

The Consequences of a Regime Change

Kevin Warsh, the Central Bank, and Dollar Hegemony

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A note. *This paper is a work of analytical opinion. Its factual claims rest entirely on the public record and on no private conversation with anyone it discusses. The sources and links to all factual claims are provided in the notes for verification. Where the record is explicit, the paper reports it. Where meaning must be drawn out, the paper reasons as anyone must under imperfect information, inferring from the visible evidence the more probable trajectory, holding it as probability rather than proof and never as knowledge of anyone's real motives, which cannot be read. The argument turns on the structure of the record, not on any single number.*

The thesis. This paper anchors the author's opinion on the public record, in what the new Federal Reserve Chairman, Kevin Warsh, has said in sworn testimony and at his own press conferences, and in what President Trump and Treasury Secretary Bessent have said about him and related matters. The opinion follows the evidence to a logical conclusion. What is unfolding at the Federal Reserve is not, as it has been casually described, a “family fight” over interest rates. It is a significant “regime change” in how the institution is governed, a reshaping of its rules and customs that enlarges the chair's influence over outcomes, shielded by an opaque review of five working groups he alone assembled, unfolding under a president who has made his wishes explicit and left the means of pressure in place.

1. The Dollar, the Fed, and the Stakes

Watch the coverage of the Federal Reserve this year and you will see a contest over rates. Hawks who want them higher, a president who wants them lower, a divided Committee, a new chair in the middle. That is the smoke. The real change is in who leads the institution and by what rule, and to see why that matters, one has to begin not with the new chairman but with what the Federal Reserve actually holds.

It holds the status of the dollar, its standing in the world. The dollar is the currency the world saves, trades, and settles in, and United States Treasury securities are the planet's **risk-free asset**, the safe harbor to which global capital flees in every storm, and the benchmark against which every other asset on earth is priced. This is the “exorbitant privilege.”¹ It lets the United States borrow the world's savings cheaply, run deficits others could not, and project power no rival enjoys. A great deal of American advantage rests on it, though most Americans are either unaware of it or take it for granted.

And all of this rests on nothing physical. Since the dollar's link to gold was severed in 1971 under President Nixon, the world has lived in an age of fiat money, in which the dollar is backed by no commodity but only by **confidence**, the world's trust in the Federal Reserve, the institution that guards its value. What once was enforced by gold is now enforced only by credibility. The dollar still accounts for well over half of all foreign-exchange reserves, and the entire architecture of global finance rests on it and on the debt of the United States, yet that architecture stands on trust alone.

This is why Congress, in 1913, established the Fed to be independent, placed **beyond the reach of short-term political convenience**, because elected officials, facing the next election, always prefer easier money now and will find a reason to defer the cost. A central bank tethered to that impulse produces inflation and debasement; one insulated from it can defend the currency's long-



run value. This independence is precisely what has made the dollar system sustainable. The privilege the United States enjoys endures only so long as the world trusts the dollar's steward to be rule-bound and independent, and no longer.

This is consequential, not the next quarter-point, but the credibility that underwrites the dollar, and through it a large measure of American advantage. It is a trust built over a century and spendable in far less.

2. The Fed as Fiduciary

The Federal Reserve stands in a fiduciary relationship to the public. It exercises power over the savings and livelihoods of anyone who uses the dollar, not for its own ends but for theirs, in faithful pursuit of the dual mandate of stable prices and full employment that Congress legislated. A **fiduciary** is one who holds power over another's interests and must exercise that power solely for that other's benefit.

A fiduciary owes two duties. The first is **loyalty**, to act solely in the beneficiaries' interest, not for the holder's own benefit or at another's direction. The second is **due care**, to act with prudence and competence. Neither duty can be confirmed by inspecting the fiduciary's intentions, which cannot be read.

This is why transparency of the decision process is not a courtesy but the mechanism of accountability itself. Because intent is invisible, the only way the public can verify that unyielding loyalty and due care were exercised is to see the process, the data relied on, the method of weighing it, the deliberation and dissent, the recorded vote, and the intended course, all made visible. Transparency is how a trustee proves he has kept good faith. A right outcome reached through a hidden process is still a breach, because the opacity removes the one means by which the duties can be verified at all.

The stakes are enormous. The Fed's duties are to the American public, to maintain the price stability and full employment on which the economy depends. The dollar's standing in the world is not a further duty but a vital byproduct of maintaining credibility. The Fed is a fiduciary, and what a fiduciary owes, above all, is a process the public can observe, verify, and confirm. The rest of this paper examines how the Warsh Fed is meeting the fiduciary obligation to be transparent in discharging these duties.

3. The Committee, and the Chair Who Can't Command It

It is wrong to treat Kevin Warsh and the Federal Reserve as one and the same. Monetary policy is set by the Federal Open Market Committee, and its voting members carry independent views, independent tenure, and independent political affiliations. The chair has one vote. His real power is quieter and larger. He controls the agenda, the staff analysis, and the drafting of the statement, and he speaks with members between meetings, building consensus one conversation at a time before the Committee ever convenes. A skilled chair also calibrates what he proposes to what he has learned the room will support, so that agreement, when it comes, reflects persuasion and accommodation rather than command. This is how chairs have long secured near-unanimous votes, not by compelling agreement but by shaping the conditions that produce it. The influence is considerable, and it operates largely where the public cannot see it, but influence is not



command. If a majority of the Committee turns its collective thumb up, the decision is up regardless of what the chair wants.

The evidence that this check is live is Warsh's own Committee. His first meeting held rates by a unanimous vote. By his second, the consensus had broken, three colleagues dissenting in favor of a hike. The Committee is a genuine constraint. Whatever Warsh prefers, he must still assemble a majority of colleagues who do not answer to him, and, on the current evidence, that majority may not always be there.

If the Committee is the check, the question is what a chair may do to reshape the environment toward the outcome he favors, with a Committee he cannot command. Shaping the terrain on which Committee decisions are made is the pattern the sections that follow trace. He is reshaping the framework itself, introducing five new working groups to propose new approaches, and thinning what the Fed discloses. These moves enlarge his leverage over the result while narrowing what others can see and contest, and they keep his own choices open to circumstance rather than fixed to a rule. The answer lies not in the rate votes at all, but in the machinery Warsh is building around them.

