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In Their Own Words: Perspectives from the Congressional Banking Committees

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IN THEIR OWN WORDS: PERSPECTIVES FROM THE FOMC AND CONGRESSIONAL BANKING COMMITTEES

CHAPTER 7 of forthcoming book manuscript, *Deliberating Monetary Policy*

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CHAPTER 7 – IN THEIR OWN WORDS

I. Introduction to Interviewees

The purpose of this chapter is to extend beyond the purely statistical nature of our approach to measuring ideas and arguments and to confront actual politicians, staff and policymakers with the results of our research. Hence, our purpose here is to "triangulate" our project along the lines suggested by Gaskell and Bauer (Gaskell and Bauer 2000), by incorporating an entirely independent method—i.e., elite interviews—to corroborate our results from our statistical approach to studying deliberation. To our knowledge, this is the first time (at least in political science) that researchers using textual analysis software have sought to directly question the actual policymakers and politicians who generated (or helped to generate) the political texts under investigation. Elite interviews are not about "counting opinions or people but rather exploring the range of opinions, the different representations of the issue" (Gaskell 2000: 41).

Aside from questioning our interviewees on the findings of our automated textual analysis, we also use the interviews to gain a better handle on the motivations of the participants, and their perceptions of the motivations of other participants (in particular, the perceptions of FOMC members vis-à-vis those of Members of Congress, and vice-versa). Of course, just like any other data sample, the inferences that we can draw from our interviews are contingent upon the quality of our sample of interviewees. In this regard, we do not claim to have a fully representative sample of participants of the FOMC meetings and congressional hearings; rather, we have obtained a *reasonably good* sample of relevant and informed participants, which are listed in order of interview date in Table 1:

[Table 1 – about here]

From his "25 years of qualitative research" along with training courses and lectures on interviewing, Gaskell argues that there is no fixed number for the number of in-depth interviews—as it depends on the nature of the research project. He remarks that "more interviews do not necessarily imply better quality or more detailed understanding" as "there are a limited number of interpretations" of reality and after awhile, the research finds "that no new surprises or insights are forthcoming" (Gaskell 2000: 38, 43).We contend that we have obtained a "reasonably good" sample of relevant and informed participants in the FOMC meetings and congressional hearings of the Senate and House banking committees based on the composition of experience and backgrounds of our twenty-two interviewees. In short, we have in our sample, one *Chairman of the Federal Reserve* (Volcker); three *Vice Chairs of the Board of Governors* (Blinder, 1994-96; Rivlin, 1996-99; Kohn, 2006-2010); two *members of the Board of Governors* (Lindsey, 1991-97; Kohn, 2002-06); five *Bank Presidents* of four different Reserve Banks (Hoskins and Jordan, both of Cleveland, covering years 1987-2003; Broaddus of Richmond, 1993-2004; Poole of St. Louis, 1998-2008; and Minehan of Boston, 1994-2007); three consecutive *Federal Reserve Directors for Monetary Policy Analysis* (whose job entailed accompanying the Fed Chairman to congressional hearings)—and who were simultaneously *Secretary to the FOMC* (thus in charge of administrative details attendant to the FOMC meeting, including writing up the minutes so as to accurately reflect the tenor and content of FOMC discussions), which together covers 27 years (Axilrod, 1980-86; Kohn, 1986-2002; Reinhart, 2001-07); two former *Members of Congress* who served on either the House Financial Services Committee (Barrett, 2003-2011), or the Senate Banking Committee (Bayh, 1998-2010); two *key members of the staff* for the House Banking Committee during the years leading up to and including the passage of the Humphrey-Hawkins legislation (Galbraith, 1975-80; D'Arista, 1976-78), and two *current staff economists*—including the Chief Economist (Smith, 2006--) —for the House Financial Services Committee; three *current staff advisors to senators* on the Senate Banking Committee, and one *staff advisor* for another Senate committee. (As the current congressional staff interviewees requested anonymity, and Smith requested verification before using any quote attributed to him, we refer to all these as simply "a staffer", in order to respect confidentiality.) Notably, the sample includes six individuals, each with 30 to 40 years' experience in various positions at the Federal Reserve (Axilrod, Broaddus, Kohn, Poole, Minehan and Reinhart), and one individual whose experience bridges the top levels at the Fed, Congress and the Executive Branch (Rivlin, as Vice-Chair of the Fed's Board of Governors, first Director of the Congressional Budget Office, and Director of the Office of Management and Budget). To ensure gender diversity, our sample includes two women members of the FOMC and some women congressional staff (to respect anonymity, we do not provide the exact number).

Most of the interviews (excluding the early one with Volcker) were conducted over a period of six months—from September 2010 through February 2011, and all were done by Cheryl Schonhardt-Bailey. The average length of each interview was about an hour and with the exception of current congressional staff who requested anonymity, all the interviewees agreed to be recorded and their interviews used for purposes of this research project.[1] Our selection of interviewees relied upon consultations with experts and scholars on the Federal Reserve and on Congress, as we acknowledge in our preface to this book.

The remaining chapter is organized as follows. In section II, we outline our four key areas of focus for the interviews, and these constitute the next sections of the chapter: quality of deliberation (section III); the effect of transparency on deliberation (section IV); institutional features impinging on deliberation (section V); and questioning our interviewees on the findings from our textual analysis (section VI). Section VIII concludes.

II. Threads Left Hanging From Textual Analysis of Transcripts

Our previous chapters have provided ample insights into the trends, thematic content and speakers' arguments in monetary policymaking committees. By employing textual analysis software, we have been able to lend rigor and statistical significance to a large quantity of textual data—namely, (a) the transcripts of the FOMC meetings, (b) the congressional oversight hearings of the Fed's Monetary Policy Report, and (c) the Senate re-confirmation hearings for Volcker, Greenspan and Bernanke. Textual analysis of any type does, however, have inherent limitations. Perhaps most importantly, it is primarily descriptive in nature, as it captures *what* is said but not *why* it is said, and nor does it capture the *interactive* and *cumulative effect of committee discussions* on the decisions of the participants. Textual analysis software has provided a detailed and statistically robust survey of the deliberations on monetary policy by the Federal Reserve and Congress, and to the extent that words are a representation of intentions, it has provided us some insight into the intentions of the participants.

Throughout this work, we have maintained that the deliberations of committee members should reflect their distinct sets of aims and objectives; consequently, *what participants say should provide an indirect measure for their motivations and intentions*. We have further maintained that committee members seek to process information and arrive at judgements based on argued reasoning, following Quirk's definition of deliberation as "the intellectual process of identifying alternatives, gathering and evaluating information, weighing considerations, and making judgments about the merits of public policies" (Quirk 2005: 316). Hence, our analysis thus far provides us an *indirect* measure of the intentions of committee members as they deliberate on monetary policy. In this chapter, we strive for a more *direct* measure of their intentions through a series of open-ended questions to the participants themselves (and their staff).

Broadly speaking, our questions sought to illicit responses on four issue areas: (1) the *quality of deliberation* in committee meetings; (2) the effect that *transparency* has had on deliberations; (3) *institutional features* that enable or constrain deliberation; and (4) the extent to which *key findings from our textual analysis* of committee transcripts square with the experiences of participants.

With respect to the *quality of deliberation*, we queried the extent to which participants perceived committee discussions as consisting of argued reasoning and a reasonably frank exchange of differing views, information and judgments. For the FOMC, we asked whether the speeches were mostly pre-prepared "canned" ones, or whether members felt at liberty to offer impromptu statements and assessments; and more broadly, whether committee discussions altered their views in any way. For Congress, we queried whether MCs actually sought to understand or discuss monetary policy or whether their participation in the hearings was motivated by other interests and concerns—and in particular, whether the congressional hearings primarily offered them a venue to "speak to constituents back home". We also asked whether participants thought that decisions were made outside the official committee setting (either FOMC meetings or congressional hearings)—i.e., informally in bilateral discussions or in other less transparent settings.

On the topic of *transparency*, we asked FOMC members whether the 1993/94 decision to release the transcripts for publication had lessened deliberation within the meetings, and if so, how. More generally, we sought the views of our interviewees on the extent to which the "media circus" surrounding the oversight and re-nomination hearings had lessened (even destroyed) the integral content of discussions on monetary policy.

We also queried our interviewees on a number of *institutional features* that may conceivably affect the quality and nature of deliberation—namely, the role of the chairman; the order of questioning (for Congress); the numbers of members (pertaining especially to the House Financial Services Committee, or HFSC); the culture of consensus decision making (FOMC); and differences in the quality of deliberation between Senate and House committees, as hypothesized by (Steiner, Bächtiger et al. 2004) and discussed in our Chapter 3.

Finally, we provided our interviewees with *empirical findings derived from our textual analysis* which did not relate directly to our first three issue areas. We prompted our interviewees to comment on whether these findings "made sense" to them, given their own personal experiences in FOMC meetings, congressional hearings, or both.

Our specific questions are listed in Tables 2 and 3 below. (Notably, while these questions constituted the template for our interviews, the conversational style often broadened the discussion into related topics.) As can be seen in these tables, each of our questions taps into a particular area of concern, which we identify in the adjoining column.

[Tables 2 & 3 – about here]

III. Quality of Deliberation

a. FOMC

A strand of literature on FOMC decision making contends that deliberation within the meetings "may have little effect on the quality of the Committee's decisions, possibly because all useful information is shared prior to the policy discussion" (Chappell, McGregor et al. 2010: 5). Many of these econometric approaches to studying monetary policy committees (e.g., (Havrilesky, Sapp et al. 1975; Tootell 1991; Chappell, McGregor et al. 2005) are equally dismissive of the role for argumentation, reasoned decision-making, and any frank exchange of differing views within the FOMC. Some former members of the FOMC have given further weight to this assessment—especially Larry Meyer, who as we noted in Chapter 6, maintains that in his experience as Fed Governor from 1996 to 2002, FOMC meetings were "not a spontaneous discussion, but a series of formal, self-contained presentations" (Meyer 2004: 39). However, he further notes that deliberation was more cumulative in nature, evolving from one meeting to the next, so that "seeds were sown at one meeting and harvested at the next … [and] in reality I was often positioning myself, and my peers, for the next meeting" (Meyer 2004: 53).

To what extent, then, did deliberation in FOMC meetings shape the views of the participants, and was it, as Meyer suggests, a more "cumulative" form of deliberation? Most of our respondents concur with Meyer's general assessment, but with important variations and qualifications. Hoskins contends that his position was "fixed about 70 percent of the time prior to the meeting", while Blinder maintains that "the vote was almost 100 percent predicable at every meeting," but not for future meetings. The responses of Blinder and others (Jordan, Minehan, Lindsey, Axilrod, Broaddus, Kohn) suggest a high percentage of fixed views prior to any given meeting, but persuasion occurring over several meetings:

> Blinder: You would make a point, maybe forcefully if necessary, at one meeting in the hope that it would sink in and by the next meeting … or the meeting after that, you are starting to persuade people.
>
> Minehan: I viewed the FOMC as a process with discussion evolving over a series of meetings, and in that sense, views expressed in one meeting could resonate and influence the discussion and decisions of subsequent meetings.
>
> Lindsey: I viewed the discussion at the meetings not necessarily as useful for influencing the vote of that day but as influencing the way the thinking was going to go, down the [road], in future meetings.
>
> Axilrod: I'd say you have to think of the FOMC as a continuum. It's a discussion which is going on and on and on, so everyone is coming in knowing the parameters within which there might be agreement and they know what they said in the past and everyone's history so I would say basically they go in pretty much thinking what is going to happen is not pre-determined but can be read from the tea-leaves of the previous meeting or meetings.
>
> Broaddus: The reason for being pretty well prepared and fairly flexible …when I entered a meeting, was …motivated by …a desire to have an impact and to say something that was going to over a period of time be influential in the Committee. It may sound a little bit contradictory in that I seem to be saying that I want everyone else to be flexible and listen to me whilst I wasn't willing to do that but I think the point is not that I expect statements that I made to have an immediate impact, and other guys would say 'Hey, that's right. I'm going to drop my thing and go with you.' It's more a matter of the long-term impact of taking a position that has consistency and coherence at several meetings over a period of time to get a given result, and it was that desire, that effort to have something that would maybe influence people over time.
>
> Kohn: I don't recall a meeting in which I wanted interest rates to rise by 25 basis points and I was talked out of it. It's also fair to say that in many meetings I got

> food for thought that influenced how I was looking at the data, [and it] made me go back and rethink issues, or look at the data in a different way. It's also the case that the meetings did influence my mind-set although it was more over time, where I heard insights in the meeting. I don't remember hearing an insight that said to me 'you are completely wrong' but I do remember hearing many insights which said 'you need to rethink this to some degree'. That was influential over the following inter-meeting period as I went about thinking about what to do next time, and I think many FOMC members think of what they say at the meetings as being important in a forward-looking way. People have kind of made up their mind coming into the meetings, not entirely, but often, and what you are doing is sort of planting seeds.

