.15. You have a demonstrated belief in "sound money." At a 2010 event you quoted Deuteronomy's admonition about "weights and measures" to make the case against stimulative policies at the Fed.

How do those same passages from Deuteronomy support your current advocacy for lowering interest rates to stimulate the economy?

A.15. I believe you are citing a passage that relates to usury rather than the point I was making about the importance of maintaining accurate and honest weights and measures. As I mentioned during the nomination hearing before the Senate Banking Committee on February 13, 2020, the power granted to Congress by our Constitution (Article I, Section 8) to regulate the value of U.S. money appears in the same sentence that grants to Congress the power to "fix the standard of weights and measures."

Q.16. Deuteronomy 23:19 states "Do not charge your brother interest on money, food, or any other type of loan." Do you believe the bible supports a Government prohibition on charging consumers interest for credit cards, mortgages, student loans, car loans, or any other type of credit?

A.16. No.

Q.17. Given your mistrust for Government statistics, you stated in 2015, how do we know that inflation is at around 2 percent instead of 8 percent? What nongovernmental metrics did you rely upon in making that determination? Do you believe current Government statistics about inflation? If you do believe current Government inflation statistics, what has changed in how the Government calculates inflation to give you this new-found trust?

A.17. I do not recall ever uttering the phrase you attribute to me above: "How do we know that inflation is at around 2 percent instead of 8 percent?" and thus cannot cite metrics from governmental or nongovernmental sources regarding that assertion. In

[12] "Currency Composition of Official Foreign Exchange Reserves (COFER)", International Monetary Fund, *http://data.imf.org/?sk-E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4.*

[13] International Standards Organization List, XE, "ISO 4217 Currency Codes", *https://www.xe.com/iso4217.php*, cited in "Why the U.S. Dollar Is the Global Currency", Kimberly Amadeo, *The Balance*, December 13, 2019.

general, I learned early in my career that it is necessary to verify the accuracy of economic statistics before making recommendations based on data that might later prove invalid. I believe this is a prudent approach for both scholars and policymakers. Inflation numbers are widely known for having difficulties in measuring the increased value of a representative consumer basket due to technological innovation. The deflator used to measure nominal versus real growth is likewise tricky to apply in Government budgeting forecasts as well as for inflation-linked securities such as Treasury Inflation-Protected Securities (TIPS) bonds.

Q.18. In his testimony before the Senate Banking Committee on February 12, 2020, Chair Powell appeared before the Committee on Banking, Housing and Urban Affairs as part of his statutorily required semiannual report to Congress on the Fed's dual mandate of price stability and full employment, established by the Federal Reserve Reform Act of 1977.

You told Bloomberg earlier this year that you are "highly skeptical" of the Fed's mandated goals and "don't know [that getting to maximum employment] is really the Fed's job."

Do you believe that the Federal Reserve is statutorily required to promote maximum employment? If not, why not? If so, what did you mean by your comments above?

A.18. Congress created the Federal Reserve as an independent agency and charged it through the 1977 Federal Reserve Reform Act with the mandate to promote maximum employment, stable prices, and moderate long-term interest rates. According to the Federal Reserve's own assessment, as acknowledged in the FAQs on its own website: "The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market." Still, with regard to using monetary policy to influence employment, the Fed's ability to lower interest rates makes it cheaper for firms to purchase plant and equipment—which, in turn, tends to spur hiring and boost production.

Q.19. When the Senate was considering S. 2155, the bank deregulation bill, Chair Powell said that deregulating U.S. regional banks wouldn't mean deregulating foreign banks. But the Fed's October rule did just that and the Fed justified weakening the protections at foreign banks by stating that the law requires that you treat foreign banks equivalent to domestic banks. The rule referred to it as "equality of competitive opportunity."

Do you agree with this analysis?

Do you think that the October rule weakened safety and soundness or financial stability?

A.19. I think it is important that I have a thorough understanding of the details in considering changes in rules associated with S. 2155 As a nominee, I am unable to weigh in knowledgeably on this issue—but I can assure you, if confirmed, that I will pay close attention to discussions on this important matter once I am better informed.

Q.20. In July 2019 when asked about leveraged loans, Chairman Powell stated that "the issue is that the risk isn't in the banks" and that the leveraged loan market was "in a good place." Several days ago, the Fed announced that leveraged lending risks would be incorporated into bank stress tests.

Do you think the Chairman was correct to say that banks were not exposed to leveraged lending risks in July?

If risks were not "in the banks" in July, what has changed in leveraged loan markets since then that require incorporation of this risk into bank stress tests?

A.20. As a nominee, I do not have access to the analytics and proprietary information to offer an opinion on the assessment of Chairman Powell.

Q.21. The United States has long maintained the separation of banking and commerce. However, some financial holding companies continue to engage in physical commodities activities. Technology firms have also expressed interest in receiving Industrial Loan Company (ILC) charters in order to gain the benefits of low-cost funding by being a bank without having to divest commercial activities as required by the Bank Holding Company Act.

Do you believe the separation of banking and commerce is an important to the stability of the United States financial system?

Do you believe that financial holding companies should continue to be allowed to engage in physical commodities activities?

Do you think recognition of ILC charters is in keeping with the separation of banking and commerce?

A.21. This is an important and ongoing discussion about whether nonfinancial firms can establish banking units. It seems particularly topical regarding the "separation of banking and commerce" as providing justification for keeping tech companies out of financial services. If confirmed, I will focus intently on this issue because I believe we are compelled to think about the ramifications of FinTech and evolution of digital currencies.

Q.22. In January 2012, a nonprofit called The Gold Standard Now publicly announced your appointment as a Senior Advisor. Our Committee's questionnaire requires nominees to list all of their past and present affiliations. Why did you omit this from your Committee questionnaire?

A.22. Aside from responding to an email request at the time the organization was founded and to show my respect for Lewis E. Lehrman, who was appointed by Treasury Secretary Donald Regan to serve on the "Commission on the Role of Gold in the Domestic and International Monetary Systems" convened under President Reagan in 1981, I have had no contact with The Gold Standard Now.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SASSE FROM JUDY SHELTON

Q.1. Ms. Shelton, in your testimony before the Senate Banking Committee, you mention that "Congress created the Federal Reserve as an independent agency" and to be "wholly accountable both to Congress and the public", yet in a Q&A session last year you said that "I don't see any reference to independence in the legislation that has defined the role of the Federal Reserve for the United States" and that the same legislation that defined the role of the Federal Reserve demands that the Fed "work hand in hand with Congress and the President to meet certain strategic economic goals for the United States".

Are these not contradictory statements? Can you please explain your statements?

A.1. I sincerely regret that the comment I made regarding the independence of the Federal Reserve has been taken to mean that I do not acknowledge the reality and the importance of the Fed's independence; in fact, I believe it is a vital aspect of our central bank's monetary policy decision-making process, its operational autonomy, and its credibility with the public. In the interview you reference, I was discussing a review I had recently undertaken of the precise legislative language of the Federal Reserve Reform Act of 1977 and the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey–Hawkins Act. Both laws, taken together, have shaped the Federal Reserve's role as an instrument of policy, though I note that the Humphrey–Hawkins Act expired in 2000. It was somewhat surprising to me to discover that the word "independent" or "independence" cannot be found in either bill; that is what I meant in saying that "I don't see any reference to 'independence' in the legislation that has defined the role of the Federal Reserve for the United States." The actuality of the Fed's independence from both the executive and legislative branches is ensured through the unique characteristics granted to it by Congress, such as its (1) significantly longer length of terms for members than those of most agencies, staggered over multiple Administrations and Congresses, and (2) its own funding mechanism that makes the Fed independent from congressional appropriations. In my testimony during the nomination hearing before the Committee, I stated on several occasions that Congress created the Federal Reserve as an independent agency and charged it with the mandate to promote maximum, employment, stable prices, and moderate long-term interest rates.

Q.2. If confirmed, would you support Federal Reserve independence?

A.2. Yes, I would.

Q.3. Could you clarify on how the Federal Reserve should contribute to U.S. competitiveness on trade?

A.3. It is not within the Federal Reserve's specific mandate, nor is it the Fed's responsibility, to target U.S. competitiveness on trade. The United States enhances its competitiveness when its domestic economy is strong and vibrant. To the extent that the Fed's monetary policy decisions help to promote maximum employment and stable prices—resulting in economic and financial conditions that foster productive growth and innovation—it contributes importantly to U.S. competitiveness on trade.

Q.4. What is your philosophy on free trade and, if confirmed, how would this impact your term on the Federal Reserve Board?

A.4. I am a strong believer in free trade. My philosophy is based on comparative advantage and reflects an "Adam Smith" approach; I believe that having access to the international marketplace expands opportunity and prospects for prosperity around the world to the benefit of all participants. But, I also believe other Nations should reduce trade barriers. Recognizing that trade policy is not the responsibility of the Federal Reserve, my views would not impact my decisions as a member of the Board of Governors, should I be confirmed.

Q.5. What economic or financial sectors benefit from free trade and what, if any, sectors are hurt by free trade?

A.5. When free trade is conducted in accordance with free-market mechanisms, I believe all economic and financial sectors stand to benefit. And again, foreign Nations should reduce trade barriers to maximize economic growth worldwide. In our free economy, America's dominance in technology and our Nation's ability to achieve greater productivity through innovation can help counter perceived price advantages offered by competitors by delivering higher-value goods with greater market appeal. U.S. financial firms can likewise benefit from free trade if they are not prevented from entering new markets overseas through nontariff barriers or other obstacles.

Q.6. In the Federal Reserve study released in December 2019, the Fed said that while,

> U.S. import tariffs may protect some U.S.-based manufacturers from import competition in the domestic market . . . on the other hand U.S. tariffs have also been imposed on intermediate inputs, and the associated increase in costs may hurt U.S. manufacturer's competitiveness in producing for both the export and domestic markets . . . U.S. trade partners have imposed retaliatory tariffs on U.S. exports of certain goods, which could again put U.S. firms at a disadvantage in those markets.

With this context, do you believe that tariffs are an effective method to improving U.S. competitiveness?

A.6. Tariffs are inconsistent with free trade—as are nontariff barriers, subsidies, and other obstacles that prevent genuine competition. Competitiveness should reflect the strength, quality, and value of goods/services being offered in the international marketplace. Again, all Nations should reduce trade barriers.

Q.7. In a CNBC interview in July 2019 you answered that the U.S. should follow suit with the central banks in Europe, China, and Japan who were devaluing their currencies against the dollar. I share the concerns that several of my colleagues who raised this concern over your suggestion that the U.S. should devalue its currency to compete with other countries. The Federal Reserve's mandate does not include this "beggar-thy-neighbor" economic policy.

If confirmed, would you advocate for the devaluation of U.S. currency?

A.7. No, I would not advocate for the devaluation of U.S. currency. As I stated during the nomination hearing before the Committee: "It would be anathema to me to suggest that we devalue our money to gain a trade advantage." My public comments have been directed at criticizing what other Nations sometimes appear to be doing under the guise of conducting monetary policy stimulus—though I take very seriously and concur with the statement made by Senator Toomey during that same hearing: "We don't get to control other countries' monetary behavior." He is correct. If a major American trading partner were to significantly devalue its currency intentionally, it should not precipitate a beggar-thy-neighbor currency response from the United States, and certainly, the Federal Reserve should not play a role in achieving a devaluation. Exchange-rate policy is within the province of the Treasury Department, not the Fed. Moreover, recent trade agreements between the United States and its major trade partners have included specific chapters dealing with currency matters; they target this issue in the context of negotiated trade commitments to "avoid manipulating exchange rates in order to prevent effective balance of payment adjustment or to gain an unfair competitive advantage."

Q.8. What policies, if any, would you recommend the Federal Reserve pursue to ensure that the U.S. is able to remain competitive against other countries who devalue their currency?

A.8. It is not prescribed within the mandate of the Federal Reserve that it should pursue policies to ensure that the U.S. is able to remain competitive against other countries who devalue their currency. Therefore, if confirmed, it would not be appropriate for me to seek to pursue such a purpose through monetary policy. It is only appropriate for members of the Federal Open Market Committee to consider how best to promote maximum employment, stable prices, and moderate long-term interest rates as national economic objectives assigned by Congress. Success in achieving these statutory directives helps to ensure that the U.S. remains competitive in the global marketplace.

Q.9. What risks do you believe that cybersecurity concerns pose to the U.S. financial system?

A.9. While I have been made aware of past incursions and cyberattacks on U.S. financial institutions—notably, distributed-denial-of-service attacks emanating from Iran's Government on major financial sector firms such as JPMorgan Chase, Wells Fargo, and American Express from 2011 to 2013—this area is not one in which I have sufficient expertise to provide an informed answer. At the same time, I recognize that this is clearly a matter of critical importance: I am concerned about the national security implications of our financial institutions and the susceptibility of the U.S. economy to offensive operations carried out by our adversaries in cyberspace.

Q.10. How do you believe the Federal Reserve should address these concerns?

A.10. Please see my answer above. Suffice to say, I would wish to be keenly involved in discussions at the Fed aimed at securing the operational resilience of Federal Reserve System functions as vital infrastructure for protecting our Nation's security and the well-being of its citizens. We need to also prioritize data protection and individual privacy concerns as we guard against such hostile intrusions and threats aimed at our Nation's central bank.

Q.11. How do you believe that the Federal Reserve could improve transparency and communication with the public?

A.11. I believe that the listening tour conducted by the Fed—its series of Fed Listens events first announced in November 2018—has proven enlightening and helpful in terms of underscoring the importance of two-way communications with the public. Going back to the writings of Thomas Jefferson, who penned his "Notes on the Establishment of a Money Unit, and of a Coinage for the United States" in 1784, a founding concept for U.S. money was that it should be (1) convenient to use, (2) easy to understand, and (3) accepted with confidence as having recognized value. Perhaps to its surprise, the Fed learned that members of the public are skeptical that inflation is deemed too low by monetary authorities. Other insights gained included recommendations to keep monetary conditions conducive to more hiring of workers—that some communities were still not experiencing sufficiently broad participation opportunities. To me, this indicates support for monetary policy aimed at supporting productive economic growth and invalidates the notion of a Phillips curve trade-off between maximum employment and stable prices. As I stated in my testimony before the Committee, paraphrasing: I think that is one of the most profound developments that has happened in recent years—the change in thinking and the realization at the Federal Reserve that you can have low inflation and low unemployment at the same time. In fact, it's the perfect stable foundation for faster growth, leading to higher wages and productivity without inflation. So I think this is very important for future monetary policy.

Q.12. Do you believe that the Federal Reserve needs to improve its transparency?

A.12. The Federal Reserve needs to be transparent because its monetary policy decisions affect job creation, upward mobility for workers, and equitable prosperity. I believe the Federal Reserve can remain insulated from political pressures in making its decisions regarding interest rates while also providing transcripts of discussions on a timely basis. Current levels of transparency appear satisfactory.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS FROM JUDY SHELTON

Q.1. I appreciated the conversation we had recently in my office, particularly as it related to digital currencies. Unfortunately, I didn't get a chance to discuss your views on digital currencies during your confirmation hearing. To that end, I was hoping you could elaborate on the following questions:

What place should digital currencies have in our economy?

A.1. The increasing use of smart phones is changing the way consumers make payments and access financial services. Developing the technologies that increase the availability of innovative services is critical to our global competitiveness. Consumers are interested in possibilities for transferring funds almost instantaneously; new digital currencies facilitate such payments and will likely find increasing demand throughout the private sector.

Q.2. Is it important for the United States to be at the forefront of innovation in digital currencies?

A.2. I believe the United States needs to be at the forefront of innovation in digital currencies, not only to provide leading-edge financial technology to American consumers who utilize our Nation's currency in their daily lives to access banking services and make payments, but also to ensure the primacy of the U.S. dollar as the world's foremost reserve currency throughout the world. According to the International Monetary Fund, the dollar makes up 62 percent of all known central bank foreign exchange reserves as of the third quarter of 2019; [1] it is involved in 90 percent of foreign exchange trading. [2] The global presence of the U.S. dollar as a medium of exchange and international monetary standard functions as an effective form of soft power—an important element of our Nation's ability to project geopolitical influence.

Q.3. Are digital currencies like Libra a good idea?

A.3. The Libra concept is certainly an intriguing idea with the potential to support entrepreneurial endeavor through enhanced access to capital. It could provide a (1) widely used medium of exchange and (2) meaningful unit of account, facilitating trade and investment decisions while fulfilling important monetary functions. Libra represents a viable means for advancing technological improvements in payments capabilities that would increase efficiencies for consumers while also reducing costs. It is too early to tell, though, whether Libra itself would prove good for the United States regarding dollar primacy issues mentioned above (not to mention oft-cited concerns about data privacy and operational resilience). In my view, much depends on how the Libra founders choose to roll out their vision, which is summed up as "a stable global cryptocurrency built on a secure network." [3] It is not clear whether Libra will be "primarily based on American dollars", as Facebook CEO Mark Zuckerberg stated at a House Financial Services hearing in October 2019, [4] or might rather involve a currency board arrangement with a basket of fiat currencies as the underlying security, perhaps reflecting the Special Drawing Right valuation utilized by the International Monetary Fund. The SDR functions as a unit of account for the IMF and is not a currency per se but rather its valuation is based on the weighted daily market values for a basket of key international currencies. The SDR basket currently consists of the following five currencies: U.S. dollar (41.73 percent), the euro (30.93 percent), Chinese yuan (10.92 percent), Japanese yen (8.33 percent), and British pound (8.09 percent). The currencies selected for the SDR basket are reviewed by the IMF every five years; it is notable that the IMF decided to include the Chinese yuan (or renminbi) effective October 1, 2016.

Q.4. Should the Federal Reserve consider creating its own digital currency?

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[1] "Currency Composition of Official Foreign Exchange Reserves (COFER)", International Monetary Fund, *http://data.imf.org/?sk-E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4.*

[2] International Standards Organization List, XE, "ISO 4217 Currency Codes", *https://www.xe.com/iso4217.php*, cited in "Why the U.S. Dollar Is the Global Currency", Kimberly Amadeo, *The Balance*, December 13, 2019.

[3] "Libra Is for the World: Simple, Inclusive, Global", *https://libra.org/en-US/vision/*.

[4] "An Examination of Facebook and Its Impact on the Financial Services and Housing Sectors", Hearing before the U.S. House Committee on Financial Services, October 23, 2019, *https://financialservices.house.gov/calendar/eventsingle.aspx?EventID-404487*.

A.4. This is likewise an interesting notion but one fraught with concerns because of the tremendously dominant position of the Federal Reserve and its potential to stultify creative FinTech approaches at a time when the United States should be demonstrating leadership in this field. Money evolves forward—and America should not be a passive observer as other Nations move aggressively to steer the course of these critical developments. It is vital that the Federal Reserve seek to get ahead of the curve in exploring the ramifications of digital technology in determining the future path of money; the U.S. dollar is the most respected currency in the world, but this does not mean we can afford to rest on our laurels. Stablecoins represent a step beyond earlier attempts to provide a digital currency, such as Bitcoin, and seem more aligned with laudable goals such as maintaining a stable value—which then enables them to provide a dependable store of value, the third primary function of money. Libra is presenting itself as a platform that would work in tandem with the regulatory authority and supervisory oversight of the Federal Reserve; on the other hand, it might readily find itself in a position to challenge the Fed by providing an alternative currency not tied to an issuer such as a central bank. Is there an opening that might be explored for working with Facebook or other digital currency providers in cooperation with our Federal Reserve? If not, would currency challengers such as Facebook's Libra somehow be prevented from proceeding with offering their product to the public? These are the compelling questions that need to be addressed. My instinct is to avoid empowering central banks yet further, perhaps enabling them to impose negative returns on holders of cash through their domination of payments transactions and control over monetary policy. At the same time, I wish to see the dollar not only maintain but even enhance its attractiveness as a monetary standard serving the interests of market participants in the realms of both commerce and investment. If we can reconcile the need to harness the potential of digital currencies to empower individuals by granting more direct access to financial intermediation services—without undermining the potency of monetary policy or weakening confidence in the U.S. dollar as a reflection of our stable financial system overseen by the Fed—we can lift both the ingenuity and integrity of America's money to new heights.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM JUDY SHELTON

Q.1. What do you think of Facebook's attempt to create its own digital currency, Libra?

A.1. The Libra concept is certainly an intriguing idea with the potential to support entrepreneurial endeavor through enhanced access to capital. It could provide a widely used medium of exchange and meaningful unit of account, facilitating trade and investment decisions. Libra represents a viable means for advancing technological improvements in payments capabilities that would improve efficiencies for consumers while also reducing costs.

Q.2. Do you support or oppose Libra?

A.2. The ubiquity of smart phones is changing the way consumers make payments and access financial services. Developing the technologies that increase the availability of innovative services is critical to our global competitiveness. Consumers are interested in possibilities for transferring funds almost instantaneously; new digital currencies facilitate such payments and will likely find increasing demand throughout the private sector. It is too early to tell, though, whether Libra itself would prove good for the United States regarding dollar primacy issues not to mention oft-cited concerns about data privacy and operational resilience. In my view, much depends on how the Libra founders choose to roll out their vision, which is summed up as "a stable global cryptocurrency built on a secure network." [1]

Q.3. Why specifically do you support or oppose?

A.3. It is not clear whether Libra will be "primarily based on American dollars", as Facebook CEO Mark Zuckerberg stated at a House Financial Services hearing in October 2019, [2] or instead might involve a currency board arrangement with a basket of fiat currencies as the underlying security, perhaps reflecting the Special Drawing Right valuation utilized by the International Monetary Fund. The SDR functions as a unit of account for the IMF and is not a currency per se but rather its valuation is based on the weighted daily market values for a basket of key international currencies. The SDR basket currently consists of the following five currencies: U.S. dollar (41.73 percent), the euro (30.93 percent), Chinese yuan (10.92 percent), Japanese yen (8.33 percent), and British pound (8.09 percent). The currencies selected for the SDR basket are reviewed by the IMF every 5 years; it is notable that the IMF decided to include the Chinese yuan (or renminbi) effective October 1, 2016. I would not wish to elevate China's currency for settling cross-border transactions by amalgamizing it with the U.S. dollar to benefit from the popularity and well-established reputation of American money as a global reserve currency.

Q.4. Do you have any concerns that consumer privacy would be further compromised if Facebook is successful in launching Libra? If yes, what do you see as the biggest privacy risks associated with Libra, both nationally and globally?

A.4. Facebook clearly has privacy issues that must be addressed. The company's German unit was fined 51,000 euros ($55,000) in February 2020 for failing to name a data protection officer for its local office. This was seen as a relatively light punishment and did not affect the parent company, but it was nevertheless meant to serve as a clear warning that data protection authority must be taken seriously under the European Union's new privacy rules. The law took effect in May 2018 and sets strict rules for how companies handle personal data. The biggest privacy risks arise from the fact that Facebook amasses much more personal data than many users realize.

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[1] "Libra Is for the World: Simple, Inclusive, Global", *https://libra.org/en-US/vision/*.

[2] "An Examination of Facebook and Its Impact on the Financial Services and Housing Sectors", Hearing before the U.S. House Committee on Financial Services, October 23, 2019, *https://financialservices.house.gov/calendar/eventsingle.aspx?EventID-404487*.

Q.5. If another currency, including a digital currency, were to displace the U.S. dollar as the world's reserve currency, what impact would that have on the United States and our economy?

A.5. I believe the United States needs to be at the forefront of innovation in digital currencies, not only to provide leading-edge financial technology to American consumers who utilize our Nation's currency in their daily lives to access banking services and make payments but also to ensure the primacy of the U.S. dollar as the world's foremost reserve currency throughout the world. According to the International Monetary Fund, the dollar makes up 62 percent of all known central bank foreign exchange reserves as of the third quarter of 2019;[3] it is involved in 90 percent of foreign exchange trading.[4] The global position of the U.S. dollar as a common medium of exchange and reliable monetary standard functions as an effective form of soft power—an important element of our Nation's ability to project geopolitical influence.

