

February 13, 2020

The Honorable Elizabeth Warren
United States Senate
Washington, DC 20510-2105

Dear Senator Warren,

I write regarding your concerns with my nomination to the Board of Governors of the Federal Reserve (the Fed). As you note, it is your responsibility as a member of the Senate Committee on Banking, Housing, and Urban Affairs to carefully scrutinize my views and record on issues relevant to the job for which I have been nominated; it is clear you care deeply about the role of the Fed in pursuing the statutory mandate assigned by Congress.

I certainly agree with your observation that the decisions I will be asked to make, if I am confirmed, will affect the health of our economy and the wellbeing of every single American family. I attest to the gravity of this task and accordingly wish to provide my personal assurances to you that I will make decisions about the economy independently of politics, with good judgment, and based on sound data. Congress created the Federal Reserve as an independent agency that is accountable to the public while remaining unaffected by short-term political pressures. I will always bring my own economic expertise and judgment to Federal Open Market Committee deliberations on monetary policy and rely on my own analytical capabilities in evaluating the relevant data for determining appropriate interest rates.

I also take very seriously the Fed's important role in supervising banks to protect consumer rights, preserving the stability of the nation's financial system by monitoring systemic risk, operating the nation's payments system and providing other financial services to the government and to financial institutions. I commit to you that I will approach the regulatory and supervisory responsibilities of serving as a member on the Board of Governors, if confirmed, with due reverence for maintaining the safety and soundness of the financial system. Consumers of financial services must be treated equally; depositors' savings must be protected.

I have carefully reviewed the list of questions you attached to your letter and noted your request for a response no later than February 13, 2020, which is hereby provided in compliance with your request.

Please find below my written responses to the six questions you asked me—which I would be pleased to explain in greater detail, should you be willing to provide me with the opportunity to meet with you, or in response to your QFRs.

1. “In a Wall Street Journal op-ed, you attacked the concept of the independence of the Federal Reserve by stating that “it would be in keeping with its historical mandate if the Fed were to pursue a more coordinated relationship with both the Congress and the president. Describe the elements of this ‘coordinated relationship’ that you envision. Is referring to the Federal Reserve Chair as a “bonehead” and “enemy”, as the President has done in his tweets a part of this relationship? Do you believe such statements are appropriate? If confirmed, how would you consider the views of the President in your decision-making? When the Fed disagrees with the president on how to achieve a certain goal, is it your view that the Fed should give deference to the President?”

Congress created the Federal Reserve as an independent agency with a statutory mandate to promote maximum employment, stable prices, and moderate long-term interest rates. With regard to the notion of a coordinated relationship, I would refer you to the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey-Hawkins Act, which is the major law passed by Congress—in conjunction with the Federal Reserve Reform Act of 1977—that has shaped the Fed’s role and defined its accountability. That legislation enumerates a set of specific economic goals in the best interests of the nation, stating further: “Attainment of these objectives should be facilitated by setting explicit short-term and medium-term economic goals, and by improved coordination among the President, the Congress, and the Board of Governors of the Federal Reserve System.” I do not condone, nor do I censor, the remarks of others in their assessment of Federal Reserve decisions. My own views and independent assessment of relevant data will determine my monetary policy decisions in accordance with the statutory mandate from Congress. It is not my view that Fed should give deference to the President determining how best to fulfill its mandate.

2. Do you still support eliminating deposit insurance? If so, what new evidence or new data has caused your view to change?

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.

Do you still support returning to the gold standard? If so, what new evidence or new data has caused your view to change? You have recently suggested that international leaders should meet at President Trump's privately owned Mar-a-Lago resort to design a new monetary system. Can you further clarify the purpose of this summit? Why do you believe that Mar-a-Lago is the ideal place to have such a summit?”

I think it is important to acknowledge that the power to regulate the value of U.S. money relative to foreign money is granted to Congress by our Constitution (Article I, Section 8). 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. Congress created the Federal Reserve as an independent agency with the mission 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. With reference to Mar-a-Lago, it was in the context of a commentary for the *Financial Times* published in September 2016 wherein I was pointing out the impact of currency movements on trade and the role of central banks. The reference actually 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.

4. In a 2009 interview, you stated that you were “so tired of the criticism—this was even among Republicans—of Wall Street greed or predatory lending,” with respect to the role they played in causing the financial crisis. What factors do you think caused the 2008 financial crisis? Do you believe that Wall Street greed played any role in causing the financial crisis? Do you believe that predatory lending exists?

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.

5. In 2017, you referred to President Trump as a disrupter and said, “we need a disruptive voice on the Fed as well.” Can you clarify exactly what you meant by that statement? If confirmed to the Fed, do you see yourself as a “disrupter”?

The Federal Reserve is currently conducting a broad review of the strategy, tools, and communications practices it uses to pursue the monetary policy goals established by Congress. I would look forward to working with my colleagues on the Board, if confirmed. Intellectual diversity is a good thing, I believe, adding strength to monetary policy discussions. The greater danger is groupthink—which tends to discourage creativity and individual responsibility—and which is especially unsuitable for an agency entrusted with enormous power to influence economic and financial outcomes. The Federal Reserve is independent from political pressure in formulating monetary policy and operationally self-governing in executing its

decisions; with such autonomy comes the obligation to meet enhanced standards for accountability.

6. In 2017, you stated that “allowing currency competition would be a very positive thing to do” and that you “like the idea that these currencies might start to give a little competition to our own Federal Reserve.” Can you please clarify what you meant by this statement, why you believe that having multiple currencies would be efficient., and what regulatory regime you would envision for these currencies?

I believe that money is a moral contract between the government that issues it and the citizens who are required to use it. Money is meant to serve as a medium of exchange, unit of account, and store of value; those are its primary functions. Currency competition is a concept proposed by Friedrich Hayek, who won the 1974 Nobel Prize in economics for his pioneering work on the theory of money and economic fluctuations, that seeks to harness the positive aspects of free-market competition to provide the best form of money on the basis of consumer demand. In his 1976 book on the subject, Hayek advocated the establishment of competitively issued private moneys. This is not a matter to be decided by the Federal Reserve; if Congress were to pursue Hayek’s approach, it would have to amend legal tender laws.

In closing, I wish to assure you that if I am confirmed, I will undertake my responsibilities as a member of the Board of Governors of the Federal Reserve System with somber respect, an appreciation for its gravity, and humility. I would look forward to cooperating with you and your staff to ensure that monetary policy works to improve the health of our economy and the wellbeing of every single American family.

Sincerely,

A handwritten signature in black ink that reads "Judy Shelton". The signature is written in a cursive, flowing style.

Judy Shelton