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The Fed's Hawkish Hold

The Federal Open Market Committee voted Wednesday to hold its short-term interest rate target at 3.75%-4%—a move both widely expected and wise. Inflation remains well above the Fed's 2% target but there's considerable uncertainty about how the economy will behave in coming months given geopolitical uncertainty. Raising or lowering interest rates right before an election is a mug's game—why do they schedule a meeting for the last week of October, anyway?—and Mr. Warsh defended the Fed's independence by standing pat.

He could do so without undermining the Fed's credibility because he's otherwise establishing a coherent record as an inflation hawk. No one who looks at his speeches and press conferences in his five months on the job would suspect that he's fishing for excuses to freeze or cut rates before inflation is under control. That buys a chairman some leeway for no increase at any one meeting.

Mr. Warsh said at his Wednesday press conference that the economy is strong even after the Fed's September rate increase. An important point came when he said that he and his colleagues have "observed but were not surprised by" recent market volatility. The message is that the central bank is no longer trying to smooth out financial markets. That removes some of the pressure to constantly fine-tune policy.

It also doesn't hurt that the Fed's September rate increase took some of the froth out of the AI borrowing frenzy. As Mr. Warsh put it, there's no harm after years of easy money if investors have to be "more discerning" in where they put their money.

The counter-example comes via Fed Governor Lisa Cook, who joined Cleveland Fed President Beth Hammack in casting a dissenting vote in favor of a rate increase. Ms. Hammack has a record as an inflation hawk, but no one believes Ms. Cook holds similar views.

Her vote looks like an attempt to thumb her nose at President Trump, who always favors low rates and is engaged in a convoluted legal battle to fire Ms. Cook from the board. It would have been better for the Fed as an institution if she had joined the majority.

Mr. Warsh's message remains that the mission isn't accomplished because inflation remains too high. Markets appear to expect another rate increase at the FOMC's next meeting in December, which is a fair bet given inflation above the Fed's target. All the better if Mr. Warsh can make progress while disentangling it from the election season.

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