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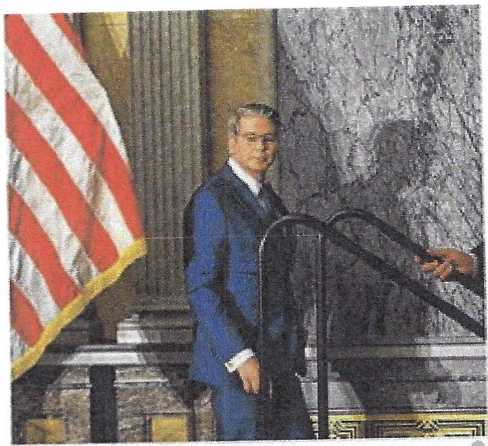

Treasury Secretary Scott Bessent surprised markets recently with a plan to at least double buybacks of long-term debt. KENT NISHIMURA/ AFP/ GETTY IMAGES

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Bessent Tests Boundaries With Fed

Treasury chief edges closer to central bank's terrain ahead of Warsh's speech

BY NICK TIMIRAOS

JACKSON HOLE, Wyo.— Federal Reserve Chairman Kevin Warsh takes the stage here Friday with an unusual presence looming over him: a Treasury secretary stepping closer to terrain long treated as the Fed's.

Note

The overlap figures to be among the most discussed subjects among central bankers on the sidelines of the Kansas City Fed's annual symposium. Pushed far enough, it risks blurring the line between the central bank and the administration. The Fed sets policy to manage inflation and employment, not to make it easier for the government to fund itself.

Treasury Secretary Scott Bessent surprised markets last week by announcing the Treasury would at least double the government's buybacks of long-term debt. His goal was to push down yields that had hit 19-year highs. That process could loosen financial conditions at the very moment the Fed may want to tighten them.

This comes as the central bank is already weighing a great deal. It is debating whether interest rates are too low with inflation above target, and Warsh is remaking how it communicates with markets.

Earlier this month, Bessent pressed the Fed to make more dollars available to foreign central banks to support his recent effort to help Japan prop up the yen. He has also taken an interest in who runs the Federal Reserve Bank of Atlanta, which has been without a chief executive since March. He has argued for more than a year that the Fed is too concerned about inflation, breaking with his predecessors' custom of not commenting on monetary policy.

"Bessent's words and actions are a real pain for Warsh," given concerns that monetary policy could be subordinated to financing the government at a time of elevated inflation, said Jon Faust, an adviser to the last three Fed chairs. "Doing it now, just before Jackson Hole, strikes me as pretty inconsiderate if not a slap in the face."

The Treasury rejects the idea that any of this reaches for a new power or bends monetary policy to the government's funding needs. "Prior to the global financial crisis, debt management decisions were solely at the discretion of the Treasury. Under Secretary Bessent, Treasury is reclaiming them to fulfill its mission of funding the federal government at the least possible cost to the American taxpayer over time," said a Treasury spokesman.

The rate-setting Federal Open Market Committee is already divided over whether interest rates are high enough to bring inflation down. Three officials dissented in favor of a rate increase last month. If Bessent's bond market inter-ventions succeed in lowering long-term rates and borrowing costs, it "would definitely push most everyone on the FOMC further toward a rate increase," said Faust.

Last week's announcement was notable because it came two weeks after the regular quarterly briefing where such changes are usually announced. The Treasury has long promised investors it would be "regular and predictable" rather than opportunistic.

The current buyback program was launched in 2024 to support trading in older, less liquid securities. Last week showed no obvious sign of market dysfunction. Bessent, for his part, pointed to the level of yields, which he said didn't reflect underlying fundamentals. The comments suggested a shift in the program's focus to limit the rise in longterm yields.

It stirred speculation about other steps he could take, such as reducing the size of longerterm debt auctions, which could have a bigger impact. Bessent argued this kind of debt management was risky before he took office.

The buyback isn't the first instance of reaching for levers to hold down borrowing costs. Bessent's suggestion that the Fed make more dollars available to Japan was partly an attempt to enable Tokyo to defend the yen without having to sell Treasurys, which would put upward pressure on yields. The Trump administration this year instructed the government- controlled finance companies Fannie Mae and Fred--die Mac to increase purchases of mortgage-backed securities to bring down mortgage rates.

Bessent's actions take on added significance given a searing critique he laid out last year of how the central bank operates. Trump this year picked Warsh to run the Fed, and Warsh has since launched five task forces to review parts of the Fed's policymaking and data operations.

Bessent praised Warsh earlier this year as a "new sheriff in town." Like their predecessors, they meet most weeks for breakfast and were well acquainted before joining the government.

Bessent last week said the Treasury's debt buybacks wouldn't interfere with monetary policy. The Treasury and the Fed "would work together if there was any change in the balance sheet," he said.

A Fed spokesman declined to comment.

In some ways, buybacks are simply one of countless government policies, such as changes to taxes or spending, that the Fed has to take into account when setting interest rates. The Treasury has every right to manage the debt as it sees fit, said Athanasios Orphanides, a professor at the Massachusetts Institute of Technology and former European central banker. The Fed's job isn't to second-guess those policies, even though it should take any economic effects into account, he said.

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