Journal of Macroeconomics 43 (2015) 173–190

Contents lists available at ScienceDirect

Journal of Macroeconomics

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

Does the Greenspan era provide evidence on leadership in the FOMC? ☆

Makram El-Shagi [a,b], Alexander Jung [c,*]

[a] Henan University, School of Economics, Kaifeng, China
[b] Halle Institute for Economic Research, Department of Macroeconomics, Germany
[c] European Central Bank, Directorate Monetary Policy, Sonnemannstr. 20, D-60314 Frankfurt, Germany

ARTICLE INFO

Article history:
Received 18 July 2014
Accepted 5 November 2014
Available online 4 December 2014

JEL classification:
C15
C53
D72
E58

Keywords:
Federal Reserve Districts
Greenspan era
Real-time data
Individual reaction functions
Bootstrap

ABSTRACT

The aim of this paper is to examine whether the Federal Reserve chair has influenced the voting behaviour of the Reserve Bank Presidents. In view of data constraints, the present empirical analysis focuses on Alan Greenspan's chairmanship. Individual Taylor-type reaction functions for the Federal Reserve Districts are estimated using Presidents' interest rate preferences voiced during the second round of the internal FOMC discussions and real-time data. They show that the Federal Reserve Bank Presidents did not systematically deviate from the Chairman's reaction function. In addition, a bootstrap analysis finds that the second-round preferences of these members appear to have been influenced by a consensus enhancing factor. Overall, the empirical evidence presented in this paper is consistent with the notion that Chairman Greenspan has influenced the Reserve Bank Presidents in their voting behaviour when achieving a consensus on interest rates.

1. Introduction

Since the beginning of the 1990s, the Federal Open Market Committee (FOMC) has taken a large number of its interest rate decisions in a fairly consensual manner. Why was that the case? One explanation is that all members of the FOMC have fully shared the central bank's mandate and have had similar views about future risks to price stability. Anecdotal evidence suggests, however, that FOMC members had different interpretations of the Fed's mandate and that they have frequently disagreed on the interpretation of economic data. Another explanation is that other, socio-psychological phenomena, might have contributed to a reduction in disagreement between the Reserve Bank Presidents and Chairman Greenspan. One such factor that may always be present in the deliberations of monetary policy committees is groupthink (Sibert, 2006; Bénabou, 2013).[1] An

☆ For useful comments and discussion the authors thank R. Barro, R. Reis, E. Meade, H. Chappell, E. Ghysels, A. Riboni, J.M. Berk, M. Ehrmann, M. Neuenkirch, F.P. Mongelli, S. Giesen, L. Stracca, L. Raes, S. Latsos, anonymous referees, and participants from the European Economic Association conference in Gothenborg, the European Public Choice conference in Zurich and the Western Economic Association International in San Francisco. The views expressed by the authors are their own and do not necessarily reflect those of the ECB. The authors remain responsible for any errors or omissions.

* Corresponding author. Tel.: +49 6913447674; fax: +49 6913447604.
E-mail addresses: makram.elshagi@gmail.com (M. El-Shagi), alexander.jung@ecb.europa.eu (A. Jung).

[1] Janis (1972) defines groupthink as "the psychological drive for consensus at any cost that suppresses disagreement and prevents the appraisal of alternatives in cohesive decision-making groups."

http://dx.doi.org/10.1016/j.jmacro.2014.11.001
0164-0704/

alternative explanation is the presence of chairman influence on other committee members at various stages of the decision-making process. This explanation is supported both by anecdotal evidence, and by the Federal Reserve Act, which vests the chairman with some extraordinary powers.

Several authors (Kettl, 1986; Chappell et al., 2004, 2005; Meade, 2005; Blinder, 2007) document the prominent role of the chairman of the FOMC during its deliberations. Some describe him/her as holding a disproportionate influence over FOMC decisions (Kettl, 1986; Meyer, 2004; Kohn, 2008). To our knowledge only few authors have empirically examined the role of the chair of a monetary policy committee (Blinder, 2004; Gerlach-Kristen, 2008; Riboni and Ruge-Murcia, 2008, 2011; Apel et al., 2013). In his book on the FOMC, former Governor Meyer argues forcefully that Chairman Greenspan systematically influenced the preferences of the other members of the Board of Governors prior to FOMC meetings. Meyer (2004, p. 50) writes: "*the Chairman's disproportionate influence on FOMC decisions, his efforts to build consensus around his policy recommendations before FOMC meetings, and the strong tendency for Committee members to support the majority view – all these were secrets of the temple that I learned at my first FOMC meeting.*" He continues: "*the Chairman abandoned the private talks before the FOMC meetings and instead used the Monday Board meeting (the day before the FOMC meeting) to share with us his views on the outlook and indicate where he was leaning with respect to policy.*" (Meyer, 2004, p. 51)

