FORMER OFFICIALS NEAR UNANIMOUS: THE FED SHOULD RAISE ITS TARGET INTEREST RATE THIS WEEK

Former Federal Reserve officials believe the U.S. central bank should raise its target interest rate at this week's policy meeting. Among 32 former governors, regional bank presidents and staff who responded to the September survey of ex-central bank officials, 29 people said the Fed should raise the fed funds rate this week. One person said the Fed should hold; two didn't answer the question.

A number of people said the central bank's reputation is at stake with this week's decision. Fed Chairman Kevin Warsh has assured the public that the central bank will get inflation down to its 2% target. Projections by former officials suggest that the Fed's preferred personal consumption expenditure (PCE) price measures could remain above target for years.

"The Fed and new chair's credibility is on the line," one person said.

"I am no longer confident that inflation will return to 2% in the next year or two without the Fed raising interest rates," another person said. "The upside risks to the inflation outlook have worsened since July: energy prices have not reversed as expected, tariff pass-through continues, and the AI build-out is adding to price pressures."

SEPTEMBER 2026 ECONOMIC PROJECTIONS, FORMER FED OFFICIALS AND STAFF (*medians*)

		2026	2027	2028	2029	Long Run
ECONOMY	CHANGE IN REAL GDP	2.2	2.2	2.2	2.0	2.0
	Fed June SEP	*2.2*	*2.3*	*2.2*		*2.0*
	Ex-Fed June Result	*2.2*	*2.2*	*2.1*		*2.0*
	UNEMPLOYMENT RATE	4.2	4.3	4.2	4.2	4.2
	Fed June SEP	*4.3*	*4.3*	*4.2*		*4.2*
	Ex-Fed June Result	*4.3*	*4.3*	*4.3*		*4.2*
	PCE INFLATION	3.6	2.7	2.4	2.1	2.0
	Fed June SEP	*3.6*	*2.3*	*2.0*		*2.0*
	Ex-Fed June Result	*3.5*	*2.5*	*2.2*		*2.0*
	CORE PCE INFLATION	3.3	2.7	2.3	2.0	
	Fed June SEP	*3.3*	*2.5*	*2.1*		
	Ex-Fed June Result	*3.2*	*2.5*	*2.2*		
POLICY	Federal Funds Rate (Appropriate)	4.10	4.10	3.60	3.50	3.40
	Fed June SEP	*3.80*	*3.60*	*3.40*		*3.10*
	Ex-Fed June Result	*3.84*	*3.63*	*3.45*		*3.22*
	Federal Funds Rate (Median Dot)	3.88	3.80	3.45	3.20	3.10

Former Fed officials and staff members participated in the survey between Sept. 4 and Sept. 11. Participants included five former Fed board governors, six former regional bank presidents, 21 former staff at the board and banks. Some former officials didn't answer every question.

The survey is conducted by Jon Hilsenrath, a former Wall Street Journal economics writer and Visiting Scholar at Duke, in partnership with the Duke University Department of Economics. Surveys are conducted ahead of the Fed's quarterly update of its own economic and interest projections, which it calls the "Summary of Economic Projections." Former officials are granted anonymity in the survey to encourage participation and frank commentary.

The Fed's Summary of Economic Projections provides its estimates of inflation, unemployment, and economic output, in addition to estimates of the target interest rate that officials expect to be

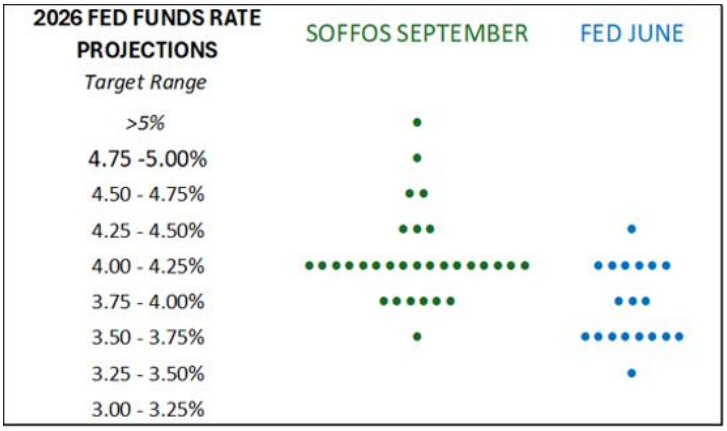
appropriate over a three-year horizon. The interest rate estimates, also known as the "dot plot," are closely watched on Wall Street for insight into the central bank's thinking and plans.

Several current Fed officials have said in recent weeks they would support raising the target "fed funds" interest rate if inflation doesn't recede. The survey of former officials showed no improvement in the inflation outlook relative to earlier estimates. The median inflation estimate among former officials for 2026 rose a notch to 3.6% from the 3.5% median registered in their June projections, while their core PCE inflation estimates rose a notch to 3.3% from the 3.2% inflation rates projected in June.

The survey group's 2027 and 2028 inflation forecasts rose relative to the estimates they wrote down in June and relative to the Fed's own June estimates. The median survey estimate for 2027 PCE inflation was 2.7%, notably higher than the Fed's June projection of 2.3%. Core PCE inflation for 2027 was estimated at 2.7%, higher than the Fed's June estimate of 2.5%.

Fed officials in June estimated inflation would return to the 2% target by 2028; former officials projected inflation above target in 2028. And when asked to describe alternate scenarios for the economy, many officials cited risks that inflation could run even higher than expected in their baseline projections, given war in the Middle East and new tariffs.

