

Everyone knows the new Federal Reserve chairman plans to make changes, but he'll be careful at first.

As Kevin Warsh Arrives, Expect Him to Move Slowly

By Alan S. Blinder

The Federal Open Market Committee will announce its first interest-rate decision under Federal Reserve Chairman Kevin Warsh on Wednesday. I'll go out on a limb—a sturdy one—to predict that interest rates will be left unchanged.

To most Americans, the whole thing will be a yawner. But to Fed watchers in the financial markets, academia and the media, the June 16-17 meeting could prove a momentous occasion. After eight years under the capable leadership of Jerome Powell, aficionados will be watching for signs of change, from Mr. Warsh himself and from other FOMC members, a group that will include the former chairman as an ordinary governor—a rare event in itself.

Over eight years, markets grew accustomed to Mr. Powell's calm, reassuring manner, his frankness (by Fed standards) and his fine record of steering monetary policy. He owned up to his one major error: waiting too long to raise rates in 2022, based on an incorrect but widely shared forecast of falling inflation.

His biggest achievement, assuring him an honored place in history, was standing up to incessant bullying and threats from President Trump, which culminated in a ludicrous attempt to indict the chairman. Mr. Powell vigorously defended the central bank's independence, displaying a backbone that members of the congressional majority can only envy.

His term finished with the most divided FOMC meeting of his chairmanship. On April 28-29, three regional reserve bank presidents—Beth Hammack of Cleveland, Neel Kashkari of Minneapolis and Lorie Logan of Dallas—dissented against the modestly dovish language in the FOMC statement.

Their objection centered on the adjective "additional" in a prefatory clause: "In considering the extent and timing of additional adjustments to the target range for the federal funds rate . . ." Since rates were heading down before the Fed paused, "additional" suggested further cuts were in the offing. Note

With the usual dovish dissent from then-Gov. Stephen Miran, the April vote was 8-4, an almost unheard-of level of disagreement on the consensus-driven FOMC.

Since then, sentiment against further cuts is believed to have hardened on the committee. Several members suggested that the next move might be up, not down, if inflation continued to rise, which it appears to be doing. That would certainly displease, even enrage, Mr. Trump. Note

Mr. Warsh has a career-long record of being hawkish on rates. Mr. Trump nominated him anyway. Since then, I've been wondering what Mr. Warsh said to the president about interest rates and Fed independence, but neither man has confided in me.

It's clear that Mr. Warsh couldn't push a rate cut through at the next FOMC meeting even if he wanted to. He'd take a drubbing in the vote, and he's far too smart to let that happen. So all eyes will be on the wording of the FOMC statement. The adjective "additional" is certain to be gone. Beyond that?

Mr. Warsh criticized the Powell Fed for talking too much—with too many disparate voices. If he insists

on a terse statement with no forward guidance on June 17, committee members may go along as a courtesy.

But that tight-lipped strategy may not be as safe as it sounds. Market participants are accustomed to Powell-style prose and lightly scripted press conferences. A radical departure in wording could lead Fed watchers to puzzle even more over

what few syllables are uttered.

A bit of confusion in the financial markets isn't the worst thing you can imagine. But I doubt Mr. Warsh will seek to sow confusion at his debut— especially with the stock market flying at dizzying heights.

So yes, the Fed can and will change under Mr. Warsh. He wants a smaller balance sheet devoid of mortgage-backed securities, an objective that commands wide agreement. But he also favors a different measure for the Fed's inflation target: the Dallas Fed's trimmed mean. Ever heard of it? There I'd advise caution—changing the inflation measure may look like moving the goal posts.

All this and more is possible in time. But as with the prose, gradual changes in policy may have advantages over a rush to transform the Powell Fed into the Warsh Fed.

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