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Sylvester Eijffinger, Ronald Mahieu, Louis Raes

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Monetary policy committees, voting behaviour and ideal points*

Sylvester Eijffinger, Ronald Mahieu, Louis Raes[†]

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[†]Sylvester Eijffinger: CentER and EBC, Tilburg University, CEPR. Email: s.c.w.eijffinger@tilburguniversity.edu Ronald Mahieu: Tias School for Business and Society, Tilburg University. Email: r.j.mahieu@tilburguniversity.edu Louis Raes: CentER and EBC, Tilburg University. Email: l.b.d.raes@tilburguniversity.edu (*corresponding author*). Address (*all authors*): Warandelaan 2 5037 AB Tilburg, NL

1 Introduction

While not obvious at first sight, in many modern economies, the position of a monetary authority is similar to the position of the highest-level court ([Goodhart \(2002\)](#)). For example, both bodies are expected to operate independently even though there are cross-country differences in what independence entails. In the United Kingdom, the highest court is the Appellate Committee of the House of Lords (in short: Law Lords). There is a consensus among legal scholars that the powers of Law Lords with respect to the legislature are less wide ranging in the United Kingdom than the United States' counterpart, the supreme court ([Goodhart and Meade \(2004\)](#), p.11). In economic jargon one says that the Supreme Court has goal independence whereas the Law Lords have instrument independence.

If we compare the monetary policy committees in both countries (the Monetary Policy Committee and the Federal Open Markets Committee), we notice a similar pattern. The MPC has a clear inflation target, and therefore little goal independence. The FOMC has multiple objectives providing some discretion to the monetary policy makers.

Because independence is important for both the monetary authority and judicial courts, governments have applied similar recipes to guarantee independence. In the United States, the Supreme Court justices have lifelong appointments. Similarly, Board Governors, part of the FOMC, are appointed for fourteen years. These lengthy appointments serve to insulate justices and Governors from political pressure.

There are many more aspects with remarkable similarities (decision making procedures, the role of consensus, the role of the chairman, communications strategy etc.), see [Goodhart and Meade \(2004\)](#) for some examples.

However, details differ across countries and these details may matter. For example, most central banks have put a committee in charge of monetary policy and these committees vary substantially in many respects.¹

Besides guaranteeing independence, there are two additional concerns underlying the institutional design of a monetary authority or a judicial court. First, there is the need to balance independence with accountability. Second, there is the need to have sufficient technical skills.² Delegating important public tasks to individuals who are not elected and maybe even not directly under control of elected public servants requires a system of checks and balances as to ensure sufficient accountability. At the same time, both a mone-

¹See for example the survey by [Lybek and Morris \(2004\)](#). The book by [Siklos, Bohl, and Wohar \(2010\)](#) shows the diversity in institutional framework in central banks.

²On top of purely technical skills, there may be a need for some political skills as well, see [Goodhart and Meade \(2004\)](#) p.14-16.

tary authority and a judicial court require some technical skills because these bodies often deal with complex issues.

Both monetary policy committees and judicial courts are the topic of extensive research. Given the similarities we described above, there has been occasionally cross-over between these literatures. Scholars thinking about decision taking in groups and committees often use monetary policy committees or judicial courts as an example. This overlap concerns mainly theoretical work.³

Empirical work on monetary policy committees and judicial courts has evolved a bit more separately. One consequence of this is that we see different methodologies being used by scholars studying decision making at central banks and by scholars studying deliberations of courts.

In our own work⁴ we use methods, which are predominantly used in the study of voting in legislative bodies and judicial bodies (e.g. the supreme court), to study voting at central banks. We do so because we believe that this methodological cross-over may be fertile. We do not claim that one methodology is superior over another, rather we feel that different approaches can prove to be complementary to each other.

2 Research on Monetary Policy Committees

In the introduction we mentioned that the institutional design of central banks differs across countries. These differences often seem minor from a distance but could matter a lot in practice. The implication for research on central bank committees is that one should be cautious in generalizing the results of the study of one central bank. Many studies use the voting records of a particular central bank (most often the Federal Reserve or the Bank of England) to study a particular feature of the institutional design of that particular bank. As an example consider research studying regional bias at the FOMC.⁵ Regional bias refers here to the notion that an FOMC member would systematically favor his or her home region by attaching disproportional weights to regional indicators when contemplating appropriate monetary policy. The study of this topic is motivated by the structure of the FOMC where regional representation is by design an important feature.