4. The Anchor, Forward Guidance, the Reaction Function, and the Un-Anchoring

A core principle under Warsh's "regime change" is a deliberate thinning in what the Federal Reserve communicates or makes available to the public. He compressed the policy statement, questioned the future and regularity of press conferences and the publishing of meeting transcripts, declined to submit his own economic projection (the "dot plot"), and, most visibly, abandoned forward guidance. Each is an instance of a single philosophy, that the central bank should say less, and together they narrow the visibility of the institution's deliberation, thinking, and reaction function, reducing the degree to which the public can observe, understand, prepare for, and respond to what the Fed intends to do.

Warsh has a reason for wanting the Fed to say less. In his view, a central bank that comments less leaves the market to read the economy directly, rather than spend its energy parsing the Fed's every word. Heavy guidance, on this account, makes the market fixate on the central bank instead of on the incoming data, and a Fed that says little forces attention back where it belongs, on the real economy. "*Financial markets perform best when they react to incoming data,*"² he said at his first press conference, and the central bank, in his words, "*need not always and everywhere be the center of attention.*"³ Less communication, then, is offered not as evasion but as discipline, a way to restore healthier price discovery and a less Fed-obsessed market.

His own words are unusually direct. At his first press conference as chair, in June 2026, Warsh announced, "*We've dropped forward guidance.*"⁴ Before Congress weeks later he was blunter still, "*Forward guidance isn't the business we should be in.*"⁵ And pressed by a reporter on whether abandoning guidance would create market volatility and deny Americans insight into the Fed's thinking, he did not dispute the premise so much as sidestep it, drawing "*a distinction between our internal deliberations*"⁶ and what must be conveyed to markets, arguing that the Committee's blunt internal exchanges, a "family fight," as he approvingly called it, *do not need to be conveyed directly to financial markets*. But internal deliberations were never what forward guidance meant. Guidance is the Fed's signal of its own reaction function and likely path, the outcome, not the argument behind it. By answering about the deliberations no one expected to see, he left



unanswered the question actually put to him, why markets are no longer told where policy is heading. He has also opened a review that puts the dot plot, the minutes, and even the meeting transcripts on the table. In none of this did he define the type of forward guidance he meant.

The abandonment of forward guidance requires care, because the Fed has adjusted its use before, and a casual reader may take forward guidance to be a fixed term, one with a single, unvarying meaning. Forward guidance is best understood not as a single tool, present or absent, but as a matter of degree, of how much of the path the Fed signals and how precisely. It took two genuine forms in the modern era.

1. **Explicit forward guidance.** Under Bernanke, at the height of the crisis, the Fed named the destination and the timing alike. It committed to explicit dates, pledging to hold rates near zero through mid-2013, then late 2014, then mid-2015, and to a data threshold, holding there until unemployment fell below 6.5 percent so long as inflation stayed contained. It fixed both what would move policy and when, a fixed beacon in a frightened market, the lightpost a ship needs in the dark. Maximum predictability, minimum interpretation.
2. **Data dependence with a reaction function.** When the storm passed, Yellen dimmed that beacon. She let go of the calendar and the fixed destination, and kept in their place two visible signposts, the data the Fed would watch and the reaction function by which it would respond. This was less a beacon than a marked route, guideposts set along a wide highway. The market could no longer read the timing off a date, but it could follow the road, because both the markers and the rule for reading them remained in view. An altered form of predictability, but predictability still.

Warsh is a complete departure from Bernanke and from Yellen and Powell. Even though the destination remains stated, 2 percent inflation, Warsh is hiding the exact road to travel. The guideposts are removed, because he does not say which data will inform decisions; the method is unstated, because he offers no reaction function; and the vehicle and the timing are left to guesswork as well. One is told where the Fed intends to arrive, and given no way to see the path, the means, or the moment.

The market reads the Fed's signal and prices against the expected course moment by moment. The destination is anchored at 2 percent, but the path to it, under Warsh, is no longer signaled. Without a visible path the market cannot price with confidence. The market can always find a price, but pricing across a wide range of possible actions, it charges an uncertainty premium continuously, the first cost, reflected in a steeper curve. That premium is not an abstraction. Because Treasury yields set the floor for nearly all other borrowing, it passes into mortgages, business loans, and the government's own cost of financing its debt, an additional burden on everyone who borrows, imposed not by economic necessity but by the Fed's own choice to obscure its path. The second cost arrives each time the Fed acts. Because nothing has aligned the market to the coming move beforehand, decisions land as surprises, and every gap between what was priced and what the Fed does forces a disorderly repricing. Forward guidance existed to prevent exactly this, letting expectations converge on the Fed's course so the decision landed softly. Removing it produces the opposite, a market repeatedly caught offside, absorbing in shocks what it was once told in advance.

There is a fair point in Warsh's direction, but he blended forward guidance on rates and the balance sheet. The explicit, calendar-based pledges during the financial crisis, holding rates near



zero “through mid-2015,” were a tool for the zero lower bound, and a chair is right to be wary of resurrecting them in normal times. Bernanke drew this line as well. He expected the crisis-era balance-sheet tools to be rarely used once rates were off the floor, but of forward guidance he said the opposite, that it “*can be valuable even when the zero lower bound is not relevant*,”⁷ and that he expected its use to increase. The architect of modern guidance did not regard it as a crisis relic to be retired. He regarded the communication of the Fed's intentions as a permanent improvement. Warsh, Bernanke, Yellen, and Powell all agree that calendar-specific guidance is not necessary in normal economic times and is already not in use. So when Warsh gives up “forward guidance” while suggesting it is calendar specific, the part no one defends today, the conflation obscures what he has actually withdrawn, the reaction function, the tool that matters.

What the argument establishes, though, is narrower than it appears. It justifies abandoning a fixed path (the Bernanke era approach). It does not justify withholding the reaction function (the Yellen and Powell era approach), and those are different things. One can decline to promise where rates will be in a year while still disclosing how the decision will be made when the year arrives, because the reaction function is not a forecast that can prove false; it is the rule that lets the public follow the reasoning. The honest core of Warsh's case argues against false precision. It does not argue for opacity. He has used the first to justify the second, and it is the second that does the damage.