Q.6. If confirmed, what will you do to ensure that the U.S. dollar remains the world's reserve currency?

A.6. One option is to consider whether to establish a central bank digital currency issued by the United States. This is an interesting possibility but one fraught with concerns because of the tremendously dominant position of the Federal Reserve within our financial system. We need to consider whether the Fed's institutional involvement from a favored position, clearly occupying the inside track on money transfers, would have the effect of stultifying creative FinTech approaches at a time when the United States should be demonstrating leadership in this field. Money evolves forward—and America should not be a passive observer as other Nations move aggressively to steer the course of these critical developments. It is vital that the Federal Reserve seek to get ahead of the curve in exploring the ramifications of digital technology in determining the future path of money; the U.S. dollar is the most respected currency in the world, but this does not mean we can afford to rest on our laurels. Stablecoins represent a step beyond earlier attempts to provide a digital currency, such as Bitcoin, and seem more aligned with laudable goals such as maintaining a stable value—which then enables them to provide a dependable store of value, the third primary function of money. Libra is presenting itself as a platform that would work in tandem with the regulatory authority and supervisory oversight of the Federal Reserve at present. But if permitted to move ahead, it might readily find itself in a position to challenge the Fed by providing an alternative currency not tied to central bank issuance. Is there an opening that might be explored for working with Facebook or other digital currency providers in cooperation with our Federal Reserve? If not, would these currency challengers somehow be prevented from proceeding with offering their product to the public? These are the questions that present themselves as imperatives that must be addressed in the fast-moving world of FinTech.

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[3] "Currency Composition of Official Foreign Exchange Reserves (COFER)", International Monetary Fund, *http://data.imf.org/?sk-E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4.*

[4] International Standards Organization List, XE, "ISO 4217 Currency Codes", *https://www.xe.com/iso4217.php*, cited in "Why the U.S. Dollar Is the Global Currency", Kimberly Amadeo, *The Balance*, December 13, 2019.

Q.7. Given your ever changing economic views and your questioning of the independence of the Federal Reserve, what can you say to this Committee to convince us that you would, if confirmed, act independently and free from political influence in conducting your duties as a Federal Reserve Governor?

A.7. I believe the independence of our Nation's central bank is a fundamental aspect of its credibility with the public. Congress has granted tremendous powers to the Federal Reserve—not only to formulate monetary policy but also in exercising regulatory authority over banking institutions. Citizens need to know they can trust monetary authorities to do the right thing without regard to political pressure. I am known as an independent thinker; my career testifies to the fact that I draw my own conclusions rather than automatically accepting the consensus view as evidenced by my work in evaluating the true economic condition of the former Soviet Union. If confirmed, I will rely on my own analytical capabilities and judgement in making decisions as a member of the Board of Governors.

Q.8. Please identify three economic policies supported by the Trump administration with which you disagree, and please explain with specificity why you disagree.

A.8. Given my respect for maintaining the political independence of the Federal Reserve, and noting that I am a nominee to serve on the Board of Governors of that institution, it would be inappropriate for me to condemn or condone specific political or economic policies supported by the current Administration.

Q.9. According to the *Washington Post*, you wrote in your book, *Money Meltdown*, "Eliminating Federal deposit insurance would restore the essential character of banking as a vehicle for channeling financial capital into productive investments while striving to meet the risk and timing preferences of depositors. Government should not intervene in that private business activity." Do you stand by this statement? If so, why? If not, why not?

A.9. I do not support eliminating deposit insurance. In my book *Money Meltdown*, published in 1994, I commented on deposit insurance in the context of explaining the concept of "moral hazard" and wrote the following: "Banks must be responsible for upholding the value of the monetary obligations they issue on the basis of held reserves or viable, well-managed loan portfolios. The existence of Federal deposit insurance schemes that serve to insulate bank management from the discipline required to properly manage deposited resources against investment assets undermines the integrity of the banking industry in the United States by steering it in the direction of excessively risky loan portfolios (as taxpayers, not the equity holders of the bank, bear a substantial part of the cost of fiduciary mismanagement)." I fully understand that banks pay fees for deposit insurance provided by the Federal Deposit Insurance Corporation, an independent Government agency established to maintain public confidence and stability in the U.S. financial system; this is an essential mission, one I strongly support. I was simply emphasizing the importance of prudent capital and management standards being in place for banking institutions as the first bulwark against potential losses, rather than relying on Government-provided deposit insurance.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM JUDY SHELTON

Q.1. Dr. Shelton, in your 1993 article "Banking and Government—An Unholy Alliance" published in the *Cato Journal*, you wrote, "Now into this fairly straightforward relationship among depositors and borrowers, with bankers in the middle bringing the parties together and channeling the money into those projects that offer maximum return with minimum risk, we introduce a hugely distorting factor—Federal deposit insurance." Also in that article you wrote, "The unholy alliance that exists between Government and the banking industry is well-known . . . The alliance boils down to this: The presence of Government-provided deposit insurance opens the door for Government surveillance and regulation of banking operations and management. Such a Faustian arrangement engenders tremendous conflicts of interest and invites governmental abuse of power."

Since publishing that article, have you in any of your public writings explained why you "totally support Federal deposit insurance" as you said in your hearing? If so, please list those writings.

A.1. I do not support eliminating deposit insurance. In the 1993 article you reference, as well as in my book *Money Meltdown*, published in 1994, I commented on deposit insurance in the context of explaining the concept of "moral hazard" and wrote the following: "Banks must be responsible for upholding the value of the monetary obligations they issue on the basis of held reserves or viable, well-managed loan portfolios. The existence of Federal deposit insurance schemes that serve to insulate bank management from the discipline required to properly manage deposited resources against investment assets undermines the integrity of the banking industry in the United States by steering it in the direction of excessively risky loan portfolios (as taxpayers, not the equity holders of the bank, bear a substantial part of the cost of fiduciary mismanagement)." I fully understand that banks pay fees for deposit insurance provided by the Federal Deposit Insurance Corporation, an independent Government agency established in 1933 to maintain public confidence and stability in the U.S. financial system; this is an essential mission, one I strongly support. I was simply emphasizing the importance of prudent capital and management standards being in place for banking institutions as the first bulwark against potential losses, rather than relying on Government-provided deposit insurance.

Q.2. Dr. Shelton, in your 2009 *Wall Street Journal* article "Capitalism Needs a Sound-Money Foundation", you stated that the U.S. should "abolish legal tender laws and see whose money people trust." Additionally, according to the *Virginian Pilot* article "Virginia alternative currency plan moves forward," you supported efforts in Virginia to "study whether Virginia should adopt an alternative currency to replace the dollar."

Do you believe the U.S. should abolish legal tender laws and allow individuals, State, and local governments to issue alternatives to Federal Reserve notes?

A.2. I served as a member of the Governor's Joint Advisory Board of Economists for the Commonwealth of Virginia from 2010 to 2015. I was asked in 2013 by a long-serving member of the Virginia House of Delegates to provide expertise regarding a bill he wished to sponsor calling for a backup currency in case the Federal Reserve System suffered a major breakdown or cyberattack—a concern in the wake of attacks on several American banking institutions by the Iranian Government. The idea was to create a "Plan B" metallic-based currency, so Virginians would still be able to conduct commerce in the event of such a breakdown. The proposed alternative currency was deemed consistent with the Article I, Section 10 provision of the Constitution, which limits the powers of the States by prohibiting them from entering into treaties with foreign Nations or other actions reserved to the President with the approval of two-thirds of the U.S. Senate, or from making "anything but gold and silver coin a tender in payment of debts." The legislation (H.J. 590) sought "to study the feasibility of a monetary unit based on a metallic standard, in keeping with constitutional precepts and our Nation's founding principles, to facilitate commerce in the event of a major breakdown of the Federal Reserve System or disruption of financial services." It was supported by the Speaker of the House and was approved by the Virginia House of Delegates before being turned down in the Senate.

Q.3. Since publishing this article, have you in any of your public writings expressed your support for Federal Reserve notes as the sole national currency? If so, please list those writings.

A.3. Federal Reserve notes comprise more than 99 percent of all U.S. currency in circulation; the remainder includes United States notes, national bank notes, and silver certificates, all of which remain legal tender. I might note that legislators in a dozen States have pursued or passed legislation of some sort to facilitate authorizing payments through metallic-linked currencies. Texas lawmakers in 2015 approved building the country's first State-backed gold depository; this past November, the citizens of Texas voted to approve an amendment to the State constitution (Texas Proposition 9) to allow the legislature to exempt precious metals held in a precious metal depository from ad valorem taxation, i.e., property taxation. Approval of Proposition 9 enacted House Bill 2859 (H.B. 2859), the legislation exempting precious metal held in precious metal depositories from property taxation, with precious metals defined as including gold, silver, and other such metals "customarily formed into bullion or specie."

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER FROM JUDY SHELTON

Q.1. *Affordable Housing*—Montana, and many areas of the country, face challenges of housing availability, affordability, and aging housing stock. As you know, this is a significant issue for rural as well as urban areas and is one of the largest barriers to success nationally. In Montana, lack of workforce housing is one of the greatest inhibitors of economic development.

What can be done to increase workforce housing and encourage more affordable housing to be built?

A.1. As Federal Reserve Chairman Jerome H. Powell has testified, part of the problem is a shortage of skilled labor-electricians, plumbers, carpenters—even at higher pay levels. Training new workers with the skills to perform these tasks would help alleviate the current lack of workers with the expertise for building needed housing; perhaps community colleges could be helpful in this regard. Additionally, delays in receiving the necessary permits to build houses could be reduced by local officials to allow construction sites to move forward on their projects.

Q.2. What do you see as the largest barrier to affordable housing, particularly in rural areas?

A.2. As stated above, I believe that regulatory obstacles and red tape involving zoning, codes, fees, and permits—compounded by the lack of skilled labor for housing construction—pose significant barriers to affordable housing, particularly in rural areas where community colleges or trade schools might not be available for potential workers to receive specialized training for housing construction.

Q.3. What role does the Fed have in supporting housing? Where is there room for additional efforts?

A.3. Since the Federal Reserve's mandate includes the directive to promote maximum employment, it can use monetary policy to keep interest rates sufficiently low to encourage housing starts. The current record low rates of unemployment in the United States also tend to bring about wage gains, which should attract new workers to the field and motivate them to improve construction skills, thus alleviating the current shortage of labor supply for building new housing—especially low-cost/affordable housing.

Q.4. *Agriculture Lending*—I have been hearing for the last year or more from community bankers in Montana that examiners seem more concerned lately when that their institution may be overly concentrated in ag. This is a hard issue for rural communities—we don't want to further jeopardize these farmers who are already fighting to survive against trade wars, changing weather, and difficult growing seasons, but we cannot let these challenges take community banks down with them. Access to banks in these rural areas is critical to communities, and we've already seen too many close.

I'm focused on making sure that we support our farmers and ranchers and their families through the current challenges facing the agriculture sector, while continuing to prioritize the safety and soundness of our community financial institutions.

What are the risks to these banks as farmers are increasingly overleveraged and continue to struggle with the repercussions of these ongoing trade wars, extreme weather happening more and more frequently because of our changing climate, and persistently low commodity prices?

Does this pose a threat to rural America?

A.4. Community banks have long been a lifeline to farmers due to long-standing relations of trust between borrower and lender, sometimes going back generations. Farming is a cyclical business with a vulnerability to unforeseen events—including weather, as you mention. At the same time, farming is also capital intensive, as tractors and combines and harvesters require a major financial investment on the part of the farmer, even as the capacity to pay off loans remains vulnerable to conditions beyond the control of the borrower. It is important to allow community banks to focus on lending without unnecessary regulatory burdens that do not consider the specific characteristics of a financial institution; this is particularly critical for rural areas of America.

Q.5. What can and should we be doing in these communities?

A.5. Beyond the limited role of monetary policy in helping to promote conditions conducive to productive economic growth—and farming is perhaps the strongest example of employment geared to the "real" economy—there is little the Federal Reserve can do with regard to confronting the specific challenges for rural communities. However, Congress might consider ways to improve access to education and training at the local level; additionally, the availability of broadband across rural regions could improve access to the Internet and online courses for improving job skills.

Q.6. From a banking perspective, are you concerned about how this will effect community banks across rural America?

A.6. As stated in my prior responses, I am concerned about regulatory and compliance issues that may have the effect of making it difficult for community banks to provide needed services to farmers and other borrowers in rural areas.

Q.7. *Community Reinvestment Act*—The CRA is a critical tool in expanding access to financial services and credit access to low- and moderate-income and underserved communities throughout our country, including in rural America.

What issues will be most important to you as the Fed considers updates to the CRA?

A.7. As a nominee, I am not yet sufficiently familiar with the details of potential updates to the Community Reinvestment Act to provide an informed response. I have not been involved in deliberations among the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve regarding the CRA; my understanding is that public comments are being received, but I have not reviewed those comments.

Q.8. How will you ensure that changes you consider remain consistent with the original purpose of this Civil Rights-era law to bringing financial services and credit access to low- and moderate-income and underserved communities throughout our country?

A.8. I strongly support the fundamental goals of the CRA, which was enacted in 1977, while also acknowledging that its parameters need to be updated to reflect changes in the way banks operate and provide services today—particularly in providing access to credit for lower-income communities.

Q.9. How will you assess the potential impact on rural America?

A.9. It is important to avoid the imposition of regulatory and compliance measures that may have the effect of making it difficult for community banks to provide needed services to farmers and other borrowers in rural areas.

Q.10. Are you concerned that the Fed may move separately from the OCC and FDIC?

Why or why not?

A.10. It does seem to me, for purposes of ensuring regulatory clarity, that a common approach among the three agencies would be optimal.

Q.11. *Banking Hemp*—The 2018 Farm Bill removed hemp from the list of schedule I controlled substances, however regulators and Federal agencies have been slow in making changes to reflect this.

How can the Fed improve certainty for financial institutions providing services to this legal business?

A.11. As a nominee, I do not have familiarity with the details on this, but I understand from the Federal Reserve's website that they published guidance on this issue ("Providing Financial Services to Customers Engaged in Hemp-Related Businesses") as an example of how the Fed can improve certainty for financial institutions providing services to hemp-related businesses. The document states: "For hemp-related customers, banks are expected to follow standard SAR (Suspicious Activity Report) procedures, and file a SAR if indicia of suspicious activity warrants."

Q.12. What oversight will be necessary from the Fed?

A.12. I would expect that the Federal Reserve will continue to monitor the issue.

Q.13. *Economic Tools, Debt and Deficits*—Both the Fed, through lower rates, and Congress, through increased spending and increased debt, have been taking actions to boost the economy during a long stretch of growth. I'm concerned that if we approach a downturn our options for how to address that will be limited by our actions during this decade of expansion.

What tools does the Fed have left to react to an economic downturn?

A.13. The Fed's traditional monetary policy tools are open market operations, adjusting the discount rate and/or adjusting the reserve requirement. Currently, it primarily utilizes its authority to provide an administered rate in paying interest on excess reserves (IOER) to move the basic interest rate in pursuit of meeting its statutory mandate. Additional tools in recent years include quantitative easing (QE), i.e., large purchases of financial assets, as well as providing forward guidance regarding the future path of interest rates. There are limits regarding the stimulus effect these measures might provide given that we are already near the lower bound on interest rates and the Fed's balance sheet is heading back toward historically high levels after having stalled to decline in accordance with the Fed's desire to "normalize" its holdings.

Q.14. The debt is more than $23 Trillion—at what point do you get concerned about that?

Is this sustainable?

A.14. Increasing Federal debt could hamper the ability of Congress to support the economy in a downturn as policymakers may feel restrained from using fiscal policy to provide economic stimulus. While U.S. national debt does not pose any immediate threat, and demand for U.S. Treasury obligations remains high, the cost of servicing growing levels of public debt infringes on the amount of Federal revenues available to be used to address other spending priorities.

Q.15. *Trade*—One of my concerns about how we could end up in an economic downturn is our trade policy over the past 2-plus years.

What are your current views on free trade?

A.15. I am a strong believer in free trade. My philosophy is based on comparative advantage and reflects an "Adam Smith" approach; I believe that having access to the international marketplace expands opportunity and prospects for prosperity around the world to the benefit of all participants. When free trade is conducted in accordance with free-market mechanisms, I believe all economic and financial sectors stand to benefit—acknowledging that some less-developed countries have substantially lower labor costs than those in the United States, which can hurt U.S. workers in certain sectors such as manufacturing. America's dominance in technology and our Nation's ability to achieve greater productivity through innovation can help counter perceived price advantages offered by competitors by delivering higher-value goods with greater market appeal. U.S. financial firms can likewise benefit from free trade if they are not prevented from entering new markets overseas through nontariff barriers or other obstacles. Recognizing that trade policy is not the responsibility of the Federal Reserve, my views would not impact my decisions as a member of the Board of Governors, should I be confirmed.

Q.16. *Federal Reserve Independence*—We briefly touched on this during my questions in the Committee hearing, but I would like you to expand on your position.

What are your views on the independence of the Federal Reserve?

A.16. I believe the independence of the Fed is a vital aspect of our central bank's monetary policy decision-making process, its operational autonomy, and its credibility with the public. In my testimony during the nomination hearing before the Committee, I stated on several occasions that Congress created the Federal Reserve as an independent agency and charged it with the mandate to promote maximum, employment, stable prices, and moderate long-term interest rates.

Q.17. How do you define independence from Congress and the President in this context?

A.17. The actuality of the Fed's independence from both the executive and legislative branches is ensured through the unique characteristics granted to it by Congress, notably (1) its significantly longer length of terms for members than those of most agencies, staggered over multiple Administrations and Congresses, and (2) its own funding mechanism that makes the Fed independent from congressional appropriations.

Q.18. *Gold Standard*—I think there's a reason that so many of my colleagues—on both sides of the aisle, across the ideological spectrum—agree that returning to the Gold Standard would have a really detrimental impact on regular people, like the folks from Montana that I represent—there's even some evidence that back when we were on the Gold Standard farmers were especially disadvantaged.

What impact do you believe going back to the Gold Standard would have on our economy?

A.18. My writings have included references to prior international monetary arrangements going back through U.S. history because I believe we can gain valuable insights by comparing economic growth performance under one set of monetary rules versus another. The United States was on the classical international gold standard from 1870 to 1913 and served as the anchor for the Bretton Woods gold exchange standard from 1944 to 1971. Economic growth and free trade flourished under the gold standard, which established a level international monetary playing field while preserving the national sovereignty of participating Nations; proponents of the classical international gold standard include former Federal Reserve Chairman Alan Greenspan. The Bretton Woods system restored exchange-rate stability among allied Nations at the close of World War II as an alternative to returning to the beggar-thy-neighbor era of the 1930s when Nations depreciated their currencies to gain an unfair trade advantage, a syndrome that led to economic disaster. Proponents of a new Bretton Woods-type arrangement (with or without any reference to gold) include the late Paul Volcker, also a former Fed chairman. [1] Congress created the Federal Reserve as an independent agency and through the Federal Reserve Reform Act of 1977 charged it with the mandate to promote maximum employment, stable prices, and moderate long-term interest rates. That is the framework under which I will make monetary policy decisions if confirmed as a member of the Board of Governors.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM JUDY SHELTON

Q.1. *Monetary Policy*—In 2018, the Fed began a review of the strategy, tools, and communications it uses to conduct monetary policy. [1] If confirmed, you will be responsible, along with the other Board members, for evaluating the results of this review and determining if changes are appropriate.

Describe the implications of the apparent decline in the neutral rate of interest for future recessions and economic downturns.

A.1. First, deciding what constitutes a neutral rate is "more of an art than a science," as Robert Kaplan, president of the Federal Re-

[1] "Paul Volcker: Back to the Woods?" Seth Lipsky, *Wall Street Journal*, June 11, 2014.

[1] Board of Governors of the Federal Reserve System, "Review of Monetary Policy Strategy, Tools, and Communications", June 25, 2019, *https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.*

serve Bank of Dallas, noted in an October 2018 essay. If the neutral rate has indeed declined, then the parameter for measuring whether monetary policy is accommodative, neutral, or restrictive, must likewise be adjusted downward.

Q.2. Do you believe the Fed's current monetary policy tools will be sufficient to alleviate an economic downturn?

A.2. The Fed's traditional monetary policy tools are open market operations, adjusting the discount rate and/or adjusting the reserve requirement. Currently, it primarily utilizes its authority to provide an administered rate in paying interest on excess reserves (IOER) to move the basic interest rate in pursuit of meeting its statutory mandate. Additional tools in recent years include quantitative easing (QE), i.e., massive purchases of financial assets, as well as providing forward guidance regarding the future path of interest rates. There are limits on how stimulative these measures might prove given that we are already near the lower bound on interest rates and the Fed's balance sheet is heading back toward historically high levels after having stalled to decline in accordance with the Fed's desire to "normalize" its holdings.

Q.3. What role do you believe fiscal policy will need to play in the next downturn?

A.3. To the extent fiscal policy supports productive economic growth, most likely by encouraging business capital investment, it can prove helpful.

Q.4. In response to prior economic downturns, policymakers have used a number of different fiscal policy tools as part of stimulus packages including tax cuts, investments infrastructure and emerging technologies and transfers to State governments. Which fiscal policy tools do you believe would be most effective?

A.4. Potentially, all those measures could be effective.

Q.5. Under what circumstances would you support additional spending in response to a recession even if it adds to the deficit?

A.5. Expenditures for infrastructure would be most promising in terms of justifying additional Government spending in response to a recession.

Q.6. President Trump has repeatedly advocated for negative interest rates, arguing that they would boost economic growth. [2] Do you agree? Describe the implications of negative interest rates.

A.6. My view on negative rates is that they are an anomaly, a deviation from normal financial investment patterns that compensate people for putting their money at risk over time. I believe they have been largely engineered by the monetary policies of central banks—primarily the European Central Bank—and are proving relatively ineffective in stimulating productive economic growth. It is understandable that any Nation with substantial amounts of public debt outstanding would welcome the opportunity to be paid for borrowing. Given our own Nation's economic performance relative to other major Nations, one would think the United States

[2] NBC News, "Trump Keeps Pushing 'Negative' Interest Rates. What Would That Mean for Your Wallet?" Ben Popken, September 23, 2019, *https://www.nbcnews.com/business/consumer/trump-keeps-pushing-negative-interest-rates-what-would-mean-your-n1056546.*

should have access to the least-cost borrowing options in global financial markets. But our Federal Reserve has indicated a general reluctance to go below the zero boundary on interest rates, and my own view concurs with that disinclination.

Q.7. Former Fed Chair Bernanke has argued that the decline in the rate may be partly due to structural factors such as demographic and technological change.[3] Do you agree?

A.7. I lean more toward Robert Kaplan's perspective (please see citation in my response to Question 1) regarding the "inherently imprecise and uncertain nature of estimating what constitutes 'neutral'."

Q.8. If so, should the Fed proactively thinking about the trends in these structural factors and how they could impact the effectiveness of monetary policy in the future?

A.8. I would avoid prejudging what future actions affecting the stance of monetary policy should be predicated on an assumed metric that poses such analytical challenges to being accurately estimated.

Q.9. In response to developments in overnight lending markets in September 2019, the Fed began conducting repo operations to "stabilize money markets and provide reserves to keep the Federal funds rate within its target range."[4]

Some have pointed to the repo market concentration, with the largest banks being almost exclusively responsible for engaging in transactions with the Fed and lending that money out.[5] Can you describe the implications of the concentration levels of the current repo market structure and how the concentration of participants may have impacted the Fed's recent interventions?

