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The new Fed Chair will have to avoid his predecessor's mistakes.

Powell's Inflation Legacy for Warsh

REVIEW & OUTLOOK

The Senate is poised this week to confirm Kevin Warsh as the new Chair of the Federal Reserve, and the Wall Street veteran may be wondering why he ever signed up for this duty. Tuesday's consumer inflation data for April show he is inheriting one of the most difficult monetary tasks since Paul Volcker took over from G. William Miller in 1979.

Consumer prices rose 0.6% in April, or 3.8% over the last 12 months. That's down from 0.9% in March, and some 40% of the increase was related to the Iran war's energy shock. But that's little consolation since so-called core prices, sans food and energy, rose 0.4% in April, an acceleration from 0.2% in March, and 2.8% for 12 months.

Service prices were notably hot, with shelter up 0.6%, and overall non-energy services up 0.5% or 3.3% over 12 months. The disinflation in goods prices also seems to have stopped, as apparel prices are up 4.2% in the last year, and Whirlpool last week announced it raised prices 10% in April, as two examples.

These figures confirm the inflation pop in the recent personal-consumption-expenditure data. They also suggest that the disinflation earlier this year may have been another of the false dawns that have typified recent Fed performance. The central bank keeps thinking it has inflation conquered, and it begins a monetary easing cycle, only to find out its optimism was premature.

The latest inflation report marks a dispiriting end to Jerome Powell's eight-year tenure as Fed Chair. The press focuses mainly on President Trump's relentless attacks on Mr. Powell and praises him as a stalwart of Fed independence. We've supported him against those unfair assaults.

But Fed chiefs are measured above all by their stewardship of the economy, especially price stability. On those grounds, Mr. Powell's tenure has been a notable failure. The nearby chart tracks consumer price inflation across the eight years of Mr. Powell's two terms.

It began calmly enough, but in 2020 the Powell Fed unveiled a new monetary framework that explicitly said it would tolerate more inflation in the short run to achieve its overall 2% annual price target over time. That turned out to be a mistake, and last year the Fed returned to its previous framework.

Mr. Powell's tragic error was the pandemic era price spike that he dismissed for too long as "transitory." Prices soared before the Fed recognized its mistake, hitting an annual rate of 9.1% in June 2022. The Fed still largely blames supply-chain disruptions for the inflation spike, rather than its policy choices to accommodate blowout federal spending and keep interest rates low for too long. To his credit, Mr. Powell finally admitted that the Fed should have tightened sooner. Its tightening cycle also managed the considerable feat of avoiding a recession. Disinflation began, but the Powell Fed hasn't been able to get back to its 2% inflation target. More than once it had to stop its easing cycle as inflation proved more durable than the Fed thought.

This is the legacy that Mr. Warsh inherits, along with a Board of Governors and regional bank presidents who are complicit in the Powell record. At least for now Mr. Powell also plans to remain on the Fed board, pending a final resolution of the Trump Justice Department's vindictive criminal investigation of cost overruns in Fed renovations.

The Fed press corps, in typical fashion, will focus heavily on Mr. Warsh's relationship with Mr. Trump. The press is also likely to be far tougher on Mr. Warsh than it has been on Mr. Powell, with background kibitzing from former Fed Chairs Ben Bernanke, Janet Yellen and Democratic economists. Mr. Warsh intends to challenge their post-economic crisis

monetary policy regime, and they aren't happy about it. Keep that in mind when you read unattributed quotes from former Fed officials.

Mr. Warsh has the policy chops and intellectual firepower to steer the Fed and take on dissenters who resist the changes he might bring to monetary policy. One smart move is Mr. Warsh's plan at an early date to have the Fed review its inflation models to see if they can send more accurate policy signals.

The real challenge for Mr. Warsh will be navigating the economic reality he inherits of renewed inflation, an oil shock affecting consumer confidence, and a President who always wants lower interest rates but higher tariffs. Cut interest rates too much to accommodate the oil shock and he might accelerate inflation. But raising rates to fight a temporary oil-caused price spike could cause a recession.

Note-

Wish Mr. Warsh good luck. He—and we—will need it.

Consumer Price Inflation, May 2018-April 2026

May '18 '19 '20 '21 '22 '23 '24 '25 '26 0 1 2 3 4 5 6 7 8 9 10%

Note: Oct. 2025 data unavailable due to the 2025 lapse in appropriations. Source: Bureau of Labor Statistics

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