Jung and Latsos (2015) report that they find evidence of regional bias but they judge the

³See Gerling, Grüner, Kiel, and Schulte (2005) for a survey.

⁴See Eijffinger, Mahieu, and Raes (2013a), Eijffinger, Mahieu, and Raes (2013b) and Eijffinger, Mahieu, and Raes (2015).

⁵Papers studying this topic include Meade and Sheets (2005), Chappell, McGregor, and Vermilyea (2008), Bennani, Farvaque, and Stanek (2015) and Jung and Latsos (2015).

impact to be fairly small. This finding is relevant for the design of monetary policy committees, but the question remains to what extent one can generalize this to other central banks. [Jung and Latsos \(2015\)](#) suggest to conduct similar research on other central banks where a regional bias may play a role as well and are rightly cautious in generalizing the findings to other central banks. However, if the possibility to generalize is limited, then studies of separate central banks resemble case studies.

Some studies lump central banks together in an effort to gain a cross-country perspective. For example [Adolph \(2013\)](#) is an impressive effort to study career concerns of central bankers and monetary policy in a wide range of industrial countries. Such a cross-country study seems more general than the case studies we mentioned before, but at the same time many details are swept under the rug.⁶

For these reasons we caution the reader to put the research results on monetary policy committees in perspective. While some studies are impressive efforts of data collection and refined statistical analysis, good judgement is required to judge the merits in different contexts.

As mentioned before, research on monetary policy committees has focused historically mostly on the FOMC and the Bank of England. A first topic studied in the context of the FOMC is the aforementioned regional bias. A second branch of the literature has focused on the chairman. The chairman at the FOMC play an important role for different reasons. He heads the FOMC and leads the meetings. The chairman tends to lead the communication by the FOMC and as a consequence receives most media attention. Furthermore the Monetary Policy reports to congress, as required by the Humphrey-Hawkins Full Employment act of 1978, requires the Chairman to give an oral testimony to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

The role of the chairman has been much discussed and many scholars have written on the influence of the chairman in decision taking at the FOMC, see [Chappell, McGregor, and Vermilyea \(2007\)](#), [Gerlach-Kristen, Meade, et al. \(2010\)](#), [El-Shagi and Jung \(2015\)](#), [Ball \(2016\)](#).

A third line of research is concerned with political influence. There is the concern that there might be (tacit) political influence on FOMC members. This pressure might come through informal conversations or might arise due to people with a specific partisan background being appointed into the Board of Governors. There is a long tradition in analysing these matters. Many researchers do believe that there is some steering by means

⁶Other cross-country studies are [Vaubel \(1997\)](#), [Göhlmann and Vaubel \(2007\)](#), [Belke and Potrafke \(2012\)](#).

of appointing candidates with a certain ideological profile. The extent to which this really influences decision making remains debated, see for example [Chappell, Havrilesky, and McGregor \(1993\)](#), [Tootell \(1996\)](#), [Chappell, Havrilesky, and McGregor \(1995\)](#), [Havrilesky and Gildea \(1995\)](#), [Chang \(2001\)](#), [Falaschetti \(2002\)](#), [Adolph \(2013\)](#).

The aforementioned branches of the literature all boil down to uncovering the preferences of FOMC members and analyzing the extent to which these are influenced by certain determinants, see also [Havrilesky and Gildea \(1991\)](#), [Chappell, Havrilesky, and McGregor \(2000\)](#), [Thornton, Wheelock, et al. \(2014\)](#), [Eichler and Löhner \(2014\)](#).

The literature on the MPC of the Bank of England also has a strong focus on uncovering the determinants of dissent. One important difference between the MPC and the FOMC is that the MPC is considered to be more individualistic in comparison to the FOMC, see [Blinder \(2009\)](#).⁷ A consequence is that dissent is more common at the MPC.

The MPC consists of insiders and outsiders, that is MPC members appointed from within the bank and MPC members with no connection to the Bank. This is one particular feature which has drawn considerable attention in the literature investigating dissents at the Bank of England, see [Besley, Meads, and Surico \(2008\)](#), [Harris and Spencer \(2009\)](#), [Gerlach-Kristen \(2009\)](#), [Bhattacharjee and Holly \(2010\)](#), [Harris, Levine, and Spencer \(2011\)](#). However, there is some disagreement on how these two types of MPC members differ in their preferences and voting behavior from each other, see [Eijffinger, Mahieu, and Raes \(2013a\)](#). Finally, besides the Bank of England and the Federal Reserve, also other central banks have been studied albeit to a lesser extent. Examples are [Jung and Kiss \(2012\)](#), [Chappell, McGregor, and Vermilyea \(2014\)](#), [Siklos and Neuenkirch \(2015\)](#), [Horvath, Rusnak, Smidkova, and Zapal \(2014\)](#).