A.9. Total reserves held in depository accounts at the Fed are predominantly held by the very largest banks, with the five largest banks holding more than 90 percent of total reserves.[6] This impacts the Fed's ability to recirculate through the financial system the money it lends into the repo market.

Q.10. If the Fed were to adopt a standing repo facility, as it has been considering even before the market disruption in September,[7] what factors should the Fed use to determine which counterparties would be eligible?

A.10. The Fed has relied on primary dealers, comprised of 24 banks or securities dealers, to act as intermediaries for the Fed with other investors and financial firms. While I do not have access to the information needed to answer with greater precision, it seems to me that concentration in the repo market needs to be ad-

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[3] The Brookings Institution, "The New Tools of Monetary Policy", Ben Bernanke, January 4, 2020, *https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/*.

[4] Board of Governors of the Federal Reserve System, "Monetary Policy Report", February 7, 2020, *https://www.federalreserve.gov/monetarypolicy/files/20200207_mprfullreport.pdf*.

[5] *Wall Street Journal*, "Big Banks Loom Over Fed Repo Efforts", Daniel Kruger, September 26, 2019, *https://www.wsj.com/articles/big-banks-loom-over-fed-repo-efforts-11569490202*.

[6] *Wall Street Journal*, "Big Banks Loom Over Fed Repo Efforts", Daniel Kruger, September 26, 2019.

[7] Board of Governors of the Federal Reserve System, "Minutes of the Federal Open Market Committee", June 18–19, 2019, *https://www.federalreserve.gov/monetarypolicy/fomcminutes20190619.htm*.

dressed by considering how to distribute more widely through the financial system the money made available through the Fed's participation.

Q.11. *Financial Stability*—In previous questions regarding the Fed's response to climate change, Chairman Powell claimed that the Fed uses "its authorities and tools to prepare financial institutions for severe weather events."[8] At the same time, science has clearly demonstrated that extreme weather events are becoming increasingly common as a result of climate change.[9]

To the extent that these weather events continue becoming more common and having a greater impact on the business cycle itself, do you believe that it would be appropriate for the Fed to more explicitly consider the risks associated with climate change in its decision making?

A.11. Only with regard to preparing for potential economic risks linked to weather events, such as fires or flooding, as the Fed already does as part of its planning for the consequences of natural disasters.

Q.12. Do you believe it would be appropriate for the Fed to hire economists that specialize in climate economics to address these changes? Should the Fed hire natural scientists to inform economic models?

A.12. The relevant data is widely available and could readily be accessed and incorporated into economic and financial projections formulated by its existing research staff.

Q.13. Do you support the Fed officially joining the Network for Greening the Financial System (NGFS)? If not, why not?

A.13. While a number of other central banks—led by the Bank of France, Bank of England, and People's Bank of China—are calling for measures to spur green finance and better risk assessments of climate change effects, I do not think the U.S. Federal Reserve should be involved in this initiative unless Congress specifically directs our central bank to do so and amends its statutory mandate accordingly.

Q.14. The most recent report from Shared National Credit (SNC) Review program conducted jointly by the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC), stated that "credit risk associated with leveraged lending remains elevated" and "lenders have fewer protections and risks have increased in leveraged loan terms through the current long period of economic expansion since the last recession."[10]

Please explain how you believe the Fed should evaluate and monitor the credit-risk management practices of a financial institu-

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[8] Letter from Federal Reserve Chairman Jerome H. Powell to Senator Elizabeth Warren, April 18, 2019.

[9] National Oceanic and Atmospheric Administration, "Report: Climate Change Is Making Specific Weather Events More Extreme", December 9, 2019, *https://www.noaa.gov/news/report-climate-change-is-making-specific-weather-events-more-extreme.*

[10] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System Federal Deposit Insurance Corporation Office of the Comptroller of the Currency, "Shared National Credit Program: 1st and 3rd Quarter 2019 Reviews", *https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200131a1.pdf.*

tion to ensure that these procedures, some of which are untested, will be sufficient during an economic downturn.

A.14. The Fed should continue to evaluate and monitor the credit-risk management practices of all financial institutions over which it has regulatory oversight to ensure that procedures will be sufficient during an economic downturn.

Q.15. Do you believe that the Interagency Guidance on Leveraged Lending [11] issued in 2013 is sufficient to address the risks associated with leveraged lending, particularly with respect to the growth of nonbank lenders?

Do you believe these loans made by nonbanks currently pose a risk to financial stability? If not, please explain why and under what circumstances the Fed should begin to judge them a threat to financial stability.

Many of these nonbank lenders fall into a regulatory gap. What tools does the Federal Government have to mitigate the risks from the growth of leveraged lending and the deterioration of the terms of those loans?

A.15. I would need to look more closely at the source you referenced to offer an informed opinion, noting that I agree with the document's assertion: "In particular, financial institutions should ensure they do not unnecessarily heighten risks by originating poorly underwritten loans."

Q.16. Private equity firms often finance acquisitions through highly leveraged loans. According to the private equity industry, firms acquired in these acquisitions now employ 8.8 million workers. In an economic downturn, what would you expect to happen to employment in these firms?

A.16. In an economic downturn, employment in general is likely to decrease—perhaps more so in industries directly tied to the performance of financial investments.

Q.17. *Regulation*—The OCC and FDIC made the decision to heed to the concerns of the Fed with respect to their plan to modify the Community Reinvestment Act (CRA) and issued a new proposed rule on the law jointly enforced by the three agencies without the Fed last December. [12] On January 8, 2020, Governor Brainard released her own alternative plan to modernize the CRA. [13]

Would you have voted to join the OCC and FDIC proposal? If not, what aspects to you disagree with? If so, please explain why you believe it is right approach.

A.17. I am only generally familiar with the proposal put forward by the OCC and FDIC; given that the process is ongoing and I do not have access to the analytics involving nonpublic data, nor have

[11] Federal Reserve Board of Governors, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, "Interagency Guidance on Leveraged Lending", March 21, 2013, *https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf.*

[12] Comptroller of the Currency and Federal Deposit Insurance Corporation, *Federal Register* Notice, "Community Reinvestment Act Regulations", January 09, 2020, *https://www.federalregister.gov/documents/2020/01/09/2019-27940/community-reinvestment-act-regulations.*

[13] Board of Governors of the Federal Reserve System, "Strengthening the Community Reinvestment Act by Staying True to Its Core Purpose", Governor Lael Brainard, January 08, 2020, *https://www.federalreserve.gov/newsevents/speech/brainard20200108a.htm.*

I reviewed the myriad public comments relating to this effort, I cannot provide an informed answer.

Q.18. Much of the criticism of the other agencies' plan focuses on the lack of analysis demonstrating the economic impact of the changes. However, according to Governor Brainard, the Fed has conducted some analysis with relevant data and would like to publish that data so the public can provide feedback.

Do you believe it is important for any new metrics included in a new CRA plan are grounded in data?

A.18. Please see my answer above.

Q.19. Do you believe that it is important for the public to have ample time to examine these data to provide input and ensure that reforming this critical civil rights law is done correctly?

A.19. I believe the process should be carried out in accordance with predetermined timelines for making appropriate decisions.

Q.20. Do you believe there are consequences of having two separate CRA regimes for institutions with different regulators? If so, what are these consequences?

A.20. It seems to me, for purposes of ensuring regulatory clarity, that a common approach among the three agencies would be optimal.

Q.21. On January 30, 2020, the Fed finalized a rule to determine "when a company controls a bank or a bank controls a company."[14]

Reporting has indicated that the rule could allow private equity funds to control a greater portion of a bank's equity and thereby allow private equity investors to influence the operations of banks.[15] Given the various risks associated with the private equity business model and documented research that demonstrates that private equity investments in financial companies can increase the risk profile of those companies,[16] do you believe that this rule increases the level of risk in the financial sector?

A.21. I believe the change is aimed at simplifying and increasing the transparency of the Board's rules for determining control of a banking organization.

Q.22. In her statement, Governor Brainard suggested that it will be important to "monitor the ownership structures of banking organizations in light of this control framework and industry trends" and "how the control framework interacts with other regulations that involve ownership thresholds."[17]

Do you agree with Governor Brainard?

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[14] Board of Governors of the Federal Reserve System, "Federal Reserve Finalizes Rule To Simplify and Increase the Transparency of the Board's Rules for Determining Control of a Banking Organization", January 30, 2020, *https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm.*

[15] *New York Times*, "The Fed Wants To Loosen Rules Around Big Banks and Venture Capital", Jeanna Smialek and Emily Flitter, January 30, 2020, *https://www.nytimes.com/2020/01/30/business/economy/volcker-rule-banks-venture-capital.html.*

[16] Harvard University, "Private Equity Ownership, Risk-Taking, and Performance in the Life and Annuities Industry", Divya Kirti and Natasha R. Sarin, April 2, 2018, *https://scholar.harvard.edu/nsarin/publications/private-equity-ownership-risk-taking-and-performance-life-and-annuities-industry.*

[17] Board of Governors of the Federal Reserve System, "Statement by Governor Lael Brainard", January 30, 2020, *https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200130a.htm.*

If so, please describe how the Fed should monitor these ownership structures and how the Fed will determine if there is a financial stability risk associated with a banking organization's ownership structure?

A.22. As a nominee, I am not sufficiently familiar with the details of this matter to take a position on the Fed's efforts to clarify existing rules for determining if a company has control over a banking organization under the Bank Holding Company Act and the Home Owners' Loan Act. My understanding is that the final rule takes effect April 1; if confirmed, I will be interested to learn how the Fed proposes to monitor ownership structures and what factors it will consider in determining how the control framework interacts with other regulations involving ownership thresholds with regard to assessing any potential financial stability risk.

Q.23. *Supervision*—In Wells Fargo's Q4 2019 Earnings Call, newly appointed CEO Charlie Scharf acknowledged the bank's many misdeeds, claiming "we made some terrible mistakes and have not effectively addressed our shortcomings." [18]

These comments suggest that Wells Fargo has not made substantial progress in remedying the issues at hand. In a written response to me in 2018, Chairman Powell stated that the terms of the Fed's current Consent Order require that "the firm must make significant progress in remedying its oversight and compliance and operational risk management deficiencies before relief from the asset growth restriction would be forthcoming." [19] Chairman Powell has committed to me that the Board of Governors would have a formal vote before the Fed's asset cap on the bank could be lifted. Under what circumstances would you vote to lift the asset cap?

A.23. Clearly, I would need to be familiar with the relevant information, to which I currently have no access as a nominee, to be in a decision to weigh in with an opinion as to whether the firm had made "significant progress in remedying its oversight and compliance and operation risk management deficiencies."

Q.24. In a recent speech, Fed Vice Chair for Supervision Randal Quarles suggested that Fed bank supervisors use of MRAs should be limited, and that they should only be permitted to institutions "to violations of law, violations of regulation, and material safety and soundness issues" [20]—a severe narrowing of Fed's authority.

Do you agree that the Fed should alter the process, standards, and requirements under which MRAs and/or MRIAs are issued? If so, why?

Do you believe there should be a formal notice and comment process so that outside experts and consumer advocates can review and comment on any proposal?

The 2013 guidance in the communication of supervisory findings states, that standardization of the terms MRAs or MRIAs "facilitates the Federal Reserve's national systems of record for informa-

[18] Bloomberg, "Q4 2019 Earnings Call", Wells Fargo, January 14, 2020.

[19] Letter from Federal Reserve Chairman Jerome H. Powell to Senator Elizabeth Warren, May 10, 2018, *https://www.warren.senate.gov/download/20180510-powell-response-re-wells-fargo.*

[20] Federal Reserve Vice Chair for Supervision Randal K. Quarles, "Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision", January 17, 2020, *https://www.federalreserve.gov/newsevents/speech/quarles20200117a.htm.*

tion related to examination and inspection issues" and "enables the Federal Reserve to access information about supervisory issues and remediation efforts and aids in the identification of systemic and programmatic challenges facing banking organizations supervised by the Federal Reserve."[21] If, as proposed, certain supervisory findings will no longer be categorized as MRAs, do you believe this could impact the Fed's ability to access this information?

Do you believe that it is possible for a bank examination to uncover an issue with a financial institution that could pose a threat to safety and soundness but does not represent a legal violation? Please describe some examples.

The impact of any proposed changes to MRAs is largely dependent on the definition of "material safety and soundness." How do you believe the Fed should determine this decision?

A.24. The determination regarding the issuance of MRAs and/or MRIAs is based on a process that involves standards and imposes requirements based on considerations involving specific institutions. As a nominee with no access to detailed information concerning the process nor familiarity with how it is conducted and applied at the supervisory level, it is not an appropriate question for me to address herein.

Q.25. *Clarifications Regarding Your Responses to My Letter*—I appreciate your response to my letter by the requested date of February 13, 2020.

However, many of your responses require further clarification:

In response to my question regarding your documented opposition to the concept of deposit insurance, you claimed that you were merely "emphasizing the importance of prudent capital and management standards being in place for banking institutions as the first bulwark against potential losses."

Do you support the current set of prudential standards and capital requirements?

Do you believe that there are any requirements that should be strengthened? If so, which ones? Which requirements and to what levels?

Do you believe that there are any requirements that should be further weakened or tailored? Which requirements and to what levels?

Do you believe that the current overall level of capital in the financial sector is the appropriate amount? If not, why not?

A.25. As a nominee, I am not yet familiar with "the current set of prudential standards and capital requirements" currently in place for banking institutions. It would be imprudent for me to express support or lack of support for such standards and requirements.

Q.26. In your response, you also claimed that "multiple factors caused the 2008 financial crisis, including errors in monetary and regulatory policies, which were further exacerbated by lack of transparency in assessing subprime lending and specific risk characteristics of mortgage-backed securities products."

[21] Federal Reserve Board of Governors, "Supervisory Considerations for the Communication of Supervisory Findings", *https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf.*

What were the errors in regulatory policy that you believe contributed the 2008 financial crisis?

A.26. The fact that the Federal Reserve did not predict the seizing up of credit markets that precipitated the 2008 crisis suggests to me that its regulatory policy for adjudging systemic financial risk was inadequate.

Q.27. What were the errors in monetary policy that you believe contributed the 2008 financial crisis?

A.27. Perpetual inflation lures people into thinking that the value of the real estate they purchase can only go up.

Q.28. Please clarify what you meant by "lack of transparency." Do you believe that there is currently a lack of transparency in some of the structures used in the financial sector today, such as collateralized loan obligations?

A.28. I support increased transparency on financial instruments in general so that all parties involved are fully aware of the risk–reward parameters of the underlying security as well as its derivative instruments.

Q.29. You also stated that "the most concerning aspect regarding the 2008 financial crisis is the Federal Reserve's lack of prescience in recognizing what was happening in credit markets, along with its failure to foresee the implications for global financial stability."

What do you believe will cause the next recession? Do you believe that the levels of consumer debt are cause for concern?

A.29. U.S. household debt came in high in the fourth quarter of last year, as outstanding balances on mortgages, student loans, auto loans and credit cards have climbed. However, debt payments as a percentage of disposable income are generally flat due to low interest rates—which suggests that most Americans are living within their means.

Q.30. You also talked about the danger of groupthink on the Fed Board. What perspectives do you believe are missing from the Board? What decisions would you have made differently?

A.30. I would pay more attention to market-determined rates of interest outside of the direct influence of the Federal Reserve's policies—in terms of regulation as well as through monetary policy decisions executed by means of administered rates, i.e., by paying interest on excess reserves.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHATZ FROM JUDY SHELTON

Q.1. In a *Wall Street Journal* opinion piece in 2009, you blamed the Federal Reserve for the financial crisis, blaming it for keeping interest rates too low for too long and increasing the money supply by too much. You also questioned, "why do we need a central bank?"

Do you think we need a central bank?

A.1. So long as Congress chooses to exercise its power to regulate the value of U.S. money through an independent agency in accordance with a statutory mandate to promote maximum employment, price stability, and moderate long-term interest rates—and that agency, the Federal Reserve, chooses to pursue these goals through monetary policy decisions aimed at contracting or expanding monetary aggregates by directing influencing interest rates—that agency is clearly authorized to exist in compliance with the will of Congress.

Q.2. Do you think the Federal Reserve has kept interest rates too low since 2009?

A.2. The extreme monetary policies conducted by the Federal Reserve in the wake of the 2008 financial crisis, such as imposing near-zero interest rates and engaging in massive purchases of financial assets, impose great costs on certain segments of the population. Savers have been punished by the low rates, through no fault of their own, affecting plans for paying tuition or planning for retirement. The Government's intervention in credit markets through its agency, the Federal Reserve, has caused price distortions that skew returns to those most able to participate in financial markets and fueled speculation in markets for derivatives and other sophisticated instruments. Were the costs of such actions by the Fed justified by economic growth that benefited Americans in general? I would point out that GDP growth from 2009 through 2016 averaged 1.6 percent—indeed, the precise growth number for 2016 was 1.6 percent. During those same years, unemployment averaged 7.2 percent. Congress implemented major structural changes in subsequent years that have changed assessments of "secular stagnation" into substantially positive outlooks for U.S. economic performance. The rate of GDP growth from 2017 through 2019 has averaged 2.5 percent, more than 50 percent higher than the prior period. The rate of unemployment is currently half the average rate during the earlier period. Something clearly changed, precipitating higher business confidence and consumer confidence—and we are seeing increased productivity, increased wage gains, and decreasing income inequality as a result. All of which suggests that having the right monetary policy in place is a necessary but not sufficient condition for promoting productive economic growth.

Q.3. Do you still think the Federal Reserve is to blame for the financial crisis?

A.3. I believe multiple factors caused the 2008 financial crisis, including errors in monetary and regulatory policies, which were further exacerbated by lack of transparency in assessing subprime lending and specific risk characteristics of mortgage-backed securities products. I do not think it is fair to typecast bankers in general as villains; I do not think it is appropriate to infantilize borrowers in general as victims. In my view, the most concerning aspect regarding the 2008 financial crisis is the Federal Reserve's lack of prescience in recognizing what was happening in credit markets, along with its failure to foresee the implications for global financial stability. No other Government institution had more influence over the creation of money and credit in the lead up to the devastating 2008 meltdown than our own Nation's central bank.

Q.4. At the hearing, you backed away from your writings advocating for the gold standard and a return to the Bretton Woods system. You are now claiming that you were not advocating for a return to the gold standard (despite clear statements to the contrary),[1] but instead that you simply support global monetary stability. Even taking your new stance at face value, it is hard to understand what you are recommending other than returning to an asset-backed currency rather than fiat currency.

Please explain your current position on the gold standard and whether you think it would be sound policy for the United States to return to a system similar to the Bretton Woods system.

If you believe it is sound policy, please explain what asset or assets should serve as the reference?

A.4. My writings have included references to prior international monetary arrangements going back through U.S. history because I believe we can gain valuable insights by comparing economic growth performance under one set of monetary rules versus another. The United States was on the classical international gold standard from 1870 to 1913 and served as the anchor for the Bretton Woods gold exchange standard from 1944 to 1971. Economic growth and free trade flourished under the gold standard, which established a level international monetary playing field while preserving the national sovereignty of participating Nations; proponents of the classical international gold standard include former Federal Reserve Chairman Alan Greenspan. The Bretton Woods system restored exchange-rate stability among allied Nations at the close of World War II as an alternative to returning to the beggar-thy-neighbor era of the 1930s when Nations depreciated their currencies to gain an unfair trade advantage, a syndrome that led to economic disaster. Proponents of a new Bretton Woods-type arrangement (with or without any reference to gold) include the late Paul Volcker, also a former Fed chairman.[2] Congress created the Federal Reserve as an independent agency and through the Federal Reserve Reform Act of 1977 charged it with the mandate to promote maximum employment, stable prices, and moderate long-term interest rates. That is the framework under which I will make monetary policy decisions if confirmed as a member of the Board of Governors.

Q.5. If you no longer think it is sound policy, what are you now recommending for U.S. currency policy?

A.5. It would not be my role or responsibility as a member of the Board of Governors of the Federal Reserve System to determine U.S. currency policy. As I specifically explained in my opening statement at the nomination hearing before the Senate Banking Committee on February 13, 2020, the power to regulate the value of U.S. money is granted to Congress by our Constitution (Article I, Section 8). Congress created the Federal Reserve as an independent agency with the mandate to promote maximum employment, price stability, and moderate long-term interest rates.

[1] Judy Shelton, "Global Monetary Turmoil Is Hurting Economic Growth", *The Hill*, February 25, 2016, ("[I]t Would Certainly Make Sense To Consider Using Gold as a Neutral Reference Point.") (available at: *https://thehill.com/blogs/pundits-blog/finance/270690-global-monetary-turmoil-is-hurting-economic-growth*).

[2] "Paul Volcker: Back to the Woods?" Seth Lipsky, *Wall Street Journal*, June 11, 2014.

Q.6. In a recent speech at the San Francisco Fed's conference on the economics of climate change, Fed Governor Lael Brainard stated: "Climate risks are projected to have profound effects on the U.S. economy and financial system. To fulfill our core responsibilities, it will be important for the Federal Reserve to study the implications of climate change for the economy and the financial system and to adapt our work accordingly."

Do you agree with Governor Brainard that climate-related risks fall squarely within the Fed's mandate?

A.6. The Fed's mandate from Congress is to promote maximum employment, stable prices, and moderate long-term interest rates. To the extent climate change exerts negative effects on the U.S. economy and financial system that impact the Fed's ability to achieve its statutory mandate—such as causing higher unemployment or threatening price stability—it becomes an appropriate consideration for our Nation's central bank in formulating monetary policy. But I am wary of the Fed overstepping its responsibilities; while climate change is clearly an important policy matter for many Americans, I believe it is best addressed by citizens and their elected representatives. If Congress wishes to amend its directive to the Federal Reserve to include specific responsibilities related to climate change that will of course become the new statutory mandate.

Q.7. Fed Chair Jay Powell recently stated that the Fed would likely join the Network for Greening the Financial System (NGFS), a group of over 50 foreign central banks and financial regulators committed to analyzing and mitigating the financial stability risks of climate change.

As a Fed Governor, would you support joining the NGFS?

A.7. While a number of other central banks—led by the Bank of France, Bank of England, and People's Bank of China—are calling for measures to spur green finance and better risk assessments of climate change effects, I do not think the U.S. Federal Reserve should be involved in this initiative unless Congress specifically directs our central bank to do so and amends its statutory mandate accordingly.

Q.8. Are you willing to deploy the Fed's research, supervisory, and regulatory tools to mitigate the risks that climate change poses to the financial system?

A.8. As Federal Reserve Chair Jerome H. Powell stated in a letter to Senator Elizabeth Warren dated April 18, 2019, the Fed uses "its authorities and tools to prepare financial institutions for severe weather events." I would therefore note that the Fed does prepare for potential economic risks linked to weather events, such as fires or flooding, as part of its planning for the financial consequences of natural disasters.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM JUDY SHELTON

Q.1. I understand you wrote critiques of deposit insurance years ago. When have you published articles or given speeches supporting the deposit insurance fund? Please note your published work supporting the deposit insurance fund?

