How committees of experts interact with the outside world: some theory, and evidence from the FOMC.*

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Abstract

Some committees are made up of experts, persons who care both about the matter at hand and about coming across as able decision-makers. We derive two propositions about the way members of such committees interact with the outside world. First, they would like to conceal disagreement from the public. That is, once the decision has been reached, they show a united front to the outside world. Second, if such committees are required to become transparent, e.g., by publishing verbatim transcripts of their meetings, members will organize pre-meetings away from the public eye. Large part of the paper is dedicated to a case study of the U.S. Federal Open Market Committee in the United States. It provides suggestive evidence supporting the two propositions.

Keywords: Committees, pre-meetings, reputational concerns, transparency, FOMC.

JEL codes: D71, D72, D82

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1 Introduction

Many important decisions are made by groups or committees. Compared to individual decision-making, committee decision-making benefits from the possibility of information exchange and discussion before a decision is reached. It is particularly useful if the matter at hand is complicated. If such is the case, decision-making typically requires considerable expertise, and is delegated to experts. A plausible assumption is that such experts are interested both in the matter at hand and in their reputation, i.e., their level of competence as perceived by the principal. Delegation of decision power often goes accompanied by the request to explain the decision reached. This request may stem from the desire to hold the committee and its members accountable for the decision. In this paper, we address two questions. What information does the decision-making committee voluntarily provide to support the adequacy of its decision? And how does the committee react to outside pressure to provide more information? In the next section, we provide answers to these questions. Section 3 discusses the case of the U.S. Federal Open Market Committee. We conclude by discussing some related literature.

2 Analysis

On behalf of the public, a committee has to make a binary decision: implement a project, $X = 1$, or maintain the status quo, $X = 0$. By normalization, status quo delivers a payoff equal to zero. If the project is implemented, the project payoff to each member (and the public) equals $p + \mu$. The parameter p is the ex ante expected payoff from implementation. The stochastic term $\mu \in \{-h, h\}$, with $\Pr(\mu = h) = 1/2$, expresses that the state of the economy, and therefore the effect of implementation, is uncertain. We assume that the socially optimal decision depends on μ, so $p - h < 0 < p + h$.

Each member comes to the meeting with a view on μ. If a member is 'competent', his view is flawless. If he is 'incompetent', it is uninformative. A member only knows that he is competent with a probability π. It is also the a priori belief the public holds about a member's level of expertise. Members exchange their views on μ. Next they vote on the project, and some voting rule then determines the final decision. All this happens behind closed doors. The decision becomes known to the public. Finally, the committee decides what information to make public. We assume that a member i cares both about the value of the project and about his reputation, $U_i(X=1) = p + \mu + \lambda_i \hat{\pi}(\Omega_1)$ and $U_i(X=0) = \lambda_i \hat{\pi}(\Omega_0)$. Here, $\hat{\pi}(\Omega_X)$ denotes the updated belief of a member's competence after the public observes X given the available information, and $\lambda_i > 0$ is the weight member i attaches to his reputation.

The following result follows.

Proposition 1 *Committee members speak with one voice.*

Once a decision on the project has been reached, the expected value of the project is determined. So, any further information members voluntarily provide to the public is meant to strengthen their reputation. First assume that when updating its belief about a member's competence, the public does not know the true state of the economy. In that case, disagreement signals lack of competence, as competent members view the consequences of the project in the same way. Consequently, once the decision has been taken, all members - whether their private analyses support or contradict the final decision - show a united front to the outside world in support of this decision. Now assume that when updating its belief about a member's competence, the public has observed the true state of the economy. Under this assumption, each agent wants the public to believe that he had a correct private view. In the meeting, the agents have learnt each other views. Consequently, they can assess which view is most likely to be correct. When deciding what information to make public, each agent adopts this view. Therefore, again, all members speak with one voice. Notice that under both assumptions, the public learns very little about the deliberation that took place. As a result, it is impossible to hold members accountable individually.

