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A split vote is unusual, but the choice facing the central bank this month wasn't an obvious one.

Don't Be Alarmed by Dissent at the Fed

By Alan S. Blinder

When the Federal Open Market Committee approved chairman Jerome Powell's recommendation to cut interest rates by 25 basis points on Dec. 10, the vote was 9-3. A split vote is unusual—three FOMC voters haven't opposed the chairman since 2019.

But the committee isn't in crisis. One dissenter was Stephen Miran, Donald Trump's latest appointment to the Federal Reserve Board. He always dissents, preferring even lower rates. Mr. Miran's term ends in January, and he may or may not be reappointed.

Pay more attention to the dissenting votes from Austan Goolsbee and Jeffrey Schmid, presidents of the Federal Reserve Banks of Chicago and Kansas City, respectively, who both preferred to hold rates steady. Their votes reflected not partisanship but a different view of proper monetary policy.

The latest FOMC meeting was a rare moment when a reasonable case could have been made for either cutting rates or holding them steady. Data gaps resulting from the government shutdown further complicated members' decisions. In situations like this, disagreement is to be expected.

Note

The case against easing further is simple. Inflation by the Fed's preferred measure—the personal consumption expenditures price index— has been mostly rising since April. It now sits nearer to 3% than to the Fed's target of 2%. When inflation is too high, the classic central banking move is to raise rates, not lower them.

Note

The case for easing rates further, which the majority favored, focuses less on inflation and more on rising unemployment and a weakening labor market. The unemployment rate has been creeping up since June. Although still low, it is moving in the

wrong direction. Similarly, net job creation has slowed this year, and Mr. Powell revealed that the Fed expects data revisions to lower these weak numbers further.

Mr. Powell's solution to this dilemma was a " hawkish rate cut," in which the Fed reduces rates while cautioning markets not to expect many future cuts. Mr. Powell's words in the press conference following the FOMC meeting were measured. But markets seemed to understand that additional rate cuts aren't guaranteed. Note

What this means for next year is unclear. Seven of the 19 FOMC members expect to keep rates steady or even raise them slightly by the end of 2026, while 11 members expect to lower rates, and Mr. Miran wants to cut them drastically. The issues complicating monetary policy today will persist. And after Mr. Powell's term expires in May, a new Trump-appointed Fed chairman will likely make decision-making more contentious.

Note Note

The Fed's dual mandate— to keep both inflation and unemployment low—makes its job especially difficult now. For decades, the mandate has been criticized abroad and in conservative circles for being too vague and complicated. Critics argue that because the Fed has only one monetary policy instrument, the overnight- interest rate, it should focus on only one goal: low inflation. Canada, the U.K., the eurozone and many others set that as their central banks' single objective.

An inflation-only mandate would have made the debate at the December meeting short and not contentious. With inflation pushing 3%, the obvious decision would have been to raise rates and damn the unemployment torpedoes.

Simpler, yes. But how many Americans would favor that?

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