A.1. I do not support eliminating deposit insurance. In a 1993 article published in the *Cato Journal*, as well as in my book *Money Meltdown*, published in 1994, I commented on deposit insurance in the context of explaining the concept of "moral hazard" and wrote the following: "Banks must be responsible for upholding the value of the monetary obligations they issue on the basis of held reserves or viable, well-managed loan portfolios. The existence of Federal deposit insurance schemes that serve to insulate bank management from the discipline required to properly manage deposited resources against investment assets undermines the integrity of the banking industry in the United States by steering it in the direction of excessively risky loan portfolios (as taxpayers, not the equity holders of the bank, bear a substantial part of the cost of fiduciary mismanagement)." I fully understand that banks pay fees for deposit insurance provided by the Federal Deposit Insurance Corporation, an independent Government agency established in 1933 to maintain public confidence and stability in the U.S. financial system; this is an essential mission, one I strongly support. I was simply emphasizing the importance of prudent capital and management standards being in place for banking institutions as the first bulwark against potential losses, rather than relying on Government-provided deposit insurance. Please note my clarifying remarks regarding this matter in the transcript from the nomination hearing before the Senate Banking Committee on February 13, 2020.

Q.2. You have previously suggested a single North American currency, the "Amero."

Do you still support a single North American currency?

What do you think the economic impact of a single North American currency would be?

What do you think the impact of a single global currency would be?

A.2. I testified on April 22, 1999, as an expert witness before the Senate Banking Committee regarding the "Use of U.S. Dollar as Official Currency in Emerging-Market Countries" to explain that some countries may have interest in "dollarizing" to avoid the consequences of exchange-rate volatility; other witnesses at that hearing included former Federal Reserve chairman Alan Greenspan and former Treasury Secretary Lawrence Summers. Clearly, the dominance of the dollar as a global reserve currency means other countries would be aligning their own currencies with the dollar—not vice versa. Any potential benefits of trade partner countries deciding to do so would likely include more stable financial and trade relations with the United States; from the perspective of the United States, ensuring that the currencies of trade partners cannot depreciate against the dollar would be a way to prevent competitive depreciation as an unfair trade tactic.

Q.3. Do you believe the U.S. dollar should continue to be the international reserve currency?

A.3. Yes.

Q.4. Do you trust research put out by the Federal Reserve System?

A.4. The Federal Reserve System is a highly reputable source for supplying research information. I approach all data with a strong sense of wanting to test its veracity to ensure that recommendations based on that data are valid.

Q.5. During your hearing, there were multiple discussions on the independence of the Federal Reserve from political influence.

Do you think the Federal Reserve should host events at properties owned or affiliated with members of the Administration, the Vice President, or the President?

A.5. I believe you are asking this question in the context of a commentary published in the *Financial Times* in September 2016 wherein I was pointing out the impact of currency movements on trade and the role of central banks. The reference stated: "No one anticipates that a Bretton Woods-style conference will soon take place at Mar-a-Lago, the exclusive Trump resort in Florida." Since the Bretton Woods system was hammered out in 1944 at a resort hotel in Bretton Woods, New Hampshire, my reference to Mar-a-Lago was meant as a metaphor for a similar effort, even as I acknowledged that such an initiative was unlikely to be undertaken in the near future.

Q.6. Have you had conversations with anyone in the White House about serving as Chair of the Federal Reserve?

A.6. No.

Q.7. As the nominee representing the San Francisco District, please identify the priorities for the western region. If confirmed, what are your goals to serve the western region?

A.7. My priorities for the western region will align with the statutory mandate given by Congress to the Federal Reserve with respect to promoting maximum employment, stable prices, and moderate long-term interest rates. In formulating monetary policy, it benefits both the western region and the entire Nation when interest rate decisions are consistent with endeavoring to achieve those economic objectives. In terms of geographic representation, it is the 12 Federal Reserve Bank presidents who are the operating arms of the Federal Reserve System within their districts; pursuant to the Federal Reserve Act, each of the 12 Reserve Banks is separately incorporated and has a nine-member localized board of directors. Members of the Board of Governors are nominated by the President of the United Sates and confirmed in their positions by the U.S. Senate; they are meant to ensure the democratic legitimacy of the Federal Reserve in the sense that they represent the Nation's financial, agricultural, industrial, and commercial interests as a whole.

Q.8. *Community Reinvestment Act*—Do you support a full scope review for CRA exams?

Do you think geographical assessment areas should define CRA accountability both where the majority of branch lending and the majority of nonbranch lending occurs?

If a lending exam detects a violation after a bank has been graded for its CRA exam, do you think the bank should receive a retroactive downgrade?

CRA regulations establish different CRA exams for banks with different asset levels. Small banks, those with less than $307 million in assets, have the most streamlined exam that consists of only a lending test. Intermediate small banks (ISB), those with assets of $307 million to $1.226 billion, have exams that consist of a lending test and a community development (CD) test. The CD test assesses the level of CD lending and investing for affordable housing, economic development, and community facilities. Large banks, those with assets above $1.2 billion, have the most complex exams which consist of a lending test, an investment test, and a service test. Please identify where, if at all, you feel CRA guidelines for small banks are unclear.

A.8. As a nominee, I am not sufficiently familiar with the details to take a position. I have not been involved in deliberations among the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve regarding the Community Reinvestment Act; my understanding is that public comments are being received, which I have not reviewed. I do strongly support the fundamental goals of the CRA, which was enacted in 1977, while also acknowledging that its parameters need to be updated to reflect changes in the way banks operate and provide services today—particularly in providing access to credit for lower-income communities.

Q.9. Many Democratic, Republican and Independent current and former regulatory officials raise concerns about the bank deregulation bill range from former Fed Chair Paul Volcker, former Fed governor and Deputy Treasury Secretary Sarah Bloom Raskin, former FDIC Chair Sheila Bair, former Counselor to the Treasury Secretary Antonio Weiss, and former Deputy Governor of the Bank of England Paul Tucker. These former banking regulators either state that a $250 billion bank threshold is too high to protect financial stability or that we should not weaken the leverage rules for the largest banks, or both.

Do you share the concerns about heightened risk raised by your predecessors? Please elaborate on your answer.

A.9. I think it is important that I have a thorough understanding of the details of any such proposals regarding capital standards, as well as access to the relevant analytical information, so that I can weigh in knowledgeably on discussions regarding this important topic. I can assure you that I would want to preserve the substantial gains in safety and soundness and improved resiliency of the banking sector as part of any regulatory reform effort.

Q.10. What more can be done to shrink the gap between African American and white unemployment? In addition to increasing employment rates for African Americans, what can the Fed do to increase wages and wealth for African Americans and Latinos?

A.10. By fulfilling its mandate to promote maximum employment and stable prices, the Federal Reserve helps to establish conditions that benefit those seeking employment. By formulating monetary policy conducive to productive economic growth, and by encouraging business capital investment through low interest rates, the Fed facilitates increased productivity; this tends to lead to higher wages based on increased economic output, which in turn helps to reduce income inequality across society as a whole.

Q.11. Do you support proposals to tax currency kept outside of circulation?

If this policy were implemented, what impact would it have on savers and low income depositors?

A.11. I am not familiar with any such proposal—and cannot imagine any justification for taxing Federal Reserve Notes in the private possession of holders.

Q.12. Some current Federal Reserve leaders support reducing banks' capital requirements.

This concerns me as capital requirements have been a key tool in restoring the safety of the financial system since the crisis. Ensuring modest leverage ratios prevents banks from lending out more than they can afford to, and especially keeps them away from riskier assets like the ones that fueled the crisis.

Do you support any changes to the current capital requirements for financial institutions? Please elaborate on your answer.

A.12. In general, I believe that regulations should be tailored to the specific characteristics of individual financial institutions based on asset size, complexity, business model, and financial risk.

Q.13. What is your understanding of the historical evidence surrounding the relationship between monetary policy and asset bubbles?

A.13. It is not appropriate for Federal Reserve officials to comment on the price of assets that are determined through markets. The Fed's responsibility is to promote price stability by formulating monetary policy to properly calibrate the money supply to the money and credit needs of the economy.

Q.14. Besides monetary policy, what other tools are available to temper asset bubbles?

A.14. Citing my answer above, it is not appropriate for Fed officials to "jawbone" down the market-determined prices of assets.

Q.15. In the years since the financial meltdown, the Federal Reserve has played a key role in putting our economy back on stable footing and setting the conditions for more robust growth. Still, there have been bills introduced that would eliminate the Fed's full employment mandate on the basis that, according to the bill's findings "at best, the Federal Reserve may temporarily increase the level of employment through monetary policy."

Can you elaborate on how the Fed influences employment in the short run, and discuss whether failure to use monetary policy effectively in the face of severe downturns could do permanent damage to the level of unemployment in the economy?

A.15. According to the Federal Reserve's own assessment, as acknowledged in the FAQs on its own website: "The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market." But regarding using monetary policy to influence employment, the Fed's ability to lower interest rates makes it cheaper for firms to finance purchases of physical assets for purposes of expanding output capabilities—

property, plant, and equipment—which, in turn, spurs hiring and boosts production.

Q.16. Critics of quantitative easing have argued that it is incompatible with the Fed's price stability mandate; however in discussing quantitative easing the Fed has consistently noted that the program is designed to promote a stronger pace of economic growth and to ensure that inflation, over time, is at levels consistent with the Fed's mandate.

Please comment on whether the Fed's policies in recent years have actually supported the Fed's price stability mandate.

A.16. The inflation rate is well within the 2 percent target established by the Federal Reserve in January 2012.

Q.17. What does the latest research tell us about the effectiveness of the Fed's large-scale asset purchases?

A.17. Successive rounds of quantitative easing by the Federal Reserve between 2008 and 2014 provided increasingly less stimulus for the economy.

Q.18. Is there any evidence that the Fed's asset-purchase program, which sought to support the economy by lowering long-term interest rates, has been a drag on U.S. productivity as some Republicans have suggested? Is there any evidence that the program has created a "false economy" as Trump has asserted?

A.18. The extreme monetary policies conducted by the Federal Reserve in the wake of the 2008 financial crisis, such as imposing near-zero interest rates and engaging in massive purchases of financial assets, impose great costs on certain segments of the population. Savers have been punished by the low rates, through no fault of their own, affecting plans for paying tuition or planning for retirement. The Government's intervention in credit markets through its agency, the Federal Reserve, has caused price distortions that skew returns to those most able to participate in financial markets and fueled speculation in markets for derivatives and other sophisticated instruments. Were the costs of such actions by the Fed justified by economic growth that benefited Americans in general? I would point out that GDP growth from 2009 through 2016 averaged 1.6 percent—indeed, the precise growth number for 2016 was 1.6 percent. During those same years, unemployment averaged 7.2 percent. Congress implemented major structural changes in subsequent years that have changed assessments of "secular stagnation" into substantially positive outlooks for U.S. economic performance. The rate of GDP growth from 2017 through 2019 has averaged 2.5 percent, more than 50 percent higher than the prior period. The rate of unemployment is currently half the average rate during the earlier period. Something clearly changed, precipitating higher business confidence and consumer confidence—and we are seeing increased productivity, increased wage gains, and decreasing income inequality as a result. Labor productivity is a measure of economic performance comparing output (amount of goods and services produced) with number of hours worked to produce those goods and services. The productivity of American workers increased in 2019 at the fastest annual pace in 9 years, registering a 1.4 percent increase in the fourth quarter.

Firms increased the amount of goods and services produced by 2.5 percent in the final three months of 2019; the number of hours workers spent on the job rose by 1.1 percent. As workers become more productive, wages tend to increase because higher productivity boosts profits. Also, with greater output per hour worked, inflation tends to stay in check. All of which suggests that having the right monetary policy in place is a necessary but not sufficient condition for promoting productive economic growth.

Q.19. How would the economy have likely fared in terms of unemployment, GDP, wage growth, etc. had the Fed chosen not to pursue its asset purchase program?

A.19. As stated above, it is not sufficient to lower interest rates to stimulate economic growth in the absence of structural reforms that facilitate business capital investment and provide regulatory relief where appropriate—economic policy initiatives that have a positive impact on business confidence and consumer demand.

Q.20. Is there any evidence that the Fed's stimulus program has paved the way for the next global meltdown, as Trump claimed?

A.20. Whether or when there will be a future global financial crisis is unknowable; whether its causes can be traced to the Fed's stimulus program is also unknowable. As I previously stated (Question 13): It is not appropriate for Federal Reserve officials to comment on the price of assets that are determined through markets. The Fed's responsibility is to promote price stability by formulating monetary policy to properly calibrate the money supply to the money and credit needs of the economy.

Q.21. How does the Fed's balance sheet as a percentage of GDP compare with the balance sheets of the next largest economies? Do these countries have a dual mandate similar to the Fed?

A.21. The balance sheet of the European Central Bank is roughly 4.7 trillion euros, which is around 41 percent of the eurozone GDP. The balance sheet of the Fed is roughly $4.2 trillion, which is around 20 percent of GDP for the United States. The mandate for the ECB is to maintain price stability within the eurozone.

Q.22. It is my understanding that major central banks around the world maintain and have drawn on their authority to purchase a wide range of assets including corporate bonds, commercial paper, real estate investment trusts, and equities among other assets.

Given the broad authorities available to other central banks, rather than shrink the Fed's tool kit, do you think Congress should consider expanding it?

A.22. No.

Q.23. For example, with an expanded authority, could the Fed play a useful role in supporting municipal finance, student loan financing or other types of consumer credit during periods where each of these sectors experienced heightened distress?

A.23. I believe it is inappropriate for the Federal Reserve to allocate credit flows for the purposes you cite above.

Q.24. Would you support or oppose such expansion of the Fed's authority?

A.24. I would oppose such expansion of the Fed's authority.

Q.25. As the Fed begins to shrink its balance sheet, what are some of the negative impacts that Senate Banking Committee Members should monitor? What concerns—if any—do you have about shrinking the balance sheet? What will you do to monitor the process of maturing securities to avoid a negative impact on the economy?

A.25. It does not appear that the Fed currently intends to shrink its balance sheet, given its stated preference for an "ample reserves" environment.

Q.26. As you know, the Dodd–Frank Wall Street Reform and Consumer Protection Act (Public Law 111–203) rules are tailored so larger banks have higher standards than smaller banks. Of the 14 "major" rules issued by banking regulators pursuant to the Dodd–Frank Act, 13 either include an exemption for small banks or are tailored to reduce the cost for small banks to comply. Supervision and enforcement are also structured to pose less of a burden on smaller banks than they do on larger banks, such as by requiring less frequent bank examinations for certain small banks.

Do you think community banks should comply with the requirement that loans should be made to people who can repay them? This is called the "know before you owe" rule. Community banks are largely exempt from both mortgage origination and servicing rules because they are small creditors with less than $2 billion in assets or service fewer than 500 loans.

Dodd–Frank limited compensation requirements for loan originators to prevent steering to high-cost loans. Only originators that make fewer than 10 loans in a 12-month period are exempt. Do you support changes to the Loan Originator Compensation Requirements (Regulation Z)?

Mortgage Servicing Rules under Regulation X and Z are designed to protect homebuyers from high-cost loans. Servicers with fewer than 5,000 mortgage loans are exempted from some of these rules. What changes do you recommend to Regulations X and/or Z?

Do you think banks that make more than 25 mortgage loans should share the loan and borrower characteristics through the Home Mortgage Disclosure Act database?

Banks with assets under $50 billion are not required to comply with the liquidity coverage ratio. Do you think they should be? Why or why not?

Banks with assets under $250 billion are not required to comply with regulatory capital rules. Do you think they should be? Why or why not?

Debit card interchange fees and routing requirements do not apply to banks that have fewer than $10 billion in assets. Do you think banks under this size should comply with interchange fees and routing requirements?

A.26. As previously stated, I think it is important that I have a thorough understanding of the details of any such proposals regarding capital standards, as well as access to the relevant analytical information, so that I can weigh in knowledgeably on discussions regarding this important topic. I can assure you that I would want to preserve the substantial gains in safety and soundness and improved resiliency of the banking sector as part of any regulatory reform effort.

Q.27. Do you have recommendations for changes to the Bank Secrecy or Anti–Money Laundering rules? If so, please describe?

A.27. As a nominee, I am not sufficiently familiar with the details of potential changes to the Bank Secrecy or Anti–Money Laundering rules to make recommendations.

Q.28. I am very concerned about climate-related financial risks. The most recent National Climate Assessment said the U.S. Southwest could lose $23 billion per year in regionwide wages as a result of extreme heat. Since you joined the Federal Reserve Board, what have you done to prepare community banks for long-term shifts in climate patterns, like increasing extreme heat and more severe and more frequent storms?

A.28. I have not joined the Federal Reserve Board. I am currently a nominee to serve as a member of the Board of Governors of the Federal Reserve System.

Q.29. Are community banks changing how they operate to consider these threats to the ability of their customers to repay loans?

A.29. As a nominee, I do not have access to that information.

Q.30. Are there changes to insurance policies banks should consider?

A.30. As a nominee, I am not sufficiently familiar with the details to be able to propose changes to insurance policies that banks should consider.

Q.31. Some have advocated that central banks use their balance sheet to support the transition to a low-carbon economy, for example, by buying low-carbon corporate bonds. Do you think Congress should consider changing the law to support "green" quantitative easing as an option for the Fed?

A.31. By "changing the law", I presume you mean changing the mandate of the Federal Reserve from its current directive to promote maximum employment, stable prices, and moderate long-term interest rates. This would be a significant alteration from the 1977 Federal Reserve Reform Act and would potentially direct the Fed to allocate credit to a particular set of recipients; I believe Congress should be wary of taking such a step but that decision is clearly up to Congress.

Q.32. Which other Central Banks allow green quantitative easing? Do you believe those models could translate to the American financial system and economy?

A.32. My understanding is that the Bank of England is carrying out work to include climate change considerations as part of its macroeconomic analysis and in making its financial decisions. Benoit Coeure, a member of the Executive Board of the European Central Bank, stated in a November 2018 speech: "The ECB, acting within its mandate, can—and should—actively support the transition to a low-carbon economy, in two ways: first, by helping to define the rules of the game and, second, by acting accordingly, without prejudice to price stability."

Q.33. In the Fed's Supervisory Report released November, there was a section on merger and acquisition risks. The banking law passed last year changed the asset threshold for a small bank holding company from $1 billion to $3 billion. It also reduced capital requirements and other rules for banks above $50 billion. We have seen more bank mergers since the law passed. Do you expect to see more bank mergers this year and next year than in previous years? How much of merger activity is due to changes from S. 2155 and other regulatory actions?

A.33. As a nominee, I was not involved in the preparation of that report.

Q.34. What are the risks from mergers and acquisitions?

A.34. My understanding is that the Federal Reserve rigorously reviews potential risks associated with bank merger proposals. Risks may include lowering the availability and increasing the cost of credit for borrowers. It is also conceivable that the collapse of a merged banking institution might pose elevated risks to financial stability. But some bank mergers may increase efficiencies without harming consumers or endangering financial stability.

Q.35. Beyond the impacts on the customer, what are the risks to communities when banks merge? Are you concerned about a loss of branches? Types of products? Jobs?

A.35. As a nominee, I do not have access to the necessary analytical data to measure these potential impacts. If confirmed as a member of the Board of Governors, I would focus on such questions regarding customer impact and risks to communities from bank mergers and acquisitions.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM JUDY SHELTON

Q.1. Under what circumstances should the Federal Reserve raise interest rates?

A.1. In conducting the Nation's monetary policy, the Federal Reserve seeks to influence money and credit conditions in the economy in pursuit of maximum employment and stable prices. The first goal is defined by the Federal Reserve as having been achieved when all Americans that want to work are gainfully employed. The second goal was defined by former Fed Chairman Alan Greenspan in July 1996 as "that state in which expected changes in the general price level do not effectively alter business and household decisions." Since January 2012, the Federal Open Market Committee has judged that inflation at the rate of 2 percent (as measured by the annual change in the price index for personal consumption expenditures, or PCE) is most consistent over the longer run with the Federal Reserve's statutory mandate regarding price stability. In accordance with that definition, the Federal Reserve should raise interest rates if inflation were to persistently exceed 2 percent—with the caveat that the inflation goal is now defined as a "symmetric 2 percent objective" as mentioned by Chair Powell in his most recent semiannual monetary policy report to the Congress. Employing a symmetric approach means the Federal Reserve would tolerate inflation running modestly above or below the 2 percent target.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN FROM CHRISTOPHER WALLER

Q.1. Of the 72 publications you have written since your dissertation, how many of them opined about the merits of a return to the gold standard or a gold-based monetary standard?

A.1. None.

Q.2. During your tenure at the St. Louis Fed, how many papers, blog posts, or conferences has your staff written or hosted that opine on the merits of a return to the gold standard or a gold-based monetary standard?

A.2. I am not aware of any.

Q.3. Of the 72 publications you have written, since your dissertation, how many were subject to peer review?

A.3. 57.

Q.4. What are the merits of looking at Average Hourly Earnings vs. the Employment Cost Index?

A.4. Average hourly earnings ignores benefits and other forms of employee compensation. The ECI considers all forms of compensation. Economists typically want to know what the total compensation is since it measures the true cost of a unit of labor.

Q.5. Do you believe the U.S. should maintain sovereignty over its currency?

A.5. If by this question you mean to ask whether the U.S. should have sovereignty over the U.S. dollar, then yes. If it means all other currencies should be banned, then no—let the market determine which currency to use. As of now, the U.S. has no law that I am aware of that prevents the use of any other currencies as a medium of exchange. Nevertheless, no one in the U.S. uses other currencies—the preeminence of the U.S. dollar is a voluntary outcome. Now, having multiple currencies is not efficient and having them creates unneeded exchange rate risk. We observed this in the U.S. in the early 1800s when banks could issue their own currencies. This is also why the world prefers to have a reserve currency, which at present is the U.S. dollar.

Q.6. When the Senate was considering S. 2155, the bank deregulation bill, Chair Powell said that deregulating U.S. regional banks wouldn't mean deregulating foreign banks. But the Fed's October rule did just that and the Fed justified weakening the protections at foreign banks by stating that the law requires that you treat foreign banks equivalent to domestic banks. The rule referred to it as "equality of competitive opportunity."

Do you agree with this analysis?

A.6. I think the traditional international bank regulatory policies of national treatment and equality of competitive opportunity are sensible. Accordingly, I generally support regulating the U.S. operations of foreign banks in a similar manner as U.S. bank holding companies of similar size and risk profile. Since foreign banks generally have shrunk in size since the financial crisis to the point where their U.S. presences are of similar size as U.S. regional banks, I believe regulating the U.S. operations of foreign banks in the same manner as large U.S. regional banks makes logical sense.

Q.7. Do you think that the October rule weakened safety and soundness or financial stability?

A.7. No, I do not.

Q.8. In July 2019 when asked about leveraged loans, Chairman Powell stated "The issue is that the risk isn't in the banks" and that the leveraged loan market was "in a good place." Several days ago, the Fed announced that leveraged lending risks would be incorporated into bank stress tests.

Do you think the Chairman was correct to say that banks were not exposed to leveraged lending risks in July?

A.8. My understanding is that large banks participate in the leveraged lending market in a variety of important ways. Among other roles, banks underwrite many of the loans, find buyers for the loans to be sold or syndicated, and finance portions of the deal in a "pipeline" as terms are being settled. That said, public information suggests that the great majority of the credit risk associated with leveraged loans are outside the banking system.

I believe it is important that the Board meet its obligation to ensure that the banks it supervises are operated in a safe and sound manner.

Q.9. If risks were not "in the banks" in July, what has changed in leveraged loan markets since then that require incorporation of this risk into bank stress tests?

A.9. I did not participate in the Board's deliberations about the scenarios for CCAR 2020. However, my understanding is that the scenarios usually feature a high degree of stress on business exposures.

Q.10. The United States has long maintained the separation of banking and commerce. However, some financial holding companies continue to engage in physical commodities activities. Technology firms have also expressed interest in receiving Industrial Loan Company (ILC) charters in order to gain the benefits of low-cost funding by being a bank without having to divest commercial activities as required by the Bank Holding Company Act.

Do you believe the separation of banking and commerce is important to the stability of the United States financial system?

A.10. I do.