The communication reductions sit awkwardly against what Warsh swore about transparency at his confirmation. Before the House, he said he favors “*full transparency*”⁶ and pushed back on the charge that he seeks to hide the Fed's approach, “*Our number one objective is getting policy right, and if we get policy right, we can deliver lower prices. Transparency and communication is usually quite essential to do that.*”⁸ The question is how to reconcile a professed devotion to “full transparency” with the concrete reduction of every kind of disclosure. The reconciliation lies in his own distinction, transparency about the *objective* (2 percent inflation, which he repeats), but not about the *reaction function* or the exact data it weighs, the very rules connecting conditions to decisions. That is not “full transparency.”

Warsh casts the abandonment of guidance as intellectual honesty. Before the House he explained that pre-committing distorts candor, “*If we were to give you my projection today about what we'll do when we meet in two weeks,*”⁹ officials would be more likely to defend the projection than follow the evidence. He prefers, in his words, to be a humble central banker, in his phrase, “*Humble central bankers should be listening and then making their own decisions.*”¹⁰ And he has set aside sole reliance on the conventional, backward-looking statistics the Fed has always used, the unemployment rate, the CPI, the PCE deflator, in favor of unspecified real-time market and economic signals he has not enumerated. This reverses the conventional relationship. A central bank is the policymaker and regulator that sets the rules the market organizes around; a Fed that takes its cues from market signals follows the market it is meant to guide. The market's prices already reflect its guess about what the Fed will do, so a Fed that reads those prices for direction is, in part, reading a reflection of itself.

The claim misdescribes the Fed's own method. For a decade the Fed described its process, in statement after statement, as data dependent. A projection is conditional on the information available when it is made, and it is revised as the data arrives. If core inflation or unemployment breaks from trend in those two weeks, the outlook is updated, and updating it is not defending a



stale forecast. It is data dependence doing exactly what it is meant to do. Revising a conclusion when the evidence changes is not fickleness; it is the mark of a serious policymaker, and it is how the Fed has operated all along.

Here the two ideas. The reaction function is nothing more than data dependence written down, the rule that says which data will move policy and in which direction. Data dependence is the principle; the reaction function is how the principle is made visible, so the public can see that decisions truly follow the evidence rather than the chair's unstated preference. A chair can shape which data the Committee emphasizes and can introduce new kinds of it, and that influence over the inputs is real. But the decision is still made by the Committee from the full set before it, and the reaction function is what lets the public see how the inputs connect to that decision. To claim data dependence while withholding the reaction function is to keep the word and discard the mechanism. It leaves a Fed that says it follows the data but will not show the rule by which it does, which is data dependence one must take on faith. Warsh sets his humility against a Fed that does not exist, one whose members would sooner defend a two-week-old guess than read a new number. The tool that made the Fed genuinely data dependent is the very one he has removed.

It is worth being precise about what that virtue requires. Intellectual honesty is the discipline of reasoning from data and its careful interpretation, of judging directionality without pretending to predict, of working within what is known and known to be unknown, and of holding one's assumptions humbly enough to accept and correct error. No one can manage the genuinely unknowable, and pretending otherwise would be false precision. But every part of that practice depends on exposing one's reasoning to scrutiny. Assumptions can be corrected only if stated; errors acknowledged only against a visible standard. Intellectual honesty is, by its nature, transparent.

Warsh has invoked intellectual honesty to justify the opposite, thinning what the Fed discloses about the data it weighs, the interpretation it applies, and the rule by which it responds. But the chair is not a private thinker entitled to keep his reasoning to himself. He is a public servant, entrusted with power over the savings and livelihoods of everyone who uses dollars, and bound to exercise it solely in the people's interest. That status transforms intellectual honesty from a virtue he might choose into a duty he must discharge. To withhold his reasoning is not scholarly humility but a breach of the trust on which his authority rests. The vocabulary of intellectual honesty quietly recasts a steward, who owes the public his reasoning, as a private thinker, who owes no one anything, and that recasting is itself the evasion. His office does not permit it.

"Listening and then making their own decisions" is a precise description, and what it describes is **discretion**, not constraint. Instead, Warsh detached the Fed's communication from the published path, from forward guidance, from the dot plot, from the reaction function, and now from the conventional data itself. Each was a hinge binding the chair's stated case to something outside his own preference, a standard others could see and hold him to. One by one they have been removed. What remains most legible is the chair's own leaning, which he has not set down in any rule. This does not make him the decider, but it does thin the shared framework the Committee, the market, and the public once used to see where policy was heading. Warsh is not data-dependent in the manner of Yellen or Powell, who named their framework and their data and let the public map decisions onto conditions. Warsh has removed almost all external signals that once bound the office, and in doing so has left everyone operating in the dark.



A chairman who refuses to publish a path does not stop shaping expectations; he moves that shaping off the record. Formal guidance binds the guide, a published rule can be checked and its author held to it, while informal guidance binds no one. Warsh has not stopped managing the public mind about the Fed's course. **He has privatized it** by relocating the management of expectations from the public record, where anyone could hold him to it, into private channels, where no one can. Privatizing the decision making process leaves Warsh the flexibility needed to accommodate the audience of one if necessary and to craft, after the fact, the rationale that fits the outcome he wants. And where even opacity cannot fully satisfy a policy choice, he has equipped himself with five working groups alongside the Committee, a set of hand-picked bodies whose findings he can invoke selectively and whose authorship he can assign the blame to if a decision draws fire. Each of these is examined below. The design adds opacity, layers, and complexity, and removes transparency.

A deeper concern reaches past communication style into how inflation is actually contained. The dominant lesson of the last half-century of monetary policy is that inflation is governed largely by expectations. When the public believes the central bank will hold inflation to its target, the belief becomes self-confirming; when it comes unmoored, inflation feeds on itself, as it did in the 1970s. What anchors those expectations is not communication alone, whose precise potency economists still debate, but *credibility*, the accumulated belief that the central bank will do what it says. And credibility is built from two things together, a stated reaction function the public can see, and a record of action that honors it. The rule tells the market how the bank will respond; the follow-through proves the rule is real; and the two, compounded over time, are what let expectations settle. The Federal Reserve's own researchers credit an explicit target, a communicated reaction function, and openness with strengthening that anchor, and the era of anchoring through credibility has coincided with inflation better controlled than in the decades before it. That coincidence is not proof, and the paper does not claim it as such, but the mechanism is coherent, the institution attests to it, and the weight of the evidence points one way.

