

Contents lists available at [ScienceDirect](https://www.sciencedirect.com)

European Journal of Political Economy

journal homepage: www.elsevier.com/locate/ejpolecoInferring hawks and doves from voting records[☆]Sylvester Eijffinger^a, Ronald Mahieu^b, Louis Raes^{c,*}^a CentER and EBC, Tilburg University, CEPR, Warandelaan 2, 5037 AB Tilburg, NL, The Netherlands^b CentER and Netspar, Tilburg University, Warandelaan 2, 5037 AB Tilburg, NL, The Netherlands^c CentER and EBC, Tilburg University, Warandelaan 2, 5037 AB Tilburg, NL, The Netherlands

ARTICLE INFO

JEL classification:

E58

E59

C11

Keywords:

Voting records

Central banking

Committees

Ideal points

ABSTRACT

We analyze revealed policy preferences of the Monetary Policy Committee of the Bank of England. From the voting records we estimate the policy preferences with spatial models of voting. We find that internal committee members tend to hold centrist policy preferences, while more extreme policy preferences, both hawkish and dovish, are generally held by external members. An industry background is associated with more hawkish preferences.

1. Introduction

Diversity of views drives the Committee to adopt an eclectic approach and thus serves to limit the risk that a single viewpoint or analytical framework might become unduly dominant. – [Bernanke \(2007\)](#)

Most central banks take monetary policy decisions by committee. These committees come in various forms. Committees differ in their decision protocol, their (in)formal hierarchy, size and composition. In this paper, we focus on the diversity of views and composition of the committee. Some committees consist mainly of career central bankers who have extensive experience at the central bank, whereas other committees consist mostly of external members recruited outside of the central bank. [Besley et al. \(2008\)](#) argue that the internal-external dichotomy could matter for at least two reasons. First, the selection procedure for internal and external members is often formally different. Second, career concerns may affect incentives. Externals leave after their terms, whereas internal members may be building a further career in central banking. Furthermore, the backgrounds of members differ. Experience in the financial industry, at a non-governmental organization (NGO) or for the government may influence how these committee members approach monetary policy making.

We examine the voting record of the Bank of England. We use the observed votes to infer the policy preferences of the central bankers. We compare internals and externals along their policy preferences and analyze the impact of career backgrounds. The methodology we use builds upon a spatial voting model. A spatial voting model is a rational choice model of voting, where utilities

[☆] We would like to thank Willem Buiters, David Cobham, Jakob de Haan, Charles Goodhart, Bjørn Høyland, John Leahy, Bertrand Melenberg, Thomas Michielsen, Wieland Müller, Lucas Papademos, Peter Schotman, Christopher Spencer, Steven Verheyen, Nick Vivyan and Wolf Wagner for discussion and advice, as well as seminar discussants at the European Monetary Forum 2014, at the Tilburg Economic Workshop, at the VERC Annual Conference on 'Challenges for monetary policy actions and communication in uncertain times' and at Heriot-Watt University. We also thank two anonymous reviewers for their input.

* Corresponding author.

E-mail address: l.b.d.raes@tilburguniversity.edu (L. Raes).

<http://dx.doi.org/10.1016/j.ejpoleco.2017.03.004>

Received 23 June 2016; Received in revised form 10 March 2017; Accepted 10 March 2017

0176-2680/© 2017 Elsevier B.V. All rights reserved.

are defined as functions of the distance between the preferred outcome and alternatives in a policy space.

We use a unidimensional model to classify Monetary Policy Committee (MPC) members on a *dove-hawk dimension*. In this framework, a dove is a committee member who is more likely to prefer a lower interest rate out of two proposed policy rates, than a committee member labeled as a hawk. With this classification, we do not imply that MPC members target different inflation rates. Different ideal points could also arise because of different views on how the economy evolves or on different perspectives on the impact of a change in the policy rate. We present two main results. First, and in line with Hix et al. (2010), we show that internals are not more hawkish than externals (or vice versa). Rather it seems that internals tend to hold more centrist preferences, whereas the most pronounced policy preferences (very dovish or very hawkish) are nearly always held by external members. This is related to a debate in the literature on voting at the Bank of England, where some researchers claim that internal members tend to be more hawkish, whereas other researchers argue that this is not the case.¹

Our second result is that policy preferences are only slightly influenced by career backgrounds. We compare career backgrounds by looking at the median voter per career background. An industry background is found to be associated with more hawkish preferences, whereas an NGO background is associated with more dovish preferences. The latter result does not hold when we compare NGO backgrounds with a background in the financial industry or with experience at the Bank of England.

