2026-10-28

ECO

Fed

WSJ Print Edition



Speaking in Bangkok earlier this month, Fed Chairman Kevin Warsh said: 'I don't believe in saying now what I might do at the meetings we have in the balance of the year.' PEERAPON BOONYAKIAT/ SOPA IMAGES/ ZUMA PRESS

Warsh's Wish for a Quiet Fed Backfires

BY NICK TIMIRAOS

Federal Reserve officials are having two debates at once this fall. The first, over how much higher interest rates need to go, gets settled at policy meetings. The second, over how much to tell the public about where rates could be headed, is playing out in the open.

Chairman Kevin Warsh has made a point of saying less. Most of his colleagues haven't followed his lead.

The 16 Fed officials who have been in their posts at least a year gave no less than 59 speeches, interviews and other public comments between last month's meeting and the quiet period ahead of this week's gathering, according to a Wall Street Journal tally. That is about equal to the roughly 54 they gave in the same stretch a year earlier. Warsh became Fed chair in May.

"It doesn't seem like he's convinced the others to speak less," said Kathy Bostjancic, chief economist at Nation--wide. "If Warsh doesn't speak, others fill the void."

Investors left to guess

The second debate reaches well beyond the Fed. What a family pays for a mortgage or a company pays for a loan depends less on where the Fed sets rates today than where investors think the central bank is going. When officials don't explain how they would respond to the economy, investors are left to guess.

Lately, those guesses have whipped around. A month ago, investors put the odds of a rate increase at this week's meeting at around 70%. They had fallen to 15% by Oct. 16, the last day officials could speak publicly before the quiet period.

The disagreement over how to communicate is narrower than it might appear. Few, if any, officials want to go back to promising where rates are headed, a practice that contributed to the Fed's slow response when inflation took off in 2021. The question is whether officials should still explain how they are likely to respond to changes in the economy or leave investors to infer that from the Fed's actions.

Warsh has shown he is more comfortable with the latter. He has argued that narrating the outlook locks officials into their forecasts and muddies what markets can tell them about the economy.

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"I don't believe in saying now what I might do at the meetings we have in the balance of the year," he said in Bangkok this month. "It's a new chapter at the Fed, and we're not in that business anymore."

The arguments are landing as a task force of outside experts prepares recommendations on how the Fed should communicate, due by year's end. Warsh has said any changes would be up to the full committee.

Meanwhile, officials are jockeying in public. Richmond Fed President Tom Barkin, a former management consultant who took his current job in 2018, regularly talks about what he sees in the economy but almost always declines to offer signals about what he favors for a given meeting.

"You know that I really don't like talking about the next meeting, and I couldn't be more thrilled that that seems to be the institutional model now," he told reporters on the sidelines of an event in Washington last month.

Other colleagues are publicly urging a more modest shift in communications. If a household or business borrows "under a mistaken belief about how policymakers will or won't move interest rates, that mistake could prove costly," Cleveland Fed President Beth Hammack said in a speech this month.

Explaining her thinking shouldn't be confused with committing to a course, Hammack said in an interview. "When they hear me speaking, they're not hearing promises, because I'm not giving promises," she said. "I'm explaining a framework."

St. Louis Fed President Alberto Musalem challenged the argument that saying less lets markets focus on the economy. A central bank that keeps its framework to itself "does not free up markets to focus on data," he said in a talk in London last month. "Guessing adds noise."

The choice before the central bank "is not between noisy overpromising and stoic silence. It is between leaving the public to guess how the central bank thinks and telling them," he added.

Hammack and Musalem took their current positions in 2024 after careers in finance, and both have been at the forefront of pushing for higher rates this year.

Limits of silence

The debate encountered a practical test after the Fed raised rates last month. Investors increasingly inferred from the performance of the economy and Warsh's comments at a press conference that a second straight rate increase was more likely than not this week. Warsh's vice chairs subsequently suggested there actually wasn't urgency to move rates up right away, and the probability of an October hike promptly fell.

Fed governor Christopher Waller said the episode showed the limits of drastically curbing guidance, or the conditional statements officials often make about the economy and the most likely policy paths. Doing so would be "throwing the baby out with the bath water," he said in a speech in Turkey this month.

Donald Kohn, a former Fed vice chairman, said that before he would have given market- moving remarks like Warsh's lieutenants had, he would have shared what he planned to say with Alan Greenspan or Ben Bernanke— the chairmen at the time —and asked them, "Does this give you indigestion?" He couldn't recall either ever saying yes.

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