Warsh is loosening both halves at once. He is withdrawing the stated reaction function, so there is no visible rule to signal the path, and through emphatic words unmatched by action he is spending the credibility that a rule honored over time would build. He would weaken the mechanism most credited with containing inflation and call the weakening a fight against it. In its place he offers a single idea, that the Fed should listen to the market, though he has not said which signals he will heed or how he will answer them. Whatever it means, it inverts the institution's role. A central bank exists to anchor expectations by signaling its own course, not to read expectations it has declined to shape. Market prices are largely the market's forecast of what the Fed will do, so a Fed that steers by them reads a reflection of itself, and one that withholds its reaction function only makes the reflection noisier. A Fed that waits for the market to move also acts late, reacting to distress already underway rather than steering before it forms. Worse, the two choices compound each other. The opacity makes the market charge an uncertainty premium, raising long rates for reasons that have nothing to do with the economy. Warsh, listening to the market, then sees those higher rates, and with no reaction function to tell a genuine signal from the noise of his own making, he can read the premium he caused as evidence that policy should stay tight, a reading that confirms the market's doubt and widens the premium again. Each turn raises the cost of borrowing for no reason but the last turn, a loop that feeds on itself and is paid, at every stage, by everyone who borrows. Taken to its end, a policy that only



reacts to incoming data needs no judgment and no credibility; it could be run by an algorithm, and an algorithm could at least publish its rule. Warsh offers neither the transparent rule that would anchor expectations nor the open judgment that would reassure, only discretion exercised out of view, which signals nothing.

There is a further cost in what he is surrendering. A credible central bank enjoys something close to a free lunch. When the market trusts that the chair's words will be matched by action, his communication does the work of policy before any rate moves. A credible signal that rates will stay high until inflation breaks tightens conditions on the spot, an effect achieved through words alone. But this is not the case if the market cannot trust what it hears.

Credibility is nothing more than the accumulated evidence that the institution does what it says, built action by action over time, and words only draw upon that accumulated credibility. Warsh's emphatic hawkish talk may be an attempt to draw on it, to let belief in his resolve do the tightening that hikes would otherwise require. The trouble is that a draw must be backed. Because credibility just is the record of follow-through, every gap between a hawkish word and a passive vote is not neutral; it is counter-evidence, teaching the market that his words do not forecast his actions. He is drawing down credibility he did not build, the inherited trust of the chairs before him, while doing little to replenish it, and each unbacked statement drains it further. Spent this way long enough, the words stop moving markets at all, and he is left with neither the credible signal, its credibility gone, nor the record of action that might have rebuilt it, and nothing with which to anchor expectations.

5. Transparency, and the Century He Is Reversing

The transparency Warsh is thinning was not a default the Fed was born with. It was an achievement, the product of decades of responsiveness and adaptation to the American economy, refined by cumulative experience, against the institution's own earlier instincts. For most of the twentieth century the opposite doctrine ruled, that monetary policy works best in secret, and Alan Greenspan captured the ethos when he described learning, as a central banker, to “*mumble with great incoherence*,” adding that if he ever seemed clear, his listeners must have misunderstood him.¹¹ The arc from that world to the present one runs in a single direction, and each step was taken because the institution concluded that openness served the public and the economy better than mystery.

- For most of the twentieth century, secrecy was the doctrine. The Fed did not announce its policy decisions; Fed-watchers inferred them from the size and type of open-market operations. As late as the 1970s, the Fed argued in a Freedom of Information Act lawsuit that immediate disclosure of its actions would “*significantly harm the Government’s monetary functions*,”¹² and it prized the “*constructive ambiguity*”¹² it believed kept debt markets liquid.
- February 1994. For the first time in its history, the FOMC announced the outcome of a meeting, a quarter-point increase, in a short public statement.¹³ Before this, it might have taken a room of economists to work out what the Committee had decided.
- 1995 to 2000. The Committee committed to announce every change in policy, then to issue a statement after every meeting whether policy changed or not, and to explain its reasoning and record the vote.
- 2011. Chairman Bernanke held the first regular post-meeting press conference, submitting the chair to live public questioning.¹⁴



- January 2012. The FOMC announced an explicit numerical inflation target, 2 percent, for the first time in its history, and said plainly why: communicating the goal clearly *“helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability.”*¹⁵

The turn was not cosmetic, and the institution said so. Where in the 1970s it had told a court that disclosure would harm its functions, by 2012 the FOMC stated that communication *“increases the effectiveness of monetary policy.”*¹² A century of experience had taught the Fed that a known goal and a visible reaction function are not concessions that weaken policy but the very things that anchor expectations and make policy work. That is the settled institutional judgment, arrived at slowly and against resistance, that the current chair is now reversing.

6. The Five Task Forces

In July 2026, Warsh named the membership of five task forces to review the pillars of monetary policy. The five domains are not random; they are, precisely, the levers that determine everything. They are **communications; the balance sheet; the data the Fed relies on; productivity and jobs; and the inflation framework itself**. He described them as bodies that will *“operate independently, with a mandate to follow the evidence, provide candid feedback, and produce rigorous findings for the Federal Open Market Committee,”*¹⁶ and framed the whole effort, in his own earlier phrase, as *“regime change”*¹⁷ at the central bank. The rosters are genuinely eminent, including foreign central bankers and economists from across the political spectrum, and the effort has drawn praise for leaning on expertise. Any suggestion that these individuals are servile would be false and beneath the argument. The case does not depend on the panelists' character at all, but on a structural fact about how their findings can be used, and that fact holds whether every member is entirely independent or not.

How the shield works

Consider the mechanism. Two features of the arrangement are matters of record. First, Warsh alone assembled the panels; as CNN noted, *“it’s unclear how the task force selections were made,”*¹⁸ but several members have overlapped with Warsh professionally, including during his first Fed tenure. Second, the panels deliberate outside public view and report their *findings* to the committee. Now follow the logic. When a “panel” that the chair assembled returns a recommendation, suppose the inflation-framework or productivity group concludes that an AI-driven productivity surge warrants tolerating easier policy, the chair no longer has to win that argument himself against his hawkish colleagues. He arrives at the committee table able to say, in effect, *the independent experts have found*. The dissenters are no longer disagreeing with Warsh; they are disagreeing with a panel of distinguished authorities. The finding becomes a *lever* against the committee's resistance.

