



Career experience, political effects, and voting behavior in the Riksbank's Monetary Policy Committee



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HIGHLIGHTS

- The determinants of voting behavior in the Swedish Riksbank are considered.
- Voting is analyzed with random effects ordered logit models for 1999–2013.
- Interplay of career experience and political factors shapes voting behavior.
- Government or Riksbank background leads to higher interest rate votes.
- Partisan voting behavior is detected for members with government background.

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ABSTRACT

We find that career experience shapes the voting behavior of the Riksbank's Monetary Policy Committee (MPC) members. Members with a career in the Riksbank and the government prefer higher rates. During a legislation with a center-right (center-left) party administration, MPC members with a career background in the government favor higher (lower) interest rates.

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1. Introduction

This paper uses a novel dataset to explore the role of career experience and political affiliation for the voting behavior in the Riksbank's Monetary Policy Committee (MPC). The relevance of career backgrounds for the voting behavior of MPC members has been examined by several interesting contributions for the Bank of England (e.g., Harris et al., 2011) or the Federal Reserve (e.g., Gildea, 1990; Havrilesky and Gildea, 1991; Chappell et al., 1995; Eichler

and Lähler, 2014). For the Riksbank however, we are not aware of any study that has examined the role of career backgrounds. This study aims to close this gap by investigating the relevance of career experience for voting behavior in the Riksbank. Moreover, we test for an indirect political influence on the voting behavior transmitted by career experience in the government branch.

Combining hand-collected data on career backgrounds with voting records of Riksbank's MPC members from 1999 to 2013, we find robust evidence that interest rate preferences are driven by former career backgrounds. Members with career backgrounds in the government or Riksbank prefer significantly higher interest rates. Moreover, we find that particularly members with a government career background show a partisan voting behavior. Members with a career background in the government tend to prefer lower interest rates during episodes with center-left party

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Table 1
Results of random effects ordered logit estimations.

	I	II	III
Academia	2.012 (1.27)	0.907 (1.25)	4.826** (1.45)
Government	3.183** (1.09)	3.503** (0.72)	4.778** (1.37)
Industry	-0.029 (1.01)	2.379* (1.32)	6.409** (1.23)
Finance	-0.732 (0.61)	-0.307 (0.47)	-2.312** (1.06)
Riksbank	3.897*** (1.07)	1.809*** (0.56)	8.013*** (1.94)
NGO	-0.859 (0.71)	2.165*** (0.57)	-1.491** (0.76)
Chair_dummy	-1.644 (1.90)	-1.627* (0.98)	2.214* (1.19)
Gender_dummy	1.481** (0.73)	-1.365** (0.57)	2.312** (1.06)
CPI_inflation	-0.249 (0.39)		
Two_year_ahead_inflation_forecast		0.534 (0.72)	0.417 (0.69)
GDP_gap	-0.033 (0.16)		
Employment_gap		0.258 (0.26)	0.231 (0.27)
Oil_Price	0.014* (0.01)	0.006 (0.01)	0.005 (0.01)
KIX_exchange_rate	0.151** (0.07)	0.136** (0.05)	0.130** (0.05)
Riksdag_dummy		4.844** (1.46)	
Riksdag_dummy * Academia		0.052 (1.08)	
Riksdag_dummy * Government		-5.362*** (1.25)	
Riksdag_dummy * Industry		-1.287 (1.49)	
Riksdag_dummy * Finance		-0.224 (0.36)	
Riksdag_dummy * Riksbank		0.646 (0.86)	
Riksdag_dummy * NGO		-3.747*** (0.94)	
Appointment_dummy			6.261*** (1.52)
Appointment_dummy * Government			-7.239** (2.26)
Appointment_dummy * Industry			-8.540** (1.97)
Appointment_dummy * Finance			1.546 (1.30)
Appointment_dummy * Riksbank			-10.306*** (2.81)
Appointment_dummy * NGO			3.211** (1.30)
Lagged_RR	-0.223 (0.39)	-0.421 (0.58)	-0.421 (0.58)
Lagged2_RR	0.340 (0.27)	0.385 (0.57)	0.385 (0.57)
Time_FE	Yes	Yes	Yes
Obs.	683	666	666

Note: Dependent variable: individual vote (assent = 0, dissent favoring higher rates = +1, dissent favoring lower rates = -1); robust standard errors clustered on member level in parentheses; year dummies included but not reported.

* Significance at the 10% level.

** Significance at the 5% level.

*** Significance at the 1% level.

administrations than during center-right party administrations. Similarly, members with a government background tend to be dovish when appointed under center-left governments and hawkish when appointed under center-right governments.

Current literature finds robust evidence that heterogeneous voting behavior can be attributed to different career experiences.

Table 2
Marginal effects, Specification I.

	Easing	Tightening
Academia	-0.099 (0.06)	0.055 (0.05)
Government	-0.156*** (0.04)	0.087 (0.06)
Industry	0.001 (0.05)	-0.001 (0.03)
Finance	0.036 (0.03)	-0.020 (0.02)
Riksbank	-0.191*** (0.06)	0.106* (0.06)
NGO	0.042 (0.04)	-0.023 (0.02)
Chair_dummy	0.081 (0.09)	-0.045 (0.07)
Gender_dummy	-0.073** (0.04)	0.040* (0.02)
CPI_inflation	0.012 (0.02)	-0.007 (0.01)
GDP_gap	0.002 (0.01)	-0.001 (0.00)
Oil_Price	-0.001 (0.00)	0.000 (0.00)
KIX_exchange_rate	-0.007* (0.00)	0.004 (0.00)
Lagged_RR	0.005 (0.04)	-0.003 (0.02)
Lagged2_RR	-0.023 (0.02)	0.013 (0.01)

Note: Robust standard errors clustered on member level in parantheses.

* Significance at the 10% level.

** Significance at the 5% level.

*** Significance at the 1% level.

For the FOMC, several papers find that career experience in the government is associated with a preference for lower interest rates (Gildea, 1990; Havrilesky and Gildea, 1991; Chappell et al., 1995; Eichler and Löhner, 2014), while for the Bank of England, Harris et al. (2011) find that committee members with a career in the government sector tend to prefer higher interest rates.

Another source of disagreement among committee members may stem from political pressure asserted by the current administration. Chappell et al. (1993) find that FOMC members serving under Democratic presidents prefer lower interest rates than FOMC members serving under Republican presidents. Belke and Potrafke (2012) investigate the interaction of government ideology and central bank independence in a cross-country context. They find that under left governments, interest rates are relatively low when central bank independence is low, while interest rates are relatively high in high independence regimes. Neuenkirch and Neumeier (2015) study the role of party affiliation and career backgrounds for the monetary policy stance of central bank governors in an international setting. They find that governors affiliated with a political party are dovish, while the unconditional effects of career backgrounds have no significant impact.

While voting behavior in the FOMC and the Bank of England's MPC is relatively well explored, studies focusing on the Riksbank are scarce. Horváth et al. (2014) analyze the role of economic, psychological and institutional determinants and find that these factors can hardly explain voting behavior in the Riksbank. Comparing the power of the chairman in a Taylor rule framework, Chappell et al. (2014) find that the Bank of England's MPC can be characterized by an individualistic committee with modest influence of the chairman, whereas the chairman of the Riksbank's MPC has much more influence. This contradicts the finding of Apel et al. (2015) in favor of an individualistic committee.

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