July 7, 2026

Perspectives on the Warsh Fed

In the Spring of 1994, while the cherry blossoms were blooming in Washington DC by the Jefferson Memorial, I sat anxiously at the end of the long conference table on the second floor of the William McChesney Martin Federal Reserve building. At the opposite end of the table was Alan Greenspan. As a colleague once stated to a prospective Fed staffer, it is a real privilege to present your own research to the Chairman. It was my first briefing to Mr. Greenspan and company. I had rehearsed what I was to say, even though I would be reading from a script. I was the second briefer that day, and I awaited my turn.

The senior staff, seated around the table, had entered into a discussion about employment. One member seemed to be laser-focused on layoffs due to military base closings, the bulk of which had taken place in California. It became the centerpiece of a debate as it related to the "maximum employment" side of the Fed's dual policy mandate (the other side being "price stability"). Mr. Greenspan sat back and listened, finally interrupting when he'd heard enough.

"The Fed's policy instruments are not designed to address regional economic concerns."

And with that, the debate ended. The Chairman had spoken.

During my two years in Washington, I attended nearly every weekly Monday morning briefing of the Governors, seldom as a briefer, but principally to listen and learn. That experience never left me, not just in terms of the professional education it afforded a tenderfoot economist on leave from his university faculty position, but it also engendered within me a great deal of respect for the professionalism of the staff, and the vast scope and depth of knowledge that was amassed within the Federal Reserve. I subsequently had the good fortune of spending another three years as a Senior Economist at the Federal Reserve

Bank of San Francisco from 2000 to 2003 while Mr. Greenspan was still Chair and that encompassed the collapse of the "dot com" asset bubble and the tragedy of 9/11.

Today, a new Chair is taking the reins at the Fed. He has designs on changes he would like to implement at the Fed, and has somewhat wistfully harkened back to the 'salad days' of the Alan Greenspan era, suggesting that he would like to emulate the man—and his command over the institution—once he takes over at the helm. I'm reminded of a comment by Louis Rukeyser, who on an episode of his long-running PBS program *Wall Street Week*, when he introduced his evening's guest, Alan Greenspan, in the days before his tenure at the Fed had begun. "He's a man who doesn't overwhelm you with his personality, but with his knowledge."

After Mr. Greenspan's 18-year run as Chair—the second-longest in Fed history—he was indeed a hard act to follow. But the Fed has been blessed with a succession of excellent Chairs since, in Ben Bernanke, Janet Yellen, and Jerome Powell. One could argue that there were some glaring mistakes, such as Greenspan's belief, and which he later regretted, that the 'free market' left to its own devices would rein-in the excesses of the explosion of "financial derivatives" that ultimately (after Greenspan had left office) led to the Great Recession of 2007-9. There was also the over-zealous response to the COVID crisis of 2021 that, coupled with a massive fiscal stimulus from the American Recovery Act, exacerbated the inflation rate that has subsequently proven so difficult to tame—at least in wringing out that last one percent to return it to the Fed's target of 2 percent.

But there were also a number of notable successes. Perhaps the two most dramatic episodes were the 1987 stock market crash, when the NASDAQ lost over three-quarters of its value, and the 9/11 terrorists attacks on the World Trade Center and the Pentagon. In both cases, Alan Greenspan opened the spigot of Federal Reserve credit to avoid a panic-stricken liquidity shortage that could easily have tanked the economy.

It is also generally acknowledged by economists that Ben

Bernanke's decisive actions in pulling out all of the stops to counter the near financial meltdown of the financial-derivatives-induced Great Recession, along with the subsequent structural reforms of the Dodd-Frank legislation were credited with restoring confidence and eventually righting the financial ship of state that was in much troubled waters, while ushering in a new era of economic growth by addressing the new financial risks that had emerged in a world of rapid financial innovation.

Against this backdrop, Kevin Warsh will be sitting at the far end of that long table in the briefing room on the second floor of the Martin Building, where he will be presiding over the Federal Reserve and all of its formidable resources. He has spoken openly of several aspects of the way the Fed's decisions are made and implemented that he wishes to rethink. Some historical perspective is useful in considering them. They include:

1. Assessing the appropriate size of the Fed's balance sheet.
2. How to weigh the Fed's dual mandate.
3. How the Fed processes the relevant data.
4. How the Fed communicates its policy deliberations.

