

## Introduction

“My experience as a member of the FOMC left me with a strong feeling that the theoretical fiction that monetary policy is made by a single individual maximizing a well-defined preference function misses something important. In my view, monetary theorists should start paying attention to the nature of decisionmaking by committee, which is rarely mentioned in the academic literature.” (Blinder, 1998, p. 22).

Our book investigates monetary policymaking, focusing on the aggregation of preferences within the FOMC, the Fed’s monetary policymaking committee.

For political dimensions of policymaking, it may be particularly important to recognize that all members of the FOMC are not the same – they may have different political loyalties and face different pressures.

## Dissent Voting Data

The FOMC adopts directives by a majority vote.

Formal votes are recorded; members assent or dissent.

Dissents are somewhat unusual; from 1966-1996 only 7.8% of votes were dissents.

Transcripts do provide additional detail on member preferences, but dissent voting data have the advantage of being objective and they have been recorded in a consistent manner over long periods of time.

## Chapter 4 A Long History of FOMC Voting

### *Introduction*

We estimate “reaction functions” for individual members of the FOMC.

We estimate “reaction functions” to describe differences in the political behavior of different members of the FOMC.

Consider how partisan and political business cycle models might be applied for *individuals* serving on the FOMC ...

### *Model and Method*

Individual reaction function:

$$R_{it}^* = \mathbf{a}_0 + \sum_{k=1}^K \mathbf{a}_k D_{kit} + \sum_{j=1}^J \mathbf{b}_j X_{jt} + e_{it}, \quad i = 1, \dots, N; \quad t = 1, \dots, T. \quad (4.1)$$

Dependent variable is not observed, but dissenting votes are observed when a member’s desired funds rate deviates sufficiently from the Committee’s adopted rate. With some

additional assumptions that relate individual and Committee choices, it is possible to estimate parameters of (4.1) for individuals using a variant of a probit estimator. Note the interpretation of the  $D_{kit}$  variables ... Note the common  $b_j$  coefficients across members.

#### *Results: Individual Reaction Functions*

First, we estimated reaction functions that permitted individuals to differ in terms of reaction function intercepts (higher intercepts imply a preference for a higher interest rate in a given meeting, holding other things equal). Data included voting records linked to 319 FOMC meetings between 1966 and 1996. Results suggest differences between Governors and Bank presidents, and possibly between men and women. There are significant differences across many pairs of individuals.

#### *Results: Political Differences*

We examine:

Partisan differences (direct presidential influence and influence via the power of appointment)

Electoral influences

Partisan-loyalty and electoral influences.

Results:

We find partisan difference that are related to both current president and party of appointing president.

There is evidence of an influence of electoral timing, but this seems to be dependent upon partisan loyalty; i.e., when a Democratic president is in office in a pre-election period, Democrat appointed Fed Governors favor monetary ease, while Republican Governors favor monetary tightness.

### **Chapter 5 Data from the Memoranda of Discussion and FOMC Transcripts**

Describe Memoranda, Transcripts

The policy go-around and reporting of policy preferences.

#### *Coding Procedures*

Normally we coded a desired interest rate (funds rate) for an individual FOMC member when

The member stated a desired rate

The member agreed with someone who stated a desired rate.

The member agreed with a staff policy option that contained a Prescribed rate.

In the Burns years we directly coded observed interest rates in about 80% of all member-meeting observations; under Greenspan over 92% observed.

In remaining observations we recorded leans relative to a benchmark rate.

Note special issues associated with coding a preference for Burns – sometimes he spoke late in the meeting and may have been summarizing a consensus view when he made a proposal.

In the Greenspan years, complications arose for periods when the committee did not directly target the funds rate.

## **Chapters 6 and 7**

In Chapter 6, we report reaction function estimates for different members, permitting all coefficients to differ across members (not just intercepts, which was the case in the Chapter 4 estimations). Some patterns in reaction functions parallel differences in known theoretical perspectives.

Chapter 7 investigates Committee decisions in the Burns years. We begin by estimating individual reaction functions and “imputing” desired rates for members who did not directly state them. Once we have complete profiles, we test alternative decision-making models.

### *Results:*

Chairman has 40-50% of the voting weight.

Results do not distinguish mean or median as “best” indicator of Committee sentiment.

One cannot distinguish differences in power of Governors and Bank presidents.

Non-voting alternates don’t “count.”