Our one exception to this view is Poole, who frankly notes that his style contrasted with other members of the FOMC, inasmuch as he *did* change his views on occasion at a given meeting, after hearing the arguments of others (although he contends that Greenspan never did):

> Poole: My views were certainly affected by the discussion….A number of people came in with text, written out, and they might modify them during the course of the meeting. I didn't come in with any text at all. Occasionally I had some rough scribbled notes but obviously I had things in my head that I wanted to talk about, so I tried to be responsive to what else I heard in the debate around the table and I certainly did change my views from time to time. I'm pretty sure that Greenspan, in almost all cases, knew exactly the result he wanted, and his views were not affected by the meeting discussion.

There are four further qualifications to the assessment that deliberation within a given FOMC meeting did not change views. First, (and following his depiction of committee types in (Blinder 2004)), Blinder notes that the "Greenspan Fed was the quintessential …autocratically collegial Committee, which basically means you do what the autocrat says." With this assessment of the Greenspan Fed, Blinder then argues that for him, *deliberation meant persuading the Chairman* of his views: "when I thought of the Committee deliberating, or my role in the Committee deliberating, I basically thought of my role [as] trying to persuade Alan Greenspan of my point of view. If I could succeed at that, that would move the Committee, and if I couldn't succeed at that, it wouldn't move the Committee." Hence, for Blinder, the only relevant "deliberation" during the Greenspan years was a bilateral dialogue with the Chairman.

Second, Rivlin, as a Board Governor, notes she had ample opportunities outside the FOMC to exchange views and engage in discussions with other governors, but only at FOMC meetings did she have the opportunity to hear the views of the Bank Presidents. With the other governors, she describes frequent and on-going discussions:

> Rivlin: The Board members… were interacting all the time. We were talking over lunch, and we were talking at other meetings of the Board, which happened a lot, because we weren't just a monetary policy group. We had a lot of other business

> to do and we would have had a very good exchange of views on the Monday before the FOMC. ... It was a weekly meeting, not just before the FOMC but we had a weekly meeting on Mondays that was a staff briefing and that was an opportunity to talk a lot among ourselves about what was happening to the economy. We weren't explicitly talking about what we should do at the next FOMC but if your views were changing in interaction with other people it happened in a lot of different ways, not just in the FOMC meeting. [For instance,] if I was being influenced by Larry [Meyer] it might be in the FOMC but it might be walking down the hall and talking to him or saying 'what did you mean by that' or 'how do you know that'.

Her goal for the FOMC meetings, then, was to hear from the Bank Presidents:

> Rivlin: The FOMC meeting, from my point of view, was an opportunity to hear what the Bank Presidents had to say about what was going on in their area, and that was the most interesting part of the meeting. I already knew what my fellow Board members thought because we had been interacting a lot …But what was not familiar was the President of the Reserve Bank of Dallas talking about what was going on in Texas and the immediate area and there were twelve of those.

Third, as Kohn's experience extends to the Bernanke chairmanship and the financial crisis period, his observation on the changes from 2006 onwards are revealing. For him, the uncertainty and difficulties surrounding monetary policy from 2008 onwards, lent greater weight to the role of deliberation within FOMC meetings:

> Kohn: I think it's fair to say that when we were out of interest rate room and doing unusual things, then everybody came to the meeting with a more open mind. It was harder, and I couldn't give you a specific example. But …[from] spring of 2008 through most recently, what was said at the meeting … was more influential both for the decision at the meeting—though not on interest rates per se but on how to pursue, whether to let securities run off, whether to announce, sell, [etc.]. I think the meeting has been more important because it's tougher ground.

The fourth qualification pertains to the policy directive and the balance of risks policy statement (Lapp and Pearce 2000; Chappell, McGregor et al. 2005). The policy directive is the FOMC's instructions to the Manager of the Open Market Desk of the New York Fed, for conducing monetary policy.[2] From 1983 to 1998, the directive included a statement of bias toward easing or tightening, but this was not published. From February 1994, the Fed did, however, begin publishing immediately after the meeting a policy statement that explained the Committee's decision. At first, it issued the statement only when the Committee changed policy but eventually published the statement even when the policy decision remained unchanged.

In December 1998, the FOMC decided to begin publishing the directive's statement of bias, which has subsequently become known as the balance of risks statement. The wording of the bias is highly significant as it communicates the FOMC’s views on the probability of a change in policy both during the intermeeting period and at the next meeting, and as such it is examined carefully by market observers. For instance, the use of “would” or “might” may signal greater or lesser tightening in the intermeeting period.

Axilrod notes that during the Volcker years, the wording of the directive was not pre-determined by any means, and thus discussion on the exact phrasing and possible nuances in the wording was open to discussion and deliberation.

According to Poole, from 1983/4 until 1999, the assessment of bias was that of the chairman, not the committee. He describes a change in procedure whereby the statement came to be drafted by the committee, and this drafting-by-committee has given rise to what might be construed as “virtual deliberation”:

> In terms of the policy statement, as you may not know actually, that changed quite dramatically. You may not see it from reading the policy statements but the way it was put together changed quite dramatically during my term of office [1998-2008]. To begin with, it was the chairman’s statement; it was not the committee’s statement, and over time, what happened was that Greenspan started to ask for more input into the statement and later started to circulate a draft of the statement to the committee so without any, as far as I know, without any formal announcement as such, the statement became the FOMC statement rather than just the chairman’s statement….From what I can recall, it was the chairman’s statement when I came into office [1998]. …Greenspan would distribute a copy just before it was released or at the very end of the FOMC meeting. He would distribute a copy and say: ‘This is what he proposed to say and were there any comments on it?’ And then, over time, it started to change and I can’t tell you exactly when but Greenspan would send out a draft ahead of time, and there was some discussion of this…. There was actually some discussion in the FOMC about that, and that the statement would become the FOMC statement. I don’t believe there was any formal announcement of that at any time. Greenspan started to distribute drafts of it and I believe that reflected the fact that there was some unhappiness in the committee that the public viewed the statement as the committee’s statement rather than just the chairman’s statement …so there was unhappiness among members of the committee that we were essentially being asked to sign on without any chance to consider it carefully. Later [by the time Bernanke came into office] the practice developed of distributing a draft statement a few days ahead of the meeting. The first draft came out probably a week before the meeting, and we would have several iterations so we would circulate comments to the entire FOMC; essentially they were posted on the secure server and would be available to everyone [to make] comments about the statement, so it really did become a committee statement.

Reinhart explains that this pre-meeting drafting of the statement by the Committee members created a situation where 19 people were involved in parsing the statement “extremely closely” and “the big play was the words …[used] to characterize [the] decision." At the Committee meeting itself, Reinhart further describes the discussion on the policy statement as sounding "like a game of Battleships or Statego, where you have an FOMC participant say… 'I like the first paragraph that is in column A, row 1, but I like the second paragraph that is in column B, row 2,' and that was the discussion. So they had choices. It was not like the statement was drafted before the meeting and then they just had to sign off on it. They had …choices on the statement and sometimes they would suggest changes."

In sum, as the policy statement became a truly *committee* statement (and not simply that of the chairman), *and* the drafting of this statement occurred both in virtual space and at the meeting itself, "deliberation" on the wording of the statement has acquired a new significance. We can conclude that deliberation matters for FOMC meetings, beyond simply the over-time, or cumulative form of deliberation. Deliberation on monetary policy matters in FOMC meetings (a) when it pertains to persuading the Fed Chairman; (b) for Board Governors, who have no other opportunity beyond the FOMC meetings to hear the views and insights from bank presidents; and (c) during times of extreme uncertainty and change.

b. Congress

As a precursor to our discussion of deliberation in the congressional setting, it is useful to remind ourselves of the purpose of hearings on monetary policy. In his book *Central Banking in Theory and Practice*, Blinder summarizes simply and succinctly the purpose of legislative oversight of monetary policy:

> Because monetary policy actions have profound effects on the lives of ordinary people, a central bank in a democracy owes these folks an explanation of what it is doing, why, and what it expects to accomplish. …By offering a full and coherent explanation of its actions, the bank can remove much of the mystery that surrounds monetary policy, enable interested parties to appraise its decisions contemporaneously, and then—importantly—allow outsiders to judge its success or failure after the fact. (Blinder 1998: 68-69)

A key phrase from this quote is the last three words—*after the fact.* Central bankers view accountability as backward-looking, that is, judging past actions and policy decisions. For politicians, accountability is not quite as straightforward. Indeed, as we discussed in Chapters 2 and 5, the motivations and incentives of MCs who sit on the banking committees are not easy to define or measure. Certainly, as elected representatives, they are cognizant of their electoral popularity for the next election, and this shapes their questions in a more forward looking direction when they confront the Fed chairman in committee.

What, then, motivates members of the banking committees as they conduct hearings on monetary policy? We begin first with the responses of FOMC officials familiar with the congressional oversight hearings, asking them to comment both on the motivations of MCs and on the effectiveness of oversight more generally. As a whole, the common view among the Fed officials is that Members of Congress do not engage in actual deliberation on monetary policy--oversight as it currently operates in the congressional hearings is ineffectual.

i. The Views of FOMC Members

While Fed officials we interviewed were in agreement that congressional oversight of monetary policy does not "work", the underlying reasons varied. For Blinder, one problem is that MCs are "preening for the cameras" rather than engaging in an intellectual exchange of views:

> Blinder: There is a legitimate role for oversight, a necessary role for oversight, so I'm completely on board about that. The problem is that … if the Chairman of the Fed is in the witness seat, it is always high-profile, [and the hearings] are media circuses, and all the members are doing is preening for the cameras. You don't exercise oversight by doing that. Oversight is boring. [Having] any meeting of the minds or real intellectual interchange … would be nice but that's not, from the point of view of the members, that's not what they are there for. They may want their opportunity to excoriate the Chairman of the Fed in public, so that they can show [to constituents that], 'he is causing all this unemployment and I'm fighting him' or they may want his endorsement …for their pet policy but they are not really trying to do oversight of monetary policy….[And] some Fed Chairs go there willingly like Greenspan did, and some Fed Chairs like Bernanke go there kicking and screaming, 'I don't want to endorse this of that policy' but that's what they want, so they are looking for the sound-bite that says 'Chairman Greenspan agreed with me that ...'