Another implication of decision making behind closed doors is that reputational concerns may lead the committee to distort the decision on X. To understand why, suppose that from a social point of view project implementation requires that the views of all members indicate that $\mu = h$. Furthermore suppose that the public does not learn μ. As discussed above, committee members want to conceal disagreement and hence speak with one voice. In the present case, an additional way of concealing disagreement is choosing $X = 1$, as this option requires agreement while $X = 0$ may result from disagreement. Thus, by choosing $X = 1$ the committee pretends agreement. More generally, reputational concerns give incentives to committee members to opt for the decision that requires concurrence of views. Of course, distorting the implementation decision is costly. Hence, committee members are willing to do so only if reputational concerns are sufficiently strong.

To remedy a situation where decisions are possibly distorted and it is hard to hold members accountable, the public may call for more transparency. Suppose it imposes that deliberation takes place in public rather than in private. At first sight, this improves matters greatly. The public can now directly observe what each member says. Moreover, members have an interest to tell what they really think when deliberating. After all, if one member thinks circumstances are favourable, than it is more likely that the majority of the other members agrees rather than disagrees with this member. So, telling the truth is best from a reputational point of view as it gives rise to a higher degree of concurrence. That is, requiring transparency gives the public the best chance of evaluating an individual member's level of competence. But members of the committee will feel exposed, as perceived levels of competence are lower if members hold differing opinions than if such differences are absent. So, if they could somehow circumvent this exposure, they would prefer that. Organizing a pre-meeting is a costless means to reach that goal. All deliberation can shift to the pre-meeting, members can speak their minds, take the socially desirable decision, and then go the formal, 'transparent', meeting where they show full support for the decision reached. In the end, accountability has not improved.

Proposition 2 *Demands for transparency to increase accountability are understandable, but lead to the emergence of pre-meetings.*

In the next section, we present a case study that provides suggestive evidence supporting both propositions.

3 A Case Study: The U.S. Federal Open Market Committee

Propositions on closed meetings and pre-meetings are hard to test as, by definition, much information on the way decisions are reached remains hidden. However, Meade and Stasavage (forthcoming; MS from here onwards) point to an interesting exception. Before 1993, meetings of the U.S. Federal Open Market Committee (FOMC) were closed. More precisely, most members of the FOMC knew that these meetings were tape-recorded *but were unaware that the tapes were kept*. So, before 1993, FOMC members believed that their meetings were closed. Starting in the fall of 1992, the FOMC came under pressure of Congress to become more transparent. In particular, Congress requested it to provide a detailed account of the discussion taken place. After strong opposition, the FOMC decided to release lightly-edited, but otherwise verbatim transcripts of the meetings with a five year delay. Moreover, transcripts of meetings *before* 1993 were made available. This decision can be regarded as a (small) step towards a transparent decision-making process.

Recently, Meade (2005) has developed a unique data set of the 72 FOMC meetings during the period 1989-1997. This set contains codes of voiced preferences and formal votes of individual FOMC members. This data set is especially interesting, because it covers the years before and after the regime shift of 1993. In this section, we examine to what extent the behavior of members in the FOMC fits our two predictions for the 1989-1997 period.

At the outset, we would like to emphasize that the FOMC case deviates from the set up presented above in at least two important respects. First, in our model the committee members are equal. In the FOMC, however, the Chairman is by far the most important member. The dominance of Greenspan, for example, was so strong that it was sometimes difficult to distinguish between the FOMC and Greenspan.[1] In our opinion, this does not mean that reputational concerns have not played a role under Greenspan. Below, we present anecdotal evidence that it was Greenspan who strongly pressed for unanimity and consensus. Moreover, it was Greenspan who often took the initiative for one-to-one pre-meetings. One possible interpretation of all this is that Greenspan wants "his FOMC" to be considered an outstanding committee. Second, in 1993 the FOMC decided to release verbatim transcripts of its meetings with a five year delay. Clearly, this is only a small step towards opening the deliberation stage in the FOMC meetings. In the previous section, however, the deliberation stage in the formal meeting is either closed or open. It is therefore quite likely that our analysis overestimates the consequences of the regime shift in 1993.

Anecdotal Evidence

Recently, two books by former Fed Governors have been published. Blinder (2004) wrote a book on how central banking has changed over the past 15 years.[2] Meyer (2004) wrote a book in which he provides an insider's view of the Fed. Both books contain much information relevant for an evaluation of our two main predictions.

