

The Persuasive Power of the Chairman: Arthur Burns and the FOMC

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Abstract

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This paper investigates persuasion as a means of influence for the Federal Reserve Chairman in meetings of the Federal Open Market Committee (FOMC). Using textual records of FOMC meetings, federal funds rate targets have been recorded for Committee members who served in the Arthur Burns era (1970-1978). Results show that Burns-member differences in stated funds rate targets were lower when Burns made recommendations early in the meeting, consistent with the hypothesis that the Chairman is persuasive. Other results show that members' tendencies to respond to Burns's recommendations were related to their personal and political loyalties.

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If no critical question threatened or if decisions seemed fairly cut and dried, they [Chairmen William McChesney Martin and Arthur Burns] would act in a relaxed manner, allowing discussion to wander and calling the question only when everyone was talked out. On the other hand, when a matter was critical or when they were in doubt as to how the final decision would go, they did not hesitate to state their views early in the meeting and to interject them strongly as the debate developed. They used such a tactic only occasionally, but when they did the impact was considerable. A strong statement by the Chairman early in the meeting is influential and transforms the debating atmosphere. (Maisel, 1973, p. 127)

This paper tests former Federal Reserve Governor Sherman Maisel's hypothesis that Chairmen of the Federal Reserve have the ability to influence the debate within a Federal Open Market Committee (FOMC) meeting by disclosing their preferences early in the discussion. To test this hypothesis, we have used textual records of FOMC meetings held during the Arthur Burns era (1970-1978) to infer individual members' preferences for the federal funds rate. Because these textual records also reveal the order of speaking in the meeting, it is possible to distinguish whether a member spoke before or after the Chairman had revealed his own preference. If the Chairman is persuasive, the average distance between the Chairman's preferred federal funds rate and a member's preferred funds rate should be smaller when the Chairman speaks prior to the member.

Looking ahead to our conclusions, we broadly confirm the Maisel hypothesis, finding that members do respond to the arguments presented by the Chairman earlier in the meeting. This finding supplements other evidence that the Chairman wields disproportionate weight in the FOMC's decision-making process.¹ However, we also

¹ In Chappell, McGregor, and Vermilyea (2004, 2005), we investigated the relative power of Chairman Arthur Burns and other members of the FOMC in the monetary policy decision process during the 1970s. We did this by measuring individual members' desired federal funds rate targets and examining how these

note that the persuasive influence of the Chairman varies with partisan and personal loyalties of Governors and Reserve Bank presidents.

1. Data from the Textual Records of FOMC Deliberations

Beginning in 1936 and continuing until March 1976, the FOMC published (after a five-year lag) records of each of its meetings in the *Memoranda of Discussion*. In 1976, the Fed announced that it would discontinue publication of the *Memoranda*. However, the FOMC continued its practice of recording meetings on audiotape and later producing transcripts from these recordings for internal use in preparing the “Record of Policy Actions.”² *FOMC Transcripts* covering the period from April 1976 through February 1978 are available from Arthur Burns’s personal papers archived in the Gerald Ford Presidential Library in Ann Arbor, Michigan. These two sources provide detailed records of all 99 FOMC meetings during Burns’s chairmanship. Using these sources, we have been able to record information describing both individual members’ preferred policy stances and the order in which members expressed their preferences.

For several reasons, the Burns years provide a unique opportunity to study the persuasive power of the Chairman within an FOMC meeting. First, during the Burns years the Federal Reserve followed a federal funds rate targeting regime. Funds rate targeting fosters relative clarity in members’ statements of their monetary policy

individual preferences were aggregated into Committee decisions. The results of that exercise showed that Burns had approximately 50% of the voting weight in the Committee. This finding supports the conclusion reached by previous analysts who have argued that the Fed Chairman is especially powerful; see, e.g., Hakes (1990), Havrilesky (1995), Kettl (1986), Krause (1994), Peek and Wilcox (1987), and Woolley (1984). Our previous analysis investigated the power of the Chairman in a limited context. It assessed voting power given the stated preferences of members, but it did not account for the role of the Chairman in influencing the preferences of others.

² In 1993, Fed Chairman Alan Greenspan publicly acknowledged the existence of these transcripts, and the Federal Reserve is now publishing them (once again observing a five-year lag). At the time of this writing, transcripts are available for the 1979-1998 period.

preferences. Second, unlike either William McChesney Martin, who typically spoke last, or Alan Greenspan, who typically speaks first, Chairman Burns varied his position in the speaking order.

