



# Minority positions in the German Council of Economic Experts: A political economic analysis

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## ARTICLE INFO

### Article history:

Received 31 October 2012  
Received in revised form 20 May 2013  
Accepted 23 May 2013  
Available online 27 May 2013

JEL classification:  
D72

### Keywords:

Ideology  
Expressive voting  
Voting in committees  
Minority voting  
Policy diversity

## ABSTRACT

I study diversity in views expressed by economists regarding appropriate economic policies. The dataset is for voting by economists on the German Council of Economic Experts, over the period 1971–2011. The results show that the best predictor of minority voting is having been nominated by the trade unions, which results in being some 70 percentage points more likely to vote against the majority opinion. The voting pattern confirms that ideological identity through the channel of political appointment influences economists' voting behavior.

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## 1. Introduction

For reasons including prominently ideology and beliefs about values of empirical variables, economists as policy advisors can take different positions regarding appropriate economic policy.<sup>1</sup> The differences in views in particular underlie the study of voting in committees.<sup>2</sup> For example, disagreements in voting in monetary policy committees (MPCs) usually relate to how to design aspects of monetary policy such as interest rates and money supply. In studies of why MPC members disagree and whether preference heterogeneity influences monetary policy, determinants of dissent voting include members' internal and external status, career background, and the political channel of their appointment.<sup>3</sup> Studies of the U.S. Federal Open Market Committee (FOMC) show that career background and the political channel of appointment have influenced the voting behavior of the council

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<sup>1</sup> Hillman (2009, chapter 10) summarizes the different types of economic policies on which economists can have different views. In related literature, see Swank (1994) on strategic political use of policy uncertainty to implement politically favored policies and Letterie et al. (2000) for a theory based on different political policy preferences, information, and uncertainty that describes why consensus by policy advisors need or need not be achieved.

<sup>2</sup> Gerling et al. (2005) survey theoretical studies on decision-making in committees. Game theorists have investigated minority voting in committees (e.g. Fahrenberger and Gersbach, 2010). See Seidmann (2011) on voting patterns and performance in private and public committees.

<sup>3</sup> See Berk and Bierut (2011) on communication in a monetary policy committee and Blinder (2007) on decision-making in a monetary policy committee. Riboni and Ruge-Murcia (2010) examine four different voting protocols in MCP policy-making. Belke and von Schnurbein (2012) examine the voting power of individual members of the ECB Governing Council. Berger et al. (2008) investigate the determinants of monetary policy committee size. Berger and Nitsch (2011) investigate how the size of monetary policy committees influences monetary policy.

members (e.g. Havrilesky and Schweitzer, 1990; Chappell et al., 1993, 2005): Democrat appointees have exhibited different voting behavior compared to Republican appointees (see Chappell et al., 1993). Members of the German Bundesbank, too, appear to have voted for monetary policies consistent with the views of the parties that nominated them in the pre-election period (see Vaubel, 1993, 1997a, 1997b; Berger and Woitek, 1997).<sup>4</sup> Using data for eleven European countries, Göhlmann and Vaubel (2007) show that the career background of central bank council members influenced their views on inflation targets: former union leaders and politicians were the group most likely to show disregard for inflation.<sup>5</sup>

In this paper I report on an investigation of voting in another committee: the German Council of Economic Experts. Members of the Council, who are generally professors of economics, offer policy advice to the German government. These economists may disagree on economic policy issues for different professional reasons, such as the effectiveness of monetary policy, the desired size of fiscal deficits, the balance between tax financing and government borrowing, the value of labor-supply elasticities, etc. Differences may also be systematic and ideological, relating to the responsibilities of government and the weight placed on the income distribution consequences of policies relative to efficiency. Evidence from studies based on survey data has shown that economists' opinions on economic policy-making are correlated with their statements describing their ideological or political identity (see Alston et al., 1992; Fuchs et al., 1998; Mayer, 2001; Klein and Stern, 2006), although this is not confirmed in a more recent study by Gordon and Dahl (2013).<sup>6</sup>

As compared to MPC committees, the members of the German Council of Economic Experts have the same professional background. Differences in voting behavior in the German Council of Economic Experts may thus be more aligned with political ideology than professional background.