Both Blinder and Reinhart agree on two further reasons why oversight is ineffectual. First, central bank independence has created a "culture" where politicians perceive it as inappropriate to question the Fed chairman directly about interest rates. According to Blinder, "Congress has internalized the idea that the Congress doesn't meddle in the month-to-month monetary policy. The Fed is an independent institution." Second, "most Members of Congress (there are a few exceptions) have minimal to zero understanding of what the Fed does and how it does its work and so their engaging in repartee with the Chairman of the Fed on that is a losing proposition for them" (Blinder). Reinhart describes this "comparative disadvantage" as having been exacerbated by Greenspan's "long-winded" answers to questions. Indeed, Reinhart offers a humorous, but revealing, anecdote comparing questions to Greenspan and those to Bernanke:

> Reinhart: My favourite was the very first testimony Chairman Bernanke gave before the semi-annual House Financial Services Committee, in which during the typical testimony Chairman Greenspan would answer about 20-25 distinct questions. In his first testimony, Chairman Bernanke answered more than 50 and what happened was that the representatives ran out of questions. Each one individually [had had staff who] … produced their two or three questions, because that is all they could possibly get to if Alan Greenspan were answering. But they would ask a question to Ben Bernanke and he would say 'Yes, that is right' or

> give a one-sentence, perfectly understandable answer and move on, and so you saw this helplessness. They had their five minutes, they had asked two or three questions, and there were three minutes left.

Reinhart offers a third reason for ineffectual oversight—namely that the "multiple missions" of the Fed (including GSEs [Government Sponsored Enterprises like Fannie Mae and Freddie Mac] or debit interchange fees) have squeezed out opportunities to ask the chairman about monetary policy.

Jordan attributes the ineffectiveness of congressional oversight more to the personalities involved and the dysfunctional mode of questioning:

> Jordan: [It depended on] what kind of game was being played out in those oversight hearings, and the styles of the chairmen…. Arthur Burn's style was basically threaten to belittle and ridicule any congressman or senator that said something stupid so they mostly wanted to get through the hearings without being totally embarrassed whereas Greenspan played the rope-a-dope approach of just lull them into incoherent babble and they would work hard at trying to get him to utter anything coherent. He was very, very good at avoiding saying anything coherent in most of those hearings.… When you had Barney Frank versus Ron Paul, even when Frank was the Ranking Minority Member, before he became chairman, you knew going in that one of them would start it off and the other one was going to come back and it was really a by-play between two flamboyant personalities on the committee attacking the central bank from a different vantage point but it was really the two congressmen trying to out-play each other on their side and [for] the Chairman of the Fed … [it] was simply an opportunity for these guys to go at each other …and neutralize each other. It was kind of fun to watch but whether it was all productive to any purpose I have no idea

For most of the FOMC respondents, the bottom line for why oversight of monetary policy is ineffectual is that politicians do not understand monetary policy, and they have little or no electoral incentive to overcome that ignorance. The primary motivation for participating in the hearings is to score points with constituents "back home" (italics added below):

> Broaddus: *Most of these people … are not professional economists, they are politicians.* Many of them have backgrounds in law or business, and so they are not only not conversant they are really not entirely interested in policy, except in terms of its immediate impact. They often have a political motive in the questions, you know their questions are all scripted and most of them by their staff and so they are using this as an opportunity to indirectly communicate with their constituents, their voters. … Playing to the cameras is a good brief…. I think it's mainly just *there is nothing that they can benefit from in terms of talking about monetary policy per se that is going to help them get a vote in the next election.*

Poole: I think everybody with a professional background who participates or just watches those, [knows that] the purpose of the hearings first and foremost, 98 percent, is for individual members of Congress to spout off and to be visible, to make the evening news, and that's why those hearings are mostly about stuff other than monetary policy. … *The members of the Congressional committees do not believe that esoteric monetary policy stuff is of any … interest to their constituents but it is also because they do not want to risk asking a question that will prove to be deeply embarrassing*, revealing that they don't know anything of what they are talking about. So mostly the monetary policy questions that they are willing to ask are questions that come from their staff members and they will tend to be relatively minor things … because their knowledge of monetary economics or any economics is so weak that they understand they are in danger of asking a deeply embarrassing question that will show up in the newspapers the next day showing that Congressman X is a dolt.

Rivlin: Various members of the Committee …may actually be trying to make points for themselves, and to say, you know, 'I come from a farm district in Iowa and we think interest rates are too high here and it is bad for farmers, what do you think about that Mr. Chairman?' He doesn't care what the Chairman thinks, he wants to make [his point that] he is speaking to the folks back home…. *Most of them don't have a very keen grasp of monetary policy. They think it is something sort of mysterious and they don't want to sound stupid so they don't take it on….* In general if they asked questions, they were not very pointed questions. … I used to argue [about] this with Greenspan. Greenspan was kind of very apprehensive about the Congress. …He saw Congress as somewhat threatening and I thought that he was overreacting and that in fact the independence of the Fed is not going to be threatened because most Congressmen don't want to run monetary policy. I mean, this is not 'should we turn it over to the Chancellor of the Exchequer', when we talk about the independence of the Fed. We talk about the independence of the Fed to run monetary policy independent of the Congress, and *I don't think there is any appetite in Congress for running monetary policy. It is too hard, too uncertain, it is too liable to get you in trouble,* and so for that reason I've never thought that the Congress really wanted to threaten the independence of the Fed.

Blinder: *It's hard for me to imagine that any voter is voting on the basis of monetary policy, except indirectly*. I mean, when unemployment is high, they vote against incumbents so that has something to do with monetary policy but it has to do with lots of other things as well.

Lindsey: Well, one point to start with is a representative government is supposed to be representative of the general population which means that they probably have about as much interest as the general population in these matters and any matter that is complex….[Moreover,] *where are the votes? Where do you get the votes back home by taking on monetary policy?* …. Now, the one guy who's come close, if you ever watch the hearings [was] Chuck Schumer: all he cares about is having his picture taken with the Chairman. If you see it, if the Chairman comes

> in, he is always escorting him because he wants the television cameras back home in New York to show how close he is to the Chairman, physically close. I mean there is a joke in Washington that the most dangerous place to be is between Chuck Schumer and a television camera, and I mean it is absolutely true….But that's as close as you get to caring about monetary policy. There are no votes in it.

Reinhart nicely summarizes the non-existent political benefits accruing from monetary policy oversight, and suggests that by obtaining a preferred policy endorsement from the Fed Chairman is a way of obtaining a non-partisan official stamp of approval:

> Reinhart: One reason why [the committee hearings] are not a good oversight mechanism [is] because there is not a direct benefit for being an active overseer of United States monetary policy… I think that when they talk about the macro-economy they are trying to get the Chairman of the Federal Reserve to opine on their view. That is why the macro questions tend to be 'aren't you worried about the ….Chinese imbalances?' or 'Don't you agree with me that the tax rates need to be higher?' …. They want to align themselves with [Alan Greenspan's view] and why? Because it meant that the next day on the floor they will be able to say 'and when I directly asked Alan Greenspan, and his answer would make me think he would support this legislation' …. The Chairman of the Federal Reserve has somehow become the Chief Economist of the United States and in not as partisan a way as the Chairman of the Council of Economic Advisers or the Director of the NEC. Hence, both sides try to ask questions that will allow them to align their preferred policy recommendations with something the Chairman says, and since Greenspan in particular would tend to answer in such obscure ways, it was usually mission accomplished for both sides.

Before turning to the views of congressional staff and Members of Congress, we must add one important caveat to the negative assessment of congressional oversight given by FOMC officials—that is, in virtually all instances, our interviewees note that there were and are exceptional Members of Congress who actively and earnestly engage in deliberations on monetary policy, and usually these are the committee chairmen and ranking members. Kohn notes that both Paul Sarbanes and Barney Frank "understood" monetary policy. He adds, "In the early 1990s, [I have] strong memories in the Senate of Sarbanes, Riegle, who was the Senator for Michigan, and Sasser who was from Tennessee just beating the hell out of Greenspan because interest rates were too high, the economy was growing too slowly, what was all this worry about inflation and this talk about inflation expectations." Kohn also remarks that in his view, both the mean and the median level of understanding of monetary policy is higher among senators than among representatives, inasmuch as "there is a bit of a filtering process that goes on, going from the House to the Senate". For Rivlin, the chairman and ranking member "are usually … trying to use the hearing to understand what the Fed is actually doing", noting that Barney Frank in particular "is very smart—he is not an economist, but a lawyer, but he understands monetary policy pretty well and he wasn't afraid to take it on," while other exceptional members "were mostly ideological like Bernie Sanders". For Lindsey, Senator Bob Corker is "the kind of person you can have a real conversation with but you are not going to do it in a hearing; you are going to do it over lunch." Broaddus adds to the list, "Congressman Neal from North Carolina, [who] was from our district and was certainly no theoretical economist but he had an innate understanding that this was an important subject and that the Federal Reserve needed to be evaluated from the perspective of received knowledge about the business of conducting monetary policy rather than just what was happening today with the unemployment vote."

Of course, for some, committee chairs also were sometimes adept at exploiting the oversight hearings for political advantage, as Jordan describes for two committee chairs, Senator Proxmire and Congressman Reuss:

> Jordan: One thing about Bill Proxmire, is he was a very savvy clever manipulator of the media; he held his oversight hearings in August when …Congress was in recess, and the media was ready for something to fill the space. Supply creates its own demand and nobody else was generating news so Bill Proxmire would hold the hearings in August when he was the only guy in Washington. He generated a lot of tension in doing so, and often he was in competition [with] Henry Reuss over at the House side, a couple of Democrats from Wisconsin competing as to who was best at oversight hearings of monetary authorities.

ii. The Views From Congress

Interestingly, respondents from *both* the Fed and Congress agree on two features of congressional oversight that diminish the quality of deliberation: (1) poor understanding of monetary policy by Members of Congress, combined with minimal if any electoral incentive to overcome this ignorance; and (2) the "culture" of Central Bank Independence, which has created an unwritten rule that Congress should not interfere with, or discuss seriously, the short-term operation of monetary policy.

1. Poor Understanding of Monetary Policy

There may be many reasons why MCs have, broadly speaking, a poor understanding of monetary policy. Our FOMC respondents identify two straightforward reasons—namely, that most politicians are not trained economists, and knowledge of monetary policy is not a clear vote-winner. From our congressional respondents, the rationale includes these reasons, but also extends into the particular institutional constraints faced by MCs in committee deliberations (a topic we will discuss in further detail later). From the perspective of Congress, one reason why so few Members of Congress understand monetary policy is that the multitude of tasks placed upon them makes it impossible for them to become experts in more than one (or two) area(s). And, related to this, they also lament that they are unable to delve much into the intricacies of monetary policy itself within the hearing, as they have just a few minutes to ask questions of the Fed Chairman.

The comments from our two Members of Congress—Senator Bayh and Congressman Barratt—illustrate their contrasting views, with the former noting that he was an "atypical" committee member in that he holds a degree in economics, while the latter remarking that he, like most other committee members, possesses no particular expertise in economics. In spite of their contrasting interests and backgrounds, both agree that the time constraints are a key factor in diminishing the quality of oversight:

> Bayh: In the Senate you get stretched very thin because the issues you have to deal with are many and are complex, and you don't have enough time or enough staff support to get into great detail in all of them. It is just not humanly possible, so you have to pick areas that you are more particularly interested in so you are more likely to just take questions from staff in areas that you have some responsibility for, but there is not a particular focus. Where the areas are of particular interest, then members will devote more time so there are some members on the Committee who really care more about these issues more than others, and they are the ones who will really ask insightful questions, follow-up questions, and that sort of thing. I [don't] want to say that my colleagues were detached—it is just only natural that some would have a greater proclivity to really deal in depth [with these issues] on a personal level and I was one of those because I like macro-economic issues and the economy.