However, a principal concern during Kevin Warsh's confirmation hearings was whether he would in practice continue to support the independence of the Federal Reserve from the White House as required by law. The concern has been raised by the current President's repeated statements that anyone he appointed to serve as Chair of the Federal Reserve would have to report directly to him.

Federal Reserve Independence. Since its creation in 1913, the Federal Reserve has been granted ever-increasing regulatory and policy-making authority. This authority was continually ratcheted up each time an economic crisis befell the nation. The most significant change came with the reorganization of the institution after the Great Depression when the Fed's decision-making, then decentralized among the twelve District Federal Reserve Banks, was concentrated in the newly established Board of Governors in Washington DC. It was granted additional policy tools and more exacting legislative authorization in order to fulfill its mission to ensure safety and soundness throughout the banking system, and to conduct an active monetary policy. These changes essentially ushered in the era of modern central banking in the United States.

To address these expanded mandates, the Fed was explicitly granted institutional independence and given wide discretion in the design, conduct, and implementation of its regulatory charge and in carrying out its macroeconomic policy mandate. That is, the Federal Reserve was NOT designed to be part of the Executive Branch of government which has no authority to direct its activities; the Chair reports only to Congress, which maintains Congressional oversight. Why is this so important?

Academic research has extensively examined the structure of monetary institutions across the major western industrialized economies and the results have affirmed the supposition that the degree of independence of the central bank from the executive branch is fundamental for supporting an economy with moderate inflation and stable long-run growth. In this regard, there is little doubt that the perceived success of an *independent* Federal Reserve in carrying out its responsibilities accounts for why other western nations around the world (viz., Japan, the UK, New Zealand, Australia, and the European Union) have made structural reforms that closely align the design of their monetary institutions (largely occurring after the great inflation decade of the 1970s) with those of the US Federal Reserve. The Fed is today, perhaps, the most trusted federal institution in America.

This research has stressed that the motives for any reform of the Fed's operations should be careful to resist the ephemeral exigencies of Washington politics. This is particularly true with a President who does not respect the essential independence of the Federal Reserve that was explicitly incorporated into the enabling legislation that created the Fed, and that has since been reaffirmed by the Supreme Court in its rebuke of the current

President's efforts to install his own cronies at the Fed who would be willing to do his bidding.

We got a brief taste of that with the temporary place-holder appointment of Steven Moran to fill the seat on the Federal Reserve Board vacated by Governor Adriana Kugler, who resigned to return to academia. Moran's principal prior qualification for the job was his loyalty to the President, who has made clear his interest in personally assuming *de facto* control over US monetary policy. Moran's voting record during his brief tenure at the Fed shows his fealty to the current President, casting lone votes [among the 12 members of the policy-setting Federal Open Market Committee (FOMC)] for exaggerated interest rate cuts as the President desired at each policy meeting in which he participated.

Fortunately, the patriotic actions of Jerome Powell to protect the institutional integrity of the Fed, by choosing to retain his seat as Governor, while stepping down from the Chairmanship, has forced the President to fill the seat occupied by Moran with his choice to replace Powell as Chair. I say 'fortunately' in that Kevin Warsh—unlike so many of the current President's appointments—*IS* qualified for the job, having already served five years as a Governor from 2006 to 2011. He professes his independence from the White House, and the recent Supreme Court rulings should afford him the space he requires to demonstrate that commitment. Time will tell.

Monetary History. My years at the Fed have not only informed my teaching and research, they have also stoked a curiosity about the history of central banking, specifically in America. The first two attempts at establishing a National Bank in the United States were focused on the need to raise federal revenues and the desire to produce a stable national currency, first during the Revolutionary War and then subsequent to the War of 1812. Neither of these efforts produced lasting results.

It was not until the two successive banking crises in the United States around the end of the 19th century and beginning of the 20th century, had demonstrated the need for a federal reserve bank that could provide funds to the banking system in times of economic stress, that the impetus would be provided for Congress to pass the Federal Reserve Act of 1913.