The papers using the type of spatial voting models we advocate, fall in the line of research we have described in this section. These papers use voting records and use these to estimate the latent preferences of policy makers, which are then studied. [Hix, Hoyland, and Vivyan \(2010\)](#) is, to our knowledge, the first paper who applies Bayesian ideal point models to monetary policy committees.⁸ [Hix, Hoyland, and Vivyan \(2010\)](#) compare the ideal points of outgoing MPC members with the ideal points of their successors. Furthermore they explore how the median ideal point changes at the MPC over time. They find that the British Government may have been able to move the position of the MPC through appointments.

⁷It should be added that the degree of individualism at the FOMC has evolved over time. Many researchers attribute a lower degree of individualism to the influence of the governor, see [Blinder \(2009\)](#).

⁸Although the idea is already touched upon by [Chang \(2003\)](#), she does not estimate Bayesian ideal point models.

Eijffinger, Mahieu, and Raes (2013a) also study the MPC of the Bank of England. Their sample is larger (spans more years and MPC members) and they use a variation of the spatial voting model used in Hix, Hoyland, and Vivyan (2010). The focus lies on differences in ideal points between internal and external members, as well as differences related to career backgrounds. Eijffinger, Mahieu, and Raes (2013a) argue that on the basis of the voting records it is hard to claim that internals are systematically (or *on average*) more dovish than externals. However, they find that externals have more dispersed preferences whereas the ideal points of internals seem much more clustered. They also find only modest evidence for systematic differences according to career backgrounds.

Eijffinger, Mahieu, and Raes (2013b) is a follow up paper where the authors look at four other central banks. The central bank of Poland, the Czech Republic, Hungary and Sweden; studying the voting records of these central banks as separate case studies. The authors show for example a remarkable difference between internal and external members at the Hungarian central bank underlining the notion of highly politicized appointments at the Hungarian Central Bank.

Eijffinger, Mahieu, and Raes (2015) studies the FOMC. In that paper the actual voting records are not used because there is a substantial literature arguing that voting records of the FOMC hide a lot of information.⁹ The authors construct hypothetical votes from the transcripts and use these to estimate preferences. The authors find that Board members are on average more dovish than Bank presidents but there has been some variation in the median point in each of the groups in the past decades. Furthermore the dispersion in both groups has varied, suggesting varying levels of agreement. The authors also look at the influence of career background or the influence of the appointing president. In contrast to earlier work, the authors find little evidence on the existence of a political appointment channel nor evidence on important effects of particular career experiences.

3 Conclusion

There is a substantial literature using voting records of monetary policy committees to learn about decision making at central banks. This literature is motivated by the fact that central banks ought to take decisions independently, need to be held accountable for their decision making and ideally leverage on the pooling of opinions.

Monetary policy committees come, however, in a wide variety of forms often reflecting their historical development. However, even if one could redesign a central bank from scratch, it is not entirely obvious how an optimal design should look like (Reis (2013)).

⁹See also Meade (2005).

The literature has studied various aspects of committees around the world. These aspects include appointment systems, career concerns, the inclusion of outsiders, size, etc. Some aspects are relatively well understood by now, but generalizing conclusions requires carefulness because most of these studies are in essence case studies.

One way forward is the study of a more diverse set of central banks. However to date, quite a few central banks are fairly reluctant to share transcripts and voting records, despite pleas for more transparency (Eijffinger (2015)).

The methods we put forward to study voting behavior of monetary policy committees are commonplace in the analysis of legislative bodies or judicial courts but until now underutilized in economics. While we see substantial advantages to this approach such as the flexibility to create quantities of interest and the careful incorporation of uncertainty, there are certainly drawbacks.

One objection against the approach outlined in this chapter is that it is too simplistic. We have heard on more than one occasion that a complex decision making process cannot and should not be reduced to mapping policy makers on one simple dimension. This objection is similar to objections made in the context of political science (see Lauderdale and Clark (2014)). However, as demonstrated in Eijffinger, Mahieu, and Raes (2013a), even a single latent dimension generates low prediction error and hence leaves little room for statistical improvement.

We do not argue that spatial voting is superior to approaches commonly used in the study of monetary policy committees (e.g. estimating reaction functions). However, we find spatial voting models a neat addition to the toolkit of scholars investigating committees.

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