And it works in the other direction just as powerfully, as an *alibi*. If a decision taken on a task-force finding goes wrong, if easing proves premature and inflation reignites, the authorship has been pre-distributed. The chair captures the **control**, choosing the reviewers, framing the questions, and deciding which findings to run with, while diffusing the **responsibility** onto eminent outsiders who cannot be held to account and a Committee that shares the blame. That asymmetry is the entire function, and it operates no matter how independent the panelists are, because it depends on the chair's *use* of their findings, not on their loyalty.

A finding is not a vote. However eminent the panel, its recommendation must still pass the same divided Committee that will not simply defer to Warsh on rates. The shield raises the weight of



dissent and pre-distributes blame; it does not guarantee the outcome. But note where this leads. The durable prize is not any single rate decision but the *framework*. A “designated working group” review that rewrites how the inflation target is defined, or how the Fed reads its data, or how it communicates, reshapes the terrain on which *every future vote* is contested, moving policy for years without whipping a single tally. That is the quiet, permanent form of the change, aimed squarely at the levers the task forces were built to review.

7. Independence, and the Audience of One

Warsh has never been reluctant to defend the Fed's independence. Asked about it repeatedly, he responds readily, at times almost defensively, insisting the institution's autonomy is essential and pledging, at his confirmation hearing, that he would not serve as a “*sock puppet*”¹⁹ for the president. Yet his defenses contain a conspicuous absence. The independence questions put to him have two objects, independence from political pressure and independence from the Treasury. On the first he has never once, in these exchanges, named the president who appointed him, sought his predecessor's removal, and called publicly for lower rates. Reporting on the July decision noted the same evasion across the Committee. A defense of independence that will not name the source of the pressure it claims to resist is a curious kind of defense.

Independence has always been defended as much by conduct as by words. A Fed chair keeps visible distance from the president, and the history explains why. Volcker refused even to assure Reagan he would hold rates before an election. Burns, who bent to Nixon ahead of 1972, is the warning the profession never forgot, and the inflation that followed is the reason. The chairs who guarded the Fed's independence most effectively were often those who kept the White House at arm's length and said little about it.²⁰

That evasion took on a sharper meaning as this paper was completed. The Wall Street Journal and Bloomberg reported that Trump and Warsh have spoken by phone repeatedly since the May confirmation, the president asking Warsh's views on the economy, the war in Iran, and artificial intelligence, with Warsh often offering an upbeat assessment.²¹ The White House did not deny the calls. By the reporting Trump inquired about forecasts and opinions but did not press for any specific course of action, and whether monetary policy was discussed is unknown, so the contact is not evidence of instruction, and the paper does not treat it as such. What it establishes is closeness and its concealment. Fed calendars show a single Trump meeting with Powell across the years before Warsh; with Warsh the contact is routine. And it recasts a moment from his own testimony. Asked directly whether he had communicated with the president, Warsh declined to say, “*I just don't want to be in the business of sharing discussions that the president and I have,*”²¹ even as he vowed to be an independent guy. The self-described independent chair, asked how often he speaks with the man who appointed him, sought his predecessor's removal, and demands lower rates, would not answer. A defense of independence that will not disclose the contact it is meant to withstand asks to be taken on faith. It is one more channel that runs through him alone and out of public view, consistent with everything else this paper has traced, and pointing in the same direction.

Nor is the question abstract, because Warsh occupies the chair by the president's design. Trump said plainly that Warsh “*would not have been*”²² his nominee “*had he wanted interest-rate hikes,*”²² and, at the Alfalfa Club's black-tie dinner in late January 2026, joked that he would sue Warsh if he did not lower rates, a “*joke*” whose menace the Treasury Secretary would later decline to



disavow, telling the Senate that whether Warsh might be sued or investigated was “*up to the president.*”²³ After the July hold, Trump cast Warsh as a captive ally: “*Kevin’s fantastic, but he’s got a board, and it’s a political board, and they want to keep rates up.*”²⁴ The pressure Warsh will not name, the president names freely.

On the second object, independence from the Treasury, his own words are more revealing still, and they predate his appointment. In July 2025, as a private citizen and a leading candidate for the chairmanship, Warsh called openly for what was described as a policy alliance with the Treasury Department. He proposed “*a new Treasury-Fed accord, like we did in 1951,*”²⁵ so that, in his words, “*the Fed chair and the Treasury secretary can describe to markets plainly and with deliberation*”²⁵ their joint objective for the size of the Fed's balance sheet. The invocation cuts both ways. The 1951 Accord is the founding charter of modern Fed independence, the agreement that freed the central bank from monetizing the Treasury's debt. Warsh cites it not to reaffirm that separation but to propose its partial reversal, a chair and a secretary announcing balance-sheet policy together. Every chair meets the Treasury Secretary, and Bernanke, Yellen, and Powell each kept regular contact with theirs without compromising the Fed. The issue is not consultation but that Warsh has made coordination a stated program, advocated before he took office and, in his July 2026 testimony, acknowledged he pursues. Coordination is not a synonym for independence; it implies joint action toward a shared end, where independence implies a decision reached alone. A chair intent on protecting the image of independence would have no reason to advocate a partnership with the fiscal authority. Warsh advocated one before he held the office, and has not disowned it since.

The surrounding conduct is what makes the pledge of independence worth scrutinizing. The president who appointed Warsh spent the prior chair's tenure demanding cuts and vilifying him. Toward Warsh, the posture is publicly different. At the swearing-in, Trump said, “*I want Kevin to be totally independent. Don’t look at me, don’t look at anybody, just do your own thing and do a great job.*”²⁶ Yet in the same breath as the praise, he has never withdrawn the demand, insisting the country should have the lowest rates in the world and casting Warsh, after the July hold, as an ally held back by a “*political board.*”²⁴ It is either projection or an accurate description of a chair whose own preference runs toward easing. The apparent grant of freedom and the standing demand for cuts are voiced together, and the second never truly yields to the first.