The Fed as Crisis Manager. When the Federal Reserve was first established, it was given NO explicit role in determining the nation's macroeconomic policy. At the time, banks were the primary source of funds for businesses, who relied heavily on short-term loans to conduct their day-to-day commerce. This debt was said to be 'sold at a discount' to its face value, e.g. the buyer would receive, say, \$1000 at maturity perhaps 6 months from the date of issue. The purchase price might be \$980, implying that that lender would receive an annualized rate of return of a little more than 4 percent for making the loan. The loan would be realized by the borrower in the form of the bank's demand deposits, or monies that could be accessed 'on demand.' This created the familiar 'fragility' problem within the bank's operations. They had to maintain sufficient reserves to meet any unexpectedly large withdrawal demands, while holding longer term relatively illiquid assets in their portfolios. Failure to meet these demands would lead to insolvency, and if this were to occur on a large scale across the country, the result is a banking crisis.

The two such crises that occurred around the turn of the 20th century were accompanied by back-to-back nationwide recessions. Banks facing these large withdrawals were forced to 'call in' the short-term loans they had made. When the economy was already contracting, this further reduced the availability of bank credit and more firms were starved for cash and forced to cut back on employment and investment in their businesses. The result was that the economy weakened further leading to recession, and in the days before the advent of the FDIC many businesses and banks entered into bankruptcy. This was the principal problem that led to the creation of the Federal Reserve.

The method of dealing with this issue was to create the Federal Reserve System which is comprised of the collection of 12

District Banks that were to serve as a 'back stop' for the banks within their District in need of liquid funds. Essentially, these District Federal Reserve Banks would 're-discount' the business loans that the banks had on their balance sheet, i.e., buy them at a further discount to their market value, thus assuming the risk of default from the banks. The terms of the purchases would establish an 'administered' interest rate chosen by the Fed. Initially, each District Bank conducted these activities independently.

This process was the precursor to the modern 'discount window' facility operated by the Fed from which banks can borrow to meet short-term liquidity needs, at the 'discount rate' established by the Fed. These temporary purchases would be paid for by creating deposits that the banks would hold with the Federal Reserve and that could be drawn upon to meet the unexpectedly large withdrawal demands that accompany an economic downturn. The idea was that this so-called 'elastic money supply' would cushion the economy from the effects of an otherwise exaggerated credit crunch experienced by businesses. And for what might be termed 'normal' periods of slowdown in the economy, it works. When the economy recovers, these loans from the Fed would no longer be needed, and they'd be withdrawn and there contribution to an expanded supply of credit would cease. In this manner, the peaks and valleys of the business cycle would be muted, allowing the economy to grow on more of an even keel.

The Fed's Balance Sheet. It's noteworthy that today well over 90 percent of the assets held by the Federal Reserve are Treasury securities—$4.4 trillion, or approximately 12 percent of the federal debt. It was never originally intended that the Fed would acquire US government debt, although there was no prohibition against them doing so in the Federal Reserve Act itself. So, what happened? The initial answer to this question is World War I. The government needed funds to finance the war. It issued government debt, i.e., Treasury securities, and the nascent Federal Reserve was tapped to buy a significant portion of that debt in the open market. The precedent was established.

At the conclusion of WWI, it became apparent that the banks had also purchased a large share of this recently issued federal debt. On reading the contemporary writings at the time, I was fascinated to learn that this fact was of great concern to policy makers, albeit a concern that was purely theoretical. It was believed that, whereupon the banks use deposits (at the time, mostly from businesses) to make loans to the government, the unprecedented large scale purchases of government debt by the banks was seen to be a distortion in what was termed the 'natural flow of credit' within the private sector, where the banks traditionally played such a prominent role. This belief was broadly thought to be sufficiently worrying that the Federal Reserve was compelled to embark on a misguided policy to purge the banking system of its holdings of government debt.

The effort was launched in the 1920s. The economy was showing signs of a looming recession, and the Federal Reserve, with no policy mandate at that time to 'smooth out business cycle fluctuations,' had just been given the legal authority to impose reserve requirements on the banks as they saw fit to forestall financial imbalances that could lead to stress in the financial system. They perceived the large bank holdings of Treasuries as one such threat. The purpose of reserve requirements was to force banks to withhold a specified fraction of their deposits in the form of liquid assets, which, back then, was primarily currency.

