

ELIZABETH WARREN
MASSACHUSETTS

COMMITTEES:
BANKING, HOUSING, AND URBAN AFFAIRS
HEALTH, EDUCATION, LABOR, AND PENSIONS
ARMED SERVICES
SPECIAL COMMITTEE ON AGING

United States Senate

UNITED STATES SENATE
WASHINGTON, DC 20510-2105
P: 202-224-4543

2400 JFK FEDERAL BUILDING
15 NEW SUDBURY STREET
BOSTON, MA 02203
P: 617-565-3170

1550 MAIN STREET
SUITE 406
SPRINGFIELD, MA 01103
P: 413-788-2690

www.warren.senate.gov

April 12, 2019

Herman Cain
Co-Chairman
America Fighting Back PAC
441 North Lee Street, Suite 100
Alexandria, VA 22314

Dear Mr. Cain:

I write regarding my significant concerns with your nomination to the Board of Governors of the Federal Reserve. On April 4, 2019, President Trump said that he would nominate you after you are vetted by The White House.¹ As a member of the Senate Committee on Banking, Housing, and Urban Affairs, whose jurisdiction includes your nomination, it is my responsibility to carefully scrutinize your views and record on issues relevant to the job for which you are nominated, and I have attached a list of questions to this letter accordingly. The decisions that you will be asked to make if you are confirmed affect the health of our economy and the wellbeing of every single American family. Given the gravity of the task you will face if your nomination is approved and you become a Governor of the Federal Reserve System, it is critical that you are able to provide assurances that you can make decisions about the economy independently of politics, with good judgment, and based on sound data.

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

¹ CNBC, "Trump says he recommended Herman Cain for a Fed seat: 'He's somebody that gets it'," Jeff Cox, April 4, 2019, <https://www.cnbc.com/2019/04/04/trump-ready-to-move-ahead-with-herman-cain-pick-for-the-fed.html>.

² Board of Governors of the Federal Reserve System, "Board Members," accessed April 2, 2019, <https://www.federalreserve.gov/aboutthefed/bios/board/default.htm>.

and to financial institutions.³ And while the Federal Reserve should be accountable to the public, Congress designed it to be largely independent of short-term political pressures by instituting lengthy, staggered terms for its Governors, separating it from the Congressional appropriations process, and prohibiting administration officials from serving on its Board.⁴

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

History of Inaccurate, Radical, and Dangerous Statements Related to Economic Policy

First, you have made comments regarding Federal Reserve policy that suggest an alarming lack of understanding of important aspects of the Federal Reserve's role and monetary policy—an unusual gap in knowledge for a potential member of the Board of Governors—and carelessness in your statements and actions relevant to the Federal Reserve's responsibilities. Examples of these statements include:

- In the Federal Reserve Act of 1913, Congress gave the Federal Reserve a so-called “dual mandate:”⁵ to conduct monetary policy “so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”⁶ But on several occasions, you denied that the Federal Reserve's mandate to pursue full employment exists. In a December 2017 op-ed, you wrote that “the Fed thinks its job is not just to maintain the stability of the currency (which is its real job), but also to control inflation and battle unemployment.”⁷
- You have repeatedly advocated for a return to the gold standard, which would tie the value of a dollar to a specific amount of gold. In a 2012 Wall Street Journal op-ed, along with your “9-9-9 tax code replacement plan,” you argued in favor of the gold standard, writing that “a dollar should be defined...as a fixed quantity of gold.”⁸ This is an extreme and dangerous view disavowed by virtually all economic experts. A 2012 poll of nearly 40 prominent economists asked whether a gold standard would mean “price-

³ Board of Governors of the Federal Reserve System, “What is the purpose of the Federal Reserve System,” accessed April 2, 2019, https://www.federalreserve.gov/faqs/about_12594.htm.

⁴ Board of Governors of the Federal Reserve System, “What does it mean that the Federal Reserve System is ‘independent within the government?’” accessed April 2, 2019, https://www.federalreserve.gov/faqs/about_12799.htm.

⁵ Federal Reserve Bank of Richmond, “The Federal Reserve's ‘Dual Mandate’: The Evolution of an Idea,” Economic Brief, Aaron Steelman, December 2011, https://www.richmondfed.org/publications/research/economic_brief/2011/eb_11-12.

⁶ Board of Governors of the Federal Reserve System, “Section 2A. Monetary policy objectives,” Federal Reserve Act, accessed April 8, 2019, <https://www.federalreserve.gov/aboutthefed/section2a.htm>.

⁷ Canada Free Press, “Don't be alarmed by rising interest rates; they reflect economic strength and demand for capital,” Herman Cain, December 17, 2017, <https://canadafreepress.com/article/dont-be-alarmed-by-rising-interest-rates-they-reflect-economic-strength-and>.