Q.11. Do you believe that financial holding companies should continue to be allowed to engage in physical commodities activities?

A.11. In general, I am fine with financial holding companies being able to engage in limited physical commodity activities as long as bank capital and liquidity requirements reflect the risk of these activities.

Q.12. Do you think recognition of ILC charters is in keeping with the separation of banking and commerce?

A.12. The Federal Reserve does not supervise or regulate ILCs or their holding companies. Congress generally has assigned the responsibility of oversight of ILCs to the chartering States and the FDIC. Any changes to this structure would be up to Congress.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SASSE FROM CHRISTOPHER WALLER

Q.1. It is my understanding that very few banks have opened since the passage of Dodd–Frank, and we are seeing more banks merging.

Why do you think this is happening?

A.1. Bank consolidation has been happening since the 1990s when Congress eliminated branching restrictions. Since then the number of banks has fallen from around 15,000 to under 6,000. So prior to the 1990s, we had too many banks due to State law branching limitations that forced the creation of banks in order to serve customers. Since then, it has been a natural process of shrinking the number of banks and consolidating into more geographically diversified financial institutions that can also achieve economies of scale. In the last decade, we have seen some acceleration of bank consolidation, which I believe is due to two factors: (1) FinTech/mobile banking and (2) regulatory burden.

Q.2. Are you concerned by the consolidation of the banking sector?

A.2. I am not except in the cases where consolidation or closures lead to excessive concentration in local banking markets or banking “deserts”. The hope is that mobile banking offsets this but there will always be activities that require face-to-face interactions and that will be missing in these areas.

Q.3. What would be your suggestions to the Federal Reserve on how to encourage the opening of new banks?

A.3. The entry of new banks is likely to take the form of virtual banks, which are internet based and essentially borderless. Physical locations of brick and mortar banks would have to be in areas that are devoid of banking services. In both of these situations, it is not clear to me what the Fed can do to encourage bank entry, as the Fed does not charter banks. However, if confirmed, I would work to ensure that undue regulatory burden from Fed policies is not discouraging new bank formation.

Q.4. What risks do you believe that cybersecurity concerns pose to the U.S. financial system?

A.4. Cybersecurity risk is serious and growing especially the threat from State actors. Theft is always a concern with banks but disruptions in the payment system are one of my biggest concerns. I also worry about banks being taken hostage via malware that takes control of their databases and account information.

Q.5. How do you believe the Federal Reserve should address these concerns?

A.5. The Fed addresses these concerns through its supervisory function. In my current role, I have not been involved in supervision, but if confirmed, cybersecurity would be a priority for me.

Q.6. How do you believe that the Federal Reserve could improve transparency and communication with the public?

A.6. In my 35 years in the economics profession studying monetary policy, the increase in transparency in the Federal Reserve and central banks around the world has been astounding. We have gone from the Bank of England view of "Never apologize, never explain" to press conferences after every meeting for every major central bank. I believe that Chairman Powell's decision to have a press conference after every FOMC meeting was a very important step.

Transparency in supervision and regulation is also an important consideration. By nature, the supervisory function has tended to maintain the confidentiality of certain information for a variety of important reasons. If confirmed, I would be happy to work with you to consider additional ways for the Fed to increase transparency related to its supervisory and regulatory responsibilities.

Q.7. Do you believe that the Federal Reserve needs to improve its transparency?

A.7. As I mention above, Federal Reserve transparency has increased dramatically with regards to monetary policy but there may be ways to improve transparency on the regulatory and supervision part of its responsibilities.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS FROM CHRISTOPHER WALLER

Q.1. On October 9, 2019, the President signed Executive Order 13892—"Promoting the Rule of Law through Transparency and Fairness in Civil Administrative Enforcement and Adjudication".

Section 6 of the Executive order states that, " . . . before an agency takes any action with respect to a particular person that has legal consequence for that person, including by issuing to such a person a no-action letter, notice of noncompliance, or other similar notice, the agency must afford that person an opportunity to be heard, in person or in writing, regarding the agency's proposed legal and factual determinations. The agency must respond in writing and articulate the basis for its action."

This Executive order would clearly cover much of what the Federal Reserve (Fed) does by way of Supervision and Regulation letters (SRs), MOUs, and other means of agency enforcement actions. As such:

Can you provide me with assurance that if you are a member of the Board you will fully comply with this critical due-process requirement?

A.1. I am not an administrative lawyer, so I cannot offer an opinion on the details of how this Executive order applies to the Fed. But due process is clearly a top legal principle in this country, and I will always adopt that as my default position in any decision I make.

Q.2. Can you please describe, in detail, the process and timetable that you plan to implement to ensure these due process rights are in place for regulated parties, especially those who may be facing "legal consequences" as a result of an enforcement action, as required under Executive Order 13892?

A.2. I am not an administrative lawyer, so I cannot offer an opinion on the details of how this Executive order would apply.

Q.3. Do you believe that neither the Government Accountability Office (GAO) or the Office of Management and Budget (OMB) have the final word on Congressional Review Act (CRA) interpretation? If yes, who does have "final word" on whether the Fed has to abide by the CRA?

A.3. I am not an administrative lawyer, so I simply cannot answer questions of this type without more background knowledge. However, if confirmed, I will be firmly committed to meeting all of our obligations under the law.

Q.4. As you know, the GAO has ruled (October 22) that the foundational SR letters that set up the Large Institutional Supervision Coordinating Committee (LISCC) are in fact rules and not guidance. These guidance documents have not been submitted to Congress.

Is the Fed legally required to stand down LISCC?

A.4. I am not a lawyer, so I cannot give an informed opinion on this. However, if confirmed, I would support the Fed having a clearer and public rule about which banking firms are in the LISCC portfolio.

Q.5. If not, please explain your understanding of the CRA and if the Fed must follow this law.

A.5. I believe the Fed must follow the law, and CRA is the law of the land.

Q.6. Which other laws does the Fed have the ability to decide whether to comply with?

A.6. In principle, the Fed has to comply with all laws of the land. I see no exceptions to this.

Q.7. On October 19, 2019, the General Counsel of the Fed submitted a letter to the GAO stating the agency is "still assessing" whether they need to comply with the CRA. Do you agree with this assessment?

A.7. Again, I am not a lawyer, so I cannot give an informed opinion on this.

Q.8. If a joint agency Administrative Procedures Act (APA) rule is advanced by other Federal regulatory agencies that proposes to formalize the governance and applicability of informal guidance, will you support and vote for this rule?

A.8. I am sympathetic to this for significant guidance that is broad based.

Q.9. Do you believe that informal Matters Requiring Attention (MRAs) are enforceable?

A.9. I believe that guidance is much like advice—it is given with the intent to improve one's position and well-being. However, if one chooses to ignore that advice then there should be no direct consequences for not following the advice.

Q.10. Traditionally, the Fed has not been subject to audit, for fear of the audit undermining the independence of its monetary policy function. There appears to be no similar justification with respect to a business run by the Fed in competition with the private sector, and where budgets need to be reviewed for compliance with the Monetary Control Act. Assuming the Fed proceeds with its "public options for payments", would you relax your traditional opposition to Fed audits if all monetary policy functions were exempt?

A.10. The Board of Governors is audited by the GAO and its financial statements are audited by an external auditor every year. The Board is audited by the Office of Inspector General. All of the Reserve Banks are audited by both internal audit functions and external auditors. I support having these audits.

Q.11. The Monetary Control Act requires the Fed to establish a fee schedule for Reserve Bank payment services that are based on the basis of all direct and indirect costs actually incurred in providing the priced services, including imputed costs (including taxes) that would be incurred by a private-sector provider.

If you are confirmed, will you immediately release to the public how much it would cost to build such a system, and operate it annually?

A.11. As I understand it, the FedNow project is getting underway and the architecture for this payment system is just now being determined. Once details are firm in terms of the estimated costs and operating costs, I will support releasing this information to the public.

Q.12. If you are confirmed how would the Fed fund the initial outlay—for example, would you increase prices on your existing payments system products to fund it?

A.12. I do not know the details of how the project will be funded. However, I believe the Fed may be able to finance this project without increasing prices on existing payment services if it so chooses.

Q.13. Would these outlays reduce Fed remittances to the Treasury in the years they are made?

A.13. In the short-term, I believe so. Remittances would then rise in out years when cost recovery is underway.

Q.14. Can you commit that before incurring any start-up costs, you would have in place a business plan that envisioned pricing consistent with the Monetary Control Act, and share that plan with this Committee prior to any decision to move ahead?

A.14. Once firm design and operation plans are place, the costs should be able to be determined. If confirmed, I would be happy to work with the Banking Committee on this issue.

Q.15. My understanding is that with regard to the existing ACH services provided by the Fed, small banks are charged more than large banks. The discount is used in order to attract the greater volume provided by the large banks. Will you commit, and construct your business plan on the assumption that the Fed will never do volume discount pricing for any real-time payment service?

A.15. I am not able to make that commitment without more information on the cost and pricing plans that are currently being studied. However, I do believe there is a strong case to be made for uniform pricing.

Q.16. Is part of the Fed plan to require the largest banks to join the Fed System—in effect, outlawing a private sector option?

A.16. Not that I am aware of.

Q.17. If not, please explain (and include in your business plan an explanation of) how the Fed could price in compliance with the Monetary Control Act when its system does not process the volume of any of the large banks.

A.17. Again, I do not have the relevant information at this point to give an informed opinion. I do believe that under the current ACH system the largest banks use the Fed's ACH system voluntarily for a nontrivial percentage of their transactions.

Q.18. What would pricing have to look like in order to recoup startup and operating costs if only small banks, representing a fraction of total volume, were participating in the Fed system?

A.18. I do not have the information at present to make this calculation.

Q.19. How many Fed employees (at the Board and the Reserve Banks) are employed to operate the ACH network?

A.19. I do not know.

Q.20. How many employees do you roughly estimate would be employed to operate a real-time network?

A.20. I do not know.

Q.21. Would Reserve Banks need to add staff or would they be transitioned from ACH (as the move towards real-time could lead to fewer employees devoted to ACH)?

A.21. ACH is a batch processing system where payment dates and times are known well in advance, such as payroll. How private firms would adjust their strategies from batch processing to access real time payments, I do not know. If demand for ACH services falls, then it seems obvious that labor would be reallocated from ACH to RTGS.

Q.22. If the Fed offers real-time payments, why should it continue to also be the regulator of the payments system?

A.22. The Fed has been in the payments business since its founding and has also regulated banks since its founding. Fed ACH and TCH EPN, as well as Fedwire and CHIPS, operate side by side now and the Fed, or other bank regulatory agencies, regulate the banks running The Clearing House. To the best of my knowledge, I am not aware that the regulator/payment system competitor structure has ever been a problem. So I would have to know what issues, that are unique to RTGS, have arisen that now make this an issue.

Q.23. Should that responsibility be conferred to another agency who could more dispassionately assess the Fed's compliance with the provisions of the Monetary Control Act and all other applicable laws?

A.23. The Fed has dealt with cost recovery with check clearing since 1980. Due to the expense of processing paper checks, the Fed has greatly reduced costs by moving to a virtually all-electronic check service in order to meet the cost recovery requirements of the Monetary Control Act. So the Fed has a history of complying with the law and making its operations more efficient in order to do so. Furthermore, it is my understanding that the payments system is run by the Reserve Banks who have external private auditors who determine whether or not the Fed is in compliance. If confirmed, I would be strongly committed to complying with the Monetary Control Act. Between independent audits and the Inspector General, I believe the Fed is well positioned to meet its obligations, but I would be glad to work with you on further improving oversight.

Q.24. In January 2015, the Fed stated in its Strategies for Improving the U.S. Payment System that they "would not consider expanding its service provider role unless it determines that doing so is necessary to bring about significant improvements to the payment system and that actions of the private sector alone will likely not achieve the desired outcomes for speed, efficiency, and safety in a timely manner." While you have stated that no final decisions have been made, the request for comments issued clearly states that the Fed is in fact considering expanding its role, despite the significant improvements made by the private sector. In the future, how can you expect the private sector to respond to the Fed's calls for innovation, when the Fed fails to hold itself to its commitments?

A.24. The request for comments was put out and based on those comments the existing Governors on the Board of Governors made a decision to move forward with FedNow by a 4–1 vote. I was not part of this decision process. Consequently, I have no information to assess what criteria were used for this decision. However, I am aware of the concern raised by some that the Fed acted in an unpredictable and unfair manner. If confirmed, I would work to ensure that the Fed is transparent, consistent, and fair in implementing all of its policies.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED FROM CHRISTOPHER WALLER

Q.1. What do you think of Facebook's attempt to create its own digital currency, Libra?

A.1. I have studied monetary theory for the last 20 years and I have studied the use of privately supplied currency backed by interest bearing assets (such as an index fund tied to the S&P 500). I published a paper on this in 2014 long before Libra was introduced. Such a system clearly can work. However, it faces all of the issues that banks face including money laundering, tax evasion, privacy concerns, etc. It also subjects holders of Libra to standard exchange rate risks that the typical Facebook user is not accustomed to bearing. Since Libra would be "borderless" due to Facebook's 2 billion global users, it creates international regulatory issues that we have not confronted before.

For citizens of oppressive regimes or unstable monetary systems, Libra could be great as a cheap and stable means to make payments. Within the U.S., it is not clear it would have such an advantage over traditional retail banking.

Q.2. Do you support or oppose Libra?

A.2. Because Libra is still in development and is still evolving, I have not yet reached a conclusion on its merits. I am a bit agnostic on this. Financial innovation, such as Libra, could open up avenues for global retail payments that no one (except monetary theorists) would have imagined 10 years ago. At the same time, Libra presents many serious challenges, including those discussed above. In particular, having Facebook running such a system is concerning given its history of using private information for its commercial advantage.

Q.3. Why specifically do you support or oppose?

A.3. See previous answer.

Q.4. Do you have any concerns that consumer privacy would be further compromised if Facebook is successful in launching Libra? If yes, what do you see as the biggest privacy risks associated with Libra, both nationally and globally?

A.4. I do have concerns. Like others, I dislike the details of my private life being used by a firm or distributed without my knowledge to other firms. My concern is that Facebook would have very detailed knowledge of all of my spending and use this information in ways that are not in my best interest. Banks currently have this information via my bank account and credit card information, but they are limited in how they can sell that information to third parties.

Cybersecurity is even more of a concern with Libra. All banks have to worry about account information being, stolen but the sheer breadth of Libra makes this a concern of greater magnitude.

Q.5. If another currency, including a digital currency, were to displace the U.S. dollar as the world's reserve currency, what impact would that have on the United States and our economy?

A.5. The first impact would be in terms of financing costs of the U.S. Government. Since the dollar is the reserve currency, U.S. Treasuries command a premium price as reserve assets. This lowers the cost of financing our debt. Being a reserve currency also affects seigniorage revenues via the use of U.S. currency around the world. Finally, since the dollar is the reserve currency, foreign firms price their goods in terms of dollars when trading with the U.S., which helps insulate the U.S. economy from movements in the dollar exchange rate.

Q.6. If confirmed, what will you do to ensure that the U.S. dollar remains the world's reserve currency?

A.6. The U.S. dollar is the world's reserve currency because the rest of the world has confidence that its value will be stable and it will be generally accepted around the world. The dollar's value will be stable so long as we keep inflation low and maintain a sound financial system. If confirmed, low inflation and financial stability would be guiding principles in my decision making.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER FROM CHRISTOPHER WALLER

Q.1. *Affordable Housing*—Montana, and many areas of the country, face challenges of housing availability, affordability, and aging housing stock. As you know, this is a significant issue for rural as well as urban areas and is one of the largest barriers to success nationally. In Montana, lack of workforce housing is one of the greatest inhibitors of economic development.

What can be done to increase workforce housing and encourage more affordable housing to be built?

What do you see as the largest barrier to affordable housing, particularly in rural areas?

A.1. In many urban areas, land availability is the source of supply constraints on affordable housing. This is not the case in rural areas. In urban areas, there are enough flows of families in and out of urban areas that it is profitable to build houses and easy to resell. This is more difficult in rural areas where flows in and out of small towns are relatively low. It is risky to build and buy a house if you think it will be hard to sell it down the road. In short, housing is a more "liquid" asset in urban areas than in rural areas. As a result, anything that can be done to make rural housing more liquid should increase the value of housing and entice builders and lenders to step in and provide affordable housing.

Q.2. What role does the Fed have in supporting housing? Where is there room for additional efforts?

A.2. The best thing the Fed can do is to keep inflation low and stable. This will allow longer-term rates such as 15- and 30-year mortgage rates to be low. This keeps the interest expense down for homeowners.

Q.3. *Agriculture Lending*—I have been hearing for the last year or more from community bankers in Montana that examiners seem more concerned lately when that their institution may be overly concentrated in ag. This is a hard issue for rural communities—we don't want to further jeopardize these farmers who are already fighting to survive against trade wars, changing weather, and difficult growing seasons, but we cannot let these challenges take community banks down with them. Access to banks in these rural areas is critical to communities, and we've already seen too many close.

I'm focused on making sure that we support our farmers and ranchers and their families through the current challenges facing the agriculture sector, while continuing to prioritize the safety and soundness of our community financial institutions.

What are the risks to these banks as farmers are increasingly overleveraged and continue to struggle with the repercussions of these ongoing trade wars, extreme weather happening more and more frequently because of our changing climate, and persistently low commodity prices?

A.3. It is obviously critical that the banks diversify their lending as much as possible. Weather events and trade wars are hopefully short duration events that can be smoothed over across time. Persistently low commodity prices are another issue. If they are so low that farming that product is not financially viable over the long run, then banks may make the difficult decision not to lend against the expected revenue streams from those crops. That will be a painful outcome for these communities that Congress is best equipped to address.

Q.4. Does this pose a threat to rural America?

A.4. I believe so.

Q.5. What can and should we be doing in these communities?

A.5. This is not my area of expertise so I do not feel I can give an informed response.

Q.6. From a banking perspective, are you concerned about how this will effect community banks across rural America?

A.6. Yes, I am. Community banks are more than just banks in rural areas; they are THE financial lifeline for many communities.

Q.7. *Community Reinvestment Act*—The CRA is a critical tool in expanding access to financial services and credit access to low- and moderate-income and underserved communities throughout our country, including in rural America.

What issues will be most important to you as the Fed considers updates to the CRA?

A.7. CRA is the law of the land and I am committed to enforcing the law. CRA was designed in a time where banking borders were well defined. However, in the modern mobile banking age, banking has become borderless. Therefore, the critical challenge, as I see it, is making CRA relevant and implementable in an era of borderless banking.

Q.8. How will you ensure that changes you consider remain consistent with the original purpose of this Civil Rights-era law to bringing financial services and credit access to low- and moderate-income and underserved communities throughout our country?

A.8. This is a challenging issue and there are very different views on how this can be done. I have not spent enough time on this issue to have formed clear views on it but intend to do so.

Q.9. How will you assess the potential impact on rural America?

A.9. As I understand the proposed changes of the OCC and FDIC to the CRA, I do not believe small community banks will be affected significantly. Because they are an important source of bank funding in rural areas, I suspect the changes will have a limited impact on rural America. However, appropriate CRA reform could encourage larger banks to invest more in rural America.

Q.10. Are you concerned that the Fed may move separately from the OCC and FDIC? Why or why not?

A.10. I am concerned. Having different standards on CRA compliance is not optimal. The three regulators ideally should work together as much as possible with the goal of coming together on a common set of changes.

Q.11. *Banking Hemp*—The 2018 Farm Bill removed hemp from the list of schedule I controlled substances, however regulators and Federal agencies have been slow in making changes to reflect this.

How can the Fed improve certainty for financial institutions providing services to this legal business?

What oversight will be necessary from the Fed?

A.11. I understand that the Fed and the other Federal banking agencies recently issued guidance to help improve certainty around the ability of banks to provide services to hemp-related businesses. If confirmed, I will monitor the effects of that guidance to determine if additional action is necessary.

Q.12. *Economic Tools, Debt and Deficits*—Both the Fed, through lower rates, and Congress, through increased spending and increased debt, have been taking actions to boost the economy during a long stretch of growth. I'm concerned that if we approach a downturn our options for how to address that will be limited by our actions during this decade of expansion.

What tools does the Fed have left to react to an economic downturn?

A.12. I believe that the Fed has sufficient tools to deal with an economic downturn. Despite a very low neutral rate, the Fed has other tools to deploy should it drive the policy rate to zero. Those tools are: (1) forward guidance, (2) quantitative easing, (3) yield curve control and, one I am not fond of, (4) negative nominal interest rates.

Q.13. The debt is more than $23 trillion—at what point do you get concerned about that? Is this sustainable?

A.13. Standard economic analysis shows that as long as the debt grows at the same rate as nominal GDP (or less), the burden of the debt will not increase. So if the real economy grows at 2 percent and inflation stays around 2 percent, then nominal GDP will grow at 4 percent. This means that the debt can grow at 4 percent without increasing the burden of the debt. If the debt grows faster than this and that growth does not appear to be temporary, then I would be very concerned.

Q.14. *Trade*—One of my concerns about how we could end up in an economic downturn is our trade policy over the past 2-plus years.

What are your current views on free trade?

A.14. I am a mainstream economist and years of economic theory has shown that free trade is the best outcome for society. There are only a few exceptions where tariffs are optimal.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM CHRISTOPHER WALLER

Q.1. *Monetary Policy*—In 2018, the Fed began a review of the strategy, tools, and communications it uses to conduct monetary policy.[1] If confirmed, you will be responsible, along with the other Board members, for evaluating the results of this review and determining if changes are appropriate.

[1] Board of Governors of the Federal Reserve System, "Review of Monetary Policy Strategy, Tools, and Communications", June 25, 2019, *https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.*

Describe the implications of the apparent decline in the neutral rate of interest for future recessions and economic downturns.

Do you believe the Fed's current monetary policy tools will be sufficient to alleviate an economic downturn?

A.1. I believe that the Fed has sufficient tools to deal with an economic downturn. Despite a very low neutral rate, the Fed has other tools to deploy should it drive the policy rate to zero. Those tools include: (1) forward guidance, (2) quantitative easing, (3) yield curve control and, one I am not fond of, (4) negative nominal interest rates.

Q.2. What role do you believe fiscal policy will need to play in the next downturn?

In response to prior economic downturns, policymakers have used a number of different fiscal policy tools as part of stimulus packages including tax cuts, investments infrastructure and emerging technologies and transfers to State governments. Which fiscal policy tools do you believe would be most effective?

A.2. I am not a public finance economist, so I am not prepared to comment on which fiscal tools have the biggest impact per dollar spent. However, my general belief is that fiscal stimulus aimed at households is the most logical given that consumer spending accounts for nearly 70 percent of GDP.

Q.3. Under what circumstances would you support additional spending in response to a recession even if it adds to the deficit?

A.3. If the recession is a mild/moderate one, monetary policy may be sufficient to deal with the economic downturn. If it is a severe downturn, then Congress may need to consider fiscal policy to help stimulate the economy.

Q.4. President Trump has repeatedly advocated for negative interest rates, arguing that they would boost economic growth. [2] Do you agree? Describe the implications of negative interest rates.

A.4. I am skeptical of negative nominal interest rates. I view them as a last resort option. Imposing a negative interest rate on reserves is effectively a tax that has to be borne since reserves cannot leave the system (except if converted to currency). The incidence of the tax has to be borne by depositors in the form of lower deposit rates, or by borrowers in the form of higher loan rates or higher fees, or by the banks in the form of lower profits. I do not find the evidence from Europe or Japan to be supportive of using negative rates.

Q.5. Former Fed Chair Bernanke has argued that the decline in the rate may be partly due to structural factors such as demographic and technological change. [3] Do you agree?

A.5. Yes I do.