"Earlier in the year, it appeared that there was some hope that inflation would decline closer to its 2 percent target within a year or two. That now appears less likely," one person said. "While some of the effects of tariffs and war-induced shortages may manifest as price-level effects, with temporary inflation consequences, it's hard to have much confidence in that. Thus, a more sustained increase in inflation is quite possible."



The group doesn't think a large and sustained increase in interest rates will be necessary. The median estimate for the target rate at year-end was between 4% and 4.25%, which would amount to two quarter-percentage-point increases this year. More than half of the group – 17 people – said an interest rate between 4% and 4.25% at year-end was appropriate. Seven people said the rate should be higher than 4.25%. Six people supported one rate increase this year. One person said no change in rates was necessary, while nobody supported an interest rate cut.

"Over the course of the next several meetings, I believe the data will support a retraction of all of last year's 'insurance cuts' -- which is what underlies my preferred policy responses," one person said. The Fed cut its benchmark rate three times in quarter-percentage-point increments last year.

The median for the policy rate was also just above 4% in 2027, and returned to its current setting, just above 3.5%, in 2028, implying rate cuts in a couple of years after inflation slows.

When asked to describe alternate scenarios for the economy, a large number of people cited a risk that inflation will end up even higher than they already estimated. People also cited concerns about

rising long-term U.S. Treasury debt yields and deficit sustainability, and uncertainty about developments in the Middle East and about investment patterns in artificial intelligence.

ALTERNATE SCENARIOS	DESCRIPTION	#
Persistent inflation, supply shocks	**Inflation proves stickier than the baseline — via supply shocks, demand strength, or energy/tariff pass-through — forcing the Fed to tighten beyond current projections.**	**11**
Bond market, fiscal, debt stress	Rising long-term Treasury yields — driven by fiscal concerns, deficit sustainability, inflation expectations, or loss of confidence in US debt — complicate monetary policy.	9
Middle East & energy-specific	A distinct geopolitical trigger (Gulf war escalation, Hormuz closure) feeds into energy prices. Uniquely two-directional: the upside scenario (Iran resolution) also appears here.	4
AI, technology disruption	AI investment seen as fragile and potentially reversible, with large macro consequences in either direction — bubble deflation, tech collapse, or tightening that disrupts the buildout.	4
Benign, disinflationary surprise	Oil price decline, productivity pickup enabling higher growth without inflation, or a Hormuz resolution bringing energy prices down.	3
Other	Political scenarios, economy cools faster than expected, recession from Fed over-tightening.	3

"I think there is a reasonable possibility of continued upside supply shocks that keep inflation higher than my baseline forecast for longer and require a tighter policy path than I've penciled in. In this case I'd also expect a higher unemployment rate and slower growth," one person said.

Former officials and staff pushed back against Chair Warsh's calls to limit the Fed's public disclosures about the economic and policy outlook. Many said the central bank needed to communicate more, or more clearly. This included calls for more disclosure about the Fed's "reaction function" — how it responds to different economic outcomes — and more discussion of alternate economic scenarios.

In all, 23 former officials called for the Fed to take steps toward increasing or improving transparency and disclosure, while five supported steps to reduce disclosures. "The Fed needs to settle on a communications strategy that includes a reasonable amount of forward guidance on interest rates, and it should do so fairly soon," one person said. "At present, the markets and the public are understandably a bit confused about what the Fed intends to communicate and how."

	COMMUNICATION RECOMMENDATIONS	#
Increase transparency	**The strong majority position. Recommendations include: explain the Fed's reaction function and how policy responds to different economic contingencies; publish alternative scenarios alongside the SEP; link individual participant interest rate projections to their economic forecasts; add narrative text to the minutes explaining the central tendency of forecasts; present individual participants' views with attribution; make the policy statement more explicit about the rationale for decisions; publish the policy-rule prescriptions the Fed already consults internally and require the chair to address departures at the press conference; be more forthcoming about the economic outlook and risks at press conferences.**	**21**
Reduce/pare back disclosures	A smaller group aligned with Warsh's communication minimalism. Recommendations included: abolish or reduce the frequency of dot plot releases; release it separately from FOMC meetings and produce only twice a year; shorten the SEP projection horizon to current year and next year only; commit to not using forward guidance except in special circumstances; reduce the number of press conferences by moving to six meetings a year with four briefings.	7

This included a range of views about the central bank's "dot plot" of interest rate projections, which Chair Warsh has said he wants to eliminate. Some respondents supported abolishing the interest rate projections. Others argued the projections should be supplemented by linking officials' rate projections to their economic forecasts, while some favored replacing the projections with scenario-based forecasts, along the lines of what the Fed prepares internally.

"Understanding how policymakers view the economic outlook and risks to the

outlook is fundamental to policy transparency and helps the Committee achieve its macroeconomic objectives," one person said.

Former officials were also about the central bank balance sheet. They agreed broadly that the Fed should systematically reduce its holdings of long-term Treasury securities and mortgage-backed securities. A few supported regulatory changes that give banks less incentive to keep large stockpiles of reserves in interest-bearing accounts at the Fed. The group showed little support for moving away from the ample reserve regime that has supported a large Fed balance sheet in the post-2008 era.

	RECOMMENDED BALANCE SHEET CHANGES	#
Focus on composition rather than size	Shift Fed assets to shorter maturities, i.e. Treasury bills.	8
Reserve management changes	Reform how liabilities are managed to diminish structural bank demand for reserves; most support sticking with an ample reserve regime.	9
Governance	Clearer rules for what the balance sheet is for and under what conditions different tools apply.	6

This report was prepared by Jon Hilsenrath, visiting scholar at Duke University, and Anusha Bansal, research assistant.