The Fed then made a fateful decision. It doubled reserve requirements under the fallacious presumption that banks, that would have to constrict their lending to beef up reserve holdings as a share of their assets, would choose to sell off Treasury securities. However, as the economy was flashing warning signs of an impending economic downturn, the level of risk that the banks had assumed, in these days before FDIC insurance, was at an elevated level already. As a result, the banks chose instead to call business loans and sell off stock, which at that time they were allowed to own, thus allowing them to meet the more restrictive reserve requirements while effectively lowering the risk of insolvency with the increased share of risk-free US Treasuries in their asset portfolio. The consequence was to turn an otherwise consequential recession into the Great Depression, with the collapse of the stock market and wide-spread runs on banks. With the advent of the FDIC, large scale bank runs are a thing of the past.[1] But the risk of bank failures remains, and there is a small number of bank failures that occur nearly every year.

Today, US government debt is universally seen worldwide as a safe harbor in turbulent times of economic weakness. And the Federal Reserve now perceives its value in playing an important role in a bank's risk management of its asset portfolios. They receive a favorable accounting in the determination of the bank's capital requirements, which are intended to ensure against the risk that banks may incur sufficient losses on their asset holdings that its Net Worth (representing the value of the owners' and creditors' investments in the bank) is exhausted, thus threatening insolvency.

But the other primary change in the Fed's perception of the utility of federal debt is the essential role it now plays in the conduct of monetary policy. Traditionally, when the Fed buys Treasury securities in the open market,[2] it pays for these purchases by effectively increasing the deposits that commercial banks hold at the Federal Reserve. This purchase increases the banks asset holdings, freeing up funds to be lent out, and the supply of credit in the economy increases as interest rates decline, thus providing a stimulus to overall economic activity.

That's the big picture. The details are a little more complicated when it comes to exactly how the Fed makes use of its balance sheet to "set interest rates." But essentially, the Federal Reserve's most basic monetary policy today boils down to setting a range in which it wishes to maintain one short-term interest rate, the *effective overnight federal funds rate*, that it deems consistent with its dual mandate of price stability and max-

[1] Since the FDIC was established in 1933, there has not been a single dollar lost in federally insured bank deposits. There have been a few bank runs on state-chartered banks, some of whose deposits are backed by state insurance funds that proved insufficient to meet withdrawal demands.

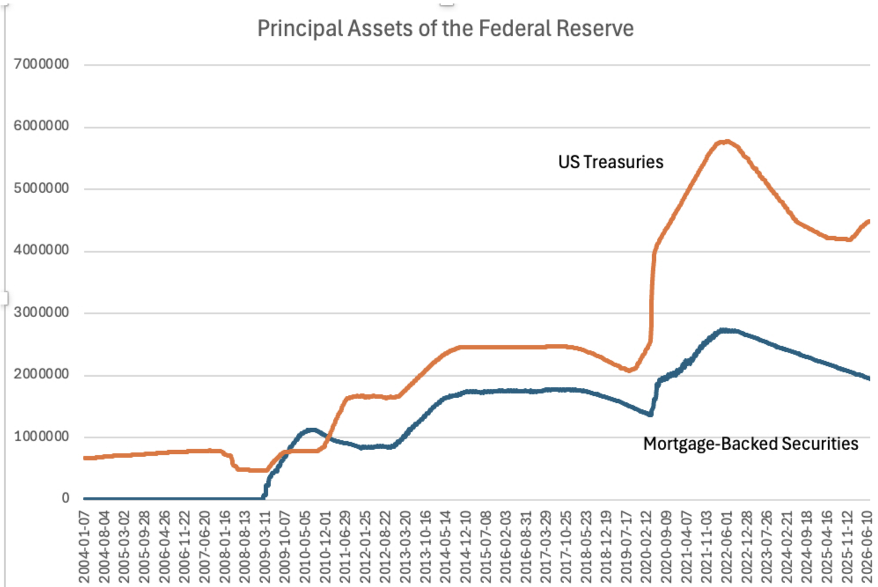
[2] The Fed is prohibited from purchasing these securities directly from the Treasury, unless it is to replace those it currently holds and are maturing.

imum employment. The federal funds rate is the interest rate that banks charge one another for interbank loans, and the effective federal funds rate is the weighted-average of all such loans throughout the day. When the Fed adjusts this target range, other short-term interest rates move sympathetically, hence the Fed is able to exercise its relative control over short-term interest rates throughout the economy. The method of achieving its target for this interest rate has changed significantly since the Fed was authorized in 2008 to pay interest on Deposits at the Federal Reserve held by banks. These deposits are the primary source of funds for these interbank loans (and other interbank financial transactions).