> Barratt: To be honest with you, congressmen, [and congresswomen] …are extremely busy and whether it is fiscal policy, whether it is the Fed Chairman coming in, it really doesn't matter what the issue is, unfortunately we have a very limited time to concentrate on one specific subject. Now, when I first got elected, one of my colleagues told me 'If you don't pick an area of interest and focus on it, then you will never enjoy your time in Congress', and even though I was on the Financial Services Committee, my area of expertise and my area of passion was energy. I've got a nuclear facility, the Savannah River Site, in my district, and I love nuclear energy, I think it is a way in which we can really change the world.

Given their very different interests, these two members also convey quite different stories of their experiences in the banking committees:

> Bayh: I was atypical because I've cared about economic and financial issues, well, since my days as an undergraduate where my degree from the university was in Business Economics and Public Policy. …What I would normally do [is] I would scan the questions but more often I'd tell my staff a week or so in advance, 'Look, here are the big issues that I think are facing the country and the Fed, here is what I'm thinking of asking, can you flesh it out a little bit?' Actually then I'd also (and maybe this made me atypical as well) …listen to the Chairman's testimony and very often there would be two or three things that he would say that would spark my interest, that I would follow up on and ask him to elaborate at greater length . . . .
>
> [Here is] the story I want to tell…Greenspan [was] coming up to give …testimony and Summers [was] with him representing the Treasury and they were discussing their appearance beforehand. …The question was 'What should the regulatory approach of the government be?' and Greenspan said to Summers, 'Well what if anybody asks about a case of, about the possibility of a natural

monopoly because that would be the exception to the policy that we are going to be espousing' and Summers said to him 'Don't worry, about that, none of them will ask about that'. So I'm sitting up there, and I'm a junior member, [and] I'm listening to this go along and I hear [them] say …'Well, we need to take a more, a lighter regulatory approach and let the market function'. I'm just listening and so I go back to my student days of economics and I said …'Mr. Chairman, what about the event of a natural monopoly, you know some markets do tend to function that way, and wouldn't that frustrate, would that not be an exception?' Ever since then, Greenspan thought I was just the smartest guy, sitting up there, and it just happened to be me sitting up there and listening to this and thinking 'what can I ask to be different?' 'How can I be a little bit of a devil's advocate here?' …He and Summers had just happened to have that very conversation before they walked in the room.

Barratt: I think it is a fair assessment to say that it seems to, for the average congressman, not all of them, Ron Paul would probably be an exception, but for the average congressman, the monetary policy seems to have been carried out very aptly and [is] probably less of a focus. …The average congressman is not as much focused on that as probably they should be. You know, it is a case of which alligator is biting the hardest right now. I mean there are so many issues from immigration to social security to healthcare to the deficit to foreign affairs, and if that alligator is at your neck and about to bite your head off, i.e. a bail-out, i.e. an insurgency in Iraq, [it is] that issue that you are the most concentrated on and most absorbed with. If there seems to be an area that [is on], and I'm not going to say necessarily automatic pilot but [there] seems to be …not a lot of concern there, unfortunately you just don't have the brain power or the time …you just don't have the luxury of time to spend on that issue. …

There were times that Chairman Greenspan was very understandable, and you know, I'm certainly not an expert but I did try to do my homework and I do know a good bit about it. There were times that he lost me, and then there were times when he was very gracious, and times when he was very condescending, [as if to say] 'don't tell me how to do my job because you don't know what you are talking about' and unfortunately most of the time he was right. … I'm probably not being very kind to some of my colleagues but a lot of my colleagues think they know a lot more than really what they do, and you know the way they present their questions and the way they have their pontifications is pretty evident in that sometimes.

The above quotes make clear that (a) expertise in economics among banking committee members is "atypical"; and (b) topics of the day very often prevail in committee questioning. With respect to (a), some congressional staff respondents are more defensive in noting that MCs often *do* raise substantive issues on economics, but their phrasing and choice of words are different from what an expert might use. For instance, when asked about our empirical finding that MCs rarely discussed the details of monetary policy, one staff member, "Baloney! Members of Congress *do* ask serious questions—policy questions—but they might use different language." Instead of referring to the long-run yield curve, committee members might simply ask about home mortgages. The staff member acknowledges that monetary policy "is like trying to pick up a cinder block with chopsticks" (i.e., hard to get a handle on it). Hence, in order to help members gain a better understanding, the committee (under Oxley and then Barney Frank) had begun holding "pre-quel" hearings prior to the formal monetary policy hearing, during which economists were invited to appear before the committee to talk about economic issues.

Other staffers concur, with one noting that "even if they phrase their questions poorly, there is often something important that they are trying to express or convey." This same respondent characterizes the dialogue between MCs and FOMC officials as one with an inherent communication gap, where MCs "tend to talk in terms of anecdotes about the economy while FOMC officials use statistics and models," adding that both parties could communicate better with one another—i.e., FOMC officials could use less jargon and MCs could acquire more expertise. Ultimately, however, committee members are not particularly incentivized to focus on monetary policy, the staffer notes (echoing Blinder's remark) since they see the Fed Chairman as equivalent to the nation's "Chief Economic Officer" and so the hearing is their opportunity to ask him anything and everything on the economy—and not just on monetary policy.

On this tendency to discuss more extraneous, though possibly topical issues (our point (b), from above), a staffer estimates that issues that are "front and center" generally constitute half the questions in the committee hearing, while the other half are given to questioning the actions of the Federal Reserve. Another staff member goes a little further, noting that "broad questions of monetary policy are almost always overshadowed by events and what motivates the questioning tends to be yesterday's *Wall Street Journal* story about fraud and abuse or a visit from a constituent about his inability to get his line of credit extended or complaints more recently about mortgage fraud and the foreclosure mess." Hence, this same staff member remarks, there is relatively little discussion about the Fed's monetary report or the Chairman's testimony—rather, "the discussion is much more impelled by much more specific and narrow concerns about economic activity."

While Members of Congress may have no electoral incentive to become educated in monetary policy (according to our FOMC respondents), the view from Congress is that politicians should try to find a way to balance representing the concerns of constituents with the effort in acquiring the necessary expertise to challenge the Fed on the substance of monetary policy. One staffer remarks that "there is a balance to be struck between MCs being policy wonks and being populists. Straying too far in one direction probably isn't a good idea." According to this staffer, committee members would ideally listen to the concerns and anxieties of constituents, then think about these, judge their validity and merit, and finally filter these into an intelligent question which is put before the Fed Chair. The Fed Chair would then employ his policy expertise to tackle the question. (When it is then suggested that the MC—in this ideal scenario—would translate this answer back to his constituents, but even the staffer thought that that might stretch the realm of what is possible.)

Regardless of whether or not this scenario is idealistic, both our Members of Congress were cognizant of their role as "conduits" of information on monetary policy, relaying flows of information and concerns from constituents to the Fed, and (ideally) back again. Barratt notes that because monetary policy "is a niche issue", constituents who queried it were likely to be knowledgeable about the subject, and indeed, he recalls that early in his career some of own constituents had helped him prepare questions for the Fed Chairman. He remarks that,

> Barratt: …it is very powerful to look at a witness whether it is the Chairman of the Fed or whoever and say 'you know I've got some folks in my district, here is one of their questions and let me follow up on that'. I think it is very powerful for your constituents and I would hope the witnesses would think that was pretty powerful too because after all that is who I'm representing in Congress.

In a parallel vein, Bayh perceives his committee role as, in part, communicating between constituents and the Fed:

> Bayh: You have to function well in multiple worlds, so it basically involves translating macro-economic policy into terms that ordinary [people] who don't focus on that [and] have no background in that, can understand. So you talk about jobs and investment and improved wages and how that is going to make retirement more secure and college more affordable, and your home more affordable. You've got to be able to think and speak in both of those worlds and be consistent, but understand, that they are kind of distinct areas. [For instance], … before a group of 500 people at the Kiwanis Club in Indianapolis, you would say the same things …[that you would say] if you were in a one-to-one conversation with the Chairman of the Federal Reserve …but you would say them differently.

At the same time, Bayh maintains that congressional hearings on monetary policy primarily speak to an educated few who are informed and who follow monetary policy issues; they are not a (direct) means of conveying meaningful and substantive information to the public:

> Bayh: After [the Fed Chairman's] testimony, there would always be an article in the *Washington Post*, the *New York Times*, the *Wall Street Journal*, the *Financial Times* of the AP … and that gets the message out to elites who follow these things. But in terms of the broad public … there was a very wise media consultant who I knew throughout my life and he and helped my father before me, and he used to tell me: 'Look, it is all about staying on-message' and with all the cacophony of voices out there and the diversification in the ways that people get information, it is even more difficult today. He used to say 'when you have given the same speech so many times that you are about to become physically ill, the average citizen will just be beginning to get what you are saying' because they have got so many things competing for their attention. So, the point of me saying all that is yes, it was covered [in the media] but that is not enough to get through

> to the American people. In order to accomplish that, you would have to have something said over and over again, and the Humphrey-Hawkins testimony and the Banking committee operations don't lend themselves to that kind of public communication.

While both Barratt and Bayh saw their role as banking committee members to include acting as "conduit" for information on monetary policy, neither felt that this was a primary concern. Rather, as Bayh notes, committee members are motivated primarily by electoral concerns. Hence, the main thrust of the questions in the hearings are forward-looking rather than backward looking—that is, driven by future concerns (like elections):

> Bayh: 'What are the challenges we face and what do we need to do about them going forward?' That tends to be the principal focus of members of Congress because we are held accountable for future events, the past as well, but what really matters is what is going to be happening next and before the next election in particular.

In the end, MCs know that expertise in monetary policy is not a vote-winner and so the *typical* banking committee member does not engage deeply in understanding monetary policy actions by the Fed or conveying that information to the public (even though they may acknowledge this as ideal).[3]

2. The Culture of Central Bank Independence

In previous chapters, we have discussed the evolution of the independence of the Federal Reserve—particularly vis-à-vis Congress. At the heart of the issue is, as we discussed in Chapter 5, the meaning and operationalization of the concept of "independence". Our focus here is the extent to which the acceptance of the "independence" of central banking has created a reticence by Members of Congress to engage actively in deliberating on and challenging the monetary policy actions of the Federal Reserve.

Barney Frank's quote (from Chapter 5) is once again instructive in that it conveys his dismay of this reticence by Congress to question the Fed's actions on monetary policy:

> "'There are people who think the Fed should be above democracy. . . . We can debate the most fundamental questions in human existence, but God forbid anybody in elected office should talk about whether or not we need a 25 basis-point increase from the Fed.'" Representative Barney Frank, Incoming Democratic Chairman of the House Financial Services Committee (January 2007) (Guha and Kirchgaessner 2007)

In Chapter 5, we also quote Blinder as writing that central bank independence and accountability go hand-in-hand—that is, part of the obligation that comes with independence is the willingness of central bank officials to explain their actions to the public. As Blinder argues, "(i)f the central bank makes good decisions, it should have no trouble explaining and defending them in public. If it cannot articulate a coherent rationale for its actions, perhaps its decisions are not as good as it thinks" (Blinder 1998: 70). Blinder then goes on to remark that the Fed is particularly poor at explaining its actions:

> …the Fed still offers very scanty explanations of FOMC decisions, fearing that its announcements would be misinterpreted, that ill-chosen words might lock it into future actions, or that changing circumstances might force it to change its mind—thereby undermining the doctrine of central bank infallibility. (Blinder 1998: 75)

Blinder's more recent remarks in our interview reinforce the view that in congressional hearings on monetary policy, committee members have "internalized" the norm that questioning the Fed on short-term monetary policy is unacceptable.