⁸ The Wall Street Journal, “Herman Cain: We Need a Dollar as Good as Gold,” Herman Cain, May 13, 2012, <https://www.wsj.com/articles/SB10001424052702304070304577395891113592150>.

stability and employment outcomes would be better for the average American,” and every single one disagreed.⁹ Your claim that “the debate over sound money has moved from whether we need it to how we get there”¹⁰ underscores a concerning lack of awareness about the recklessness and radicalism of your position on exactly the area of policy you would be in a position to influence if you were confirmed.

- Through an email list bearing your name, originally set up to support your 2012 presidential campaign, you repeatedly urged subscribers (or profited off sponsors urging your subscribers) to purchase so-called “penny stocks,”¹¹ which the Securities and Exchange Commission (SEC) has warned is a “very dangerous market for retail investors.”¹² These emails made fantastical claims about certain investments, such as that they “could easily double or triple in the next 18-24 months,” or “could turn \$5,000 into more than \$40,000 within a few short months.”¹³ In fact, according to one report, at least ten of those emails advertised stocks that are now worthless.¹⁴ And at least one of these emails included a pitch from a salesman who, according to the SEC, “agreed to settle charges that he and his company fraudulently promoted a penny stock...to investors,” and “agreed to be barred from involvement in any future penny stock offerings.”¹⁵ This evidence that you participated in, at best, the propagation of misleading and dangerous financial advice is particularly concerning in light of the Federal Reserve’s significant responsibilities to protect consumers in financial markets.

History of Forming Views on Policy Based on Political Loyalties

Americans should also know that a Governor of the Federal Reserve will form opinions and recommend policies based on evidence and the country’s best interests and data, rather than shifting political winds. But I am very concerned, based on a number of your actions and statements in recent years, that, if confirmed, you will form opinions on policy based not on the national interest, but on an intense loyalty to President Trump.

- In February 2014, while President Obama was in office and the unemployment rate was 6.7%,¹⁶ you criticized the Federal Reserve for setting interest rates too low, tweeting

⁹ Chicago Booth, “Gold Standard,” IGM Forum, January 12, 2012, <http://www.igmchicago.org/surveys/gold-standard>.

¹⁰ The Wall Street Journal, “Herman Cain: We Need a Dollar as Good as Gold,” Herman Cain, May 13, 2012, <https://www.wsj.com/articles/SB10001424052702304070304577395891113592150>.

¹¹ Media Matters, “Herman Cain promoted numerous no-virtually-worthless penny stocks through his mailing list,” Eric Hananoki, April 5, 2019, <https://www.mediamatters.org/blog/2019/04/05/herman-cain-promoted-numerous-now-virtually-worthless-penny-stocks-through-his-mailing-list/223354>.

¹² The Wall Street Journal, “Penny Stocks: A Warning for Investors,” Priya Anand, May 30, 2014, <https://www.wsj.com/articles/penny-stocks-a-warning-for-investors-1401479958>.

¹³ Media Matters, “Herman Cain promoted numerous no-virtually-worthless penny stocks through his mailing list,” Eric Hananoki, April 5, 2019, <https://www.mediamatters.org/blog/2019/04/05/herman-cain-promoted-numerous-now-virtually-worthless-penny-stocks-through-his-mailing-list/223354>.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey,” Databases, Tables & Calculators by Subject, accessed April 10, 2019, <https://data.bls.gov/timeseries/lms14000000>.

“The FED can’t keep the economy running on the fumes of artificially low interest rates forever. 2014 could be brutal.”¹⁷ In December 2017, you wrote an op-ed expressing support for higher interest rates and noting that “ever since the market crisis of 2008, the Federal Reserve has kept interest rates lower than they probably should have been.”¹⁸ But in February 2019, two years into President Trump’s term and after you were reportedly under consideration for a Federal Reserve nomination, when the unemployment rate was just 3.8%,¹⁹ you reversed your position on the topic, expressing far more openness to *expansionary* monetary policy. While discussing your nomination to the Board of Governors, you said on Fox Business Network, “If I were offered the job, I would try to encourage the Fed not to make inflation a fear factor because deflation...is more of a fear factor than inflation.”²⁰

- In 2017, you set up a super PAC that, according to its website, was “created by a group of President Trump’s most committed supporters,”²¹ and that has given hundreds of thousands of dollars to support President Trump’s reelection. On February 5, 2019, you wrote in an email, “I couldn’t stand to see our President and his family abused and attacked by the mainstream media and Washington swamp any longer,” and asked supporters to donate money “to help us take on all the D.C. forces out to get President Trump.”²² You sent that email five days after numerous outlets reported that Trump was considering nominating you,²³ and he announced his intention to do so just two months later.

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

In order to better understand your history of statements and actions that call into question your economic expertise and judgement, as well as your propensity to act independently of politics, I ask that you respond to the following questions no later than April 29, 2019:

¹⁷ Tweet, Herman Cain, February 10, 2014, <https://twitter.com/THEHermanCain/status/432893751569043456>.