In FOMC meetings held during the Burns years, members typically expressed preferences by stating a desired range for the federal funds rate. In coding the data set describing members' policy preferences, we recorded a desired federal funds rate target range for a member who (1) explicitly stated a desired range, (2) stated a preference for one of the Board staff's policy scenarios that had an explicit funds rate target range, or (3) stated agreement with a member who had previously been identified with a funds rate target range through option (1) or option (2). We then calculated a single-valued target for each member's desired federal funds rate as the midpoint of his desired target range. Using this classification scheme, we were able to identify members' desired federal funds rates directly from the information provided in the textual record in 1427 of the 1782 member-meeting observations (80.1%) from the Burns era. This sample includes both voting and non-voting members of the Committee.

Given the unique role of the Chairman, some special issues arose in coding Burns's policy preferences. During his tenure, Burns spoke in the first half of the order 48 times and in the last half 51 times (usually speaking either first or last). When the Chairman spoke early, coding his policy position presented no difficulties and was done in the same manner as any other member. When the Chairman spoke late, however, there was potential for ambiguity. The Chairman could have been summarizing the Committee discussion and proposing language for a directive to be voted upon, or he could have been stating his own preference. To distinguish between these two possibilities, we

carefully reviewed each of Burns's statements when he spoke late. In 20 of the cases when Burns spoke late, he directly stated that he was giving his own preference. In the remaining 31 meetings in which Burns spoke late, he offered no clear indication of whether he was summarizing or stating his own preference. When the Chairman spoke late, we coded a desired federal funds rate for him only in those cases in which he said that he was giving his personal policy preference.³

Applying these rules over the 99 meetings held in the Burns era, we identified a sample of 878 observations consisting of Burns-member pairs in which both individuals stated a desired funds rate in a given meeting. In 553 cases, Burns was the first speaker in the pair; in the remaining 325 cases, Burns spoke second.

2. Is The Chairman Persuasive?

For each-Burns member observation in which both individuals stated a desired interest rate, we calculated the absolute difference between the Chairman's desired rate and the member's desired rate. We then split the entire sample into two groups depending upon whether the Chairman spoke first in the pair or second. For each group, we calculated the mean absolute Chairman-member difference and tested for equality of the means between the two groups. Results are presented in Table 1. These results show that, on average, the Chairman-member distance is smaller when the Chairman speaks first in the pairing, and this effect is highly significant (p -value=0.0008). When Burns speaks second, the average Chairman-member difference is 15 basis points; when he speaks first, it is 11 basis points (i.e., on average, there is a 27% reduction in the difference when the Chairman speaks first).

³ Additional details on our process for coding individual members' desired federal funds rates can be found in Chappell, McGregor, and Vermilyea (2004, 2005).

Table 1 also reports difference of the mean tests at the individual level.⁴ These tests should reveal whether some members were particularly responsive to Burns's recommendations. For 14 out of 21 individuals, the Chairman-member distance is smaller when the Chairman speaks first (as the "persuasive Chairman" hypothesis would predict), but in only two of these cases, Robert Mayo and Henry Wallich, is the difference statistically significant (at the 0.10 significance level for a two-tailed test). Interestingly, for three individuals—Darryl Francis, Jeffrey Bucher, and Andrew Brimmer—the Chairman-member difference is significantly *larger* when the Chairman speaks first. In contrast to our original hypothesis, this result suggests that these members actively move *away* from a previously stated Burns position. Bucher, who served as a Governor during this period, has confirmed that Burns had contentious relationships with both Francis and Brimmer (telephone interview, February 21, 2002). He described his own relationship with Burns as one characterized by occasional differences but not persisting acrimony. In subsequent sections, we investigate whether there are systematic explanations for the observation that members respond to the Chairman's recommendations in different ways.

3. Explaining Responses to the Chairman's Recommendations

In this section, we further investigate variations in the relationship between members' stated preferences and Burns's recommendations. We begin by comparing the responsiveness of Governors and Reserve Bank presidents to the Chairman and then consider the possibility that loyalties associated with the appointment process influence members' deference to Burns.

⁴ Results are provided in the table only for members for whom there are at least five observations in each of the "before" and "after" categories.