[2] NBC News, "Trump Keeps Pushing 'Negative' Interest Rates. What Would That Mean for Your Wallet?" Ben Popken, September 23, 2019, *https://www.nbcnews.com/business/consumer/trump-keeps-pushing-negative-interest-rates-what-would-mean-your-n1056546.*

[3] The Brookings Institution, "The New Tools of Monetary Policy", Ben Bernanke, January 4, 2020, *https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/.*

Q.6. If so, should the Fed proactively thinking about the trends in these structural factors and how they could impact the effectiveness of monetary policy in the future?

A.6. A standard result in economic theory is that the real return on productive capital, in steady state, is driven by productivity growth, population growth and any " liquidity premiums" on assets. The first two are out of the control of the central bank. The latter is driven by a demand for safe liquid assets, which the central bank may have some influence over. A decline in the first two factors will tend to lower the neutral rate of interest. If the liquidity premium increases, this will also lower the neutral rate. All of these factors impact the effectiveness of monetary policy.

Q.7. In response to developments in overnight lending markets in September 2019, the Fed began conducting repo operations to "stabilize money markets and provide reserves to keep the Federal funds rate within its target range." [4]

Some have pointed to the repo market concentration, with the largest banks being almost exclusively responsible for engaging in transactions with the Fed and lending that money out. [5] Can you describe the implications of the concentration levels of the current repo market structure and how the concentration of participants may have impacted the Fed's recent interventions?

A.7. Prior to September 2019, the general belief was that $1.4 trillion in reserves was ample enough to handle any fluctuations in demand for any subset of institutions. The volatility in September 2019 showed that reserves were not flowing in the manner they should have to reduce repo market volatility. The Fed is still trying to understand why these flows are not occurring. In the end, by raising the level of reserves in the system, enough liquidity was available to flow and smooth fluctuations in the Federal Funds rate, regardless of the concentration.

Q.8. If the Fed were to adopt a standing repo facility, as it has been considering even before the market disruption in September, [6] what factors should the Fed use to determine which counterparties would be eligible?

A.8. I would consider broadening the range of counterparties to ensure that funds are flowing effectively through the financial system. Since a repo facility is a secured lending facility, the Fed faces little, if any, counterparty risk. Hence, a broad set of counterparties means more participants to arbitrage away interest differentials and the repo facility would cap fluctuations in the Federal funds rate.

Q.9. *Financial Stability*—In previous questions regarding the Fed's response to climate change, Chairman Powell claimed that the Fed uses "its authorities and tools to prepare financial institutions for

[4] Board of Governors of the Federal Reserve System, "Monetary Policy Report", February 7, 2020, *https://www.federalreserve.gov/monetarypolicy/files/20200207_mprfullreport.pdf.*

[5] *Wall Street Journal*, "Big Banks Loom Over Fed Repo Efforts", Daniel Kruger, September 26, 2019, *https://www.wsj.com/articles/big-banks-loom-over-fed-repo-efforts-11569490202.*

[6] Board of Governors of the Federal Reserve System, "Minutes of the Federal Open Market Committee", June 18–19, 2019, *https://www.federalreserve.gov/monetarypolicy/fomcminutes20190619.htm.*

severe weather events."[7] At the same time, science has clearly demonstrated that extreme weather events are becoming increasingly common as a result of climate change.[8]

To the extent that these weather events continue becoming more common and having a greater impact on the business cycle itself, do you believe that it would be appropriate for the Fed to more explicitly consider the risks associated with climate change in its decision making?

A.9. For monetary policy, the Fed's mandate is stable prices and maximum sustainable employment. If climate risks have an impact on these variables, the Fed should respond in kind. For its supervisory function, examiners will have to look at idiosyncratic risks confronting individual bank portfolios. For example, a bank with a real estate portfolio of assets along the coastline will have a different risk exposure than a bank in the Midwest with the same share of real estate assets in its portfolio.

Q.10. Do you believe it would be appropriate for the Fed to hire economists that specialize in climate economics to address these changes? Should the Fed hire natural scientists to inform economic models?

A.10. The Fed has economists who study a wide range of topics and climate change is an increasingly popular research topic. Concerning the Fed hiring natural scientists, I have often thought the opposite—natural scientist research teams should hire economists to work on their climate change models. Much could be learned from economists who do forecasting as part of their research and job. An example is the recent paper by Glenn Rudebusch at FRB SF who uses economic forecasting models to predict an ice-free Arctic and compares those predictions to climate change models.

Q.11. Do you support the Fed officially joining the Network for Greening the Financial System (NGFS)? If not, why not?

A.11. As Chair Powell has said, the Fed is talking with central banks about climate change issues and the Fed is monitoring what this group is doing. If the time comes that warrants the Fed joining NGFS in some capacity, I am open to doing so.

Q.12. The most recent report from Shared National Credit (SNC) Review program conducted jointly by the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC), stated that "credit risk associated with leveraged lending remains elevated" and "lenders have fewer protections and risks have increased in leveraged loan terms through the current long period of economic expansion since the last recession."[9]

Please explain how you believe the Fed should evaluate and monitor the credit-risk management practices of a financial institu-

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[7] Letter from Federal Reserve Chairman Jerome H. Powell to Senator Elizabeth Warren, April 18, 2019.

[8] National Oceanic and Atmospheric Administration, "Report: Climate Change Is Making Specific Weather Events More Extreme", December 9, 2019, *https://www.noaa.gov/news/report-climate-change-is-making-specific-weather-events-more-extreme.*

[9] Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System Federal Deposit Insurance Corporation Office of the Comptroller of the Currency, "Shared National Credit Program: 1st and 3rd Quarter 2019 Reviews", *https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200131a1.pdf.*

tion to ensure that these procedures, some of which are untested, will be sufficient during an economic downturn.

A.12. I have been on the monetary policy side of the Fed during my career. Evaluating and monitoring credit risk is typically dealt with through the supervision side of the Fed so it is something I need to learn more about.

Q.13. Do you believe that the Interagency Guidance on Leveraged Lending [10] issued in 2013 is sufficient to address the risks associated with leveraged lending, particularly with respect to the growth of nonbank lenders?

Do you believe these loans made by nonbanks currently pose a risk to financial stability? If not, please explain why and under what circumstances the Fed should begin to judge them a threat to financial stability.

A.13. As long as the loans are not held on the books of regulated banks, I believe the threat to financial stability is limited. Should a group of private equity or hedge funds go under due to failures of leveraged firms, we should not intervene—they took a risk and should bear the consequences.

Q.14. Many of these nonbank lenders fall into a regulatory gap. What tools does the Federal Government have to mitigate the risks from the growth of leveraged lending and the deterioration of the terms of those loans?

A.14. Again, if these loans are not on the books of regulated banks, then I am generally not concerned as to whether or not losses are absorbed by the nonbanks who hold them.

Q.15. Private equity firms often finance acquisitions through highly leveraged loans. According to the private equity industry, firms acquired in these acquisitions now employ 8.8 million workers. In an economic downturn, what would you expect to happen to employment in these firms?

A.15. In a downturn, firms tend to shed labor to reduce costs as demand/revenues fall. This happens whether they are publicly traded or privately held.

Q.16. *Regulation*—The OCC and FDIC made the decision to heed to the concerns of the Fed with respect to their plan to modify the Community Reinvestment Act (CRA) and issued a new proposed rule on the law jointly enforced by the three agencies without the Fed last December. [11] On January 8, 2020, Governor Brainard released her own alternative plan to modernize the CRA. [12]

Would you have voted to join the OCC and FDIC proposal? If not, what aspects to you disagree with? If so, please explain why you believe it is right approach.

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[10] Federal Reserve Board of Governors, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, "Interagency Guidance on Leveraged Lending", March 21, 2013, *https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf.*

[11] Comptroller of the Currency and Federal Deposit Insurance Corporation, *Federal Register* Notice, "Community Reinvestment Act Regulations", January 09, 2020, *https://www.federalregister.gov/documents/2020/01/09/2019-27940/community-reinvestment-act-regulations.*

[12] Board of Governors of the Federal Reserve System, "Strengthening the Community Reinvestment Act by Staying True to Its Core Purpose", Governor Lael Brainard, January 08, 2020, *https://www.federalreserve.gov/newsevents/speech/brainard20200108a.htm.*

A.16. I have only limited knowledge and understanding as to how the proposed reforms will impact implementation of CRA. As I understand it, the OCC and FDIC proposal aims to be more rule based and less judgement based than the current evaluation process for CRA compliance. The OCC and FDIC proposal also aims at having simpler criteria for proving compliance. Finally, the OCC and FDIC proposal expands the boundaries as to where and what type of activities satisfy CRA compliance. In general, I find these principles compelling. But I am not intimately familiar with the details of the OCC and FDIC proposal, and cannot take a position at this time.

Q.17. Much of the criticism of the other agencies' plan focuses on the lack of analysis demonstrating the economic impact of the changes. However, according to Governor Brainard, the Fed has conducted some analysis with relevant data and would like to publish that data so the public can provide feedback.

Do you believe it is important for any new metrics included in a new CRA plan are grounded in data?

A.17. As a research economist my instinct is to always want decisions grounded in data. That said, I have spent 25 years trying to develop metrics to evaluate economists research performance. I have learned that there are no perfect metrics and data can be structured to support or deny the validity of any metric. So in the end, one has to use data and judgement to choose metrics.

Q.18. Do you believe that it is important for the public to have ample time to examine these data to provide input and ensure that reforming this critical civil rights law is done correctly?

A.18. Public comment is a valuable component of rulemaking. CRA reform should be consistent with existing standards for comments.

Q.19. Do you believe there are consequences of having two separate CRA regimes for institutions with different regulators? If so, what are these consequences?

A.19. While I believe it would be preferable to have a consistent regime across all regulators, I do not have enough information on this issue to determine the specific consequences of having two regimes.

Q.20. On January 30, 2020, the Fed finalized a rule to determine "when a company controls a bank or a bank controls a company." [13]

Reporting has indicated that the rule could allow private equity funds to control a greater portion of a bank's equity and thereby allow private equity investors to influence the operations of banks. [14] Given the various risks associated with the private equity business model and documented research that demonstrates that private equity investments in financial companies can increase the

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[13] Board of Governors of the Federal Reserve System, "Federal Reserve Finalizes Rule To Simplify and Increase the Transparency of the Board's Rules for Determining Control of a Banking Organization", January 30, 2020, *https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm.*

[14] *New York Times*, "The Fed Wants To Loosen Rules Around Big Banks and Venture Capital", Jeanna Smialek and Emily Flitter, January 30, 2020, *https://www.nytimes.com/2020/01/30/business/economy/volcker-rule-banksventure-capital.html.*

risk profile of those companies,[15] do you believe that this rule increases the level of risk in the financial sector?

A.20. I did not participate in the rulemaking process, and as a monetary economist, I am not familiar with research examining the impact of private equity investments on banks' risk profiles. If confirmed, I would monitor the implementation of this rule to ensure no undue risk to the financial system.

Q.21. In her statement, Governor Brainard suggested that it will be important to "monitor the ownership structures of banking organizations in light of this control framework and industry trends" and "how the control framework interacts with other regulations that involve ownership thresholds."[16]

Do you agree with Governor Brainard?

A.21. I believe it is important to monitor the bank ownership structure in order to implement the regulatory framework appropriately.

Q.22. If so, please describe how the Fed should monitor these ownership structures and how the Fed will determine if there is a financial stability risk associated with a banking organization's ownership structure?

A.22. Again, I have no background knowledge on this issue, but I look forward to learning more.

Q.23. *Supervision*—In Wells Fargo's Q4 2019 Earnings Call, newly appointed CEO Charlie Scharf acknowledged the bank's many misdeeds, claiming "we made some terrible mistakes and have not effectively addressed our shortcomings."[17]

These comments suggest that Wells Fargo has not made substantial progress in remedying the issues at hand. In a written response to me in 2018, Chairman Powell stated that the terms of the Fed's current Consent Order require that "the firm must make significant progress in remedying its oversight and compliance and operational risk management deficiencies before relief from the asset growth restriction would be forthcoming."[18] Chairman Powell has committed to me that the Board of Governors would have a formal vote before the Fed's asset cap on the bank could be lifted. Under what circumstances would you vote to lift the asset cap?

A.23. Because I do not have access to supervisory information, my knowledge of this issue is incomplete. I would only be willing to vote to lift the asset cap when Wells has remedied the identified deficiencies.

Q.24. In a recent speech, Fed Vice Chair for Supervision Randal Quarles suggested that Fed bank supervisors use of MRAs should be limited, and that they should only be permitted to institutions

[15] Harvard University, "Private Equity Ownership, Risk-Taking, and Performance in the Life and Annuities Industry", Divya Kirti and Natasha R. Sarin, April 2, 2018, *https://scholar.harvard.edu/nsarin/publications/private-equity-ownership-risk-taking-and-performance-life-and-annuities-industry.*

[16] Board of Governors of the Federal Reserve System, "Statement by Governor Lael Brainard", January 30, 2020, *https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20200130a.htm.*

[17] Bloomberg, "Q4 2019 Earnings Call", Wells Fargo, January 14, 2020.

[18] Letter from Federal Reserve Chairman Jerome H. Powell to Senator Elizabeth Warren, May 10, 2018, *https://www.warren.senate.gov/download/20180510-powell-response-re-wells-fargo.*

"to violations of law, violations of regulation, and material safety and soundness issues"[19]—a severe narrowing of Fed's authority.

Do you agree that the Fed should alter the process, standards, and requirements under which MRAs and/or MRIAs are issued? If so, why?

A.24. I am supportive of Vice Chair Quarles' idea to redefine the application of MRAs. As I understand it, MRAs cover a wide range of problems that banks have—some major and some minor. Prior to 2013 the Fed used "supervisory recommendations" to deal with minor safety and soundness issues. Vice Chair Quarles wants to reinstitute this category so that examiners have the ability to highlight a supervisory concern that is not at present of major concern but may rise to the level of an MRA.

Q.25. Do you believe there should be a formal notice and comment process so that outside experts and consumer advocates can review and comment on any proposal?

A.25. I am supportive of actions that comply with the Congressional Review Act and the Administrative Procedure Act.

Q.26. The 2013 guidance in the communication of supervisory findings states, that standardization of the terms MRAs or MRIAs "facilitates the Federal Reserve's national systems of record for information related to examination and inspection issues" and "enables the Federal Reserve to access information about supervisory issues and remediation efforts and aids in the identification of systemic and programmatic challenges facing banking organizations supervised by the Federal Reserve."[20] If, as proposed, certain supervisory findings will no longer be categorized as MRAs, do you believe this could impact the Fed's ability to access this information?

A.26. While my knowledge of this process is limited, I believe Vice Chair Quarles' proposals would be useful and would not impair the Fed's supervisory information or framework.

Q.27. Do you believe that it is possible for a bank examination to uncover an issue with a financial institution that could pose a threat to safety and soundness but does not represent a legal violation? Please describe some examples.

A.27. I suppose anything is possible in this regard, but I cannot think of an example since I have limited knowledge and experience in the supervision process.

Q.28. The impact of any proposed changes to MRAs is largely dependent on the definition of "material safety and soundness." How do you believe the Fed should determine this decision?

A.28. This is clearly an issue that has been addressed by supervision, regulation, and legal teams within the Fed and other regulatory bodies. I look forward to engaging with Federal Reserve staff on these issues, if confirmed.

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[19] Federal Reserve Vice Chair for Supervision Randal K. Quarles, "Spontaneity and Order: Transparency, Accountability, and Fairness in Bank Supervision", January 17, 2020, *https://www.federalreserve.gov/newsevents/speech/quarles20200117a.htm.*

[20] Federal Reserve Board of Governors, "Supervisory Considerations for the Communication of Supervisory Findings", *https://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf.*

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHATZ FROM CHRISTOPHER WALLER

Q.1. In a recent speech at the San Francisco Fed's conference on the economics of climate change, Fed Governor Lael Brainard stated: "Climate risks are projected to have profound effects on the U.S. economy and financial system. To fulfill our core responsibilities, it will be important for the Federal Reserve to study the implications of climate change for the economy and the financial system and to adapt our work accordingly."

Do you agree with Governor Brainard that climate-related risks fall squarely within the Fed's mandate?

A.1. The Fed's mandate is price stability and maximum sustainable employment. Climate risks potentially affect these two aggregate measures and that is how the Fed should respond to them. This is how the Fed responds to a variety of external factors—rather than responding directly to them, the Fed waits to see their impact on inflation and employment and responds accordingly.

Q.2. Fed Chair Jay Powell recently stated that the Fed would likely join the Network for Greening the Financial System (NGFS), a group of over 50 foreign central banks and financial regulators committed to analyzing and mitigating the financial stability risks of climate change.

As a Fed Governor, would you support joining the NGFS?

A.2. As Chair Powell has said, the Fed is talking to these central banks and learning from them on climate risk. If the time comes that warrants the Fed joining NGFS in some capacity, I am open to doing so.

Q.3. Are you willing to deploy the Fed's research, supervisory, and regulatory tools to mitigate the risks that climate change poses to the financial system?

A.3. The Federal Reserve is already engaging in research on climate change and will continue to do so. On the supervision side, the Federal Reserve does work to make sure that banking firms manage all their risks appropriately.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM CHRISTOPHER WALLER

Q.1. Do you support the continuation of the deposit insurance fund at the FDIC? Do you recommend any changes to the Fund?

A.1. Yes. No.

Q.2. Do you believe the U.S. dollar should be tied to the value of a commodity like gold? If so, please explain. If not, please explain.

A.2. No. Fiat currencies have been the norm since 1971 and when well managed have been associated with low inflation outcomes. Fiat currencies also give the monetary authority the ability to adjust the money supply as needed to engage in economic stabilization.

Q.3. Do you believe the Government has a role in ensuring banks are safe and secure?

A.3. Experience has shown that deposit insurance has worked well in preventing systemic bank runs, which have historically plagued the U.S. financial system. Banks pay for this insurance and also agree to subject themselves to regulatory oversight in order to mitigate unnecessary risks that would tip a bank into insolvency.

Q.4. Do you support having one currency to represent the United States, Canada, and Mexico? What do you think the impact of such a change would be?

A.4. I do not believe one currency is warranted for North America due to very different political and fiscal regimes in these countries. Although one currency would eliminate exchange rate risk, it would eliminate the use of monetary policy in each country to deal with idiosyncratic shocks to individual countries.

Q.5. Do you support a single global currency? What do you think the impact of such a change would be?

A.5. The use of a single currency has its advantages in the sense that it eliminates exchange rate risk and having to transact in a multitude of currencies, as was the case in the U.S. in the early 1800s. However, the use of a single currency across countries ties policymaker's hands to use their own currencies to deal with idiosyncratic shocks. We have seen this arise in Europe during the last decade.

Q.6. Do you believe the U.S. dollar should continue to be the international reserve currency?

A.6. The U.S. dollar is the world's reserve currency by choice. It is not forced on the world. The world uses the dollar because it has confidence that the Federal Reserve will follow policies that maintain the value of the dollar and the stability of the U.S. financial system, which is the best in the world. As long as we pursue policies that maintain confidence, the dollar will remain the reserve currency.

Q.7. Do you believe the Federal Reserve should develop its own digital currency?

A.7. I see no need for one at this time. Essentially all transactions in the U.S. and the world are already done digitally so I see no gain from introducing one.

Q.8. Do you trust the accuracy and reliability of Government statistics? If not, which ones do you doubt?

A.8. I do. All data series have issues but techniques exist for dealing with these issues. I do not believe the U.S. Government statistical agencies systematically distort data for political ends.

Q.9. During your hearing, there were multiple discussions on the independence of the Federal Reserve from political influence.

Do you think the Federal Reserve should host events at properties owned or affiliated with members of the Administration, the Vice President, or the President?

A.9. No.

Q.10. Do you plan to make your decisions after consultation with anyone in the White House?

A.10. No.

Q.11. Have you had conversations with anyone in the White House about serving as Chair of the Federal Reserve?

A.11. No.

Q.12. Since January 2015, how many times have you stayed at properties owned or operated by President Trump or members of his family? Please provide location, dates of stay, and purpose.

A.12. None.

Q.13. *Community Reinvestment Act*—Do you support a full scope review for CRA exams?

A.13. I do believe that efforts to modernize the CRA are warranted. As banking as become borderless, implementing CRA has become more difficult.

Q.14. Do you think geographical assessment areas should define CRA accountability both where the majority of branch lending and the majority of nonbranch lending occurs?

A.14. I believe this is an outdated method for implementing CRA due to changes in branching regulations and technology. Any reforms of CRA implementation must take into account ongoing changes that will affect the future of banking, particularly movement towards a purely mobile system.

Q.15. If a lending exam detects a violation after a bank has been graded for its CRA exam, do you think the bank should receive a retroactive downgrade?

A.15. I think this is a matter of assessing who bears the burden of the initial mistake. I was a university professor for 30 years, and if I found a mistake in my grading that should have lowered a test score, I never went back and lowered the grade. I viewed that as my mistake not the student's.

So if the regulator makes a mistake on the CRA exam and then realizes it made a mistake, the punishment should not be retroactive. The initial examiner needs to be held accountable.

Q.16. CRA regulations establish different CRA exams for banks with different asset levels. Small banks, those with less than $307 million in assets, have the most streamlined exam that consists of only a lending test. Intermediate small banks (ISB), those with assets of $307 million to $1.226 billion, have exams that consist of a lending test and a community development (CD) test. The CD test assesses the level of CD lending and investing for affordable housing, economic development, and community facilities. Large banks, those with assets above $1.2 billion, have the most complex exams which consist of a lending test, an investment test, and a service test. Please identify where, if at all, you feel CRA guidelines for small banks are unclear.

A.16. I do not have enough information on CRA exams to provide an informed answer.

Q.17. Many Democratic, Republican, and Independent current and former regulatory officials raise concerns about the bank deregulation bill range from former Fed Chair Paul Volcker, former Fed governor and Deputy Treasury Secretary Sarah Bloom Raskin, former FDIC Chair Sheila Bair, former Counselor to the Treasury

Secretary Antonio Weiss, and former Deputy Governor of the Bank of England Paul Tucker. These former banking regulators either state that a $250 billion bank threshold is too high to protect financial stability or that we should not weaken the leverage rules for the largest banks, or both.

Do you share the concerns about heightened risk raised by your predecessors? Please elaborate on your answer.

A.17. In general, I do not believe that $250 billion is too high. The largest banks of concern are in the $1 to $3 trillion dollar range in terms of assets. A bank at $250 billion is not even in the top 10 of U.S. banks in terms of size. It is difficult to argue that banks just below this cap are systemically important.

Q.18. What more can be done to shrink the gap between African American and white unemployment? In addition to increasing employment rates for African Americans, what can the Fed do to increase wages and wealth for African Americans and Latinos?

A.18. The Fed has very blunt tools for affecting distributional effects across ethnic groups. The best the Fed can do is keep inflation low and stable and keep the economy on a stable growth path. As a result, unemployment rates of African Americans and Latinos will be as low as possible. Real wage growth is ultimately tied to the growth of labor productivity. This in turn is driven by education, skill acquisition, and capital investment. The Fed has no direct control over any of these factors.

Q.19. Do you support proposals to tax currency kept outside of circulation?

A.19. No.

Q.20. If this policy were implemented, what impact would it have on savers and low income depositors?

A.20. I do not have the information to provide analysis on this question.

Q.21. Some current Federal Reserve leaders support reducing banks' capital requirements. This concerns me as capital requirements have been a key tool in restoring the safety of the financial system since the crisis. Ensuring modest leverage ratios prevents banks from lending out more than they can afford to, and especially keeps them away from riskier assets like the ones that fueled the crisis.

Do you support any changes to the current capital requirements for financial institutions? Please elaborate on your answer.

