

# 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!**