

Fed keeps interest rates on hold as Powell declares he will stay on as a governor

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The US Federal Reserve has kept its base interest rate on hold, but three members of its policy-making body, the Federal Open Market Committee (FOMC), indicated they are looking at rate increases in the future, possibly as early as the next meeting of the Fed in six weeks' time.

The decision sets up a potential clash with the incoming Fed chair Kevin Warsh, who is set to take over from Jerome Powell on May 15. Warsh was appointed by Trump after continuous denunciations of Powell as a “moron” and “numbskull” over his refusal to lower interest rates to the levels demanded by Trump, possibly to as low as 1 percent.

Warsh has been widely attacked as being a “sock puppet” for Trump who will carry out his dictates.

The three dissenting members of the FOMC did not oppose the decision to keep the interest rate on hold, but “did not support the inclusion of an easing bias in the statement at this time,” the FOMC statement said.

The other dissent came from Trump appointee Stephen Miran, who has called for cuts at every meeting he has attended and, on this occasion, supported a cut of a quarter of a percentage point.

Reporting on the meeting was dominated by the announcement by Powell that he would stay on as a governor after he steps down as chair, citing the legal attacks by the Trump administration as his reason for doing so.

While he insisted that he would not act as a “shadow chair” and would work with Warsh, the decision means that the board of governors under Warsh could grow deeply divided, with Powell, whatever his statements to the contrary, becoming the leader of the opposition.

Powell's decision reflects deep divisions within the ruling financial establishment between those backing Trump's lower-rates regime and those who see it

necessary to maintain the appearance of Fed independence to maintain its credibility in financial markets in the US and globally.

Announcing his decision in opening remarks to a press conference, in which he congratulated Warsh on having his appointment advance out of the Senate Banking Committee—a major step in his confirmation—and wishing him well as the process continues, Powell made clear his decision was based on the legal attacks by the administration on the Fed. These centre on the cost overruns on the renovations to the Fed building.

He said he welcomed the decision by the US Attorney for the District of Columbia, Jeanine Pirro, last Friday that she had closed the criminal investigation.

That decision opened the way for the confirmation process for Warsh to proceed after Republican Senator Thom Tillis, a leading member of the Senate Banking Committee, had said he would block it if the threat of legal action remained. Tillis said on Sunday that he had received assurances that the probe was effectively finished, opening the way for the Warsh confirmation.

But in a clear recognition that the Trump administration can turn on a dime, Powell made clear that he did not consider that the legal attack had been completely buried.

He welcomed the announcement that Pirro had closed the criminal investigation.

“She also noted, however, that she would not hesitate to restart the investigation,” he continued.

“I have said that I will not leave the Board until the investigation is well and truly over, with transparency and finality, and I stand by that.”

Powell further elaborated on his stand in response to the first question at his press conference, as he read

from prepared remarks.

“My concern is really about the series of legal attacks on the Fed which threatens our ability to conduct monetary policy without considering political factors.”

He said his stand had nothing to do with verbal criticisms by elected officials of the Fed’s decisions.

“But these legal actions are unprecedented in our 113-year history.”

And then he went to what he and his backers regard as the core issue—maintaining the fiction that the Fed is somehow an “independent” institution which acts in the interests of the public, when in fact it is a body which manages and organises its activity in the broad interests of finance capital.

“I worry that these attacks are battering the institution and putting at risk the thing that really matters to the public which is the ability to conduct monetary policy without taking into consideration political factors.”

Powell’s decision was immediately attacked by US Treasury Secretary Scott Bessent, indicating that the conflict within the financial and political establishment is far from over.

“It is unusual for soon-to-be-former Fed chair Powell to stay on at the [Federal Reserve]. For someone who speaks so often of norms, his unilateral decision to stay flies in the face of tradition,” he wrote in a post on X.

At this point, the position of the Fed is that it will continue to “look through” the inflationary impact of the Trump tariff hikes and the oil price shock and not immediately react by raising rates.

But that position is becoming more difficult to maintain, as their effects spread throughout the economy and the pressure for a rate rise is increasing, of which the dissent vote is a sign. Powell indicated as much when he said that the outlook could change as early as the next meeting.

Even Trump supporters are starting to question his demand for lower interest rates. Fed governor Christopher Waller, who was at one point under consideration as the next Fed chair, has warned that a series of price shocks emanating from the tariff hikes, as well as the Iran war, threatened to erode confidence in the Fed’s ability to bring down prices. There was a danger of inflation becoming “embedded” across the US economy and that households and businesses would expect that price hikes would continue.

The overriding fear, though not expressed openly, is

that workers, seeing rising inflation becoming permanent, will push forward with wage demands and break through the strenuous and ongoing efforts of the trade union apparatuses to contain and suppress their struggles.

Even Steven Miran, one of Trump’s most fervent supporters on interest rate cuts, is shifting his position.

“Energy developments have changed the distribution of risks,” he said in public remarks earlier this month. “They’ve increased the risks of higher inflation.”

Bessent has said the Fed should “wait and see” before lowering rates.

As the Fed was meeting, the price of Brent crude oil went back over \$120 a barrel after Trump indicated he did not want to end the US blockade of the Strait of Hormuz. The oil price rose by almost 10 percent, hitting \$122.15 a barrel late yesterday in its eighth consecutive day of rises.

The renewed price hike helped spark a selloff of US debt, with the yields on 30-year Treasury bonds hitting 5 percent with “traders betting on lasting inflation in the American economy” as the *Financial Times* noted.



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