¹⁸ Canada Free Press, “Don’t be alarmed by rising interest rates; they reflect economic strength and demand for capital,” Herman Cain, December 17, 2017, <https://canadafreepress.com/article/dont-be-alarmed-by-rising-interest-rates-they-reflect-economic-strength-and>.

¹⁹ Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey,” Databases, Tables & Calculators by Subject, accessed April 10, 2019, <https://data.bls.gov/timeseries/lns1400000>.

²⁰ The Wall Street Journal, “Herman Cain Says He Would Be Honored to Be Considered for Fed Job,” Paul Kiernan, February 1, 2019, <https://www.wsj.com/articles/herman-cain-says-he-would-be-honored-to-be-considered-for-fed-job-11549050747>.

²¹ America Fighting Back, “About,” accessed April 8, 2019, <https://www.americafightingbackpac.com/about/>.

²² Reuters, “As Trump eyed Cain for Fed, Cain raised for money for Trump,” Ann Saphir, April 4, 2019, <https://www.reuters.com/article/us-usa-fed-cain/as-trump-eyed-cain-for-fed-cain-raised-money-for-trump-idUSKCN1RH060>.

²³ Reuters, “Trump considering Herman Cain for Fed board seat, official says,” January 31, 2019, <https://www.reuters.com/article/us-usa-fed-board/trump-considering-herman-cain-for-fed-board-seat-official-says-idUSKCN1PP2AW>.

1. Do you still hold this view that the United States should use a gold standard to define the value of the dollar?
 - a. If not, why did you change your mind?
 - b. If so, which economists share this view?
2. Do you believe that the Federal Reserve should link monetary policy to commodity prices? Why or why not?
3. Do you believe that the Federal Reserve should pursue full employment? Why or why not?
4. Why did you write in 2017 that the Federal Reserve's "real job" is "just to maintain the stability of the currency?"²⁴ Why would the Federal Reserve's "real job" be different from what Congress has mandated it to do?
5. Are your actual views on monetary policy better reflected by the views you expressed before or after you reportedly came under consideration for a Federal Reserve nomination?
 - a. Do you believe that, from the perspective of the Federal Open Market Committee, "deflation...is more of a fear factor than inflation?"
 - b. If so, please describe how and why your views on monetary policy have changed since you stated, about a year earlier, that "ever since the market crisis of 2008, the Federal Reserve has kept interest rates lower than they probably should have been."²⁵
6. In August 2014, on Fox Business Network, you said, "over the last 40 years, real wage growth has been flatlined because of the policies of the Federal Reserve. It had nothing to do with greedy CEOs, nothing to do with what companies wanted to do. It was all driven by the Federal Reserve trying to control unemployment with the faulty control of wage growth."²⁶
 - a. Do you still hold the view that wage stagnation over the past 40 years was due entirely to "the Federal Reserve trying to control unemployment"?
 - b. If not, why did you change your mind?
 - c. If so, which economists share this view?

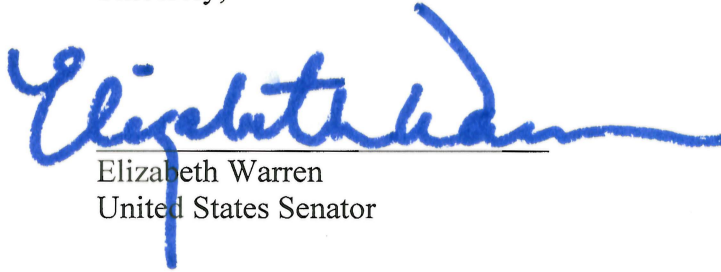
²⁴ Canada Free Press, "Don't be alarmed by rising interest rates; they reflect economic strength and demand for capital," Herman Cain, December 17, 2017, <https://canadafreepress.com/article/dont-be-alarmed-by-rising-interest-rates-they-reflect-economic-strength-and>.

²⁵ Canada Free Press, "Don't be alarmed by rising interest rates; they reflect economic strength and demand for capital," Herman Cain, December 17, 2017, <https://canadafreepress.com/article/dont-be-alarmed-by-rising-interest-rates-they-reflect-economic-strength-and>.

²⁶ Politifact, "Herman Cain says wages flat thanks to the Federal Reserve," Linda Qiu, August 26, 2014, <https://www.politifact.com/punditfact/statements/2014/aug/26/herman-cain/herman-cain-says-wages-flat-thanks-federal-reserve/>.

7. Are you currently the Co-Chairman of the America Fighting Back PAC, as its website indicates?²⁷
- a. If so, do you plan to maintain that position if and when you are formally nominated?
 - b. Which individuals or corporate entities have contributed the most to this PAC?

Sincerely,



Elizabeth Warren
United States Senator

²⁷ America Fighting Back, "About," accessed April 8, 2019, <https://www.americafightingbackpac.com/about/>.