One of our congressional respondents, D'Arista, whose experience as a staff economist from the 1960s and 1970s, creates a flavour for the historical progression of the culture of independence:

> D'Arista: Patman of course was very active in the Depression era and he was very active on the Banking Act of 1935 which gave the [Federal Reserve] Board more control. But in going into the 1940s he was very adamantly opposed to the independence [of the Fed]. What he kept trying to remind the members of the Committee was this is an agency of Congress, that Congress is in charge here, not the Treasury or the administration but under the Constitution we have the power to coin money and regulate its value. Now independence was so preached by the Fed and pushed upon other central banks around the world by the Fed, that this point got lost and in a sense I think the members of Congress just absorbed this idea: the Fed is an independent agency and we have … the Fed resisting any investigations by the General Accountability Office of its monetary operations etc. Congress bought all of that, and it is, in my view, completely contrary to their responsibility. … Congress should be overseeing monetary policy—this is their agency.

Another staff member characterizes the 1990s in particular as a decade in which the prominence of the Federal Reserve in managing the economy even began to overshadow that of the Treasury:

> [Anonymous staffer]: The Bush Treasury was widely seen as marginal and useless, and the Fed, partly because of the relatively strong economy and the role that the Fed played in the second half of the 1990s, the Fed had eclipsed [the] Treasury in members' minds about who it was who was in charge of economic policy, and that, if you went back twenty years, that would be a huge shift**.**

Clearly the financial crisis of 2007-09 has created a new era of congressional activism vis-à-vis the Federal Reserve, and although our study does not explore this new era, it is noteworthy to include remarks from Bayh on (a) the "apolitical" nature of the Fed and how MCs interpret that; (b) the extent to which the macro-economic challenges of the past few years have forced the Fed to better explain its actions; and (c) the blurring of the lines between fiscal and monetary policy, and effects of that on the Fed's independence:

> (a)
> Bayh: The Fed is an apolitical body but it has to exist in a political context, and so sometimes, depending upon the agenda of the majority in Congress and the President at that time, people would try and elicit comments from the Chairman whether in support of, or critical of, supportive of whatever agenda that member might have. And [it] was always interesting to observe [that] both Chairman Greenspan and Chairman Bernanke were very artful at saying in very elegant terms as little as possible….
>
> (b) *[commenting on Bernanke's appearances on the 60 Minutes program and appearances before the Senate Banking Committee]*
> Bayh: I'm a big fan of the Chairman and I think he has done an excellent job but being realistic about it, I don't think most Americans eagerly anticipate tuning in and listening to a discussion on monetary policy. That is not going to get much of an audience but his efforts are to demystify the Fed, to pull back the cloak of secrecy as much as he can without impairing its functioning, [and] is very well-advised because it helps to put the lie to some of these conspiracy theories. I thought it was very effective when he was having to respond very aggressively in the depths of the financial crisis. He came before the Democratic caucus, and he …said 'I'm handing out a copy of the balance-sheet of the Fed and you can see that it is broken down into different categories and I want to show you what we own, and I wanted to show you how it has changed over time to help respond to the crisis'. Most of those people didn't follow those issues ….But the fact that he would …go through chapter-and-verse and say 'Ask me any questions you have about this or what I'm doing' being proactive in that way is really very helpful because if you have got a good story to tell, you need to get out and tell it. The facts and the truth are your friends. *[I then asked whether this action by Bernanke was unusual.]* It had never happened before as far as I know.
>
> (c)
> Bayh: …as Bernanke has been saying: 'Look, monetary policy can only do so much'. I mean ideally you would have fiscal and monetary policy operating in close coordination, one with the other, and you would be taking the short-term into account, and the long-term into account, and operating accordingly. But if the political process seizes up and you are only left with monetary policy then the Fed is forced to contemplate some actions that otherwise they might not have to resort to but they have got no choice because the other branch of government is not doing its part. Then [that] runs the risk of politicizing the Fed a little bit more because they are doing unusual things and some elected officials will like that and some won't.

As the comments from Bayh suggest, the recent financial crisis may have ushered in a new era of Fed transparency, but this is not the same thing as saying that Members of Congress have or will ratchet up their understanding of monetary policy in order to engage the Chairman of the Fed more substantively during the Humphrey-Hawkins hearings. Indeed, we are currently observing the Fed move toward even greater transparency, as evidenced by Ben Bernanke's historic first press conference following an FOMC meeting on 26 April 2011. While the Fed Chairman spoke eloquently and fully in responding to most of the questions, one question he skirted entirely was raised near the end of the press conference. He was asked to compare the questions that he was currently receiving from journalists with those he usually receives from Members of Congress during the Humphrey-Hawkins hearings, and Bernanke carefully avoided making this comparison. Yet, the informed observer would note the vast difference between the two, as the *New York Times* subsequently reported: the questions of the journalists "stayed focused on the compact and complicated world of monetary policy" while questions from MCs are typically on "a wide range of issues—and sometimes issues that have little to do with economics" (Appelbaum 2011). So, while more information and effort to explain itself to the public may well trumpet a new era of central bank transparency, which combined with the upheavals of the financial crisis, may lessen the reticence of MCs to challenge the Fed, it does not mean that the typical congressional banking committee member will necessarily overcome the barriers of ignorance, lack of interest, and lack of electoral incentive to effectively challenge the Fed Chairman on monetary policy.

IV. Transparency and Deliberation in the FOMC

It is inconceivable that extreme transparency in policymaking would ever enable public officials to speak as candidly as they would in private discussions. And yet, most democratic societies have come to expect some degree of transparency from their governing institutions—the question is, how much transparency is needed to allow the public to understand the rationale behind and mechanisms that underpin policymaking, without undermining the policy decision itself? There is, of course, no simple answer to this question and indeed the degree to which monetary policy may or may not be undermined by transparency is evolving, as the Fed's historic first press conference (noted above) illustrates.

Two issues are of key import. The first relates to the publication of the verbatim transcripts of the FOMC meetings. Even with a five year lag before publication, this level of transparency may well affect the content and mode of deliberation among the meeting participants. A second issue concerns the extent to which divisions and disagreements among committee members become known, and when. As we have noted, dissenting votes in FOMC meetings are rare, and so even when the Fed publishes its (increasingly detailed) minutes of the meeting three weeks after each meeting, only those rare members who actually dissented are identified. Shades of opinion, reservations, and resistance falling short of dissent are not known until the transcripts become public many years later (although under Bernanke, more of these shades of opinion are apparent—indirectly--from committee members' outside speeches). We will focus on the first issue in the section below, leaving the "shades of opinion" issue for our later discussion on institutions and deliberation.

a. Publication of Transcripts

A good starting point is Larry Meyer's description of the FOMC meetings as consisting of formal, self-contained presentations, which relates to his experience as Fed Governor from 1996 to 2002, and does *not* include the period during which it was not known to FOMC members that meeting transcripts were being archived (i.e., before 1993). His description thus pertains solely to a post-transparency era. In contrast, many of our interviewees have experience of participating in meetings both before and after this critical shift in transparency, and so their ability to compare directly the pre- and post-transparency periods is particularly useful. Nonetheless, even the views of participants from only the more recent period (like Meyer) are also relevant, as some provide contrasting perspectives from Meyer on the extent to publication of the transcripts affects FOMC deliberation.

Our FOMC respondents divide into two distinct camps on this question: seven maintain that publication of the transcripts has not harmed deliberation, while four argue that it has. Within each camp, there are individuals with experience in both the pre- and post-transparency periods, as well as individuals with experience in only the post-transparency period. In the first camp are Hoskins, Jordan, Poole, Minehan, Rivlin, Axilrod and Broaddus.

> Hoskins: I do not believe transcript publication has [had] much influence on members positions. I certainly never considered publication of transcripts an issue nor do I believe others did either.
>
> Jordan: I would attend the meeting with no scrap of paper in front of me so that I could listen to my colleagues and try and engage them eyeball to eyeball and I made damn sure that when I was speaking I didn't have anything to look down to. I could only look up at my colleagues and force them to look back at me, so that they weren't scribbling with their own notes or reading the *Wall Street Journal* or something while I was talking because I would be looking at them instead of sitting and reading something that I'd pre-prepared. So it was very different styles but I never thought that the existence of a transcript in any way inhibited the give-and-take and I don't think a fair reading of the transcripts from the previous period when they weren't being publicized to when they were [would suggest that the change] affected many people. It certainly didn't affect me.
>
> Poole: [Publication of the transcripts mattered] to a minor degree, and I say a minor degree because I was always very careful about any off-colour language for example. We all use off-colour language when we're talking to friends in small, intimate gatherings and over dinner, and after a couple of glasses of wine but I never succumbed in the FOMC meetings, at least I don't think I did. That wasn't true of all of my colleagues, and you will see some off-colour language on

occasion in the transcript. I never thought was appropriate and so I didn't want that to be down in the transcript. [As for] my policy views, no I don't think I ever held back. My style has always been to focus on issues and to state them as clearly as I know how but not in a bombastic, confrontational way. I certainly have always steered clear both as an academic and when I was in office …, I've always steered clear of ad hominem attacks or comments. I try to focus entirely on issues and that was my style while I was in office and it hasn't changed.

Minehan: Now, a lot of people say it forced people to write down what they were going to say when they came in. Well, I was a person who did tend to write down what I was going to say in terms of my presentation about the District, and then the way I thought of the stance of policy but I would have done that regardless because I think better with a pen in my hand, and you know, Open Market Committee meetings are serious stuff and you want to be sure you've got all your thoughts together. Some of the people around the table may have been better on their feet than they were at writing. You know, everybody is different. I function in a way that if I write something down I'm more logical about it at times than when I'm just talking off the top of my head so that is my way of functioning. *[So you don't think you were conscious that your words would be published?]* I absolutely was not. I can tell you I was not. I was trying to help myself be logical in my presentations.

Rivlin: *[Comparing the contrasting views of Jordan and Meyer on publication of the transcripts]* But Jerry Jordan was there over the transition; Larry [Meyer] and I were not…. I don't know what Larry is basing that on but I wasn't particular aware of the transcript in speaking. … [*You don't think it dampened or shaped your comments?*] No, that was never in my mind at all. I came from a world where I did a lot of 'on the record' stuff in front of Congress. I mean that was much more, partly in the Clinton Administration but much more importantly when I was running the Congressional Budget Office. I was testifying two or three times a week for eight years so I was very used to being 'on the record' and I was constantly careful for different reasons about what I said. But I don't remember thinking about that at the FOMC at all. …I mean if you said something on the record in a Congressional hearing it was on the evening news. Five years [for publication of the transcripts], I mean, who cares about that? I didn't think about that at all.

Axilrod: The discussions in my view, have been always very gentlemanly …. In fact, I used to joke with people at the Board: 'Yeah don't worry about the public, let's televise these debates. They'll all turn it off'….People are not that controlled, you get into the heat of the discussion and you hit the real stuff and you talk.