The Treasury Secretary's words complete the picture, and one exchange is difficult to read benignly. The suggestion that Warsh could be sued was not left as a late-January quip. Asked directly by Senator Warren to promise that Warsh “*will not be sued, will not be investigated by the Department of Justice, if he doesn’t cut interest rates exactly the way that Donald Trump wants,*”²³ Bessent answered only that it was up to the president, and the exchange sat against the backdrop of an actual criminal investigation the Administration had trained on the prior chair. Bessent has separately said Warsh is under “*no pressure*”²⁷ to cut and will “*be independent and do what he wants,*” while also predicting Warsh would abandon forward guidance and pointedly noting that bond yields “*peaked the day before Chair Warsh was sworn in.*”²⁷

The Bessent relationship extends beyond approval, and this is the dimension most easily missed. By the reporting, Bessent ran the search that produced the appointment and keeps a standing weekly breakfast with the chair. He has applauded the very moves Warsh has made, the death of forward guidance and the retired dot plot, and credited the bond market's improvement to Warsh's arrival. This is not an Administration holding a central banker at arm's length; it has



the shape of a coordinated arrangement, with the Treasury Secretary as the hinge. The president appears to surrender control (“do your own thing”), the chairman appears to seize independence (the hawkish debut), and each gets the story he needs. When the most rate-focused White House in memory falls silent on rates, that silence is not an accident. It is a decision.

Which raises a possibility that reframes the entire hawkish opening. Warsh's tough debut, the hold, the retired easing bias, the vow to deliver price stability, was read almost universally as evidence *against* capture, proof that he was no instrument of the Administration. But a tough opening is not in tension with eventual easing. **It is the permission slip for it.** A chairman who has loudly established his anti-inflation credentials can later cut from a position of credibility rather than capitulation, easing not as surrender but as the considered judgment of a proven hawk. The hawkishness is not the opposite of accommodation; it is the down payment that makes accommodation deniable. The debut that reassured the market is equally consistent with the darker reading, and a skepticism worth the name does not treat the reassurance as settling the question.

The bravado is itself the first tell. Warsh's hawkish language is emphatic and repeated. Inflation has run above the 2 percent target since 2021; he calls that unacceptable, tells Congress the Committee has “*no tolerance for persistently elevated inflation*”²⁸ and a “*resolute commitment to restoring price stability*,”²⁸ and pointedly rejects any suggestion of “*mission accomplished*.”²⁸ Set that rhetoric beside the conduct. A hold, taken by itself, would prove nothing; a new chair might prudently wait, and holding even against dissent is ordinary for a chair managing a divided Committee. The anomaly is not the hold. It is the hold set against the volume of the conviction, and joined to a silence where a reason should be. Employment, the other half of the mandate, gave him no reason to wait, with U3 unemployment holding between 4.2 and 4.4 percent through the first half of 2026 and ending June at 4.2 percent, a labor market at or near full strength.²⁹ He could not claim a hike would endanger jobs, because the data will not support it. At the July meeting he nonetheless held rates, while three of his own colleagues, Hammack, Kashkari, and Logan, formally dissented, preferring a quarter-point increase.³⁰ The self-described inflation hawk was not among the hawks. Consider what a genuine hawk, sharing their view but outvoted, would say, that he wanted the increase as well and simply lacked the votes. With three dissenters already at his side the statement would have been easy and credible. He did not make it. Nor did he offer the other honest rationale available to him, the one a sympathetic critic would supply on his behalf, that inflation's recent rise owed much to an energy shock from the war in Iran, and that a hawk might reasonably decline to tighten into a supply disruption. That reason was his for the taking, and it would have squared the conviction with the hold. He did not take it. He voiced neither the hawk's frustration nor the pragmatist's caution. He simply held, and let the hawkish words stand unaccompanied by the hawkish vote or any stated reason for its absence. A man whose stated conviction is total, given a sound reason to hold and declining even to state it, is not behaving as the conviction would predict. Words this strong, paired with a vote this passive and a silence this complete, are not the record of a committed hawk. They are the construction of a credential.

As this paper was completed, the pressure apparatus showed itself again. Weeks after the Supreme Court blocked him, Trump reopened his effort to remove Governor Lisa Cook, notifying her that he was “*considering*” her removal over unproven mortgage-fraud allegations that had originated with an administration official who was himself publicly demanding rate cuts.³¹ The



same president who pursues Cook, and pursued Powell, has left Warsh untouched, and praised him. The instruments of pressure are demonstrably live; they are simply not publicly aimed at the current chair.

8. The Danger, Plainly Stated

The phrase “family fight” can be stretched to fit the Committee's disagreement over rates, the members who wanted to hike against those who held. But even that was talk and a vote, not a fight, and it is not the substance. The substance is a regime change, the reshaping of how the institution operates, and a restructuring is not a fight.

This is why the century-long history matters. The Fed did not announce its rate decisions until 1994; it added the projections, the press conferences, the transcripts, the published minutes, deliberately and over decades, *becoming* more of a people's institution as it went, trading the opacity of a private financiers' club for the accountability owed to a public it serves. Warsh is running that history in reverse. The charge is not that he defies the ballot box; the Fed was rightly insulated from that. It is that he is un-making the **people's** character the institution spent a hundred years acquiring, returning it, step by step, to the opaque, concentrated, personal thing it worked so long to cease being. That is a democratic loss in the deepest sense.

A sweeping change of governance at this institution warrants concern because of what its credibility underwrites. The Federal Reserve is not merely the American central bank; its credibility is the foundation beneath the dollar's role as the world's reserve currency, beneath the U.S. Treasury's standing as the global risk-free asset, and beneath the exorbitant privilege the nation draws from both. Warsh himself has said it more precisely than any critic could. Pressed on the source of the Fed's power, he told Congress it comes “*not just from the printing press... It comes from our credibility.*”³² Exactly so. And credibility, in a central bank, is built on precisely the conditions this restructuring erodes, a knowable rule, an accountable and transparent process, and policy decisions insulated from the wishes of any single office.

