

# WSJ Print Edition

*Divisions at the central bank show through as Kevin Warsh faces a vote on becoming chairman.*

## A Tricky Handoff at the Federal Reserve

By Alan S. Blinder

The Federal Open Market Committee met April 28-29 and left interest rates unchanged, yet two big stories emerged from the meeting.

First, four members of the committee dissented from Chairman Jerome Powell's recommendation in an 8-4 vote. The last time there were four dissenters on an FOMC vote was 1992, when Kevin Warsh—expected to be voted the new Fed chairman next week—was 22.

The second story: Mr. Powell announced he will stay on as a Fed governor after his term as chairman expires on May 15. This hasn't hap--pened since 1948, a few years before Mr. Powell was born.

Let's examine both stories. Only one of the four dissents opposed the interest-rate decision. Gov. Stephen Miran, the MAGA appointee, as always, wanted to cut interest rates. He's been the one sure pro-Trump vote on the committee.

But the other three dissents, from Beth Hammack, Neel Kashkari, and Lorie Logan, presidents of the reserve banks of Cleveland, Minneapolis and Dallas respectively, weren't over interest rates but what was perceived as the Fed's dovish forward guidance—words indicating the next interest-rate move will likely be a cut.

What provoked these dissents? It reportedly came down to the adjective "additional" in this sentence: "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."

Since the FOMC was cutting rates before it paused in January and March, the word "additional" suggests possible further easing. But does that sentence sound super dovish to you? Enough to merit a dissent at Mr. Powell's last meeting as chairman?

I read these dissents as indicating the previously strong consensus on the FOMC is fraying badly, with several members suspecting that the next rate change might be up, not down. This is the fractious FOMC that Mr. Warsh will soon inherit.

Which brings me to the other big story: One member of that committee will be Mr. Powell. No Fed governor has remained on the board after his term as chairman expired since Marriner Eccles in 1948. And Mr. Powell made his reason clear:

Fed independence is under threat from the administration, and Mr. Powell, it appears, hopes to be remembered for bravely defending that independence.

Mr. Powell's decision also means that the seven-member board will remain full after May 15, leaving nowhere to put Mr. Warsh. The president will presumably create room by asking Mr. Miran, who is now on temporary appointment, to resign. But that will swap one Trumper for another.

Mr. Warsh openly disagrees with Mr. Powell on several matters, including interest rates, the Fed's balance sheet and Fed communications. The majority of the FOMC, I'll venture to guess, is closer to Mr. Powell's views than to Mr. Warsh's. If so, it introduces some interesting dynamics on a committee that has traditionally operated by consensus and been led by its chairman.

No, the FOMC won't divide into warring Warsh and Powell factions. Messrs. Powell and Warsh are both too gentlemanly for that, and Mr. Warsh's people skills are finely tuned. Besides, Mr. Powell has said he won't compete with Mr. Warsh as an ersatz chairman.

But the FOMC that Mr. Warsh will inherit is divided, the right monetary policy at this point isn't obvious and, with Mr. Miran gone, there will be no reliable Trump vote on the committee—unless it is Mr. Warsh himself. *Note*

Which raises a really big question: Did Mr. Warsh make a deal with Mr. Trump to secure the nomination? He denied making any such deal during his Senate Banking Committee hearing. But I am among the many who wonder why a president who sought to fire, then to indict, Mr. Powell for not cutting interest rates enough would turn around and nominate someone who has been a career-long monetary policy hawk to replace him. *Note*

The Powell-to-Warsh transition gives the new Fed chief a chance to show his true colors. Will he defend the Fed's independence? Sure hope so.

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