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ECONOMY | CENTRAL BANKS

Former Fed Governor Says Central Bank's Independence Is Limited

Kevin Warsh, a possible candidate for future top positions at Federal Reserve, urges it to be accountable to Congress



Kevin Warsh, former governor of the Federal Reserve, speaking at the American Economic Association annual conference in Chicago in January. PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By *Dan Molinski*

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DALLAS—A former Federal Reserve governor and possible candidate for future top positions at the central bank said Wednesday that the Fed isn't as independent or permanent as many think.

"There has been this idea that the Fed has its own power" said Kevin Warsh, a Fed governor from 2006 to 2011. "It doesn't."

Noting that the central bank was created by Congress, he said: "We are accountable to Congress, and importantly, the only place where we have any deserved and granted independence is in the conduct of monetary policy."

Mr. Warsh, a Republican who is currently a fellow at Stanford University, said the Fed rightly aims to keep politics out of monetary policy.

"But the idea somehow that if the Congress says 'We think you guys should consider X, or you should reform yourself in this way,' well my view is we shouldn't fall into a defensive crouch and say 'How dare you

challenge our independence!' We are subject to the people's will."

His comments amid rising expectations that President Donald Trump wants to make changes at the Fed that could even include replacing Fed Chairwoman Janet Yellen when her term ends in early 2018. Mr. Warsh is seen as a possible candidate for chairman if Mr. Trump were to decide not to keep Ms. Yellen for a second, four-year term.

Mr. Warsh has often been critical of the Fed in recent years, calling for broad changes such as how Fed board members communicate with each other as well as the public.

He continued to take respectful jabs at the Fed during the Wednesday evening event, which was moderated by Federal Reserve Bank of Dallas President Robert Kaplan, a voting member of the Federal Open Market Committee.

Mr. Kaplan said that while he disagrees with some of Mr. Warsh's comments and criticism, he also thought such disagreement and debate was helpful in strengthening the Fed.

Mr. Warsh also hinted that the Fed could eventually be at risk of being dismantled if it doesn't make needed changes from within. He reminded the audience that the Fed is the nation's "third experiment with a central bank, and the reason it's our third is because the first two didn't go so well."

"The idea that we [the Fed] are a permanent fixture in the economy is mistaken," Mr. Warsh said. "The reason we need to reform ourselves is because we believe in an independent central bank subject to the oversight of Congress and the selection of the president."

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