Broaddus: As I think about it, there were always individual members of the Committee [to a large extent under Burns and …a little bit less so under Volcker] who were less…by virtue of personality, … scripted so to speak. They were always, in my recollection, a minority. There were always some but I think the

> vast majority had some sort of statement. It might not be that they actually sat there and read but there would be bullet points that they followed pretty carefully. The other point I would make here, I think this is relevant, … is that staff members make fairly lengthy presentations, on the economy and financial markets, and those are always read verbatim. So, that kind of sets a tone and I guess the rest of us maybe you know sub-consciously fell into that type of mode. *[When asked whether he was influenced by publication.]* …I wasn't motivated by fear of what the transcripts would show half a decade later.

Hence, the reasons why, for these respondents, transparency did not impinge upon deliberation vary. Some are quite clear that their own personality and way of working, and not transparency, dictated their degree of pre-preparedness for the meeting—whether that meant having detailed comments coming into the meeting (Minehan) or none at all (Jordan). Others feel that transparency matters only for style (e.g., omitting "off-colour language"), as for Poole, or that as the discussion becomes "heated" participants naturally "talk" as they would otherwise (Axilrod). Rivlin is unique in that her previous top-level positions in government meant that transparency was second-nature to her and so transparency with a five year lag is irrelevant. Broaddus thinks that pre-prepared statements have *always* been an element of the FOMC, in part because members follow the example of Fed staff, who present lengthy prepared reports on the economy and markets.

A second camp of FOMC participants differ with the above assessment of transparency having a benign effect on deliberation, and these include Blinder, Lindsey, Reinhart and Kohn. As background, Blinder outlines four levels of central bank transparency in his *Quiet Revolution* book: (1) articulating its views clearly and in "intelligible words and sentences"; (2) conveying substantive and pertinent information on monetary policy; (3) opening itself to public scrutiny by providing information about the deliberations of the FOMC, including the arguments and reasoning behind its decisions and the votes of members; and (4) allowing the proceedings of the FOMC to be televised. He argues that an "ideal central bank would meet the first three standards but not the fourth—which I believe to be unnecessarily intrusive, damaging to the deliberative process, and therefore potentially harmful to monetary policy" (Blinder 2004: 6-7). Blinder further argues that even publication of meeting transcripts well after the event is harmful to deliberation: "all the major substantive points raised in the discussion can be, and I believe should be, made public. Verbatim transcripts, however, go a step too far, in my view, as they are likely to limit frankness and everyday banter, prevent people from taking 'devil's advocate' positions, and otherwise stifle debate" (Blinder 2004: 23).

In our interview with Blinder, he recalls that during the immediate post-transparency years when he served on the FOMC (1994 to 1996), members effectively read scripts into the microphone. He adds: "I would have liked to turn off the tape [because] … I thought the tape just eviscerated the potential value-added of the meeting, for the reasons we have been talking about: you just get people reading scripts."

Lindsey's experience on the FOMC covers both the pre- and post-transparency periods, and as such, is particularly telling. He remarks not only on the harmful effects of transparency on deliberation, but also on having felt mislead into believing (initially) that FOMC discussions were not being taped and archived.

> Lindsey: When I joined the Board I was not informed that the meetings were taped, and therefore my comments at the FOMC meetings were quite candid….. I personally think the decision not to destroy [the] tapes has ruined the deliberative process….. It's terrible; they are now all set-piece speeches. *[With reference to me describing a before and after period for transparency of the transcripts…]* Well interestingly, it wasn't a 'before' period was it? It was an unknown period when we were ignorant of the fact… I thought it was scandalous. I thought the people involved should have been fired. I really do. I just can't believe that they would mislead the people that they were taping. … Whatever the excuse is, they lied to the people that were employing them…. I don't care what the excuse is, if you leave the presumption that there is no taping here and you say that, and in fact you are doing the exact opposite of what you are telling your employer, I mean can you imagine doing that in any place other than the government where you wouldn't be fired? *[As to his response at the time…]* Oh I yelled but … I wasn't backed up. I mean I found the whole thing really, really troubling about the institution and these people weren't even reprimanded. It was unbelievable, and it has made me very cautious ever since. They should have been fired. Every one of them should have been fired. That's the only thing you could do when you lie about something like that. [It was] lying [and] I don't overuse words, [but] that is what it was.

Lindsey goes on to say that the tangible effect of transparency has been to shift the substantive deliberation *outside* the FOMC meetings, where it is unrecorded and therefore allows frank discourse.

> Lindsey: The tendency towards set-piece speeches was a habit that caught on….Yes, it got worse. Now all the fun stuff happens outside the FOMC room I assume. … I think [having the transcripts public] is counter-productive. That was my point on the taping. I think it's a disaster. I think what they are doing is, they are subverting the deliberative process and they are actually moving the deliberative process outside of the FOMC meeting….How on earth do people expect candour? You want candour in government. You've got to have candour in the deliberative process and you are not going to have candour if it is going to be exposed.

Reinhart provides further detail to the detrimental effect of transparency on the deliberative process, agreeing with Lindsey that it has shifted the substantive deliberation outside the FOMC meetings, including somewhat ironically, public speeches in which FOMC members signal their intentions to one another prior to the FOMC meeting:

> Reinhart: let me start with my strongly-held view, which is a post-1994 one, and that is the FOMC meeting is a terrible way of sharing information. Basically what happened was in 1994 as a compromise with the House and Banking Committee, the FOMC decided to change its information release that included releasing the transcripts with a 5-year lag, increasing the amount of information in the minutes…... and that had an important consequence. Prior to 1994 there was a transcript but members didn't even know it existed except for the Chairman, and it was used only to help prepare the minutes. After 1994, since they were going to be released five years after, they were edited in real time so a participant at an FOMC meeting a couple of weeks after the meeting would get a transcript. Before 1994 a typical participant would be willing to say 'I agree with what was just said' or 'it works for me'. After 1994, when they actually saw their names associated with comments like that they began to prepare remarks, and so among other things you see the length of the transcripts got longer. Now, there were multiple consequences about that, many of them not intended. First one: the meeting actually degrades in value**.** It was not uncommon … to become more formal because people are reading prepared remarks and they are less responsive to each other. So, for instance, it wasn't uncommon to hear three people within the space of say half an hour, say 'and here is a little-noted fact' but they were noting the same fact. Some of them would actually just be reading their prepared remarks as other people were reading their own out loud. Occasionally, some of the more graceful ones would insert 'as President X just said'. … *So what are the consequences? Among those are, the meeting isn't a good way to exchange information because you don't change your prepared remarks based on what you have just heard. Second, if you do want to influence the agenda at the meetings then you either write off the current meeting and try to influence the next one or you say something before the meeting, that is, you give a public remark, and so there is also a pick-up in the amount of public speaking about monetary policy in advance of [the] meeting because the sad reality was it was very much about signaling to your colleagues before the meeting.*

Kohn agrees that publication of the transcripts changed the deliberative process, but not quite as disastrously as suggested by Blinder, Lindsey and Reinhart. Kohn distinguishes between the economics and the policy discussions, with the former having been more affected by the move to transparency:

> Kohn: To some extent [publication of the transcripts] … did shape behaviour. My impression… is that there were many more prepared statements, [and] the statements got longer. …No one felt like they could just say 'I agree with what Bob just said'. They had to say something [more] because people would see it in five years. I remember the first meeting after the decision had been made to publish the transcripts, and one President [Melzer, from the St. Louis Fed], read his thing, and people were shocked that somebody would sit there and actually read a statement—and he read it in kind of a monotone to make a point. But everybody reads at least their economics stuff. I think there is a difference now, at least there certainly was for me, between the economics part of the meeting and

> the policy part of the meeting. On the economics part of the meeting, I always prepared a set of talking points and while it was in more or less in outline form it was pretty well written out. I did modify [my comments] to some extent based on what I had heard before I talked. Basically, I went through the points that I had written before with small modifications. I never did that on the policy side. On the policy side I sometimes made a list of points, usually hand-written that I thought would be important just to remind myself. But I never put my head down and read them. I was always extemporizing based on what I'd heard in the economics part; a combination of what I heard in the economics part, the points I thought should be made, [and] the points that the Chairman might bring up. …I think others are like that too. …The policy part is much more spontaneous and that's good. [For] the economics part people are generally reading statements that are written out, and there is less give-and-take on that than there might otherwise be.

The contrast between the two camps is quite stark, then. Whereas for the first camp, the effects of transparency on FOMC deliberations have been minimal, the respondents in the second camp cite two specific reasons why publishing the transcripts is harmful for policymaking: (1) it encourages a more robotic form of discourse (e.g., members read scripts into microphones) and therefore destroys frank and candid exchanges of views; and (2) it shifts the more genuine deliberation to venues outside the FOMC meeting itself, therefore gutting the meeting of the very rationale for transparency—namely, to better explain to the public the FOMC's decision-making process.

Perhaps not surprisingly, no one in either camp takes the more extreme views of some of our congressional respondents, which we now present as a concluding twist for this section. For one current member of the HFSC, a silver lining in the recent financial crisis has been that it has created an opportunity for more transparency in observing and understanding the "inner decision making of the Fed" –akin to the earlier observations regarding Bernanke's press conference. D'Arista comments that, in her view, transparency is no longer the most important issue, since "we [Congress] have won" in forcing the FOMC to publish the transcripts. She concedes, however, that "it inhibits the deliberations to some extent; people don't want to be on record too much, but they will get on record. When they vote they will get on record …." Others argue for more extreme transparency, with one former economist of the HFSC, Robert Auerbach, devoting much of his recent monograph to the case for a more open and "democratic" Federal Reserve. He opines that "the public should be allowed to read transcripts of FOMC meetings in a timely manner—no more than sixty days later" (Auerbach 2008: 54). As Auerbach's colleague from their years at Congress, our interviewee James Galbraith is similarly critical of the Fed's traditional resistance to transparency—and he argues that Blinder's fourth level of transparency is perfectly acceptable and desirable:

> Galbraith: We've seen this time and time again, that you put something on the table that requires the Federal Reserve to give more information and whether that is monetary targets or the forecasts or the minutes of their meetings or the transcripts of their meetings, and we've all had this experience, as Congressional staff do. The Federal Reserve says 'the sky will fall, the world will end, Western

> civilization itself is at stake; we will not be able to have serious, credible, internal dialogue with our counsel of extraordinary sage and wise men and women', most of whom are not, not so extraordinary to put it mildly. The congressmen who are accustomed to operating in public don't find that very credible and then ultimately when you reassure them that things are going to be alright and they vote it through, like clockwork the Federal Reserve comes out six weeks later and says 'well, it looks like we will be able to cooperate with this no problem'. [Then] they go ahead and cooperate. …The institution isn't in any way compromised by having important public information available to the public. … I have a general sense that the quality of the FOMC can only be improved by requiring people to do these exercises in full view. *My impression is that these are rather ritualistic meetings at which Governors come, and Presidents of the regional banks come, and deliver prepared statements in very stilted conversations and that's in secret. The way to cure this is to, in my view, the whole idea of Henry Gonzalez, is to put the whole thing on television and release the tape right after the decision is announced, just afterwards, and then over time you would have to say of someone who was going to be a President 'is this person capable of defending their position coherently and competently in front of the camera' and if not, don't appoint him to the job.*

b. Deliberation *Outside* the FOMC

In light of Meyer's depiction of the meeting discourse as "canned speeches", one of our questions to the FOMC respondents explored the possibility that the real deliberation on the policy decision might occur outside the FOMC meeting, perhaps in bilateral conversations or in Board Governors meetings. Strikingly, we find roughly the same divide in opinion as we found in the two camps of FOMC respondents on the question of publication of the transcripts. In one camp we have (again) Hoskins, Jordan, Poole, Minehan, Rivlin and Broaddus. These members are fairly dismissive of the notion that "real" deliberation (possibly leading to a policy decision) occurs prior to FOMC meetings, but they do acknowledge that the positions of most of the members were known in advance simply from experience at previous meetings.