The aim of this paper is to examine whether the Federal Reserve chair has influenced the voting behaviour of the Reserve Bank Presidents. This question is interesting for the following reasons. First, it has been argued that Governors have been subject to this influence (Meyer, 2004), although these members should vote in an independent manner and consult a wide range of indicators in their assessments. As a matter of fact, a diversity of views should be expected, in particular during times when uncertainty is high and when different indicators give conflicting messages. Second, preferences of Reserve Bank Presidents could be more persistent than those of the Governors (Meade, 2005) and they could be subject to some form of a regional bias. Third, Reserve Bank Presidents could have a special expertise in projecting future economic trends for the US economy, based on their specific expertise and based on monitoring regional information. While this information is regularly followed in the context of the Beige Book at each FOMC meeting, it is conceivable that the committee does not pay sufficient attention to early signals on turning points based on regional information.

In view of data constraints, the empirical analysis of the paper focuses on Alan Greenspan's chairmanship of the FOMC. While information on individual preferences in the first round discussions of the FOMC is largely unsystematic, it is possible to collect information on the second round preferences of members from the FOMC transcript. Although the Federal Reserve has published the widest possible range of data across central banks, data limitations currently prevent us from extending the present analysis to more recent FOMC chairs, namely chairman Bernanke and chairwoman Yellen. Since these limitations mainly refer to the confidentiality of individual policy-makers' datasets, most notably owing to lags in the publication of FOMC transcripts, it is nevertheless conceivable to extend the current analysis at a later stage. While data revisions could be another constraint, since data revisions can be substantial in the US, real-time data are not affected by data revisions. Moreover, these data have the advantage that they capture genuine data uncertainties faced by policy-makers at the time of the meeting (see Table in A.1 of the appendix for a summary of the data and sources).[2]

The paper is organised as follows. Section 2 reviews the literature on chairman dominance in the FOMC. Section 3 addresses data issues. Section 4 provides empirical results of individual Taylor-type rules for all Federal Reserve Bank Districts. Section 5 presents the bootstrap analysis, and Section 6 concludes.

2. Chairman dominance in the FOMC

The Fed's decision-making process is characterised by captainship. Meyer (2004) suggests that, during voting, the FOMC chairman would traditionally be on the winning side, that is, the side of the majority. If this was not the case, he even might have been expected to resign. In fact, in the post-Bretton-Woods era, most chairmen of the FOMC were outstanding leaders, although to varying degrees (see Kettl, 1986; Romer and Romer, 2004; Chappell et al., 2005). Chappell et al. (2005), for example, find that Chairman Burns influenced other FOMC members' interest rate preferences in a non-dictatorial manner. They also explain that, during the Greenspan era, the Chairman's preferences were greatly matched by the majority of members, whereas this was not true during the Volcker era. Nevertheless, previous empirical studies on the subject have the important limitation that they use final data, and do not exploit real-time information on economic indicators. Moreover, past studies typically have not incorporated the Taylor rule, which has tracked well US monetary policy since the 1990s.

In the FOMC, the chairman's leadership role has often been understood as a reflection of his outstanding role in communications. For example, Ehrmann and Fratzscher (2007) find that communications by the chairman of the Board of Governors generate relatively more public attention than speeches by other Governors or Presidents. Furthermore, the leadership role is also a reflection of the internal monetary policy decision process. In that sense, Kettl (1986, p. 14–15) suggests that the formal powers of the FOMC chairman include several legal and extra-legal privileges: those of a spokesperson and a point man, as well as a manager, agenda-setter, and coalition-builder. Kohn (2008) additionally emphasises that "*effective Chairmen*

[2] When modelling the behaviour of policy-makers' reaction functions, real-time data should be used. Real-time data proxies the information set available to policy-makers at the time of the decision, whereas the use of final data would mislead the analysis of preference parameters. This is due to the implicit assumption that policy-makers make their decisions under perfect foresight, which, in fact, they did not.