In the past banks were forced to hold a certain percentage of their reservable deposits (essentially checking accounts) as liquid reserves, meaning vault cash or Deposits at the Fed. They were required to meet these reserve requirements on average over a two-week "maintenance period." However, with these deposits now (after 2008) seen to be risk-free, *interest-bearing* assets, they've became attractive to banks. Rather than being forced to hold non-interest-bearing assets on the books, they now desire to hold them as part of their overall asset portfolio management, and their demand for Deposits at the Fed has expanded dramatically. Consequently, for all practical purposes, reserve requirements are no long binding.

Deposits at the Fed are assets to the banks, but liabilities to the Fed. When banks voluntarily increase their holdings of Fed Deposits, the Federal Reserve must expand its own Asset portfolio and generally does so by buying US Treasury securities. It also has the ability to offset the additional Deposits by selling off securities, which once all of the subsequent transactions such a sale elicits have run their course (which happens very quickly), banks' total Deposits at the Fed shrinks. The Fed will exercise this option as is deemed necessary to keep the effective federal funds rate within its target range.

The recent history of the Fed's policy actions (apart from the extraordinary, unorthodox measures taken during the Great Reces-



sion and the COVID-19 crisis) can be largely characterized by its balance sheet holdings of the two principal assets as shown in the Figure. Prior to the Great Recession, these consisted entirely of US Treasuries, amounting to approximately \$500 billion. With the collapse of the housing market that precipitated the financial crisis of 2008-9, the Fed began to aggressively purchase US Treasuries, along with Mortgage-Backed Securities (MBSs), whose market value had plummeted with the implosion of the financial derivatives market. By mid-2009, the Fed's purchases of MBSs reached \$1.1 trillion, while its Treasury holdings had increased by over 50 percent to approximately \$780 billion.

With the financial system still seen to be fragile and the economy still weak, though starting to recover, and with the federal funds rate already driven to near zero, the Fed embarked on its controversial policy of "quantitative easing." The initial round toward the end of 2010 consisted of large-scale purchases of long-dated US Treasury notes and bonds, coupled with the sale of MBSs. The idea was to lower long-term interest rates, while reducing its holdings of MBS. However, the economic conditions persisted along with the troubles in the housing market, and the Fed embarked on another round of quantitative easing in 2013, this time accelerating its MBS purchases along side the Treasuries.

By the time the Great Recession had come to an end and a semblance of financial stability had been restored in 2014, the Fed's asset portfolio had tripled, with Treasuries and MBSs accounting for the bulk of its assets, having risen in value to over $2 trillion. The Fed then began to embark on a policy of 'normalization' which included a decision to systematically reduce the size of its asset portfolio by selling its holdings of Treasuries and MBSs, or allowing them to "run-off," i.e., not replacing maturing assets.

This process was brought to abrupt halt with the COVID-19 crisis in 2020. The Fed undertook even more aggressive purchases of Treasuries and MBS, coupled with a number of other measures, to soften the impact being felt in an economy that was nearly shut down. At the end of the crisis, the Fed's balance sheet had again dramatically expanded, more than tripling in size. Treasury securities and MBSs totaled approximately $8.5 trillion. As before, once the crisis subsided with the development of the vaccine, the Fed began to systematically shrink its balance sheet. By the summer of 2026, the volume of Treasuries and MBSs had declined by roughly $2 trillion, to just under $6.5 trillion.

So, this is where things stand today. The new Chair at the Federal Reserve, who was never fond of the "quantitative easing" policies adopted by the Ben Bernanke Fed, has made it clear he wants an in-depth review of the Fed Balance Sheet. A few things should be noted here: (i) Rapidly shrinking the Fed's balance sheet has the effects of reducing credit in the economy and raising long-term interest rates. (ii) There has been a sea-change in the demand for Deposits at the Fed by commercial banks, which rely on them, as mentioned above, for the risk management of their overall asset portfolios.