3.1. *Governors and Reserve Bank Presidents*

Because Governors work in close proximity to the Chairman and depend on him for staff support, one might expect them to be more responsive to the Chairman's recommendations than Reserve Bank presidents. To investigate whether this is so, we estimate the following regression:

$$ABSDIFF_{it} = \mathbf{b}_1 BP_i + \mathbf{b}_2 GOV_i + \mathbf{b}_3 (BP_i * BURNS1ST_{it}) + \mathbf{b}_4 (GOV_i * BURNS1ST_{it}) + e_{it}.$$

In this equation, $ABSDIFF_{it}$ is the absolute difference between Burns's and member i 's desired federal funds rates in meeting t ; BP_i is a dummy variable equal to one if member i is a Reserve Bank president (and otherwise equal to zero); and GOV_i is a dummy variable equal to one if member i is a Governor (and otherwise equal to zero). These latter variables are included in interaction terms with $BURNS1ST_{it}$, a dummy variable equal to one if Burns states a desired interest rate before member i in meeting t .

Results from the estimation of this model, provided in Panel A of Table 2, reveal no differences between Governors and Bank presidents. We are unable to reject the hypothesis that $\mathbf{b}_1 = \mathbf{b}_2$, which would imply that, on average, Governors' and Bank presidents' preferences are equidistant from Burns when Burns does not speak first. Both \mathbf{b}_3 and \mathbf{b}_4 are negative, indicating that when Burns does speak first, the Burns-member difference is smaller. Because we fail to reject the hypothesis that $\mathbf{b}_3 = \mathbf{b}_4$, it appears that the size of the response to Burns is equal for Governors and Bank presidents.⁵

⁵ These results do not imply that Governors and Bank presidents have identical preferences. Two members could have had preferred funds rates that were equidistant from Burns, but on opposite sides.

3.2. *The Chairman and the Appointment Process*

Federal Reserve Governors are appointed by the President and confirmed by the Senate. Because political considerations can affect appointment decisions, political loyalties may also be important when a Chairman attempts to mobilize support for a position. In cases when the Chairman is affiliated with the party of the incumbent President, it is generally acknowledged that the Board Chairman is influential in the appointment process. For example, consider the following account of the appointment of Governor Phillip Jackson (Gilbert, 1992, pp. 137-138):

Jackson credits Arthur Burns for his appointment to the Fed. Burns had a very close relationship with President Ford and in essence was able to name his own appointees.

We therefore hypothesize that the influence of an early statement from Burns will be greater on Governors appointed by Republican Presidents.⁶

District Reserve Bank presidents are nominated by the district Reserve Bank Boards of Directors and are subject to approval by the Board of Governors. The Federal Reserve Chairman plays a key role in this process, so Reserve Bank presidents owe their presence on the Committee to the support (or, at least, acquiescence) of the Chairman who served when they were appointed. In turn, Bank presidents may show loyalty to the appointing Chairman. Our hypothesis is that an early statement from the Chairman will have a greater effect on Bank presidents who joined the FOMC during the Chairman's tenure than on Bank presidents appointed under preceding Chairmen.

⁶ In principle, we would expect that the influence of the Chairman on a Governor would vary according to the Governor's partisan affiliation (i.e., according to the party of the President who appointed the Governor). In our sample, all Governors appointed under Burns's tenure were appointed by Republican Presidents (Nixon and Ford). Further, all Governors appointed prior to Burns's tenure were appointed by Democratic Presidents. Thus, in our data set the divisions between Burns- and non-Burns-appointed Governors and between Democratic - and Republican-appointed Governors produce identical groups.

The following regression specification is offered to detect variations in the Chairman's persuasive powers that are related to political loyalties:

$$\begin{aligned}
 ABSDIFF_{it} = & \mathbf{b}_1 DEMGOV_i + \mathbf{b}_2 REPGOV_i + \mathbf{b}_3 MARTINBP_i + \mathbf{b}_4 BURNSBP_i \\
 & + \mathbf{b}_5 (DEMGOV_i * BURNS1ST_{it}) + \mathbf{b}_6 (REPGOV_i * BURNS1ST_{it}) \\
 & + \mathbf{b}_7 (MARTINBP_i * BURNS1ST_{it}) + \mathbf{b}_8 (BURNSBP_i * BURNS1ST_{it}) + e_{it}.
 \end{aligned}$$

In this equation, *DEMGOV* is a dummy variable indicating that member *i* is a Governor appointed by a Democratic President; *REPGOV* indicates that the member was appointed by a Republican President; *MARTINBP* indicates that the member is a Bank president appointed while William McChesney Martin chaired the FOMC; and *BURNSBP* indicates that the member is a Bank president appointed while Burns chaired the FOMC.⁷