[1] Blinder (2005, p. 11) mentions the Greenspan Fed as an example of a situation where it is hard to tell whether a given central bank uses group or individual decisionmaking.

[2] We also draw on Blinder (2005).

Do FOMC members conceal disagreements? Blinder (2004, p. 26) calls the FOMC 'collegial'. In such a committee, he argues, "individual members are expected to fall in line behind the group's decision". The Chairman plays an important role in building a consensus: "... the desire to maintain the *appearance* of unity will sometimes force even a dominant chairman to tack in either the hawkish or dovish direction in order to keep wavering committee members on board" (Blinder, 2005, p. 58-59, emphasis in original). Meyer (2004, p. 52), who never dissented during his term as a Governor, also mentions a norm of conforming to the majority: "Once the majority view (...) is apparent at FOMC meetings, the Committee is expected to rally around it".

Has transparency led to pre-meetings in the FOMC case? A hint to the answer to this question is Greenspan's response to the pressure from Congress that the FOMC should become more transparent. He argued that in a meeting "members need to feel free to trade ideas, question assumptions, advance hypotheses, make projections, speculate on alternative policies and possible outcomes, and especially to change their views in response to the arguments of others". He felt that such would no longer be possible if Congress had its way. He conjectured that the request of Congress would induce an important change: "[a] tendency would arise for one-on-one pre-meeting discussions, with public meetings merely announcing already agreed-upon positions or each participant to enter the meeting with a final position not subject to the views of others" (Greenspan, as quoted in MS, pp. 18-19).

Did the pre-meetings actually take place? Meyer (2004, p. 50) leaves no doubt that they did: "To ensure that he (Greenspan) has the votes to support his policy recommendation, the Chairman visits with the members of the Board in advance of FOMC meetings". The nature of the pre-meetings has changed over time: "After a while, 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. Unlike the FOMC meeting the next day, the discussions at the Monday Board meeting did not consist of prepackaged presentations. They were a much truer give-and-take, a serious exchange of ideas, with each of us questioning one another along the way". In his book, Blinder does not explicitly write about pre-meetings. However, his remark about the statement that accompanies a monetary policy decision is enlightening: "Toward the end of Greenspan's chairmanship, candidate drafts of the statement were vetted by FOMC members prior to the meeting" (Blinder, 2005, footnote 19).[3]

All in all, there exists anecdotal evidence suggesting that (i) there was a tendency to conformism in the FOMC; (ii) during Meyer's term as a Governor (1996-2002) pre-meetings were held; (iii) in both (i) and (ii), the Chairman played an essential role.

Data on Vote Dissents and Voice Dissents

Let us now examine whether our predictions are consistent with the dataset composed by Ellen Meade (2005). This set contains codes of voiced policy preferences and formal votes of individual FOMC members, drawn from the transcripts and voting records of the 72 FOMC meetings during the period 1989-1997.[4] To examine the effects of the regime change in 1993, we follow MS by considering two sub-periods, one before 1993 and the other after 1993.[5] The dataset thus covers four years (1989-1992, 32 meetings, see Table 1) in which members were under the (wrong) impression that their deliberations were secret and four years (1994-1997, 32 meetings) in which they realized that their remarks would be made public in the course of time.

Do we observe in this dataset a tendency to conceal disagreement? Table 1 reports 48 vote dissents in 64 meetings.[6] This seems to be a small number. More importantly, the number of voice dissenting opinions is higher (75). Thus, when members of the FOMC verbally dissent from the Chairman's proposal, sometimes they do not subsequently dissent in the official vote. This may indicate that committee members indeed conceal disagreements.

Does the regime shift in 1993 change the nature of the debate in the FOMC meetings as predicted? Table 1 shows that while dissenting views in the policy go-around were already infrequent before 1993 (48 on a total of 325 opinions), they became very rare in later years. This is especially

[3] Another illuminating quote from Meyer (2005, p. 236, footnote 11): "I am told that the presentations used to be more spontaneous and interactive. But this changed once the decision was taken to release the transcripts after five years. Committee members apparently want to make sure that their remarks, when read five years later, will be coherent and graceful. So most would write them down and read them. I quickly fell into the practice of doing the same".

