

Powell will stay on as a Governor while dissents grow on the FOMC.

Warsh Inherits a Fracturing Fed

Jerome Powell on Wednesday marked the looming end of his tenure as Federal Reserve Chairman by announcing his tenure at the Fed isn't ending—for now. The decision symbolized the trouble Mr. Powell has stored up as his successor Kevin Warsh begins a new monetary era at the Fed.

The Federal Open Market Committee made no interest rate move on Wednesday, holding the fed funds rate at 3.5%-3.75%. But it included a degree of dissent not seen since 1992. Governor Stephen Miran voted to cut rates, as he always does. But three Fed regional bank presidents on the FOMC objected to what they thought was the relatively dovish tone of the FOMC's statement.

The dissents perhaps reflect the fading authority of a lame-duck Chairman. But more likely they illustrate the difficult choices facing the Fed in this uncertain era. Inflation remains far too high at 3.2%, and it was rising in February before the Iran war began.

Meanwhile, the shock from rising oil prices leaves some doubt about the durability of consumer spending and economic confidence. Both have held up surprisingly well so far, but no one knows how long the Iran war will last now that it has settled into something of a stalemate over the Strait of Hormuz.

The Banking Committee on Wednesday moved Mr. Warsh's nomination to the Senate floor on a party-line vote. This means he is all but certain to be confirmed in time for the next FOMC meeting in May. He will then inherit the divided Fed, which apparently will include Mr. Powell staying on as Governor but not Chair. Mr. Powell was gracious toward Mr. Warsh in his press conference on Wednesday, though it was surprising to hear he hadn't met with his successor since a dinner in January. Mr. Powell says he plans to remain as Governor—his term expires in 2028—until he believes the criminal probe into the Fed's reconstruction project is "well and truly over with transparency and finality."

Yet Mr. Powell acknowledged that Justice already has dropped its pursuit and says it won't reopen the case unless it receives a referral from the Fed's inspector general, which won't be forthcoming. Mr. Powell can be forgiven for wondering if a vengeful President Trump will find a way to further harass him or the Fed. But no former chair has remained at the Fed as a governor for nearly eight decades.

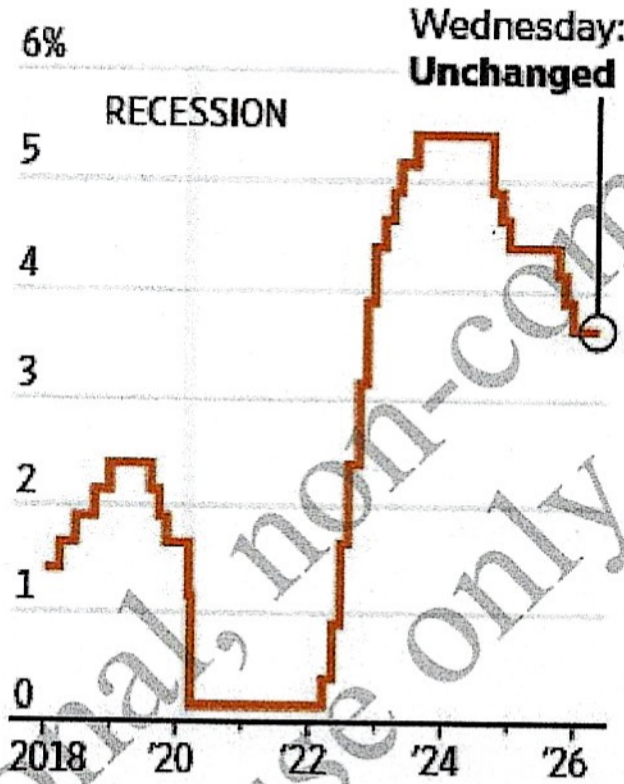
Mr. Warsh has the intellectual firepower and experience to lead the Fed and form a consensus on policy that can win public and financial market confidence. But the fracturing of the FOMC, a body known for unity, won't make that any easier. Mr. Warsh said at his confirmation hearing last week that he welcomes more debate at the Fed, and good for him. It looks like he's going to get it.

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Federal-funds rate target



Note: Chart shows midpoint of target range since 2008.
Source: Federal Reserve

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