The Fed's Dual Mandate. When Kevin Warsh was on the Federal Reserve Board in 2006-11, he made his preferences clear as an inflation hawk, meaning support for higher interest rates and tighter credit, hence his opposition to 'quantitative easing.' Now, however, he seems to favor an easier monetary policy, viz. lower rates, in the hope that AI will so stimulate productivity that it will damp down inflationary pressures arising from a "hotter" economy. This perhaps wishful thinking comes amid persistent and now increasing inflation pressures arising from the current Administration's policies of historic high tariffs and the Iran War. And it's also unclear how this view would coincide with his desire to shrink the size of the Fed's portfolio, which would have the effect of *raising* interest rates. In his first FOMC vote, Kevin Warsh sided with the majority of the FOMC members to keep the Fed's interest rate target unchanged.

But all of this appears to be up in the air just now: The impact of AI's potential productivity gains on employment and inflation—the focus of the Fed's dual mandate—is very uncertain. And how the two inflation-inducing policies will play out: the war with Iran remains unsettled with continual "cease-fire violations on both sides; while, with the tariffs that were imposed without Congressional approval having been declared illegal by the Supreme Court, the Administration has nonetheless vowed to find other ways to enforce them. It's noteworthy in this regard that the Administration has recently decided to not renew the United States-Mexico-Canada Agreement (USMCA), the current trade agreement between the three North American countries, hinting that higher tariffs are likely in the offing with America's two largest trading partners, which would be another blow to the economy. (The irony is that the USMCA, was negotiated by the current President, which was proclaimed by him as the BEST TREATY ever negotiated by the United States, after he denounced NAFTA as the worst. In fact, the USMCA that he negotiated was little more than an updated NAFTA, with relatively minor differences. A NAFTA 2.0 if you will.)

In the meantime, the loss of tariff revenue has further exacerbated the bloated federal budget deficit—after the irresponsible tax cuts passed by the Republican-dominated legislature in 2025—and is now poised to erupt into a major fiscal crisis. With Congress and the Current Administration seemingly dead set on ignoring the problem, it's likely the Fed will be pressured to intervene. How? Buying up even more US Treasuries. It may be a good time to have an inflation hawk as Chair, provided he also has the backbone to resist that pressure.

Data Analysis. I am baffled somewhat by the new Chair's desire to bring in analysts from outside the Fed. Of course, he has a right to rely on people he trusts. Fortunately, he has chosen a number of superbly qualified individuals to comprise his review committees, such as Tom Sargent (Nobel Laureate) and Stanford economist Chad Jones , and the outcome of their work could be very helpful in providing additional input into important issues, including the significance of AI on employment, productivity, and inflation. And as for precedent, the Fed has a history of soliciting advice from academia and practitioners in the financial markets. For example, the Fed always solicits opinions on any new regulations it intends to implement and provides feedback on them before implementation. it also holds what amounts to sounding-board hearings with a set of distinguished academics each year to listen to their take on current US monetary policy.

However, it should noted that the Federal Reserve is the largest employer of PhD economists in the world. They have expertise in virtually all aspects of the economy, with many man-years of experience working particularly in the financial markets, and solid professional relationships with not only academia and the private sector, but also with financial and governmental institutions worldwide. It remains to be seen how Mr. Warsh will use this input he receives from the external committees that he's appointed. That is, will he tend to 'cherry-pick' the conclusions from the reports that support his preconceived opinions (as some skeptics have suggested), or will he show his confidence in the Fed staff with an extensive, unvarnished interval review of these reports recommendations?

Fed Communications. It was Alan Greenspan who first pushed to provide greater transparency in revealing the policy decisions made by the FOMC and the rationale behind them. The FOMC meets eight times per year (apart from any emergency meetings it may undertake) to set policy. Its decisions in those meetings were revealed to the public with a lag of a few months, during which time the FOMC had met again and possibly altered its policy. This opacity in the policy-making process kept the financial markets guessing, having to divine what those decisions were primarily by attempting to monitor the Fed's activity in its purchases of Treasuries in the open market.