Results of the estimation, presented in Panel B of Table 2, confirm the hypothesis that Burns's powers of persuasion are stronger for Republican-appointed Governors and for Bank presidents appointed during Burns's tenure. When Burns spoke second in the pair, average desired interest rates for the four groups were roughly equidistant from those of Burns (i.e., we fail to reject the hypothesis that $\mathbf{b}_1 = \mathbf{b}_2 = \mathbf{b}_3 = \mathbf{b}_4$). When Burns spoke first, the Burns-member difference declined for Governors appointed by Republican Presidents and for Reserve Bank presidents appointed during Burns's tenure as Chairman. However, the data suggest no effect of an early statement from Burns on Governors appointed by Democratic Presidents or on Reserve Bank Presidents appointed while Martin was Chairman of the FOMC.⁸

⁷ Reserve Bank vice presidents, who occasionally represent their Banks at FOMC meetings, are dropped from this regression.

⁸ These results suggest it would be reasonable to combine (1) Governors appointed by Democrats with Bank presidents appointed while Martin was Chairman (we cannot reject that $\mathbf{b}_5 = \mathbf{b}_7$) and (2) Governors appointed by Republicans with Bank presidents appointed while Burns was Chairman (we cannot reject

4. Choosing When to Speak First

Arthur Burns's tenure as Federal Reserve Chairman spanned the February 1970 to March 1978 period. When Burns joined the Committee, he was the only member of the Board of Governors appointed by a Republican President. Furthermore, at the time of his appointment, all of the Reserve Bank presidents had been appointed during William McChesney Martin's tenure as Chairman. Turnover on the Committee occurred at a fairly even pace throughout Burns's tenure as Chairman. By early 1972, 30% of the Committee had turned over; by mid 1973, 50% of the Committee had turned over; and by the end of 1976, nearly 90% of the Committee had turned over.

Prior to February 1972, Burns spoke last in 23 of 26 meetings. After March 1976, he always chose to speak first. Between February 1972 and March 1976, the Chairman varied his position in the speaking order, but generally began to speak earlier in the meeting with greater frequency.

These changes in the Chairman's preferred speaking position might reflect his awareness of the differing effects an opening statement from him could have across members. We have presented evidence that, on average, Republican-appointed Governors and Bank presidents appointed during Burns's tenure as Chairman moved closer to Burns's position when he spoke first in the pair. We have also presented evidence that, on average, Governors appointed by Democratic Presidents and Reserve Bank presidents appointed while Martin chaired the FOMC tended not to react to a statement from Burns.

that $\mathbf{b}_6 = \mathbf{b}_8$). This treatment does not affect the results in any meaningful way. Similarly, one might group all FOMC members according to the party of the President at the time of their appointment or according to the Chairman at the time of their appointment. All of these treatments yield very similar results.

To quantify the effect of the Committee's composition on Burns's choice of speaking position, we ran the following logistic regression:

$$BURNS_EARLY_t = \mathbf{a} + \mathbf{b} COMMITTEE_LOYALTY_t + \mathbf{e}_t,$$

where *BURNS_EARLY* is a dummy variable equal to one if Burns spoke in the first half of the meeting and zero if he spoke in the latter half of the meeting.

COMMITTEE_LOYALTY is defined as the percentage of the FOMC made up of Governors appointed by Republican Presidents and Reserve Bank presidents appointed during Burns's tenure as Chairman. Results from this model are presented in Table 3.

This regression confirms a strong correlation between Burns's speaking position and the composition of the FOMC, suggesting that as the Committee became more receptive to his influence, Burns chose to speak early in the meetings with greater frequency.

5. Conclusions

Our tests lend support to Maisel's (1973) hypothesis that a statement by the Chairman early in an FOMC meeting is influential and can transform the debating atmosphere. Specifically, our results suggest that the Chairman is able to persuade other Committee members to shift toward his preferred policy position before any voting occurs. We generally find that Burns-member differences in desired funds rates were smaller when Burns spoke prior to the member, suggesting a tendency for members to move toward Burns's recommendation when stating their own.

Additional analysis showed that this tendency to support the recommendation of the Chairman was conditioned by political and personal loyalties. Burns was a Republican appointee and was known for having close ties with both Richard Nixon and

Gerald Ford, the Republican Presidents under whom he served. Burns is known to have played a role in the selection of nominees to the Board under these two Presidents. The Chairman also plays a role in the selection of district Reserve Bank presidents. Our results indicate that both Governors appointed by Republican Presidents and Bank presidents appointed during Burns's tenure as Chairman were more responsive to his recommendations.

