

Making Monetary Policy by Committee

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A pretty new subject

“It seems probable that more thinking has gone into the question of what a monetary policy committee should look like over the last decade than over the preceding century.” (p. 27)

Two interesting/provocative facts

1. More and more CBs have shifted to committee decisionmaking.
 - *Implication?: Committees perform better.*
 - *Note: MPCs are not inherent in IT (cf. New Zealand), but they are common.*
2. MPCs come in a wide variety of shapes and sizes.
 - *Implications? Optimal committee type is (a) unknown or (b) varies by country.*

Are committee decisions different? Better?

- Hypothesis: Group decisions, being *more consensual*, are therefore (a) *more inertial* (less volatile) and (b) *better*.
- Blinder-Morgan (2005, 2007) supported “better” but not “more inertial.”
- Also found that committees:
 - ✓ do not just average.
 - ✓ do not follow median voter.
 - ✓ do not just follow the most-skilled member.

Group interactions matter. Why?

1. *pools* the knowledge, information, and forecasts of its members
2. brings different methods of analysis and decision *heuristics* to the table
3. Where *tradeoffs* arise, committees may mediate disparate preferences.
 - ✓ Should be irrelevant under IT.
4. less likely to adopt *extreme* positions (“group-think” argues the opposite)

Key design question

If a nation wants to exploit the advantages of a committee, what kind of committee should it create? (I take up six issues.)

1. The degree of consensus

1. Autocratically collegial (e.g., Norway, Greenspan Fed)
2. Genuinely collegial (e.g. ECB, Bernanke Fed)
3. Individualistic (e.g., England, Sweden)

I argue for something between 2 and 3, to exploit the advantages of committees while avoiding the cacophony problem.

2. Is strong leadership needed?

- Actual experience is varied—e.g., Greenspan Fed and BoE both very successful.
- Blinder-Morgan (2007) experiment found no advantage from leadership.

3. Decide by voting?

- Efficient way to aggregate information (Condorcet, 1785)
- Gerlach-Kristen (2006): Voting outperforms averaging.
- Empirically, voting is *not* the norm.
- ✓ In Fry *et al.* (2000) survey, only 36 of 79 MPCs decide by formal vote.

4. Optimal committee size

- Condorcet Theorem \Rightarrow very large
- Empirical range: $n = 3$ to 21 , with mean, median, mode around 7 .
- Sibert (2006): $n^*=5$ (tongue-in-cheek?)
- Blinder-Morgan (2007) experiment: $n=8$ *very slightly* better than $n=4$.

4. Optimal committee size: some relevant factors

- *Scope*: Multiple or single function(s)?
- *Composition*: Heterogeneous or homogeneous membership?
- Desired degree of *consensus*
- *Size of country* (due to talent pool, turnover)
- *Federal* structure? (e.g., US, EU)
- Excessive size may inhibit effective *communication*.

5. What sorts of members?

- easy part: no government officials
- monetary policy experts vs. others
- “representatives” of constituencies (by geography, industry...)
- insiders v. outsiders
- ✓ Or is the distinction: careerists v. non-careerists?
- Part-timers v. full-timers

6. Appointment procedures

- To balance CBI and accountability, need to be political without being political
- Long terms of office help on CBI.
 - ✓ Lybek-Morris (2004): Accordingly, 66% have terms of 4 years or more
- Staggering helps limit politicization.
 - ✓ Lybek-Morris (2004): But only 20% use *de jure* staggering.

Communications by a committee

- Autocratically-collegial, genuinely-collegial, and individualistic committees each need different styles of communication.
- Example: the immediate post-meeting statement:
 - ✓ *Autocratically collegial*: statement can be long, detailed, drafted in advance
 - ✓ *Genuinely collegial*: members may not agree on reasoning; so statement may need to be terse; can't be drafted in advance
 - ✓ *Individualistic*: members may not even agree on decision; immediate statement may be impossible

Publishing forecasts

- This is a key component of central bank communication under IT.
- But whose forecasts should be published?
- Best if they are the MPC's
- But can a large, heterogeneous, individualistic committee produce forecasts?
- May need to fall back on staff forecast

Best practice circa July 2008?

- A committee, not an individual
- Individual or group accountability accdg to law
- Optimal size depends on many factors (functions, heterogeneity, staggering...)
- Not so large that it can't communicate well
- Get diversity, but avoid cacophony
- May not need a dominant chairman
- Politically appointed, but not political
- Long, staggered terms
- All full-timers
- Not all bank careerists

How does the BoC rate on
these criteria?

**I'll let someone else
answer that!**