Alan Greenspan broke with this tradition by offering a brief news release immediately following each FOMC meeting stating the Committee's principal decisions, usually with reference to the Fed's dual mandate of "price stability and maximum employment." Although, he was not always forthcoming in the details, for example, when asked in his semi-annual Congressional testimony how would he define price stability, he replied: "When inflation is so low as not to materially affect important economic decisions." Nonetheless, the post-FOMC press release was a major change in how the Fed communicated with the public.

Ben Bernanke, Alan Greenspan's successor, seemed to believe that the Fed's monetary policy was public policy and the public has a right to know and understand its decisions. And it should be noted that when he took over as Chair, there was enormous uncertainty brewing in the financial markets in the days immediately preceding the Great Recession. Rather than allowing the Fed to contribute to this 'uncertainty,' Bernanke began to hold press conferences immediately following the FOMC meetings and openly answered reporters' questions concerning the Fed's perception of the economy and the rationale for why the FOMC members took their decisions on the current stance of monetary policy.

Following the crisis, Bernanke continued to mold the Fed's communications policy toward even greater transparency. And during his tenure, the Fed's communications themselves would *become* policy in the form of "forward guidance." This process began with a more detailed press release which, not only provided a rationale for the FOMC's decisions with reference to the dual mandate, but also a statement concerning the "bias" of their beliefs. That is, whether the risks associated with their decisions were more heavily weighted to the upside (greater inflation) or the downside (slower growth). This 'bias' soon became the principal focus to which the financial markets would respond to FOMC meetings and the press release.

Bernanke then went further with this "forward guidance" by requiring all members of the FOMC to make projections of where they believed inflation, unemployment, GDP growth, and—*importantly*—the effective federal funds rate would be over the near term, i.e. approximately two to three years, and in the "long-run." These projections were published as the famous "dot plots," showing a scatter plot of these projections by all participants going forward. These projections were to be made under the supposition that the Fed had adopted policies that the individual member in making their 'plots' felt "would be appropriate."

A clear benefit of greater transparency that incorporates the Fed's "forward guidance" has been to anchor long-run inflation expectations, affirming the confidence that the Fed will indeed work to achieve its mandated goal of long-run price stability, which has now been made explicit as 2 percent growth in the core component (that is, excluding the volatile food and energy prices) of the *personal consumption expenditures (PCE) price index* (a measure initially favored by Alan Greenspan and since adopted as the standard for determining policy ever since). Evidence of this achievement is provided by not only surveys of household and financial market professionals, but is also evident in the pricing of inflation-indexed securities, where an implied inflation rate can be backed out of the data.

Both Janet Yellen and Jerome Powell had continued providing "forward guidance" by following the procedural precedents set by Ben Bernanke. And here is where we will most likely see the most immediate change at the Fed with Kevin Warsh as the new Chair. He has made clear his opposition to the current practice of greater transparency over the past 20 years in general, and to “forward guidance” in particular. He has already presided over his first FOMC meeting. While he voted with the other members to hold the federal funds rate target unchanged, both the subsequent press release and his press conference were truncated versions of the practices of his three previous predecessors, with the former having omitted any reference to the ‘bias’ or risk-assesment imbedded in the policy decision. He also declined to give his own “dot plot” projections.

It’s likely that the “dot plots” as an integral part of the Fed’s forward guidance will soon be a thing of the past—if the Chair disavows them, why would the other FOMC members continue to produce them? But Kevin Warsh has also stated that he wants the FOMC members to “talk less.” Just how much he will choose to reimpose and try to enforce the veil of secrecy over Fed deliberations that prevailed when Alan Greenspan first took office nearly 40 years ago is what the financial markets will be closely watching. His success as Chair of the Federal Reserve may depend in large measure on how others at the Fed will accept his lead in this regard.

Finally, in thinking of Mr. Warsh and his adulation of the former Chair, Alan Greensapn, one is tempted to paraphrase Lloyd Benson’s comment to Dan Quayle during the Vice Presidential debate in 1988: ‘Mr. Warsh, you’re no Alan Greenspan.’ It’s an unfair comparison to be sure, but I wonder how he would respond to a question once asked of Chairman Greenspan during the peak of his popularity as a public figure: “What, Mr. Chairman, do you like the most about your job?” To which he replied: “The data.”

— Milton H Marquis