There are two competing hypotheses on why, in the case of the members of the Council, voting on policy differs: either the coalitions on different votes are non-systematic, indicating differences in professional opinion based on idiosyncratic aspects of the proposed policies; or the coalitions are systematic and ideologically-based. If voting reveals that the coalitions are systematic and ideologically-based, voting can be regarded as expressive confirmation of identity or loyalty (Hillman, 2010).

Expressive voting is in general set in the context of a large number of voters in which no individual voter can realistically hope to be decisive.<sup>7</sup> In voting in committees, the likelihood of decisiveness is greater than that in usual elections. In particular, the German Council of Economic Experts has five members. If a member votes with 50% probability for or against a proposal (veil of ignorance), the likelihood of being decisive is substantial (3/8). I investigate whether the source of nomination of Council members systematically influences how the economists vote. I find that economists nominated by the trade unions tend systematically to vote with the minority. Usual minority votes are 4 to 1. There have been only two situations where minority votes were 3 to 2.<sup>8</sup> The members of the Council taking minority positions are aware that the majority position will influence actual policy and can propose their dissenting policy to confirm their identity as supportive of the ideology of those constituencies that nominated and supported them for Council membership.

## 2. Data and descriptive analysis

### 2.1. The German Council of Economic Experts

The German Council of Economic Experts has advised the Federal Government on matters of economic policy since 1964.<sup>9</sup> The Council assesses the current macroeconomic situation and forecasts future economic developments.<sup>10</sup> The members of the Council enjoy independence in advising the government. On its webpage the Council claims that its advisory activities are an “essential part of German economic policy-making and have notably influenced political decisions” (see German Council of Economic Experts, 2011).

<sup>4</sup> The results by Berger and Neugart (2011) show that the political leaning of German state governments influenced the appointment of judges in labor courts.

<sup>5</sup> By contrast, career background and the political channel of appointment hardly influenced the voting behavior of the council members of the Bank of England (see Harris et al., 2011). The results obtained by Besley et al. (2008) show that there is preference for heterogeneity among MPC members at the Bank of England. However, members are not differentiated “according to their internal/external status, academic background, or experience in the Treasury” (p. 223). For a detailed account of preference heterogeneity between MPC members in Hungary and Poland and the FOMC, the Bank of England and Swedish Riksbank see also Jung and Kiss (2012) and Jung (2011). See Blinder et al. (2008) and Allard et al. (2013) on central bank communication.

<sup>6</sup> Advice given to politicians appears to be influential in implementation of ideology-induced views in policy-making. Of course, economists may also have other motivations when advising politicians: policy advice could be purely instrumental and benevolent and given purely with a view to solving problems. Economists advising politicians and entrepreneurs may however also maximize their own utility by making proposals and providing results that favour their clients (see Kirchgässner, 1996, 1999, 2005, 2011, 2012; Heine and Mause, 2004).

<sup>7</sup> The paradox of voting by non-decisive individuals (see Downs, 1957) is resolved by expressive voting. See for example Tullock (1971), Ursprung (1980), Brennan and Lomasky (1993), Brennan and Hamlin (2000), Hillman (2010), Jennings (2013), Brennan and Lomasky (1993) and Brennan and Hamlin (2000), and other formulations, describe expressive voting using the analogy of expressing support for a sports team. Hillman (2010) focuses on voting as an expression of identity. For overviews of expressive voting, see Hamlin and Jennings (2011) and Brennan and Brooks (2013). In a related context, Glazer (2008) describes “voting to anger and to please others”: the economists could be expressively voting to please those who nominated them.

<sup>8</sup> Bert Rürup and Jürgen Kromphardt submitted a joint minority vote in 2003. Bert Rürup and Peter Bofinger submitted a joint minority vote in 2008.

<sup>9</sup> Act on the Appointment of a Council of Experts on Economic Development. Dated August 14, 1963 (Federal Law Gazette I, page 685).

<sup>10</sup> See e.g. Rülke (2012).

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