> Hoskins: I rarely discussed policy views with other members prior to meetings nor did I have the feeling that the outcome was pre-decided. I could guess the vote by knowing the position of the members from prior meetings.

> Jordan: I never knew, [or] very, very rarely, when going into a meeting … what the chairman was going to recommend. I know that there was more of a tendency in the Volcker and Burns years for the chairman to know where the other governors were on an issue before the FOMC meeting. They would know going into a meeting whether a certain recommendation from the chairman would be supported or opposed by one or more of the governors. I'm not aware at all that Greenspan bothered to take a poll of where the other governors would be. I don't know that he even had that strongly made up his mind before a meeting what recommendation he was going to make.

Poole: I'm guessing that [Greenspan] would have been very careful in terms of his relationships with all of the members of the Board for it not to become obvious anyway that he was consulting extensively with one member or two members on a bi-lateral basis and hearing all the others out. So, it was probably a good bit more subtle that that.

Minehan: There was a meeting that the Board members had with staff, prior to each Open Market Committee meeting, and I don't think anybody said 'this is the way you ought to vote' but I think you know the general information and the sort of biases…. I never felt that in any of the meetings for thirteen years that I was a part of, that it was a done deal going into the meeting, except for the fact that oftentimes Open Market Committee meetings are done deals. I mean the vast majority of meetings you really just stay the course…. And the Presidents made a very, very big thing out of never talking to one another about how they were going to vote. They may talk to one another about economic issues, we saw each other quite a bit, you know there were things people were concerned about, regulatory issues, and we had committees, our committees had committees, but with regard to any given Open Market Committee meeting we did not discuss how we were going to vote beforehand.

Rivlin: No [decisions were not made before the FOMC] but I sometimes talked to Greenspan about 'what do you think?' and 'what do I think?' I remember, he was not a vote-counter, I mean he didn't have to be, I mean we weren't in territory where he could lose control. But I remember a few conversations before FOMC meetings where he would say 'who have you talked to?' 'I talked to McDonough this morning; have you talked to anyone?' Sort of trying to figure out where people are.

Broaddus: You mean there was sort of consultation ahead of time? I never participated in anything like that in my time there and I'm not aware of much of it going on. I do think there were some occasions at the staff level when a senior staff person at the Board might, I don't want to say informally, because I think it was deliberate, call someone at our board when some pretty significant issue was going to come before the committee, and give him a heads-up or maybe gently solicit their understanding, especially if they thought we would be inclined to oppose but that was very rare. I'm talking two or three times in my career that happened. Now, we [the Richmond Fed] often, had a reputation for being in opposition, the loyal opposition, a lot of the time on issues like the speed with which we were trying to bring inflation down in, intervention, those kind of things. So it may well be the case that we naturally experienced less of this because it was anticipated that we wouldn't cooperate.

In a second camp are three of the same members who spoke disparagingly on transparency—Blinder, Reinhart and Kohn. While none of the three maintain that a decision had been made at the Board of Governors meeting, prior to the FOMC, all three acknowledge that, at least during Greenspan's tenure, a common stance had generally been achieved at the Board meetings—and Greenspan himself engineered this stance:

> Blinder: [*Were decisions made before FOMC meetings, perhaps in bilaterals…?]* Oh no, [decisions were made] by Alan Greenspan personally. … Taking into account lots of things, including discussions he had with me and other members of the Board but lots of other things. You know, he would make up his mind and he would normally come around on Friday (our [FOMC] meetings were Tuesdays always) and basically tell us, the governors in Washington, but then I learnt, surprisingly, not really tell the presidents. My first vision before getting there was that he was also making twelve phone calls, but I didn't want to say he made zero but he certainly didn't make twelve phone calls. But he did make the rounds of the governors and tell them in no uncertain terms what he thought the meeting should decide on Tuesday. That was your chance, by the way, if you wanted to object but not do it in front of the whole Committee, to object to him face-to-face. That was his style but I don't think that is Bernanke's style.
>
> Reinhart: [*Were decisions made before FOMC meetings, perhaps in bilaterals…?]* Sure, under Alan Greenspan it was. Ben Bernanke decided not to. By law the Board of Governors has to consider discount rate requests every two weeks. It is actually a requirement. The Board has a pre-FOMC meeting on the Monday before a meeting which is for staff presentations about the outlook and they have an opportunity to ask questions. That is one reason why the Governors don't necessarily have to talk in public. They can signal to their colleagues by the type of question they ask. A successful governor … and can really signal [his] views, by the tone or the direction of questioning. So there is that mechanism in advance of an FOMC meeting, for the governors anyway. The governors would have a closed session [i.e., with very few or no staff] after the economic briefing to discuss pending discount rate requirements. … Chairman Greenspan, in the latter part of his tenure …would use those Board meetings to make sure all the governors were aligned with his policy recommendation or to adjust his policy recommendation to make sure all the governors were on board. …And so the Board would go in with a better understanding, with a firm understanding of what their colleagues were going to do. …[By Bernanke's tenure] the pre-meeting board discussion was a source of tension with the Bank Presidents. Because the Board is the majority of the FOMC most times, and the idea that there would be a pre-meeting meeting was what made them uncomfortable, so Board members tried not to convey that they had already had that discussion, but I think Chairman Bernanke basically promised everybody they wouldn't use that meeting for that purpose ….
>
> Kohn: I think the way it has evolved is the Board has had a discussion on Monday morning before a Tuesday FOMC meeting around the discount rate and that discussion has often involved what the decision should be at the next FOMC meeting but there has never been a kind of commitment made, a decision made. You just came out of that meeting with a better sense of where your colleagues are and what their

> worries are and how they see things. No formal decision is made at that meeting but it is, there is an airing of views, it's true.

On the question of whether the real deliberation on monetary policy occurs outside the FOMC meeting, opinion is clearly divided, as it is on the extent to which transparency of the transcripts has affected the meeting's deliberation. Transparency is neither entirely benign nor is it universally harmful for all members. But, publication of the transcripts has certainly shaped the deliberative behavior of more than one member of the committee. The question then becomes, what level of deliberation is sufficient or indeed optimal for monetary policy making, and by whom? This study may not offer absolute empirics to answer these questions, but it does offer some basis for insightful conjecture—and we will return to this in our concluding chapter.

V. Institutions and Deliberation

We outlined earlier a number of institutional features that may conceivably affect the quality and nature of deliberation. For the FOMC, those include the role of the chairman in directing the discussion and the culture of consensus decision making. For the congressional banking committees, the role of the committee chairman is also relevant, along with the order in which MCs ask their questions, the size of the committee, and the institutionalized "media circus" surrounding the nearings.

a. FOMC

In our interviews with FOMC participants, we sought responses on the extent to which the Fed Chairman shapes the flow of discussion within the FOMC, and in so doing, sought participants' views on both the chairman's force of personality and the broader culture of consensus decision making within the Fed. To frame what follows, it is useful to employ Blinder's depiction of two stereotypical types of monetary policy committees—collegial and individualistic (Blinder 2004: 54-63). A collegial monetary policy committee strives for unanimity, with the chairman either "pushing and cajoling" members towards the committee's "center of gravity", or simply imposing his will on committee members. "But in either case, once a collegial committee reaches a decision, all of its members are expected to fall in line behind it. Voting is a formality … for it is the group that is held accountable, not each member separately" (Blinder 2004: 55). In contrast, an individualistic committee welcomes differences of opinion. Members argue the merits of different choices and reach a conclusion by majority vote. There is no expectation of consensus or unanimity: individual members vote according to their own preferences and as such, each is held individually accountable. Blinder describes the Bank of England's Monetary Policy Committee as a typical individualistic committee. The FOMC is a variant of the collegial type—namely, an "autocratically collegial" committee, where "the chairman's going-in position *is* the likely consensus, and he either persuades or browbeats the others into agreement" (Blinder 2004: 58). Blinder describes Alan Greenspan as leading the FOMC "with a velvet glove, not with an iron fist" so that while he was "about as dominant a chairman as you are ever likely to see", Greenspan did occasionally modify his position ("*slightly*" Blinder emphasizes) to lessen dissent, perhaps by modifying the wording of the statement or by allowing other committee members to decide the bias (Blinder 2004: 59).

While Blinder's general preference is for the individualistic committee, he does, however, note that it risks sacrificing clarity in allowing too many voices, thereby confusing the public and "turning transparency into noise" (Blinder 2004: 61). This brings us to what we identified earlier as a second issue surrounding transparency in monetary policy making—namely, to what extent should the divisions and disagreements among committee members become known, and when? We know that "shades of opinion" short of dissent are not made public (formally and explicitly at least) until the meeting transcripts are published some five years later. We address this issue in this section, as the "shades of opinion" within the FOMC is closely linked to its institutional norms and practices, and here, Blinder's description of the FOMC as autocratically collegial is a good starting point.[4] If, as Blinder suggests, "the chairman's going-in position *is* the likely consensus," to what extent did other members of the committee feel pressured to adopt the chairman's position, including being dissuaded from expressing reservations or more significantly, from exercising a dissenting vote?

To begin, let us first complete Blinder's depiction of the FOMC as autocratically collegial by drawing upon our interview with him. Blinder characterizes "dissent" as equivalent to defying the chairman, and thereby an action not to be taken lightly. He also pointedly observes that as chairman, Greenspan discouraged debate, but so too did the sequential mode of speaking in the FOMC:

> Blinder: A dissent was viewed as a defiance of, or a slap in the face to the Chairman. ... Think of the word 'dissent'. If I go vote Democratic and the Republicans win, no-one says I dissented; I voted differently, but the word is dissent, and in that Greenspan period it became something you did with a great deal of thought knowing that it was defiance of the Chairman. …You could disagree with the decision but unless your disagreement was very major, you wouldn't dissent. Now in terms of expressing [reservations], there was freedom of speech at the FOMC but first of all Greenspan was not encouraging a health, robust debate. It was clear that he was not much interested in it, and didn't really like it very much although he never tried to silence anybody. Secondly, the way it was …orchestrated, [was that] everybody [spoke] in their turn, so … it was never one person involved in a dialogue with another: 'I think this, you think that, let's argue our points'. It was around the table, each person in turn reading their script into the microphone. You don't get a lot of debate. You know, you may hear persons in order, person twelve saying something contradicts person two but person two and person twelve never engage each other, and the Chairman of the Fed who is running the meeting, never, when person twelve speaks up, says 'let's hear back from person two because you two just disagreed on it'. It almost never happened.

One of our bank president interviewees, Hoskins, fully endorses Blinder's depiction of the FOMC as autocratically collegial under Greenspan:

> Hoskins: There was a give and take on policy views but it was limited by the procedure at meetings. You could not respond directly to a statement being made. You raised your hand and got on a list kept by the secretary. I believe members' views were shaped by others but for most the chairman's view dominated.

Poole's comments also support Blinder's view, though Poole distinguishes between governors and presidents, with the latter being more likely to express "strong contrary views" than the former:

> Poole: It was actually and still is rare for a member of the Board of Governors to dissent. I guess the only one I remember was actually Ned Gramlich, [who] dissented in June 2003 ….It is quite rare for a member of the Board of Governors to dissent, and by and large, the members of the Board did not express strong contrary views whereas the bank presidents often expressed pretty strong contrary views…. That was a consequence I think of bank presidents who simply did not have the nerve to stick their head out there and actually dissent. They would express their misgivings in the meeting and they would say that 'they would have dissented except that something'.