The deeper concern is a fiduciary one, and it rests on a principle the office cannot waive. The Fed and its Committee hold power over the savings and livelihoods of everyone who uses dollars, exercised in pursuit of the dual mandate of stable prices and full employment. That the dollar holds its value is the earned consequence of discharging that mandate credibly. Holding such power for others is the definition of a fiduciary relationship, and a fiduciary owes two duties, loyalty, to act solely in the beneficiaries' interest, and due care, to act with prudence and competence. Neither can be confirmed by inspecting the fiduciary's intentions, which cannot be read. Transparency of the decision process is the means by which they are made verifiable, such as the data employed to inform, the method of weighing it, the deliberation and dissent, the recorded vote, and the intended actions, all made visible, so the public can see whether loyalty and care were in fact exercised. A right outcome reached through a hidden process is still a breach, because that opacity removes the one means by which the duties can be confirmed at all. The concentration this paper has traced runs the other way. Warsh sits at the junction of the parties meant to hold the Fed to account, the public, from whom the reasoning is withheld, the Committee, shown a case but not the predetermination behind it, and the review bodies he alone assembled, whose findings reach the table through the chair who commissioned them. Whatever he calls it, the effect is to speak the vocabulary of discipline while obfuscating the process itself.



The Fed's guidance exists so that businesses can plan investment, households can borrow and build, and lenders can price credit, all of which require some confidence about the cost of money over time. That guidance is not a courtesy to traders; it is a public good on which real economic activity depends. Central bank policy should not be left to guesswork; it needs guardrails to guide the public's expectations. To leave the outcome to chance, withholding the rule and letting the market infer intentions from silence, is to abandon the steadiness the institution exists to deliver.

The danger is not a sudden crisis but a slow, steady erosion of trust and confidence in the institution, one that undercuts the foundation of the global dollar-based system. The dollar's privilege never rested on force; it rested on belief, the world's confidence that the steward of the currency was bound by a transparent process, clear rules, and fiduciary duty rather than discretion and political convenience. The credibility built in 1913 and extended across the world in 1944 cannot be quickly rebuilt once spent, for trust is earned slowly and lost quickly. To let it dwindle for near-term relief, or to quiet the anxiety of an unsustainable debt with an easier and less accountable Fed, is to do precisely what the institution's 1913 founders built it to prevent.

We end where we began. We have quoted Kevin Warsh, and President Donald Trump, and the treasury secretary, Scott Bessent, and relied on the plain logic of what they have said. The contest over the next quarter-point is the smoke, and the bravado thickens it; the reshaping of how the institution operates, its stated rule withdrawn, its process sealed, its expectations privatized, its disclosures thinned, all under a president who has made his wishes explicit, is the event. It is the “regime change” Warsh himself promised, an un-making of the people's central bank, and a wager with the foundations of the dollar as the stake.

An unelected institution earns its legitimacy in a democracy on one condition. It must remain accountable to the light. Its independence from the voters was always purchased with its transparency to them, the disclosed rule, the visible vote, the shared evidence, the reviewable process that let the people see the power being used on their behalf. That same transparency was the foundation of the world's trust in the dollar. Warsh is keeping the independence and withdrawing the light. A people's institution, governed where the people can no longer watch, ceases to be theirs; a reserve currency, issued by a steward the world can no longer read, ceases to be trusted. Both losses come quietly, by the same cause, and both are the harder to reverse for never announcing themselves. That is the whole of the warning, and it is old enough to be a maxim. **Democracy dies in the dark, and so does the dollar's exorbitant privilege, and for the very same reason.**



Notes

1. The phrase “exorbitant privilege” was coined in 1965 by Valéry Giscard d’Estaing, then France’s Minister of Finance and later President of France, to describe the advantages the United States derived from the dollar’s role as the world’s reserve currency. It is often incorrectly attributed to Charles de Gaulle. en.wikipedia.org/wiki/Exorbitant_privilege
2. Warsh, first press conference as Fed chair, June 17, 2026, describing his approach to Fed communications. bankingjournal.aba.com/2026/06/warsh-to-launch-review-of-how-fed-sets-monetary-policy/
3. Warsh, press conference following the July 2026 FOMC meeting, July 29, 2026. federalreserve.gov/mediacenter/files/FOMCpresconf20260729.pdf
4. Warsh, “We’ve dropped forward guidance,” first press conference as Fed chair, June 2026; reiterated at the ECB Forum, Sintra, July 1, 2026. cnbc.com/2026/07/01/kevin-warsh-ecb-forum-live-updates.html
5. Warsh, “Forward guidance isn’t the business we should be in,” House Financial Services Committee testimony, July 14, 2026. cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
6. Warsh on “internal deliberations” and “full transparency,” House Financial Services Committee testimony, July 14, 2026. cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
7. Bernanke distinguished balance-sheet policies, which he expected to be “rarely used” once short-term rates were off the lower bound, from forward guidance and communication, which he said “can be valuable even when the zero lower bound is not relevant,” adding that he expected such tools to see increasing use. Speech, October 18, 2011. federalreserve.gov/newsevents/speech/bernanke20111018a.htm
8. Warsh, “Our number one objective is getting policy right...,” House Financial Services Committee testimony, July 14, 2026. cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
9. Warsh, “If we were to give you my projection today...,” House Financial Services Committee testimony, July 14, 2026. cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
10. Warsh, “Humble central bankers should be listening and then making their own decisions,” House Financial Services Committee testimony, July 14, 2026. cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
11. Greenspan's remarks about learning to “mumble with great incoherence” and that if he seemed clear his listeners must have misunderstood him are widely cited aphorisms emblematic of the older doctrine that monetary policy works best when shrouded in secrecy. federalreservehistory.org/essays/transparency
12. On the Fed's 1970s Freedom of Information Act argument that immediate disclosure “would significantly harm the Government’s monetary functions,” its valuing of “constructive ambiguity,” and its contrasting 2012 statement that communication “increases the effectiveness of monetary policy.” federalreservehistory.org/essays/transparency
13. The FOMC first announced the outcome of a meeting in a public statement on February 4, 1994, a quarter-point increase; it committed in 1995 to announce all policy changes and by 1999 to 2000 to issue a statement after every meeting. federalreserve.gov/monetarypolicy/fomc_historical.htm
14. Chairman Bernanke held the first regular post-FOMC press conference in 2011. federalreservehistory.org/essays/transparency