[4] The data file is on http://research.stlouisfed.org/publications/review/past/2005/. See Meade (2005) for a description.

[5] The observations for 1993 are excluded, because it is hard to determine at which meeting members knew that the debate in the FOMC would become public.

[6] Henry Chappell et al. (2005, p. 11) report that just 7.8 percent of all votes during the 1966-1996 period were dissenting.

true for the Governors of the Board, who almost always presented a united front with the Chairman after 1993. There was also a sharp decrease in the number of members – again, Governors in particular – that voiced dissent but supported the Chairman's Funds rate proposal when it came to voting (reported as 'Inconsistent voice dissents' in Table 1). The following quote from Meyer (2004, p. 51) points to an explanation for the difference in behaviour between Governors and Presidents: "Reserve Bank Presidents are not part of the pre-meeting discussions at the Board". So, we see a convergence of speech and voting behaviour after 1993. This observation is in line with the anecdotal evidence that after 1993 Board members held pre-meetings.

TABLE 1
Characteristics of FOMC meetings over 1989-1992 and 1994-1997[1]

Number of:	**1989-1992**	**1994-1997**	**% change**
Meetings	32	32	0
Number of voice and votes	325	320	-2
Vote dissents	35	13	-63
of which Governors	16	2	-88
Voice dissents	48	27	-44
of which Governors	*17*	*5*	*-71*
Inconsistent voice dissents[2]	27	16	-41
of which Governors	*9*	*3*	*-67*
Meetings having three or more voice dissents	9	4	-56
Meetings having three or more vote dissents	4	0	-100

[1] Numbers of dissents refer to voting members only. Chappell et al. (2005, p. 111) find that "...nonvoting alternates have no appreciable influence over policy outcomes".
[2] Members who voiced dissent but formally voted in favour of the Chairman's interest rate proposal.

Possible Caveats

The above findings are clearly consistent with the propositions. An alternative explanation for the differences in voice and vote dissents between the two sub-periods is that monetary policy became less complicated, less controversial or less special after 1993. It seems reasonable to assume that the more volatile is the environment, the more complicated is the conduct of monetary policy. However, we believe that the environment was more volatile after 1993 than before 1993. One way of measuring the volatility of the environment is by examining for each FOMC meeting whether the decision on rate and bias was in line with the bias adopted at the previous meeting.[7] If not, we regard the economic conditions at the time of the current meeting as special. This is either a meeting at which an asymmetric bias adopted at the previous meeting was discontinued without a rate change, or a meeting at which a rate change was not preceded by an asymmetric bias. There were eight such meetings in the second sub-period and just five in the first. This suggests that there is no reason to assume that monetary policy has become less complicated after 1993.

4 Concluding Remarks

In this paper, we have only looked at the way a committee of experts interacts with its public. Levy (2007), Ottaviani and Sørensen (2001), Swank and Visser (2007), and Visser and Swank (2007) analyse group dynamics inside such committees. As noted above, MS also analyse the FOMC data. They, however, view the change in deliberation after 1993 as stemming from changes in the incentives to herd. There is no denying that FOMC meetings under Greenspan followed a particular order, and that Greenspan was the first to state his prefered decision. It follows from MS, that if the inclination to herd were the main consideration, transparency would strengthen members' incentives to herd. As a result, one would expect to observe less, not more pre-prepared statements after 1993. MS (p. 4) note, however, that "since 1993 there has been an increased tendency for committee members to present the sort of pre-prepared statements that may result in less real deliberation". To the best of our knowledge, Swank and Visser (2007) is the first paper that focuses on pre-meetings. It analyses what 'deals' can be struck in unstructured pre-meetings, which ones will be endorsed in the formal meeting, and how these deals may be different from what the public desires. Roberts (2006) discusses various other ways in which governmental bodies have adapted to demands for more transparency as formulated in Freedom of Information Acts, including formal challenges through changes in record-keeping to outright failure to create records.

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