

Transparency and Pre-meetings

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Committee Decision-Making

- Decision power delegated
- Committees of experts
- Request to explain decision-making
- What information voluntarily provided to outside world?
- How does committee react to outside pressure to provide more information?
- Theory + Case study (FOMC)



Related literature

- Committees of experts: Levy (2007), Visser and Swank (2007)
- Demand for transparency leads to herding (Meade and Stasavage, forthcoming)
- Monetary policy decision making → committee
- Transparency



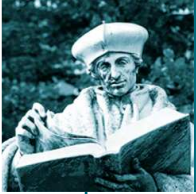
Set up

- Binary decision
 - $X=1$: project implementation, rate change
 - $X=0$: status quo
- $V(X=1) = p + \mu$
- $V(X=0) = 0$
- p = a priori value / predisposition
- μ = state of the economy
- state matters: $p - h < 0 < p + h$



Committee Member

- Committee members $i=1, \dots, n$
- Member i assesses world / info, s_i
- Competence of member = quality of assessment
- π = prior probability member is competent
- Competent = assessment is correct
- Member cares about project value and about reputation
- $U(X=1) = p + \mu + \lambda\pi(X=1)$
- $U(X=0) = \lambda\pi(X=0)$



Timing

- Personal views formed
- Discussion
- Voting $\rightarrow X$
- What to tell the outside world?
- Institutional framework: closed doors



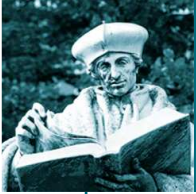
Proposition 1

- What to tell the outside world?
- Proposition 1: Committee members who care about their reputation speak with one voice
- Idea: difference in opinion signals lack of competence
- Visser and Swank (2007)



Demand for Transparency

- Change of institutional framework:
- Public requires deliberation and voting to take place ‘in public’:
 - Cameras / press
 - Verbatim transcripts
- Idea: private views become known



Consequence

- Any difference in opinion becomes visible
→ hurts reputation
- Incentive to circumvent this exposure: meet before ‘transparent’ meeting
 - to find out what others think
 - to collectively decide what to say



Proposition 2

- Proposition 2: Demand for transparency understandable, but leads to emergence of pre-meetings
- Real debate moves to pre-meeting



Case: FOMC

- U.S. Federal Open Market Committee (FOMC)
- 1993!
- Meade (2005): voice and vote data for FOMC 1989 – 1997.
- NB 1: role of chairman
- NB 2: verbatim transcripts published with five years delay.



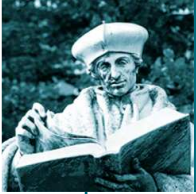
Anecdotal Evidence 1

- Do members conceal disagreement?
- Alan Blinder (2004, 2005):
 - FOMC ‘collegial’: “members are expected to fall in line behind the group’s decision”
 - “the desire to maintain the appearance of unity ...”
- Laurence Meyer (2004): “Once the majority view (...) is apparent at FOMC meetings, the Committee is expected to rally around it”



Anecdotal Evidence 2

- Did transparency lead to pre-meetings?
- Greenspan in Congressional Hearings 1992:
 - “members need to feel free to trade ideas (...) and especially to change their views in response to the arguments of others”
 - “tendency would arise for (...) pre-meeting discussions, with public meetings merely announcing already agreed-upon positions”



Anecdotal Evidence 3

- Did pre-meetings actually take place?
 - Meyer: yes
 - first Greenspan met with individual Governors;
 - later as part of Monday Board meetings: “much truer give-and-take, a serious exchange of ideas, with each of us questioning one another along the way”.



Vote and Voice Dissent Data

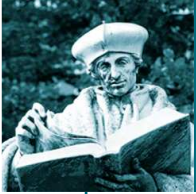
Number of:	1989-1992	1994-1997	change
Meetings	32	32	0 %
Voice and votes	325	320	- 2 %
Vote dissents	35	13	- 63 %
(... of which Governors)	(16)	(2)	- 88 %
'Inconsistent' voice dissents	27	16	- 41 %
(... of which Governors)	(9)	(3)	- 67 %
Meetings with ≥ 3 voice dissents	9	4	- 56 %
Meetings with ≥ 3 vote dissents	4	0	- 100 %



Other explanations?

- Perhaps economy in 1994-1997 less volatile, requiring less discussion, agreement easier to obtain?

Number of:	1989-1992	1994-1997	change
Changes in funds rate	5	10	100 %
(of which increases)	0	7	-
Policy directive not in line with previous bias	5	8	60 %
Outliers vis-à-vis range of Taylor rules:			
Various measures of inflation	2	3	50
Various measures of output gap	7	12	71



Conclusion

- Economy not less volatile in 2nd period
- Pre-meetings possible explanation
- European Council of Ministers (Stasavage 2006)
- Other reactions: formal challenges, changes in record keeping, failure to create records (Roberts 2006)