A.21. I support the use of countercyclical capital macroprudential policies. The Fed currently has the power to use them but has not done so as of yet. Using this tool would imply lowering capital ratios during downturns to encourage bank lending. Fixing capital ratios and never adjusting them to macroeconomic conditions is not good policy.

Q.22. What is your understanding of the historical evidence surrounding the relationship between monetary policy and asset bubbles?

A.22. First it is difficult to identify an asset bubble ex ante (everyone is an expert ex post). So we would have to identify bubbles ex post, which to my mind I can think of two: the dot-com bubble in the late 1990s and the housing bubble in the 2000s. The dot-com bubble rose even though the Fed held the Federal Funds rate at 5 percent and was at 6 percent at the peak. The housing bubble started in 1996 and went up steadily even though the Fed Funds rate went up and down from 5 percent to 1 percent then back to 5 percent. So despite the popular rhetoric that the Fed "kept rates too low for too long," the housing bubble was driven by something else.

Q.23. Besides monetary policy, what other tools are available to temper asset bubbles?

A.23. That depends on two things: (1) what asset and (2) identifying a bubble ex ante. Different assets would require different tools and as I mentioned above, identifying bubbles is extremely difficult.

Q.24. In the years since the financial meltdown, the Federal Reserve has played a key role in putting our economy back on stable footing and setting the conditions for more robust growth. Still, there have been bills introduced that would eliminate the Fed's full employment mandate on the basis that, according to the bill's findings "at best, the Federal Reserve may temporarily increase the level of employment through monetary policy."

Can you elaborate on how the Fed influences employment in the short-run, and discuss whether failure to use monetary policy effectively in the face of severe downturns could do permanent damage to the level of unemployment in the economy?

A.24. By lowering interest rates, the Fed attempts to stimulate demand for interest sensitive goods like housing and durable goods (cars for example). Presumably, by increasing demand, firms would have to hire more labor to produce, distribute, and sell these products. Monetary policy tends to have short run effects on the economy, so it is doubtful that permanent damage to unemployment would be done by not engaging in appropriate stabilization policy.

Q.25. Critics of quantitative easing have argued that it is incompatible with the Fed's price stability mandate; however in discussing quantitative easing the Fed has consistently noted that the program is designed to promote a stronger pace of economic growth and to ensure that inflation, over time, is at levels consistent with the Fed's mandate.

Please comment on whether the Fed's policies in recent years have actually supported the Fed's price stability mandate.

A.25. The Fed has pursued policies that have kept prices stable and near its inflation target (actually below target). Thus, the Fed has been very close in terms of achieving its price stability mandate.

Q.26. What does the latest research tell us about the effectiveness of the Fed's large scale asset purchases?

A.26. Academic and Fed research on the effects of QE have shown that it had the expected effects on long-term yields. However, the magnitude of these effects appear to have softened as QE went on.

Q.27. Is there any evidence that the Fed's asset-purchase program, which sought to support the economy by lowering long-term interest rates, has been a drag on U.S. productivity as some Republicans have suggested? Is there any evidence that the program has created a "false economy" as Trump has asserted?

A.27. Productivity growth is driven by education, skills acquisition, technological innovation, and capital investment. The Fed has very little control over the first three, and the last one should benefit from low real interest rates.

Q.28. How would the economy have likely fared in terms of unemployment, GDP, wage growth, etc., had the Fed chosen not to pursue its asset purchase program?

A.28. This is a difficult counterfactual to answer. In general, macroeconomists would say that unemployment would have stayed higher for longer and GDP growth would have been lower. But to quantify those effects would require an economic model calibrated to the data in an appropriate manner.

Q.29. Is there any evidence that the Fed's stimulus program has paved the way for the next global meltdown, as Trump claimed?

A.29. Not that I am aware of.

Q.30. How does the Fed's balance sheet as a percentage of GDP compare with the balance sheets of the next largest economies? Do these countries have a dual mandate similar to the Fed?

A.30. The Fed's balance sheet peaked at around 25 percent of GDP and has now fallen to around 18 percent of GDP. While high by U.S. standards prior to the financial crisis, it is substantially smaller than that of Japan or Switzerland, neither of which has a dual mandate that I am aware of.

Q.31. It is my understanding that major central banks around the world maintain and have drawn on their authority to purchase a wide range of assets including corporate bonds, commercial paper, real estate investment trusts, and equities among other assets.

Given the broad authorities available to other central banks, rather than shrink the Fed's tool kit, do you think Congress should consider expanding it?

A.31. I have serious reservations about expanding the set of assets that the Fed can buy. This truly becomes a distortion in the markets when central banks start buying private assets.

Q.32. For example, with an expanded authority, could the Fed play a useful role in supporting municipal finance, student loan financing, or other types of consumer credit during periods where each of these sectors experienced heightened distress?

A.32. Congress is better equipped to finance these types of lending programs.

Q.33. Would you support or oppose such expansion of the Fed's authority?

A.33. I would oppose.

Q.34. As the Fed begins to shrink its balance sheet, what are some of the negative impacts that Senate Banking Committee Members should monitor? What concerns—if any—do you have about shrinking the balance sheet? What will you do to monitor the process of maturing securities to avoid a negative impact on the economy?

A.34. The Fed is monitoring the size of its balance sheet to ensure that there are ample reserves to allow the operation of a floor system. The disruptions in September 2019 suggest that the required level of reserves to run a floor system is higher than originally believed. Other than that, the reductions in the Fed's balance sheet does not appear to have had any negative economic effects.

Q.35. As you know, the Dodd–Frank Wall Street Reform and Consumer Protection Act (Public Law 111–203) rules are tailored so larger banks have higher standards than smaller banks. Of the 14 "major" rules issued by banking regulators pursuant to the Dodd–Frank Act, 13 either include an exemption for small banks or are tailored to reduce the cost for small banks to comply. Supervision and enforcement are also structured to pose less of a burden on smaller banks than they do on larger banks, such as by requiring less frequent bank examinations for certain small banks.

Do you think community banks should comply with the requirement that loans should be made to people who can repay them? This is called the "know before you owe" rule. Community banks are largely exempt from both mortgage origination and servicing rules because they are small creditors with less than $2 billion in assets or service fewer than 500 loans.

A.35. I do not know the details on these lending rules to be able to give an informed opinion.

Q.36. Dodd–Frank limited compensation requirements for loan originators to prevent steering to high-cost loans. Only originators that make fewer than 10 loans in a 12-month period are exempt. Do you support changes to the Loan Originator Compensation Requirements (Regulation Z)?

A.36. In general, I support regulations that allow low cost mortgage origination for households. However, I have not studied in depth the specific issue you cite, and therefore I do not have an opinion on changes to Regulation Z.

Q.37. Mortgage Servicing Rules under Regulation X and Z are designed to protect homebuyers from high-cost loans. Servicers with fewer than 5,000 mortgage loans are exempted from some of these rules. What changes do your recommend to Regulations X and/or Z?

A.37. This is not an issue that I have studied in depth, and therefore I do not have a recommendation.

Q.38. Do you think banks that make more than 25 mortgage loans should share the loan and borrower characteristics through the Home Mortgage Disclosure Act database?

A.38. As an economist, I love data. However, I do not know the costs and benefits borne by the banks by providing this data.

Q.39. Banks with assets under $50 billion are not required to comply with the liquidity coverage ratio. Do you think they should be? Why or why not?

A.39. No. I believe banks of this size can access the discount window if they need liquidity without too much stigma from borrowing from the Fed.

Q.40. Banks with assets under $250 billion are not required to comply with regulatory capital rules. Do you think they should be? Why or why not?

A.40. It is my understanding that all banks have capital requirements.

Q.41. Debit card interchange fees and routing requirements do not apply to banks that have fewer than $10 billion in assets. Do you think banks under this size should comply with interchange fees and routing requirements?

A.41. This is not an issue that I have studied, and therefore, I would have to learn more to form an opinion on the question.

Q.42. Do you have recommendations for changes to the Bank Secrecy or Anti–Money Laundering rules? If so, please describe?

A.42. I do not at this time.

Q.43. I am very concerned about climate-related financial risks. The most recent National Climate Assessment said the U.S. Southwest could lose $23 billion per year in regionwide wages as a result of extreme heat. Since you joined the Federal Reserve Board, what have you done to prepare community banks for long-term shifts in climate patterns, like increasing extreme heat and more severe and more frequent storms?

Are community banks changing how they operate to consider these threats to the ability of their customers to repay loans?

A.43. I have not studied or worked on this topic, and therefore I do not have an opinion on this issue.

Q.44. Are there changes to insurance policies banks should consider?

A.44. I have not studied or worked on this topic, and therefore I do not have any suggestions for you to consider.

Q.45. Some have advocated that central banks use their balance sheet to support the transition to a low-carbon economy, for example, by buying low-carbon corporate bonds. Do you think Congress should consider changing the law to support "green" quantitative easing as an option for the Fed?

A.45. I believe that is a matter for Congress to decide.

Q.46. Which other Central Banks allow green quantitative easing? Do you believe those models could translate to the American financial system and economy?

A.46. I have not studied or worked on this topic, and therefore do not have an opinion to offer on this topic.

Q.47. In the Fed's Supervisory Report released November, there was a section on merger and acquisition risks. The banking law passed last year changed the asset threshold for a small bank holding company from $1 billion to $3 billion. It also reduced capital requirements and other rules for banks above $50 billion. We have seen more bank mergers since the law passed. Do you expect to see more bank mergers this year and next year than in previous years? How much of merger activity is due to changes from S. 2155 and other regulatory actions?

What are the risks from mergers and acquisitions?

A.47. Mergers and acquisitions in the banking industry have been going on for many decades. I am not aware that they have been growing at a faster or slower pace than in past decades. Bank mergers typically generate benefits of geographic diversity and economies of scale. I see little risk from allowing bank mergers and acquisitions that meet the current statutory requirements.

Q.48. Beyond the impacts on the customer, what are the risks to communities when banks merge? Are you concerned about a loss of branches? Types of products? Jobs?

A.48. Bank mergers are about eliminating inefficiencies and expanding deposit bases for lending. The world has moved from physical banking access to borderless banking. I personally have not stepped into a bank in over a year. This is the future of banking and payments. Structural transformations of this type always have winners and losers. I do feel for those caught in banking deserts but hopefully technology will alleviate the costs from losing physical access to banking services.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM CHRISTOPHER WALLER

Q.1. Under what circumstances should the Federal Reserve raise interest rates?

A.1. At present, the factor most likely to warrant an increase in the policy rate would be an increase in PCE inflation to over 2 percent along with signs of accelerating inflation growth. If there were substantial signs of financial stability, reflected across a spectrum of indicators, then this too could warrant an increase in the policy rate.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER FROM THE PROJECT ON GOVERNMENT OVERSIGHT

POGO
PROJECT ON GOVERNMENT OVERSIGHT

February 14, 2020

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown,

On behalf of the Project On Government Oversight (POGO), I write to urge you to oppose the nomination of Judy Shelton to be a Member of the Board of Governors of the Federal Reserve System. POGO is a nonpartisan independent watchdog that investigates and exposes waste, corruption, abuse of power, and when the government fails to serve the public or silences those who report wrongdoing. We champion reforms to achieve a more effective, ethical, and accountable federal government that safeguards constitutional principles.

Since President Trump first announced his intent to nominate Judy Shelton, she has openly questioned the Fed's independence, stating, "I don't see any reference to independence in the legislation that has defined the role of the Federal Reserve for the United States."[1] This viewpoint, as well as several other policy positions Shelton has expressed, suggest that she would not enact monetary policy in an independent, nonpartisan way.

Since the Fed's conception in 1913, Congress has recognized the long-term harm that can occur when short-term political considerations dictate monetary policy, and over time, has worked to further isolate the Fed from political pressure. As POGO has previously highlighted, Congress granted the Fed unique characteristics to help ensure that it crafts and implements the nation's monetary policy in a nonpartisan, independent way, free from undue political interference.[2] While the law may not specifically spell out its independence, congressional intent is clear through the Fed's institutional design: significantly longer length of terms for members than those of most agencies, staggered over multiple administrations and Congresses, and its own funding mechanism that makes the Fed independent from congressional appropriations.

The central bank's monetary policy decisions are made without input from the executive and legislative branches, as monetary policy is a powerful tool and shouldn't be taken lightly or made in response to political campaigns, the 24-hour news cycle, or tweets.

Before she resigned to pursue her current nomination, Shelton represented the U.S. at the European Bank for Reconstruction and Development for just over a year. As the Wall Street Journal pointed out, during

[1] Saleha Mohsin, "Trump's Fed Pick Judy Shelton Cast Doubt on Central Bank Independence," *Bloomberg*, November 21, 2019. https://www.bloomberg.com/news/articles/2019-11-21/trump-fed-pick-shelton-cast-doubt-on-central-bank-independence

[2] Tim Stretton, "Independence of the Federal Reserve," Project On Government Oversight, October 16, 2019. https://www.pogo.org/analysis/2019/10/independence-of-the-federal-reserve/

her tenure at the bank, Ms. Shelton missed 12 of the 28 board meetings.[3] This poor attendance record raises questions about how seriously she took her job representing the United States abroad, and whether she would have a similar participation rate at the Federal Reserve. In other words, an attendance rate of less than 60% does not prove that she deserves a promotion.

For decades, Shelton has held policy positions outside the mainstream, including returning the United States to the gold standard,[4] creating a global currency union,[5] and rejecting deposit insurance at American banks.[6] While a diversity of opinions is generally healthy, these ideas would not only result in the United States losing control of its own monetary policy, but could place the economy at risk.

This past year, Shelton followed the president's lead and called on the Fed to pursue larger rate cuts.[7] However, prior to Trump taking office, Shelton criticized the Fed for keeping interest rates too low.[8] This apparent significant policy flip-flop raises serious questions as to whether her views on monetary policy have legitimately changed, or—the more likely scenario—her position changed strictly to get on the President's good side. As Senator Jones said during the Ms. Shelton's confirmation hearing, it appears to be a case of "confirmation conversion."

While past presidents and administrations have been critical of the Fed's policy, no other administration has been so persistent in publicly berating the Fed or its chairman. It's particularly troubling that during her nomination hearing, Ms. Shelton defended President Trump's attack on the Fed, by saying, "at least it's transparent."

It's crucial the Fed remain independent when crafting and implementing America's monetary policy. Without its autonomy, the Fed would be focused on achieving short-term economic gains to benefit political candidates' upcoming reelections and not on the future wellbeing of our nation's economy. The Senate must reject Shelton's nomination.

Sincerely,

Danielle Brian

Danielle Brian
Executive Director
The Project On Government Oversight

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[3] Paul Kiernan, "Prospective Fed Nominee Judy Shelton Resigned From EBRD Job," *Wall Street Journal*, July 25, 2019. https://www.wsj.com/articles/prospective-fed-nominee-judy-shelton-resigned-ebrd-job-11563998296

[4] Donna Borak, "Trump picks another Fed member who believes in the gold standard. This one really means it," *CNN Business*, July 5, 2019. https://www.cnn.com/2019/07/05/economy/judy-shelton-gold-standard-federal-reserve/index.html

[5] David R. Francis, "Latin America tightens its ties to the greenback," *The Christian Science Monitor*, December 18, 2000. https://www.csmonitor.com/2000/1218/p17s1.html

[6] Judy Shelton, "Banking and Government: An Unholy Alliance," *Cato Journal*, vol. 13, no. 2 (1993): 201. https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1993/11/cj13n2-4.pdf

[7] Heather Long, "Trump Fed pick Judy Shelton calls for 50-basis-point cut to interest rates in July," *The Washington Post*, July 22, 2019. https://www.washingtonpost.com/business/2019/07/22/trump-fed-nominee-judy-shelton-calls-basis-point-cut-interest-rates-july/

[8] Sylvan Lane, "Trump Fed nominee stirs controversy ahead of hearing," *The Hill*, February 11, 2020. https://thehill.com/policy/finance/482451-trump-fed-nominee-stirs-controversy-ahead-of-hearing

"THE WAR ON JUDY SHELTON" BY THE EDITORIAL BOARD, WALL STREET JOURNAL, 2/12/2020

OPINION | REVIEW & OUTLOOK

The War on Judy Shelton

Mandarins rebel against a Fed pick who doubts their monetary wisdom.

By The Editorial Board
Feb. 12, 2020 11:34 am ET

Judy Shelton in Washington, D.C., May 29, 2019.
PHOTO: ANDREW HARRER/BLOOMBERG NEWS

Judy Shelton finally gets her day in the Senate on Thursday, and if anyone has a coherent argument for denying her confirmation to a seat on the Federal Reserve Board of Governors we haven't heard it. The caterwauling over her nomination confirms why her intellectual diversity is needed at the Fed.

Ms. Shelton, a long-time contributor to these pages, was bound to be controversial after a career challenging conventional monetary wisdom. Opposition to her nomination has congealed into two complaints. One is that Ms. Shelton has long supported a return to the gold standard. The other is that she has more recently abandoned that belief in monetary discipline for political reasons. Hey, no one said these critics are consistent. They're also not honest.

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Ms. Shelton isn't going to return the Fed to the 19th-century gold standard. Her interest in gold is part of the eternal monetary debate over which prices to follow in setting monetary policy, or whether to have a "price rule" at all. Unlike many monetary mandarins, she also believes that monetary policies that ignore exchange-rate stability wreak political and economic havoc.

Under floating exchange-rate regimes, "entrepreneurs in countries with overvalued currencies are unable to attract the foreign investment that should logically flow in their direction, while scam artists in countries with undervalued currencies lure global financial resources into brackish puddles," she wrote in our pages in 2008.

"The consequences of currency chaos affect the personal fortunes of millions of individual citizens; once unleashed, it can spawn social resentments and political upheavals that change the destiny of whole nations," she wrote in a separate piece for us in 2008. Careful study of eras in which economies backed their currencies with gold, as Ms. Shelton has conducted, offers insights into the truth of this assessment, and also revealing contrasts with the catastrophic misfires of our era of floating rates.

Her critics claim this is revolutionary, but the late Fed Chairman Paul Volcker also recognized the benefits of stable exchange rates. Former Fed Governor Wayne Angell followed a price rule that included commodity prices and, before and after his tenure as Fed chairman, Alan Greenspan praised gold as a sometimes useful price signal.

The second complaint is that Ms. Shelton demanded higher interest rates and less monetary accommodation when President Obama was in office. But she supposedly has abandoned those principles now so the Fed can keep the Trump economy rolling.

The inconvenient truth is that central bankers seem to have no clear idea these days about when they should raise or cut rates. Conventional wisdom dictates that they cut when economies are weak and raise when they're strong. But mounting evidence across the developed world after a decade (two, in Japan) suggests that sustaining low rates and quantitative easing beyond a crisis to goose growth is destructive.

Productivity suffers as zombie firms and bad investments proliferate and asset prices go haywire. Central bankers obsessed with the Phillips Curve trade-off between inflation and full employment can point to no rationale in their own theory for raising rates amid a strong economy if inflation still is on target.

Ms. Shelton was right to ask if the Fed should have stuck with low rates long after the immediate crisis of the financial panic and Great Recession had ended. More recently, Fed economists in December 2018 said a rate rise was necessary, only to quickly back off, without a clear theoretical basis for *either* decision.

Ms. Shelton calls the bluff on this by suggesting that if historically low unemployment and strong economic growth are not triggering rampant inflation, then perhaps the Fed should butt out for now. Especially if a consequence of a Fed rate hike would be to destabilize the exchange rate vis-a-vis other major central banks that remain staunchly dovish.

Markets agreed with her, going bonkers in the days after Fed Chairman Jerome Powell announced a rate hike and put an unwinding of quantitative-easing asset purchases on "autopilot" in December 2018. Investors recognized the Fed was operating on whim rather than any discernible economic logic, and their verdict was so brutal Mr. Powell had to reverse course a month later. Who was the crank then?

None of this is inconsistent with Ms. Shelton's long-argued views. The inconsistency and confusion rest with her critics and the prevailing monetary establishment, and are dangerous for the U.S. economy.

Ms. Shelton is clearly qualified for the Fed role. The question for Senators is how much they trust Mr. Powell, or the academics and journalists who are trying to tank her nomination. If Senators really think these people are brilliant theorists capable of guaranteeing economic growth and financial stability—all evidence to the contrary—then go ahead and nix Ms. Shelton.

But the Fed is straying ever further into uncharted territory as it extends its low-rate regime and weighs whether or how to fully extricate itself from quantitative easing. If Senators harbor even a sliver of doubt over whether Ms. Shelton's critics know what they're doing, that's all the more reason to confirm her as a distinctive voice in such crucial debates.

LETTER OF SUPPORT FOR NOMINEE CHRISTOPHER WALLER

The Honorable Mike Crapo
Chairman
United States Senate Committee on
Banking, Housing and Urban Affairs

Senator Sherrod Brown
Ranking Minority Member
United States Senate Committee on
Banking, Housing and Urban Affairs

Re: A Letter of Support for the Candidacy of Chris Waller For the Federal Reserve Board of Governors

We express our support for Christopher Waller's candidacy for his appointment to the Federal Reserve Board of Governors.

We believe that Dr. Waller's exemplary career in academia and, for the last decade, with the Federal Reserve Bank of St Louis, have demonstrated that his qualifications for the position are above reproach.

His corpus of research on monetary policy and central bank behavior--both in the U.S. as well as the rest of the world--make him one of the nation's leading experts on the issues that the Federal Reserve regularly faces. He has also published extensively on broader macroeconomic phenomena.

Dr. Waller is held in high esteem in the economics profession, for very good reason. We believe he will be an exemplary member of the Federal Reserve Board of Governors.

Two Nobel Prize winning economists elaborated on their support:

Thomas Sargent, Nobel Laureate and professor, NYU: "I know Chris Waller from his excellent research papers and the wise judgements about monetary and fiscal policies that he has expressed at conferences at Central Banks and at international and domestic conferences. He is a fine economist and someone with "good hands" who would be a prudent decision maker when confirmed to be a member of the Federal Reserve Board."

Ed Prescott, Nobel Laureate and professor, Arizona State University: "I am pleased to endorse Dr. Christopher Waller's appointment to Governor on the Federal Reserve Board. Chris's experience in the Federal Reserve system and his contributions to monetary economics make him an excellent candidate to help guide our monetary policies."

