Monetary Policy Committees and Voting Behavior

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This Paper

- Very nice paper. I learned a lot from it.
- Big Question: **Can we infer preferences from voting behavior?**
- Poole and Rosenthal (1985) develop a procedure that is very popular in political science, not in economics
- Utility of member i of voting in favor of policy j is the sum of deterministic and random component:

$$U^i_{j,t} = u^i_{j,t} + \epsilon^i_{j,t}$$

This Paper

- $u_{j,t}^{i}$ is spatial component: the distance of policy j to ideal point of member i.
- $\epsilon_{j,t}^{i}$ is random component, "valence" of policy option j
- Define hawkish and dovish positions by h and d.
- Probabilistic voting:

$$Pr(i \text{ votes dovish}) = Pr(U_{d,t}^{i} > U_{h,t}^{i}) = Pr(u_{d,t}^{i} - u_{h,t}^{i} > \epsilon_{h,t}^{i} - \epsilon_{d,t}^{i})$$

- Ideal points are jointly estimated by ML

Results

- Committee members are ranked according to their relative "hawkishness".

- Bank of England:
  - On average internals and external behave similarly, but externals are more likely to take extreme positions
- FOMC
  - Board members are more dovish than bank presidents

Comments

- What does "hawkishness" mean?
- Standard definition: "hawks" worry more about inflation while "doves" focus more on jobs.
- To assess this, one can estimate **Taylor Rules**
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        $$i_{i,t} = a_i + b_i E_t(\pi_{t+1}) + c_i E_t(x_{t+1} - x_{t+1}^\star) + \epsilon_{i,t}$$
    - Optimal $i_{i,t}$ increases if inflation increases
    - Optimal $i_{i,t}$ decreases if unemployment increases
- This paper approach vs. reaction functions approach: pros and cons?
- The former is the only possible approach to study votes in Congress.
- But MPC data are more clean than roll-call data.

Estimating Reaction Functions

Riboni and Ruge-Murcia, 2008, IJCB

Table 1. Benchmark Results (12-Month Horizon)

| | A. Reaction Function Coefficients | | | | | | |
| | Intercept | | Inflation | | Unemployment | | J test |
Member	Estimate	s.e.	Estimate	s.e.	Estimate	s.e.	(p-value)
George	-0.493	0.338	0.277	0.280	-0.983	0.667	0.451
King	$-1.132^{\dagger}$	0.686	0.768	0.505	$-2.334^{\dagger}$	1.410	0.633
Lomax	-0.233^{*}	0.063	0.199^{*}	0.059	-0.661^{*}	0.215	0.738
Large	-0.294^{*}	0.117	0.305^{*}	0.137	-0.407	0.472	0.433
Tucker	-0.151	0.099	0.049	0.066	-0.129	0.300	0.382
Bean	-0.263	0.201	0.096	0.078	-0.607	0.553	0.150
Barker	-0.442^{*}	0.213	0.182^{*}	0.092	-0.692	0.600	0.429
Nickell	-0.627^{*}	0.260	$0.225^{\dagger}$	0.131	$-1.124^{\dagger}$	0.603	0.517
Allsopp	-0.657^{*}	0.147	0.306^{*}	0.095	-0.641	0.436	0.477
Bell	-0.424^{*}	0.132	$0.138^{\dagger}$	0.074	-0.840^{*}	0.281	0.567
Lambert	-0.251^{*}	0.083	0.179^{*}	0.060	-0.642^{*}	0.221	0.627
Buiter	-1.114^{*}	0.389	0.996^{*}	0.357	-2.592^{*}	1.095	0.152
Goodhart	-0.055	0.298	0.166	0.250	0.003	0.651	0.292
Vickers	-0.971^{*}	0.236	1.088^{*}	0.319	-2.246^{*}	0.689	0.478
Julius	-1.281^{*}	0.335	1.278^{*}	0.403	-2.381^{*}	0.531	0.546
Wadhwani	-0.262	0.236	0.036	0.129	-1.391^{*}	0.308	0.524
Plenderleith	$-1.394^{\dagger}$	0.788	1.185	0.755	-2.113	1.368	0.932
Clementi	$-0.656^{\dagger}$	0.368	0.448	0.308	-0.871	0.817	0.524
Committee	-0.927	0.628	0.630	0.467	-1.808	1.308	0.576

	Eijffinger et al (2015) Hawkishness Ranking	R&R(2008) constant	R&R(2008) Inflation	R&R(2008) Unemployment
Large	1	● ● ●	● ● ●	○
Buiter	2	●	● ● ●●	● ● ●●
Vickers	3	●●	● ● ●●	● ● ●●
King	4	●	○ ○ ○	● ● ●●
Goodhart	5	○ ○ ○○	○○	○
Tucker	6	○ ○ ○○	○	○
Lambert	7	● ● ●●	●●	●●
Lomax	8	● ● ●●	●●	●●
Clementi	9	●●	○ ○ ○	○ ○ ○
George	10	○ ○ ○	○ ○ ○	○ ○ ○
Barker	11	● ● ●	●●	○○
Plenderleith	12	●	○ ○ ○○	○ ○ ○
Bean	13	○ ○ ○	○	○
Nickell	14	●●	● ● ●	● ● ●
Bell	15	● ● ●	●	●●
Allsopp	16	●●	● ● ●	○○
Julius	17	●	● ● ●●	● ● ●●
Wadhwani	18	○ ○ ○	○	● ● ●

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Comments

1. Are internals at the Bank of England more homogenous because they have similar preferences or because they share the same information?

2. What do committee members maximize? Do they want to make the right decision or maximize their reputation?
   - Reputation may lead to conformity (Scharfstein and Stein, 1990) or contrarian positions (Levy, 2004)

3. Unanimous votes are disregarded.

Comments

- This paper focuses on preference estimation.
- Mapping from preferences to outcomes is non trivial.
- Median Voter Theorem (MVT)?
- What happens when distribution of preferences becomes more disperse?
- MVT would imply that this has little consequence, but other models of aggregation of preferences would give a different answer.