15. In January 2012 the FOMC announced an explicit 2 percent inflation target for the first time in its history, stating that communicating the goal clearly “helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability.”
federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf
16. Warsh, task forces to “operate independently, with a mandate to follow the evidence,” Fed announcement of the five review task forces, July 2026.
cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
17. Warsh pledged “regime change” at the Fed, Senate Banking Committee confirmation hearing, April 2026. *pbs.org/newshour/show/fed-nominee-warsh-questioned-on-independence-from-trump-and-personal-wealth*
18. “It’s unclear how the task force selections were made” (reporting characterization), CNN, July 2026. *cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony*
19. Warsh pledged he would not be a “sock puppet” for the president, Senate Banking Committee confirmation hearing, April 2026. *pbs.org/newshour/show/fed-nominee-warsh-questioned-on-independence-from-trump-and-personal-wealth*
20. On the tradition of Fed chairs guarding independence through distance from the White House, the contrasting examples are canonical. Paul Volcker declined to give President Reagan assurances on rates ahead of the 1984 election; Arthur Burns is widely held to have accommodated President Nixon’s pressure for easier policy ahead of the 1972 election, a lapse commonly linked to the inflation that followed. These episodes are treated more fully in a companion essay on the history of Federal Reserve independence and presidential pressure. *pbs.org/newshour/nation/why-the-federal-reserves-independence-from-the-white-house-matters*
21. On the reported phone contact between Trump and Warsh since the May 2026 confirmation, first reported by The Wall Street Journal and corroborated by Bloomberg on August 6, 2026, including that Trump sought Warsh’s views on the economy, the war in Iran, and artificial intelligence and did not, per the reporting, press a specific policy course; and on Warsh’s refusal in Senate Banking Committee testimony to disclose his communications with the president (“I just don’t want to be in the business of sharing discussions that the president and I have”). Fed calendars showed a single Trump-Powell meeting in the prior period, against routine contact with Warsh. The contact is not proof of instruction; the paper cites it as corroboration of documented closeness and of the non-disclosure that is the section’s concern. *finance.yahoo.com/economy/policy/articles/trump-said-call-warsh-latest-131412787.html; cnbc.com/2026/08/06/trump-fed-chairman-kevin-warsh-relationship.html*
22. Trump said Warsh “would not have been” his nominee “had he wanted interest-rate hikes,” Feb. 4, 2026; and, as featured speaker at the Alfalfa Club’s black-tie dinner in late January 2026, joked he would sue Warsh if he did not lower interest rates. *wsj.com, coverage of Trump remarks on Warsh and interest rates, Jan.–Feb. 2026*
23. Warren’s question (“will not be sued, will not be investigated...”) and Bessent’s reply, “That is up to the president,” Senate Banking Committee hearing, February 5, 2026. *banking.senate.gov/newsroom/minority/at-hearing-bessent-admits-to-warren-that-its-up-to-president-trump*
24. Trump calling Warsh “fantastic” while faulting “the board members” as “very political,” with “bad intentions,” and calling for “the lowest interest rates in the world,” public remarks ahead of the July 2026 FOMC decision. *pbs.org/newshour/economy/federal-reserve-chair-warsh-emphasizes-political-independence-signals-focus-on-inflation*



25. Warsh, then a former Fed governor and candidate for the chairmanship, called for a policy alliance with the Treasury and “a new Treasury-Fed accord, like we did in 1951,” CNBC interview, July 17, 2025. cnbc.com/2025/07/17/kevin-warsh-touts-regime-change-at-fed-and-calls-for-partnership-with-treasury.html
26. Trump, “I want Kevin to be totally independent... just do your own thing,” Warsh swearing-in, White House, May 22, 2026. cnbc.com/2026/05/22/trump-kevin-warsh-fed-chair-interest-rates.html
27. Bessent, Warsh under “no pressure,” and that yields “peaked the day before Chair Warsh was sworn in,” public remarks, 2026. [reuters.com, Bessent remarks on Warsh and Fed policy, 2026](https://reuters.com/Bessent-remarks-on-Warsh-and-Fed-policy-2026)
28. Warsh, “no tolerance for persistently elevated inflation” and “resolute commitment to restoring price stability,” and his rejection of “mission accomplished,” testimony and remarks, July 14, 2026; the Fed has exceeded its 2 percent target since 2021. federalreserve.gov/newsevents/testimony/warsh20260714a.htm
29. U-3 unemployment rate, first half of 2026 (4.3, 4.4, 4.3, 4.3, 4.3, 4.2 percent, January through June), U.S. Bureau of Labor Statistics. bls.gov/news.release/empsit.t15.htm
30. At the July 2026 meeting, Beth M. Hammack, Neel Kashkari, and Lorie K. Logan dissented, preferring to raise the target range for the federal funds rate by 1/4 percentage point, Federal Reserve, FOMC statement, July 29, 2026. federalreserve.gov/newsevents/pressreleases/monetary20260729a.htm
31. On August 5, 2026, the White House notified Governor Lisa Cook that the president was “considering” removing her over unproven mortgage-fraud allegations, giving her 21 days to respond, weeks after the Supreme Court's 5-4 June ruling blocked an earlier removal attempt; the allegations originated with an administration housing official who had publicly urged rate cuts, and Cook has called them a pretext for monetary-policy differences. Reported August 7, 2026. washingtonpost.com/business/2026/08/07/white-house-revives-bid-remove-fed-lisa-cook-over-mortgage-claims; cnbc.com/2026/08/07/trump-lisa-cook-federal-reserve.html
32. Warsh, the Fed’s power “comes from our credibility,” House Financial Services Committee testimony, July 14, 2026. cnn.com/2026/07/14/economy/takeaways-kevin-warsh-congressional-testimony
33. On the anchoring of inflation through credibility and expectations, see Richard Clarida, Jordi Galí, and Mark Gertler, “The Science of Monetary Policy, A New Keynesian Perspective,” *Journal of Economic Literature*, 1999, the foundational treatment of expectations management in monetary policy. For the contemporary official statement of the consensus, that long-run inflation expectations must be well anchored at the target and that credibility and communication sustain the anchor, see Richard Clarida, “The Federal Reserve's New Framework,” Federal Reserve Board speech, April 14, 2021. federalreserve.gov/newsevents/speech/clarida20210414a.htm

URLs are given in shortened form; all sources are public reporting or official committee records dated as noted, and current as of August 2026. Where a single hearing or press event is the source of several quotations, the note is shared.