Early in his tenure, Burns usually waited to express his own opinions after others had spoken. Later in his tenure, he frequently spoke first. We have presented evidence showing that the change in the Chairman's behavior parallels changes in the composition of the Committee that resulted in a more receptive and responsive audience.

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**Table 1: Persuasiveness of the Chairman
Difference of the Mean Tests for Speaking Before or After Chairman Burns**

Member	N Burns Speaks Before Member	N Burns Speaks After Member	Mean Burns-Member Difference		Difference in Before and <i>t</i> -Statistic After Groups	
			Burns Speaks Before Member	Burns Speaks After Member		
All Members	553	325	0.113	0.154	-0.041	(-3.36)
Balles	29	5	0.138	0.138	0.000	(0.01)
Black	31	10	0.069	0.069	0.000	(-0.00)
Brimmer	9	13	0.194	0.082	0.112 *	(1.73)
Bucher	10	9	0.444	0.146	0.298 *	(1.95)
Clay	13	18	0.279	0.160	0.119	(1.24)
Coldwell	32	21	0.090	0.134	-0.044	(-1.09)
Daane	6	9	0.146	0.083	0.063	(1.02)
Eastburn	24	20	0.141	0.228	-0.087	(-1.18)
Francis	6	9	0.458	0.111	0.347 *	(2.09)
Hayes	9	17	0.139	0.232	-0.093	(-1.07)
Holland	12	8	0.089	0.156	-0.067	(-1.36)
Jackson	21	5	0.065	0.100	-0.035	(-0.93)
Kimbrel	28	21	0.114	0.146	-0.032	(-0.72)
MacLaury	25	12	0.148	0.219	-0.071	(-1.11)
Mayo	33	20	0.083	0.175	-0.092 **	(-2.57)
Mitchell	7	16	0.080	0.187	-0.107	(-1.40)
Morris	34	21	0.142	0.202	-0.060	(-1.17)
Sheehan	9	5	0.139	0.238	-0.099	(-0.52)
Volcker	22	6	0.034	0.057	-0.023	(-0.78)
Wallich	33	5	0.087	0.250	-0.163 **	(-2.59)
Winn	26	6	0.084	0.063	0.021	(0.52)

* Significant at the 0.10 level or better. ** Significant at the 0.05 level or better.

Table 2: Persuasiveness of the Chairman
Dependent variable: ABSDIFF

Variable	Coefficient	<i>t</i> -Statistic
Panel A		
<i>GOV</i>	0.148**	(8.37)
<i>BP</i>	0.157**	(13.26)
<i>GOV*BURNSIST</i>	-0.049**	(-2.21)
<i>BP*BURNSIST</i>	-0.038**	(-2.53)
<i>N</i> =878		
Additional Tests of Hypotheses		
$\beta_{GOV} = \beta_{BP}$		(0.20)
$\beta_{GOV*BURNSIST} = \beta_{BP*BURNSIST}$		(0.16)
Panel B		
<i>DEMGOV</i>	0.145**	(6.27)
<i>REPGOV</i>	0.151**	(5.61)
<i>MARTINBP</i>	0.149**	(9.30)
<i>BURNSBP</i>	0.158**	(8.04)
<i>DEMGOV*BURNSIST</i>	-0.004	(-0.08)
<i>REPGOV*BURNSIST</i>	-0.059*	(-1.94)
<i>MARTINBP*BURNSIST</i>	0.016	(0.68)
<i>BURNSBP*BURNSIST</i>	-0.060**	(-2.65)
<i>N</i> =839		
Additional Tests of Hypotheses		
$\beta_{DEMGOV} = \beta_{REPGOV} = \beta_{BURNSBP} = \beta_{MARTINBP}$		(0.06)
$\beta_{DEMGOV*BURNSIST} = \beta_{MARTINBP*BURNSIST}$		(0.17)
$\beta_{REPGOV*BURNSIST} = \beta_{BURNSBP*BURNSIST}$		(0.00)

* Significant at the 0.10 level or better. ** Significant at the 0.05 level or better.

Table 3: Choosing When to Speak
Dependent variable: BURNS_EARLY

Variable	Coefficient	Standard Error
<i>INTERCEPT</i>	3.000**	(0.647)
<i>COMMITTEE_LOYALTY</i>	0.057**	(0.011)

N=99

* Significant at the 0.10 level or better. ** Significant at the 0.05 level or better.