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The new Fed Chair's critics are really out to stop his reform agenda.

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The Fed Status Quo vs. Kevin Warsh

REVIEW & OUTLOOK

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Kevin Warsh began his tenure as Federal Reserve Chairman in May promising reform, and as night follows day the central banking-Wall Street status quo is fighting back. This includes the almost daily media effort to portray the lifelong inflation hawk as a born-again dove to please President Trump.

The latest story is that Mr. Trump often calls Mr. Warsh, which is playing as guilt by association. But this is unsurprising to anyone paying attention to the Trump Presidency, or even to some other Fed Chairs. Alan Greenspan talked often with Bill Clinton. Ben Bernanke was joined at the hip to Treasury chiefs Hank Paulson (George W. Bush) and Tim Geithner (Barack Obama).

The test of Mr. Warsh isn't whom he talks to. It's whether he succeeds in restoring and maintaining stable prices. And on that score, the charge is that he didn't raise interest rates in his first two Federal Open Market Committee meetings. So he must be a sellout.

Never mind that the 9–3 vote in July not to raise rates is defensible. The June inflation figures on consumer and producer prices, as well as personal consumption expenditures, all came in lower than expected. Recent inflation is slower than when the Jerome Powell Fed *cut* rates.

The three dissenters were regional bank presidents, meaning everyone on the Fed Board of Governors joined Mr. Warsh to hold rates flat. Mr. Warsh inherited that notably dovish board when he took over from Mr. Powell, who has remained as a non-chair governor.

It isn't obvious that Mr. Warsh could have carried the day for a rate hike with this crowd. In any event, all the decision did was give the Fed seven weeks to absorb more economic data before the next meeting in September. Friday's weak July jobs report, for one, hardly screams "raise rates now."

Ah, the critics reply, but what is Mr. Warsh's "reaction function," by which they mean how does he respond to new data? He's already told us. "In terms of reaction function, let me sort of disabuse people of a question that may or may not be real and be out there," he said at his July 29 press conference. "Any central banker, when he or she sees underlying inflation moving higher, he or she is more inclined to tighten policy."

Oh, but does he mean it? Well, in July he told the House Financial Services Committee: "And the longer that prices have been above the inflation target, it's usually a bit harder to dislodge them and get them lower. Our job, my commitment to you is to take sticky prices and to unstick them." Where's the ambiguity?

All of that is consistent with Mr. Warsh's years in public life. He has written more than 30 times for our pages, and readers know what he thinks. He has made price stability a lodestar of his monetary method. His critique of the Ben Bernanke and Janet Yellen eras at the Fed was that they had become so focused on *raising* inflation to 2% that they were doing more harm than good to the economy, especially via quantitative easing (QE).

An irony of the complaints about Mr. Warsh is that he's trying to suppress the dovish instincts of the establishment criticizing him. He said last week: "There is no soft inflation target, there is no soft implicit target—not on this committee's watch. There is only a target, and it is 2%." That was directed at the idea that the Fed should tolerate above-target inflation, or even set a new target of 3%. But go ahead and call him a dove anyway.

Another irony is that his critics were only too happy to applaud the dovish pre-Warsh Fed. They cheered when Mr. Powell cut rates in two rounds in 2024 and 2025 despite inflation well above the 2% target.

Many of Mr. Warsh's critics donned their "Team Transitory" jerseys alongside Mr. Powell when he dallied as inflation entrenched itself in 2021. They also gave Mr. Powell an attaboy in August 2020 when he introduced a new inflation framework in which the Fed promised to tolerate above-2% inflation to make up for prior periods of slower price increases.

Some critics, especially on Wall Street, mostly want to goad Mr. Warsh into giving them forward guidance again. That's one way to interpret the complaint that, despite his clear statement on the 2% target, Mr. Warsh didn't tell investors how he intends to achieve that goal. They want him to make their job of pricing risk easier by sitting on long-term bond rates. But that's not the job of the Fed, or at least it wasn't before the 2008 financial panic and the onset of QE and the bloated Fed balance sheet.

And that's the real reason for the Warsh pileon. His critics want him to cease-and-desist this reform talk. The post-panic era has been very good for big government, Wall Street and those who hold assets. It hasn't been so good for the young and others who don't. Mr. Warsh wants a Fed that restores price stability to help those forgotten men and women. Judge him by how well he does that.

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