



Contents lists available at ScienceDirect

European Journal of Political Economy

journal homepage: www.elsevier.com/locate/ejpoleco

Committee decision-making at Sweden's Riksbank

Henry W. Chappell Jr.^{a,*}, Rob Roy McGregor^b^a Department of Economics, American University of Sharjah, PO Box 26666, Sharjah, United Arab Emirates^b Department of Economics, Belk College of Business, University of North Carolina at Charlotte, 9201 University City Boulevard, Charlotte, NC 28223, USA

ARTICLE INFO

JEL categories:

C23 – Panel Data Models

E52 – Monetary Policy

E58 – Central Banks and Their Policies

Keywords:

Monetary policy

Central banking

Incidental parameters

Committee decisions

ABSTRACT

Many central banks now publish transcripts or summaries of meeting discussions and record policy preferences of individual members of policymaking committees. We present an econometric model of committee decisions for Sweden's Riksbank that uses individual preference data pooled over committee members and meetings. Estimates indicate that members attach a small weight to their own preferences when voting; instead, members tend to defer to the perceived committee consensus. These results contrast with some previous findings that members deferred to the committee chairman when voting.

1. Introduction

Blinder (2004, 2007) has noted that central banks increasingly make policy decisions in committees. The trend toward committee decision-making has also been accompanied by increasing transparency. Many central banks publish detailed records of committee policy deliberations and the individual votes that committee members cast on policy directives. A number of studies have used these data to describe the policy preferences of individual committee members, to characterize the collective choice-making procedures of the committees, and to assess the effect of greater transparency on financial markets.¹

In this paper, we use data from the monetary policy committee (MPC) of Sweden's Riksbank to estimate individual-specific Taylor rule parameters that describe the policy preferences of members of the Riksbank's MPC. We also estimate parameters that describe how preferences are aggregated within the committee to produce collective choices. Our econometric model requires the use of panel data—we pool observations over members and meetings and estimate individual fixed effects to capture differences in policy preferences across committee members.

In practice, MPCs can operate in a variety of ways, and Blinder (2004, 2007) has developed a typology for classifying them according to their decision-making procedures. In Blinder's scheme, committees can be “individualistic,” “genuinely collegial,” or “autocratically collegial.” In individualistic committees, each member acts independently in developing his policy preference and in voting on a policy choice. In genuinely collegial committees, members attempt to reach a consensus that reflects the views of all

* Corresponding author.

E-mail address: hchappell@aus.edu (H.W. Chappell).¹ Examples include Besley et al. (2008), Chappell et al. (1993, 1995, 1997), Chappell and McGregor (2000), Chappell et al. (2008, 2012, 2014), Demiralp et al. (2012), Ehrmann and Fratzscher (2007), El-Shagi and Jung (2015), Harris et al. (2011), Harris and Spencer (2009), Hayo and Neuenkirch (2010), Jung and Kiss (2012), Jung and Latsos (2015), McGregor (1996), Reeves and Sawicki (2007), Rozkrut et al. (2007), and Tootell (1991a, 1991b, 1996, 1999).

members of the committee. Autocratically collegial committees also reach consensus, but primarily by the deference that committee members show to the committee chairman.

Sweden's Riksbank provides an interesting case. It is the world's oldest central bank and has become one of the most transparent.² After each policy meeting, it promptly reports not only its decision about the target interest rate but also the target rate preferences reported by each member of the policy committee. Thus, it provides the essential data required to investigate collective decision-making.

In Chappell et al. (2014) (hereafter CMV), we previously analyzed collective decision-making by the Riksbank. Our results suggested that the Governor of the Riksbank (who is also the chair of its MPC) was very powerful and that the committee should be characterized as autocratically collegial. That result contrasted with the view of Blinder (2004, 2007), who characterized the Riksbank as individualistic based on a subjective assessment.

There are good reasons to revisit this issue. Fig. 1 shows the path of the Swedish repo rate, the Riksbank's target rate, over the period from 2000 to 2014. The figure is shaded to distinguish the tenures of the three Riksbank Governors who served during that period. The pattern is especially striking for the period from 2000 to 2008, which was the sample employed by CMV. The figure shows dramatic changes in the direction of policy that coincided closely with changes in the Governorship in January 2003 (from Urban Bäckström to Lars Heikensten) and again in January 2006 (from Heikensten to Stefan Ingves). Until the very end of 2008, these were the only major policy shifts that occurred in the sample. It is plausible that the close association between policy change and turnover in the Governor's identity leads to the inference in the CMV analysis that the Governor was extremely powerful. It is also plausible that this association was coincidental rather than causal. CMV acknowledge this, noting that “it seems likely that coincidence is driving our findings about the power of the Riksbank's Governors” (CMV, p. 684).