The methodology in this paper builds upon developments in other disciplines. We show how spatial voting models can easily be estimated with Bayesian methods. Throughout our empirical analysis, we demonstrate the flexibility of the methodology when analyzing voting data. It is our hope that economists will consider this methodology when analyzing voting data in the future.

2. Related literature

This paper fits into the literature on decision taking at central bank committees. The institutional arrangements of monetary policy committees differ considerably across central banks and may have important implications for monetary policy making in practice. These institutional arrangements concern (i) the way decisions are reached, (ii) the transparency of procedures and (iii) the composition of such a committee. In this paper, we focus on the composition of a monetary policy committee and on the heterogeneity in policy preferences among the individual members.² We consider whether different types of members hold systematically different policy preferences.

Existing empirical research on this topic mainly uses one of two approaches. On the one hand, researchers estimate aggregate and individual interest rate rules. Besley et al. (2008) estimate reaction functions for the individual committee members and assess the extent to which these capture heterogeneity in voting patterns. They group committee members according to career background (for example, academia vs non-academia) and according to their appointment within the committee (external or internal member). The parameters of the individual members are then compared across groups. The authors find no significant differences between members according to the background characteristics considered. Other examples of this approach, studying the Bank of England, are Riboni and Ruge-Murcia (2010) and Harris and Spencer (2009). The other dominant approach builds on a regression framework where the dependent variable captures the votes cast by members. This dependent variable is then regressed on relevant meeting characteristics (variables capturing economic conditions) and voter characteristics (backgrounds of the individual voters). As an example, Harris et al. (2011) examine the frequency and type of dissenting votes in the MPC at the Bank of England. They find strong heterogeneity in voting patterns, but only find a weak role for career experience in explaining the decision to dissent. These findings stand in contrast to the large literature studying votes at the FOMC, suggesting that career backgrounds do matter, as well as political influence through appointment.³

We use an alternative way to investigate the voting behavior of monetary policy committee members, spatial voting models. This approach builds on methodological advancements in other disciplines where researchers have investigated the voting behavior of legislators and judges. The spatial framework yields the revealed policy preferences (ideal points) of each MPC member, which can be depicted as points on a latent dove-hawk dimension. The (Bayesian) methodology yields an intuitive and user-friendly measure of policy preferences and a joint posterior distribution of all the parameters. This makes our approach much more flexible, as it allows one to make inferences about derived quantities in a way that would be impractical with the classic approaches discussed above. While economists have greatly contributed to the development of the theoretical underpinnings of the spatial voting model since the pioneering work by Black (1948), empirical implementations of the spatial voting model remain scant within economics.⁴ The empirical papers we are aware of nearly always consider applications in politics and the analysis of judicial votes.⁵ One notable exception is Hix et al. (2010), who use a spatial voting framework to empirically analyze voting at monetary policy committees.⁶

¹ Our results are in line with Besley et al. (2008); Hix et al. (2010) but contradict Gerlach-Kristen (2009); Bhattacharjee and Holly (2010) and Hansen et al. (2014).

² See Dal (2006), Riboni and Ruge-Murcia (2010) on voting procedures; Sibert (2003), Meade and Stasavage (2008) and Swank et al. (2008) are on the trade-offs of transparency.

³ See Chappell et al. (1993) for early evidence on the appointment channel. Adolph (2013) is a recent, extensive study suggesting that career concerns matter a great deal in case of the FOMC. In contrast, Harris et al. (2011) suggest that career backgrounds and the political appointment channel have only a negligible effect on voting at the MPC.

⁴ Exceptions are Heckman and Snyder (1997) and Henry and Mourifié (2013) who test implications of the theoretical work developed in Degan and Merlo (2009).

⁵ Recently, the empirical analysis of voting data regained the attention of economists. Authors have proposed different equilibrium models of decision-making to study voting at the Supreme Court. These papers typically do not build upon a spatial voting model. Iaryczower and Shum (2012) examine voting behavior in the US Supreme Court and try to quantify the value of information. Iaryczower et al. (2013) investigate the trade-off between politicians and bureaucrats.

⁶ Chang (2003) also analyzes monetary policy committees in a spatial voting framework. Econometrically speaking, however, Chang (2003) does not estimate spatial voting models. The reasons for doing so are technical and explained in the Appendix to Chapter 3 of the book. Since the publication of that book, substantial

Download English Version:

<https://daneshyari.com/en/article/7351816>

Download Persian Version:

<https://daneshyari.com/article/7351816>

[Daneshyari.com](https://daneshyari.com)