



Committee design with endogenous participation [☆]



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ABSTRACT

We analyze different committee designs in a model with the endogenous participation of experts who have private information about their own abilities. Each committee design involves a test of abilities whose accuracy influences experts' decisions to participate. We derive the following findings. First, higher wages continuously lower the quality of experts on the committee. Second, and as a consequence of this, optimal committees involve low wages. Third, an increase in transparency improves the quality of experts on the committee. Fourth, larger committees attract less able experts than smaller ones, unless the committee operates under full transparency.

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1. Introduction

Many decisions are taken by committees rather than individuals. Examples include boards of directors, monetary-policy committees, parliamentary committees, academic search committees, and juries. In this paper, we revisit the question of the optimal design of expert committees. While it has been recognized in the literature that the design of a committee may have important consequences for the amount of information collected by its members (see [Mukhopadhyaya, 2003](#) and [Persico, 2004](#)), we focus on how the committee design affects potential members' decisions to join the committee and how this influences the committee's performance.

More specifically, we propose a two-period model of a principal (“she”) who delegates a decision to an expert committee.¹ Each candidate (“he”) has private information about his individual competence and decides whether to be available for a position on the committee.² Abstracting from the strategic interactions of experts during the committee meeting, we

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¹ The literature on careerist experts can be traced back to [Holmström \(1999\)](#). [Ottaviani and Sørensen \(2001\)](#) build on [Scharfstein and Stein \(1990\)](#) to examine herding in sequential debate. Further analyses of expert committees are [Gersbach and Hahn \(2008\)](#), [Hahn \(2011\)](#), [Levy \(2007\)](#), [Ottaviani and Sørensen \(2006\)](#), [Swank et al. \(2008\)](#), and [Visser and Swank \(2007\)](#).

² Experts may possess private information about their own abilities because they have private non-verifiable information about their past performance in other tasks, for example.

model the committee as a device that generates public signals about members' abilities and that maps members' abilities into probabilities of correct committee decisions. Experts receive a fixed wage when working for the principal. Moreover, they are interested in a favorable evaluation of their abilities by outside observers because this improves their future wages. As the committee design determines how much information outsiders learn about the experts' competence, different designs entail different future wage distributions and thereby affect experts' decisions to participate in the first place.

Our analysis generates the following findings. First, we show that every committee design attracts only experts with favorable private information about their abilities, provided that the lowest wage is chosen for which experts are willing to participate. Second, we prove that the principal prefers the lowest possible wage for which experts are willing to participate. By selecting this wage, she can specifically hire experts of high competence and minimize the wage bill. Thus, our model might provide a rationale for the comparably modest financial incentives offered to members of some expert committees.^{3,4} For example, Frederic Mishkin was reported to have taken a pay cut, like most recent Federal Reserve governors, when he joined the central bank.⁵ Somewhat surprisingly, the amount of information about individual experts that is revealed during committee decision-making is irrelevant for the principal at the lowest possible wage. This is a consequence of our finding that the lowest wage for which experts apply is identical under all communication systems and, in all cases, it attracts only experts with favorable private information about their abilities.

Third, we show that, under relatively mild restrictions, higher wages continuously decrease the expected quality of experts on the committee. The intuition for this effect is the following: Experts who have unfavorable private information about their abilities expect to do badly in the test implied by working on the committee and only find participating attractive if wages are high. By contrast, experts who have private information about their high abilities always find working on the committee profitable as participating in this test of their abilities enables them to demonstrate their competence to the market.

Fourth, we ask whether expert committees should operate under transparency or opacity, a question that has received renewed interest when the ECB decided to publish summary minutes of the ECB council's meetings.⁶ We show that more transparent committees typically attract more able experts than more opaque ones for fixed pay and committee size. This is intuitive because a more transparent committee constitutes a more rigorous test of one's ability, which deters experts with unfavorable signals about their competences because they expect to perform poorly in the test.

Fifth, we show that larger committees result in a lower quality of experts on the committee than smaller committees, unless the committee operates under full transparency. This finding stems from the fact that larger committees make it harder for outside observers to assess the individual competence of experts on the committee. As a result, more experts of low ability apply. While expert quality is unaffected by the number of seats under full transparency, full transparency may not be feasible in practice. Hence the harmful effect of a large number of seats identified in this paper may also be relevant for committees that are formally transparent.

Our paper is related to the general literature on the optimal design of committees. This literature considers the impact of decision-making rules, committee size, and communication systems on performance when committees are used to aggregate preferences, information, or both.⁷ In contributions dealing with the impact of transparency on committee performance, transparency may distort committee members' decisions because the individual members' votes not only affect the outcome but can also be used to signal information about the members themselves to outsiders or the principal.⁸ In our paper, we concentrate on the effects of the committee's design on the participation decisions of agents. For this reason, we treat the decision-making stage as a black box and do not model the strategic interaction of experts during committee decision-making explicitly.

Recent works on committees with endogenous information acquisition have studied the impact of committee design on members' incentives to acquire costly information.⁹ The present paper differs from this literature in that it considers the adverse-selection problem arising from the endogenous participation of experts with private information rather than the moral-hazard problem that occurs when agents' decisions to acquire costly information are unobservable. Interestingly,

³ An alternative reason for experts accepting low wages may be the personal contacts that they gain during their term on the committee.

⁴ The remuneration of members of boards of directors may be rather generous. However, this does not necessarily contradict our analysis because other motives than the ones considered here may influence the size of these remuneration packages. It is also conceivable that observable experience rather than unobservable talent matters more in these cases.

⁵ See *Bloomberg*, 05/28/2008, "Mishkin to Leave Fed in August, Return to Columbia".

⁶ See *ECB press release*, 18 December 2014, "ECB to publish accounts of monetary policy discussions from January". Gersbach and Hahn (2009) argue that the transparency of decision-making procedures would be harmful in the case of the ECB because central bankers would face increased pressure from the governments to pursue their national interests.

⁷ The first formal analysis of the advantages of group decision-making goes back to de Caritat Condorcet (1995). A classic book on committees is Black (1958). For a lucid review of papers on information aggregation by committees, see Austen-Smith and Feddersen (2009).

⁸ See Prat (2005), Levy (2007), Gersbach and Hahn (2008, 2009), Visser and Swank (2007), and Seidmann (2011). Fox and Van Weelden (2012) analyze the impact of transparency on the performance of an individual expert.

⁹ See Mukhopadhyaya (2003), Persico (2004), Martinelli (2007), Gerardi and Yarov (2008), Koriyama and Szentes (2009), Gershkov and Szentes (2009), and Gersbach and Hahn (2011) for analyses of committees where members' skills or accuracy of information are endogenous. See Gerling et al. (2005) for a survey.

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