Fig. 1 shows that multiple shifts in the direction of policy occurred in the period from late 2008 through 2014. Importantly, these changes occurred without turnover in the Governorship. Instead, they reflect the unique macroeconomic experience of Sweden in the period since the global financial crisis and recession. Like many other countries, Sweden experienced a severe recession in 2008 and 2009, but its recovery was quicker and stronger than in most other countries. The target interest rate (the repo rate) reached a low of 0.25% in July 2009 but began to rise again by April 2010. The relevance for our current study is that the post-2008 period avoids the apparent coincidences of the 2000–2008 sample and reflects responses to more varied economic conditions. Both of these features of the data should help to reveal more convincingly the power of the Governor vis-à-vis the committee.

Our method of estimation also departs from that of CMV. The CMV model was developed for a policy regime in which the only choices relevant for the committee were to move a target interest rate up or down by 25 basis points. This was the norm in the CMV sample period, but that norm was quickly abandoned in response to the 2008 financial crisis. In addition, a lower bound on interest rates had become a binding constraint for the Riksbank by the middle of 2009. The Riksbank's target rate never went below 0.25%, but minutes from the policy meetings indicate that this was considered an effective lower bound at that time.³ In this paper, we specify and estimate a model of decision-making for the Riksbank that can appropriately model both large movements in the target rate and the existence of a lower bound. Because our model involves the use of panel data and fixed effects, estimates are subject to an “incidental parameters” bias. Our analysis investigates bias and statistical inference via Monte Carlo experiments.

Our key finding is that Riksbank MPC members tend to place a large voting weight on the preferences of their colleagues, but little added weight on the preference of the Governor. This supports the view that the committee is “genuinely collegial,” a finding that challenges both the results of CMV and the subjective assessment of Blinder (2004, 2007).

The plan of this paper is as follows. We present our model of voting decisions in Section 2 and discuss key econometric issues in Section 3. We describe our data in Section 4 and present and interpret our empirical findings in Sections 5 and 6. We offer our concluding comments in Section 7.

2. A model of voting decisions

The Riksbank MPC has six voting members, including the Governor. Our model indexes these six positions by $i = 1, \dots, 6$. The chairman is indicated by $i = 1$ and rank-and-file positions are represented by $i = 2, \dots, 6$. The specific individuals occupying positions vary over time. In our sample period, 17 different individuals occupied the six voting positions. We will refer to these 17 individuals as “personalities,” and we will index personalities by $j = 1, \dots, 17$. There were 102 meetings of the MPC in our sample that runs from January 2000 to April 2014. Meetings are indexed by $t = 1, \dots, 102$.

We suppose that each voter in a committee meeting has a “true” preferred interest rate target for each meeting. R_{it}^* indicates that true preferred rate target for voter i in meeting t . This variable is assumed to be unobserved. Minutes of the MPC instead record the interest rate favored by each member in the formal voting stage of the meeting. These recorded interest rate votes are indicated by R_{it} .

If members always voted according to their true preferences, then R_{it}^* would always equal R_{it} ; however, this need not be the case.

² Although Sweden is a member of the European Union, it has not adopted the euro, and it conducts an independent monetary policy. Under the terms of its accession treaty with the European Union, Sweden is required to join the Eurozone when it fulfills its exchange rate convergence criteria, but it has intentionally failed to fulfill those criteria, thereby avoiding adoption of the euro.

³ In October 2014, beyond the end date of our sample, the Riksbank MPC adopted a target of 0.0% for the repo rate. As this paper is written in June 2017, the repo rate has become negative, at -0.50% . While this might suggest that 0.25% should never have been considered a lower bound, we believe that it is more appropriate to infer that the lower bound was formerly high and has since changed. In Section 3 of this paper, we support our assumption with evidence drawn from the text of meeting minutes. See Chappell and McGregor (2017) for additional discussion.

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