(See attached document for signatories)

Name	Affiliation	Title
Thomas Sargent	NYU	economist
Ed Prescott	ASU	arizona state
Wayne Brough	Innovation Defense Policy	Economist
Michael Gapen	Barclays	Chief US economist
Dean Dudley	West Point	professor
Krishna Srinivasan	IMF	economist
Ram Shivakumar	U of chicago	Professor
Rick Evans	U of Chicago	Professor
Joe Daniels (deceased)	Marquette	Dean, Business school
Tony Lo Sasso	Depaul	professor
Andrew Hanson	U. of Illinois	Professor
Tom Kniesner	Claremont	Chair
James Walker	Indiana U	professor & former chair
Bob Becker	Indiana U	professor & former chair
Larry Goodman	Center for Financial Responsibility	President
John Wade	Eastern Kentucky U	Chair and Dean emeritus
John Heywood	UW Milwaukee	Professor
Anjali Bhasin	EY	Managing Director
Dan Conway	U. of Arkansas	Professor
Joanna Short	Augustana College	Professor
Debbie Freund	CGU	University Professor and President Emerita
Ron Bird	GWU	Professor
Don Parsons	GWU	professor
Steve Peterson	VCU	professor
Kathleen Montgomery	U of Kentucky	professor
jim ziliak	U of Kentucky	Professor
Russell Hillberry	Purdue	Professor, Dept of Ag economics
Frank Raymond	Bellarmine University	Dean, School of Business
Susan Laury	Georgia State University	Asso. Professor & former chair of economics
Michael Gorman	Dayton U.	Niehaus Chair
Kurtis Swope	USNA	Chair
Tim Kane	Hoover	senior fellow
Brian Higginbotham	US Chamber	economist
Mark Perry	AEI	senior fellow
Steve Lewarne	Deloitte	partner
Tom Duesterberg	Hudson Institute	senior fellow
Gerhard Glomm	Indiana University	Chair, dept. of economics
Tim Slaper	Indiana University	Co director, IBRC
Ike Brannon	Jack Kemp Foundation	Senior fellow
George zestos	christopher newport U	Professor
elmus wicker	professor emeritus	Indiana University
David Schmidt	economist	FTC
Kurt Schuler	Center for Financial Stability	economist
Garett Jones	economist	GMU
Todd Milbourn	Vice Dean of Faculty & Research	Wash U school of business
John Silvia	Director	Dynamic Economic Strategy
Korok Ray	Professor	Texas A&M
Michelle Hanlon	Professor	MIT Sloan
John Anderson	Professor	U of Nebraska
Johnny Chuang	Professor	NW Missouri State U

William Conway	Professor emeritus	augustana college
Richard Ballman	Professor emeritus	augustana college
Muhammed Islam	associate professor	St Louis U
Michael Schuyler	senior fellow (retired)	Tax Foundation
Steve Entin	economist (ret)	Tax Foundation
Vijay Bhasin	Chief Risk Officer	Essent Group
Vinay Kansal	SVP	PNC
Josh Lewer	Professor and Chair	Bradley U
Kirsten Long	President	K Long Health Economics Consulting
Gary Wolfram	professor and Chair	Hillsdale College
Susan Yang	economist	IMF
Kevin Burke	partner	E&Y
Anna Skvortsova	partner	E&Y
Helena Aten	partner	E&Y
Derrick Wagler	partner	E&Y
Mike Mysker	President	Safe Bay Retirement Advisers
John Leeth	Dean and professor	Bentley College
Juergen von Hagen	Dean	University of Bonn
Randy Wright	professor	University of Wisconsin
Jim Palmieri	economist	AARP
Baoline Chen	economist	BEA
Gina Powers	economist	Commerce department
John Powers	economist	Public Company Accounting Oversight Board
Ammar askari	economist	OCC
Mike Piwowar	Executive Director	Milken Institute on Financial Markets
Michele Fratianni	Professor em	Indiana University
Guillaume Rocheteau	professor	UC Irvine
Gabriele Camera	professor	Chapman U
Satya Das	professor (ret)	Indiana University
Chris Frenze	chief economist (ret)	Joint Economic Committee
Indraneel Chakrabarty	economist	Miami U
Stephanie Schmitt-Grohé	economist	columbia
Rob Toutkushian	economist	university of Georgia
Rich Jensen	Professor Emeritus	University of Notre Dame
Daniel Corrin	economist	BEA
Morris Davis	Professor	Rutgers
Yongseok Shin	Professor	Wash U school of business
Andy Atkeson	Professor	UCLA
Virgiliu Midrigan	Professor	NYU
Jennifer La'O	Professor	Columbia
Steve Williamson	Professor	University of Western Ontario
Paul Wilson	Professor	Clemson University
Dan Black	Professor	University of Chicago
Rody Manuelli	Professor	Wash U school of business
Ricardo Lagos	Professor	NYU
Aspen Gorry	Professor	Clemson University
Wesley Wilson	Professor	University of Oregon
Peter Rupert	Professor	UCSB
Martin Uribe	Professor	Columbia U.
John Leahy	Professor	University of Michigan
Berthold Herrendorf	Professor	Arizona State

Ellen McGrattan	Professor	University of Minnesota
Christine Loucks	Professor	Boise State
Michael Bordo	Professor	Rutgers
Marcus Brunnermeier	Professor	Princeton
Costas Azariadis	Professor	wash U school of business
Cathy Zhang	Professor	Purdue
Daniela Puzzello	Professor	Indiana University
Lee Ohanian	Professor	UCLA
Chari Varadarajan	Professor	University of Minnesota
Neil Wallace	Professor	Penn State U.
Ia Vardishvili	Professor	Auburn
Norman Peter	Professor	University of North Carolina
Gustavo Ventura	Professor	Arizona State
Eric Thompson	Professor	University of Nebraska Lincoln
Martin Gervais	Professor	University of Georgia
Pierre-Olivier Weill	Professor	UCLA
David DeJong	Professor	Pitt
Boragan Aruoba	Professor	University of Maryland
Fabio Ghironi	Professor	University of Washington
Jonathan Eaton	Professor	Penn State U.
Peter Zadrozny	economist	Bureau of Labor Statistics

Banking and Government: An Unholy Alliance

Judy Shelton

In the back of my mind, I keep hearing the strains of the song from the film *Cabaret:* "Money makes the world go around, the world go around . . ." Indeed, money is the driving force behind the global economy. My goal here is to focus on the extent to which the regulatory environment affects how banks make the money go around.

That *is* what banks are supposed to do, is it not? Interestingly, at the more abstract levels of finance theory it is difficult to justify the existence of financial intermediaries because if everyone had perfect information (and the existence of perfect information is a typical assumption in theoretic formulations), there would be no reason to pay banks to act as middlemen for channeling financial capital to productive investment projects. Individuals would just do it directly for themselves.

In the real world, though, what banks are presumably selling to depositors *is* their expertise in evaluating investment opportunities. For that, bankers take a cut of the return from their loan portfolios and pass on some lesser rate of return to the depositors.

Distorting Impact of Government-Imposed Standards

Now into this fairly straightforward relationship among depositors and borrowers, with bankers in the middle bringing the parties together and channeling the money into those projects that offer maximum return with minimum risk, we introduce a hugely distorting factor—federal deposit insurance.

The unholy alliance that exists between government and the banking industry is well-known. Bill Niskanen and other contributors to this

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Cato Journal, Vol. 13, No. 2 (Fall 1993).
The author is a Senior Research Fellow at the Hoover Institution, Stanford University.

volume allude to it. The alliance boils down to this: The presence of government-provided deposit insurance opens the door for government surveillance and regulation of banking operations and management. Such a Faustian arrangement engenders tremendous conflicts of interest and invites governmental abuse of power. Imposition of the Basle International Capital Adequacy Standards will only serve to strengthen efforts to institutionalize this compromised relationship at the global level.

The strongest argument put forward in favor of the BIS capital standards is encapsulated in the weighty word: "prudence." It is difficult to be against prudence in banking. Therefore, when government monetary and banking authorities from the world's most powerful nations join together in asserting that these rules will make private bankers behave more prudently, and that these rules will harmonize the supervision of banking on a global scale, citizens should presumably feel much relieved.

However, when it comes to maintaining the viability and soundness of banking—or any business—I personally have more faith in the aggregate impact of the profit motive. Generally, in order to make profits, one has to stay in business. It is the mammoth role of the government in the banking industry that distorts what would normally be a sufficiently reliable incentive to exercise prudence voluntarily. Evidence is already accumulating to support the concern we should have had from the outset that the standards would have perverse effects. The Basle Accord steers commercial banks toward government lending rather than making loans to private business. Indeed, there is a capital penalty associated with making loans to business. That is not merely a perverse effect, it is a violation of the raison d'etre of banking. A U.S. Treasury bond is considered the "riskless asset." Why do depositors need the special expertise that banks offer in evaluating risky investments if their savings are going into Treasury obligations?

Speaking of riskless assets, or government-issued bonds, the BIS capital standards with their various risk-weighted classes do not differentiate among borrowers within a given risk class. So a bank can escape the capital penalty by making "sovereign" loans to governments—which are zero risk-weighted—without having to take into consideration whether those loans are to the U.S. Treasury or to an obscure newly-formed country. The same illogic is applicable under the BIS standards to private business loans, where a bank is penalized with the 100 percent risk weight requiring the full 8 percent capital backing: It does not matter whether the loan goes to a top-rated corporate borrower or to a venture capital start-up company. A banker who finds himself operating in a framework of rules that are set up to ensure that there are minimum costs, in terms of required capital backing associated with lending to government (any government), and maximum revenues associated with lending to the riskiest business clients, seems to have no choice but to embrace the regulatory authority's definition of banking prudence and discard his own.

Therein lies a grievous problem with the Basle capital adequacy standards: They elevate form over substance. They cause bankers to satisfy superficial rules rather than fulfill underlying objectives. Such artifice fosters a certain cynicism in the business. The financial industry is nothing if not innovative when it comes to getting around regulations. Playing a game that requires continuous mutation, banking institutions invent new forms of instruments (derivatives, options, swaps) providing a constant stream of tailor-made financial devices for coping with changing economic and regulatory circumstances. The sad irony is that government-imposed standards cause bankers to focus on the letter of the law even when it works against the intent—which is, presumably, to manage bank assets and bank liabilities responsibly.

Money and Banking: Conflict of Interest

There is something even more disturbing about global regulatory supervision over banking. It goes back to the question of conflict of interest and the potential for governmental abuse of power.

The BIS standards permit governments to tighten their hold over the banking industry. They enable governments to borrow money to finance their excess spending by coercing banks to use depositors' money to buy government bonds: clearly, a conflict of interest. Consider, too, that governments exert control over the money supply and currency values domestically and abroad through their central banking systems—again, a conflict of interest. No central bank is truly independent of government. Even the Bundesbank caves in when political pressures become sufficiently intense.

Projecting forward, we seem to be moving toward a world where the function of banks is to operate a network of collection sites for the government. The savings of the people are received by banks and passed through to the government where they go directly into the budget to pay for domestic spending, a process very much in keeping with Lenin's vision of banking; that is, a nationalized collection system with branches in every rural town through which the savings of the peasants automatically become the working capital of the government. That is the way the Soviet banking system worked, in fact. Or did not work.

A similar process is beginning to characterize a large segment of the banking industry in Japan. In the last two years, Japan's small depositors, mostly housewives charged with managing the family savings, have been quietly taking their money out of commercial banks and moving it to postal savings accounts. Japan's postal system, which is overseen by the Ministry of Post and Telecommunications, now holds 30 percent of Japanese individuals' deposits, equal to about $1.4 trillion dollars, easily making the Japanese postal system the world's largest financial institution. Deposit growth at Japan's commercial banks has slowed by half since spring 1991, while money has flowed into postal savings accounts. These accounts—which are called *teigaku* accounts—pay higher interest than bank time deposits, savers can withdraw money freely after six months without giving up any interest, and with 23,000 branches (there are post offices in the most remote corners of the country), they are quite convenient. The postal savings system is not a member of the Deposit Insurance Corporation and pays no taxes or shareholder dividends. As its officials like to point out: "The Ministry of Post and Telecommunications will not go bankrupt." Why should Japanese savers *not* take their money to the post office—which then recycles it to the government—if commercial banks are doing essentially the same thing by making government loans, and at the same time extracting a larger cut from the depositors for it?

The point is this: Excessive regulation at the national and now the international level is transforming banking into less a private business activity and more a mechanism for funding the growth of government.

The Tyranny of "Peer Pressure"

My final observation concerns the perceived power of enforcement behind the Basle Accords. Officially, compliance with the accords is expected to be achieved through peer pressure. What exactly does that mean? Vagueness about enforcement is a classic bureaucratic tool for keeping those affected off-balance. When one does not know whether or not actions are punishable, or what penalities will be imposed, one is more tempted to circumvent the rules.

Enforcement of a very subtle nature is likely to be exercised by the Group of Seven (G-7). Just as central banks often end up accommodating the fiscal mismanagement of their governments, the Bank for International Settlements—the central banks' central bank—is likely to end up serving the interests of the Group of Seven.

Lately, the G-7 has engaged in acts of political and financial armtwisting rather than friendly coordination. From Japan's perspective, it must seem as if the Group of Seven has transmogrified into the "Gang of Six"—all aligned against Japan and demanding that the

Japanese government step up domestic spending to stimulate its economy. Why? Because Japan is seen as the only G-7 country that can afford to spur world growth while the United States and others are limited by budget deficits caused by excessive spending. Such a rationale is reminiscent of the earlier doctrine: From each according to his abilities, to each according to his needs.

The G-7 has no real enforcement mechanism it can utilize, unless one considers that certain off-the-cuff remarks might constitute a show of power or a shot across the bow. Treasury Secretary Lloyd Bentsen has publicly noted that he is not necessarily in favor of a weak dollar. But he would like to see a stronger yen. According to accounts in the financial press, top Japanese officials found that particular remark by Secretary Bentsen "annoying." But as the Gang of Six is quick to suggest, a strong yen is actually good for Japan because it reduces the value of its foreign loans and that helps Japanese banks meet the BIS capital requirements. Plus, since a strong yen causes Japanese exports to be more expensive, fewer American and European consumers will buy them, and that will help defuse pressures on the Gang of Six to impose protectionist measures against Japan. How comforting, how reassuring.

In closing, I would like to make reference to the problem of "moral hazard" which is so often invoked when discussing the banking industry. In my opinion, the greatest moral hazard threat to global financial stability stems not from the profit-driven motivations of bankers, but from the increasing ability of government to divert financial capital away from private business and into their own coffers. Imposing new global regulatory standards, which serve to strengthen the hold of government over the banking industry, gives increased momentum to that dangerous trend.

"NORTH AMERICA DOESN'T NEED BORDERS", BY JUDY SHELTON, WALL STREET JOURNAL, 8/29/2000

THE WALL STREET JOURNAL.

https://www.wsj.com/articles/SB967511732766271616

North America Doesn't Need Borders

Updated Aug. 29, 2000 12:01 am ET

By Judy Shelton. Ms. Shelton is professor of international finance at DUXX Graduate School of Business Leadership in Monterrey, Mexico. She serves on the board of Empower America in Washington.

V icente Fox, Mexico's incoming president, made a whirlwind trip to Canada and the U.S. last week to talk about his vision for the future of North America. Mr. Fox generated buzz everywhere with his ideas. His talk of open borders is deeply controversial in the U.S., though what he is really selling is the fulfillment of open markets. His proposal to combine resources across borders may strike some as too imaginative in its scope. But it is, in fact, steeped in pragmatism.

Convinced that the North American Free Trade Agreement has delivered substantial benefits on all sides since its inception in 1994, Mr. Fox wants to deepen the alliance. Beyond the free trade of goods and services, he would like to work toward a greater movement of people, so that resources, whether human, financial or material, are more efficiently utilized in the interests of all market participants. And realizing that Mexico's vulnerability to economic instability has crippled its own development even as it has threatened international financial relations, he proposes that Mexico commit itself to achieving reduced levels of inflation and public debt on a par with the U.S.

Convergence

Mr. Fox's approach, which one might call convergence by objective, would aim to bring down Mexico's inflation from its current 9% to less than 3%, to match American and Canadian rates by 2003. Likewise, he would impose limits on deficit spending consistent with achieving a balanced budget in the same year. He would seek to strengthen the banking system and to bring Mexico's regulatory approach into conformity with U.S. standards.

The benefits to Mexico, in terms of increased fiscal discipline and a fortified financial sector, would be tremendous. But for Mr. Fox, the real payoff would come from lower interest rates, which would lower the cost of capital for aspiring Mexican entrepreneurs. A long-time supporter of microcredits to provide seed money for small business, Mr. Fox believes strongly in the economic ingenuity of individuals.

Mexico's problem has been its prohibitively high interest rates, which have cut off access to financial capital and stifled opportunity. Where inflation is rampant, there is little reason to save. And where currency depreciation undermines the gains on invested capital, foreign investors demand higher rates of compensation. By closing the gap on financial and monetary performance, Mr. Fox hopes to unleash private initiative within Mexico.

But what's in it for us? First, there is increased stability. The peso meltdown in December 1994 imposed tremendous economic hardship on the Mexican people; in a country with less social cohesion, it might have led to serious political chaos. Sharing a 2,000-mile border gives the U.S. a vested interest in helping Mexico to achieve steady economic growth, increased employment and higher living standards.

The prospect of expanding U.S. exports to a neighboring country of 100 million consumers should have direct appeal for U.S. suppliers of goods and services. American manufacturers already reap the benefit of low-cost production facilities in Mexico; as a result, our consumers pay lower prices for cars and other finished goods that can be sold tariff-free on U.S. soil.

Arguments about lost American jobs fall flat in the face of record low unemployment in the U.S. Indeed, Mr. Fox points out that the low-inflation, high-growth performance of the U.S. economy is due partly to the fact that Mexican workers help relieve the high demand for labor -- citing no less an authority than Federal Reserve Chairman Alan Greenspan.

Despite the obvious gains for Mexico, which has seen its exports to the U.S. and Canada grow to $133 billion from $45 billion under Nafta, and whose foreign direct investment has increased to $11.6 billion from $4.4 billion, Mr. Fox is taking some flak at home for his bold proposals. Grumbling among his political enemies is fueled by accusations that he should have secured a "consensus" before talking to foreign leaders about a North American union. They accuse Mr. Fox of catering to wealthy business interests on the subject of future monetary union, somehow missing the irony that currency depreciation helps big exporters; it is the average Mexican citizen who is penalized by cheapened money.

Emigration is a sensitive issue in Mexico, not just in the U.S., since it reflects the chronic poverty of the millions who feel forced to seek economic opportunity outside their own country. Unlike his predecessors, Mr. Fox refuses to ignore the reality of mass emigration. At the same time, he asserts strongly that the desire of Mexicans to work should be seen as a virtue. In seeking to increase levels of legal emigration -- initially through an expansion of work permits from U.S. immigration authorities -- Mr. Fox hopes to narrow the staggering difference in income levels that exist in North America.

His model for believing that genuine progress can be made is based on the success already enjoyed by Spain, Ireland and Portugal as the result of their membership in the European Union. A vastly better performance on inflation and interest rates has resulted in impressive economic growth in these countries, once Europe's economic laggards. Mr. Fox notes too that the free flow of people across intra-European borders has been a major factor in the optimal economic use of all resources. Among the experts who have helped him to spot a similar growth opportunity for Mexico is Robert Mundell, the Nobel laureate for economics.

What makes Mr. Fox so intriguing as a leader is his ability to blend theory with reality. As a former Coca-Cola executive, he has a gift for making a sale; he will need it to persuade the U.S. and Canada to join him in pursuing his dream of truly open markets. Salesmanship is nothing without substance, of course. But Mr. Fox need only point out that the just-concluded Jackson Hole conference of central bankers and economists was devoted to the theme of global economic integration.

True Empowerment

Mr. Fox will undoubtedly be accused of fomenting political power shifts and jeopardizing national sovereignty. Fidel Castro has already hinted that the Mexican president-elect is playing into the hands of U.S. imperialists who intend to exploit his quest for more open borders by subjugating Mexico. What the Marxists don't understand is this: Mr. Fox does, indeed, want to shift economic power. Not from one nation to another, though, but rather from government to the people.

"TRUMP FED PICK MISSED ALMOST HALF OF BOARD MEETINGS", PAUL KIERNAN, WALL STREET JOURNAL, 7/15/2019

https://www.wsj.com/articles/trump-fed-pick-missed-almost-half-of-bank-board-meetings-11563226902

ECONOMY

Trump Fed Pick Missed Almost Half of Bank Board Meetings

Attendance is worse than all but two of European Bank for Reconstruction and Development's 23 directors

President Trump said in early July that he planned to nominate Judy Shelton, the U.S. representative to the European Bank for Reconstruction and Development, to the Fed's board of governors.

PHOTO: ANDREW HARRER/BLOOMBERG NEWS

By Paul Kiernan

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WASHINGTON—One of President Trump's latest picks for the Federal Reserve, economic commentator Judy Shelton, has amassed a spotty attendance record on the board of the European development bank where she serves as U.S. envoy.

Ms. Shelton missed 11 of 26 board meetings, or 42%, of the European Bank for Reconstruction and Development, or EBRD, in her first year as the U.S. representative, according to minutes of the meetings. That is a greater share than her predecessor and all but two of the bank's 23 current directors.

Her U.S. predecessor at the bank, Obama administration appointee Scott Allen, missed four of the board's 27 meetings, or 15%, during his tenure, which lasted a bit longer than a year.

Mr. Trump said July 2 he planned to nominate Ms. Shelton and St. Louis Fed research director Christopher Waller to fill two vacancies on the Fed's seven-member board of governors. Analysts said then the two candidates likely stood a better chance of winning Senate confirmation than two of the president's earlier Fed picks—conservative pundit Stephen Moore and past Republican presidential candidate Herman Cain —who withdrew from consideration earlier this year after GOP lawmakers expressed opposition to them, citing concerns about their backgrounds and qualifications.

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While Ms. Shelton was easily confirmed for her current role, her performance as an EBRD board director could raise questions in addition to the typical queries about the economy and financial regulation she would likely face during confirmation hearings if Mr. Trump formally nominates her for the Fed job.

Based in London, the EBRD was established after the Cold War to help former Communist countries make the transition to market economies. It lends and invests billions of dollars per year across Eastern Europe, the Middle East and North Africa, supporting initiatives in energy, infrastructure, telecommunications and other sectors.

Directors of the bank are appointed by the governments of shareholder nations and receive annual salaries of about $200,000 a year. The board meets roughly every two weeks to sign off on major loans and investments, among other activities.

As the largest shareholder, the U.S. sometimes uses its 10% stake in the bank to advance broader diplomatic and geopolitical goals. In 2014, directors representing the U.S. and its allies pressured the EBRD to stop making new investments in Russia—the bank's biggest destination for funding—following Russia's annexation of Crimea from Ukraine. The U.S. also quashed an incipient plan by some bank officials to expand into Iran in recent years.

In her confirmation hearing before the Senate Committee on Foreign Relations last year, Ms. Shelton expressed enthusiasm for the EBRD role.

"Given my background in analyzing the strategic implications of global financial developments and my strong commitment to democracy, I cannot imagine a more stimulating challenge or more meaningful responsibility than to take on the role of safeguarding our nation's vital interests and deeply-rooted values at the EBRD—should you deem me worthy of serving," she said.

Treasury Department staffers in London typically attend EBRD board meetings when the U.S. director is absent. But directors tend to hold more sway, particularly when fault lines emerge, a former official said.

Ms. Shelton said in an emailed response to questions that scheduling conflicts prevented her from attending a number of meetings but added that she coordinates closely with the Treasury adviser who represents the U.S. when she is absent. While she didn't attend any of the EBRD's three board meetings in April, when her name surfaced as a possible candidate for a Fed job, she said she was present throughout the bank's five-day annual meeting in May.

"When I have not been physically present at Board meetings, it has often coincided with appointments in DC at Treasury and/or other agencies of government concerned with EBRD matters," Ms. Shelton said. "It has also been necessary for me on occasion to accompany the EBRD President for meetings with Treasury and other officials in DC as well as meet with various individuals at the time of the annual IMF/World Bank meetings in DC."

The International Monetary Fund and World Bank annual meetings in Washington took place April 12-14, a period in which the EBRD board didn't hold any meetings.

A few GOP senators have raised questions about her monetary policy positions.

Sen. Susan Collins (R., Maine) said last week that Ms. Shelton's longtime support for returning to a monetary system backed by gold "seems to me to be an outlier position." But Ms. Collins said both candidates appeared academically qualified.

Sen. Kevin Cramer (R., N.D.), a member of the Senate Banking Committee, which holds confirmation hearings for Fed board nominees, said Ms. Shelton noted that her recent calls for lower interest rates contrast with her past record of supporting tight money.

"If this is a time to cut rates, then I'd hate to see the time to raise them," Mr. Cramer said last week. But he added that changing views alone aren't disqualifying. "Intellectually curious people evolve in their thought," he said. "Lots of Republicans who used to be conservatives are now populists, as an example."

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