Other interviewees, however, paint quite a different picture of the constraining nature of both Greenspan as chairman and the institutional environment of the FOMC. Jordan, Broaddus and Minehan all remark that they did *not* feel constrained in expressing dissenting views in the FOMC.

> Jordan: No [discussion in the FOMC] wasn't constrained at all. … [Greenspan] would listen to positions taken by governors and presidents, and voting presidents as well as non-voting presidents, and be counting votes as he listened, his recommendation was going to be influenced by what he thought he could get [people] to vote for, and very rarely did I hear him have a tone that said 'I disagree with all of you and here's really what I think we ought to be doing and try and do that'.

Related to his discussion of dissents and the willingness of members to argue their views, Jordan characterizes disagreements and conflict in the FOMC as *indirect* – that is, rather than challenging their counterparts on the committee, members would instead level their disagreements against the Fed staff:

> Jordan: [With respect to the nature of discussions] there were relatively little, very rare, challenges across the table, of one President or Governor to another President or Governor. That didn't happen as a two-person debate that frequently, occasionally but not often. What happened instead …was that you challenged the staff. …They make presentations at the meetings and if you get into a free-wheeling tussle with them over economic ideas, theories, and empirical evidence,

> and real substance, that is considered fair game, and sometimes what you wanted to do was challenge the position that you thought was just slightly short of nutty as it came up from the staff, and make it clear that you thought it was absolutely ridiculous. So that you would try to, in effect, intimidate your colleagues round the table from venturing close to that wacky idea, you've already exposed as something being not very legitimate. …If I wanted to really challenge some idea that I didn't like or didn't agree with, or thought that it was heading in the wrong direction or a conclusion that I thought was derived from faulty analysis or empirical evidence, I would go at the staff, and that way I send a message to my colleagues around the table, the voters, what I really believed and I didn't have to challenge them in a confrontational way across the table if they happened to hold that same wacky view.

On this notion of *indirect* conflict, Lindsey concurs with Jordan, adding that as a governor, challenging Fed staff was also a way to manage staff resources:

> Lindsey: I used the opportunity [of challenging the staff] as a way of directing staff resources because the staff reported to the chairman and the best way of getting them to pay attention to you was to take apart one of their numbers at the meeting because there is nothing like embarrassing the staff to get them to behave. … I did it nicely …but believe me I got answers. … I remember there was one time, this was in 1996, where the Fed staff came up with this projection about the future level of corporate profits. …It was a sort of silly consensus view, and I just went through some math. OK, if you assume this, then you have to assume [that], and you assume the other parts of your forecast, if say you've got a fixed path and nominal GDP [and] you've got an assumed rate of corporate profits, well guess what has to happen to wages? By the way, [wages] would be down if profits are going to go up. … So you would say little things like that and it's like saying the emperor has no clothes but it's not something you automatically think of right? But if I wanted to make a point, I've always found that was an effective way of making a point.

Neither nor Broaddus and Minehan allude to this type of indirect conflict, but rather remark that disagreements and dissents were not, in their views, highly constrained. Broaddus notes that he dissented six times, "but other people were less willing to use that public signal" than he was and he accounts for this in terms of individual members' personalities. As a side note, he echoes Poole's observation that presidents are more likely to dissent than governors, adding that this tendency has increased with the Fed's move towards greater transparency:

> Broaddus: My point is that the Reserve Bank Presidents now are much more visible to the public then they were and of course their dissents are no longer kept a secret for several weeks as used to be the case. Now they are released immediately so it becomes a powerful tool for a Reserve Bank President to reinforce and get attention for his point of view. That's an important, very

important, institutional development in the last couple of years I would say. Whether it's a good thing or not, I don't know

Minehan, on the other hand, never dissented but still asserts that she did not feel constrained in expressing her views. Her characterization of the committee as arriving at a consensual decision echoes Blinder's argument that committees make better decisions but she describes the process more as one of deliberation (argued reasoning) rather than the aggregation of perspectives:

> Minehan: I never felt constrained in giving my views, and although I never dissented I was something of an 'outlier' at times. [There are] different reasons that people have for agreeing ….I think the strength of the Committee, particularly a Committee like the Open Market Committee, [is that] you've got every District represented, whether they vote or not, and political people who have been selected in a political process … all sitting around a table bringing [to the discussion] very different backgrounds and very different perspectives and very different thinking. … I think the strength of policy comes from that sort of group being able to argue that yes, for a lot of different reasons this is the course of action to take. Coming in a with a set point of view in that kind of environment I think would just lead to people grandstanding rather than trying to find the right policy course.

She, like others (e.g., Kohn, Lindsey), believes that the decisions of the FOMC hold greater weight with the markets and with Congress when the committee speaks with a single voice (as represented by the Fed Chairman). Even a relatively frequent dissenter like Lindsey (who calculates his own dissent rate at about 10%) comments, that, "you can express your views and you can try persuasion but ultimately, it is right for the Board or the FOMC to express a unitary point of view."

In contrast to Jordan, Broaddus and Minehan, is a second group who ascribe to a view of the FOMC as "collegial" but not as "autocratically collegial" as Blinder depicts. For Lindsey, Rivlin, Kohn, Axilrod and Reinhart, the driving force behind the FOMC's consensual decision making has more to do with institutional features of the Federal Reserve and the FOMC procedures than with the force of the chairman. Lindsey and Rivlin emphasize the importance of the committee arriving at a decision which is then owned by all the committee members, with Lindsey likening the FOMC to a corporate board of directors and Rivlin equating the FOMC to a political cabinet decision:

> Lindsey: When there was [a] possibility that something less than a broad consensus existed, then the chairman definitely smoothed the process before the meeting….*[CSB*: *In bilateral conversations?]* Yes. [*CSB: How did that work?]* …If it looked like there were going to be multiple dissents, he would head them off beforehand….The FOMC is not a legislature, it is a board of directors and it functions as such. board of directors should, by and large, reflect a unitary point of view. That is the only way to run a company. You can have dissents within a board, you can have differences of opinion within a board but as far as the voting

goes, the differences should be worked out and because otherwise you have a divided company, and you can't have a divided company and that's why I think it's appropriate to happen that way….The [Bank of England] Monetary Policy Committee is not a board of directors. It has a responsibility that is a subset of all of the operations of the Bank of England whereas the Board of Governors and the FOMC are the governing body [of the Federal Reserve]. There are other sub-committees, I mean it is obviously the FOMC [that] is the one of most interest, but the Board of Governors and even the System itself has a number of sub-committees that do the governance in other areas so, which also tends to operate by a consensus process. So if you are going to have smooth governance, and you are dealing with the same colleagues on a variety of other issues you really have to have an extremely collegial view toward the operations of the decision-making body.

Rivlin: Well, as to the question [about being constrained] …everybody was very respectful but there was no reticence to express opinions, and Greenspan always talked last so you didn't know what he was going to say,… so you might get different versions from different people but I did not feel inhibited at all in saying what I thought, although I didn't have a long history in monetary policy. I came from the fiscal side, and my orientation was to real economic data as to what was happening rather than to theory, and so I was sometimes a little reticent to take on, not with Greenspan, but to take on an argument with say Larry [Meyer] who knew a lot more about the models that I did for example.

How [the FOMC] worked was that people argued in the meeting and with each other very politely, and very formally, but then when you got to a decision you wanted it to be a consensus decision and when you left the room you didn't talk about it. …I had come directly from the White House, and when you are in an administration … you argue in a small group around the President. But he makes the decision and you may express your views very forcefully, and some Presidents, including Clinton, occasionally set up a debate situation to hear the opposition; he didn't do that very often but he did it on NAFTA ….Once you got to a decision then nobody went out and said 'I don't agree with' [that]. It was just that you were part of the administration, you were on the team, and you went up to Capitol Hill and defended it, and that was the way the game worked. So coming to the Fed wasn't that surprising to me. I wanted to be part of it, the group making the decision but I certainly didn't feel I should get out there and say 'well, I had a different view'. That was the one place where I felt Greenspan kept pretty tight control, not so much on getting to the decision but on how you talked about it, and he took me to task a couple of times …. I had used the word 'guess' in connection with an economic forecast, something like 'best guesses' and he said he didn't think that was a good word because it made it sound too uncertain, too fuzzy, and we weren't guessing, we were taking all this information and making a decision, so I said 'yes, that is right, I take your point' but that kind of thing was normal.

Rather than viewing consensus decision making as part and parcel of committee members accepting the norm of group accountability (either akin to a corporate board of directors or a government's adminstrative cabinet), Kohn, Axilrod and Reinhart adopt a more individualistic view of consensus decision making as a way for individual members to (a) influence the decision of the current meeting's statement (at the margins) as well as the more substantive decisions of future meetings (Kohn); (b) signal to the chairman their future positions (Axilrod); or (c) tie the hands of future FOMC meetings (a form of pre-commitment device) (Reinhart):

> Kohn: [Compared to UK's Monetary Policy Committee] in the United States there is a consensus to try and form a consensus and the hurdle for dissenting is higher. I think [that] …because there is that effort to form a consensus, if you're in that consensus it is possible to help the decision or at least the wording around the decision so you can influence the course of policy over time and market expectations. …Though you don't dissent [instead you say] 'Well, I go along with you but I have these reservations, I'd really be more comfortable if the statement said something about worries about inflation' or something like [that]. The lack of dissent doesn't mean that people who are uncomfortable don't have any influence on framing the decision and its explanation to the public …. So it's a complicated game that happens over time. …
>
> Axilrod: [Expressing reservations to the proposed policy is] a very good way of guiding the future, of making the chairman uncertain. Chairmen are always uncertain about whether they have got the committee with them or not. It's very important to them to have the committee with them because their stature, being the main spokesman, the only real spokesman for the Fed, depends on whether they can deliver the committee. So they are constantly caught in-between leading and following. It's always the case and so some chairmen don't speak until they have a fairly good idea of the committee….The chairmen constantly worry about getting a positive vote from the committee, and they constantly worry about it not being 7 to 5. …Arthur Burns really didn't want any dissents and Bill Martin didn't care as far as I can remember …. Paul [Volcker] was more ambivalent in some ways about that…. The chairmen are not exactly sure [about] these nuances, [although] they are pretty sure of the parameters…. They might get a nuance which says yeah we're voting for you but we prefer not to tighten or not to ease any more or something like that which gets in the wording here and there, substituting 'might' for 'would'.
>
> Reinhart: [In the minds of committee members is] the fact that dissent is fairly rare [and] that in all their decisions they think about precedent. Part of it is I think historically the fact that the [membership of the] FOMC rotates each year. The policy decisions span multiple years, particularly when you are using statements to convey longer-term intentions on interest rates and the balance sheets. That makes them want to speak with one voice so that they can in effect try to pre-commit themselves. …Democracy [in the FOMC] has a drawback. You can't pre-commit future governments …. so a more democratic FOMC has a problem, if

> you are trying to work on expectations. You can't pre-commit the next committee, and so unanimity or few dissents is a mechanism to convey the reassurance that the next committee will make decisions in the same manner.

Two final observations are relevant to this section, as they allow a comparison between Bernanke's current FOMC, and the committee under Greenspan—and both suggest a fundamental change in the quality (and potentially quantity, but this awaits publication of transcripts) of deliberation within the committee:

> Kohn: Ben [Bernanke] has deliberately come in and tried to encourage more discussion on the policy side ….[Moreover, following the economics part of the discussion] we often have a coffee break. [Bernanke] goes into his office by himself, sometimes he will want people to come in to talk--some staff--but mostly by himself. He [returns to offer a summary of the first part of the meeting] …then he always says everybody has said all the good stuff, and I don't have much to add but, and then he has something interesting to add ….[This is] unlike Greenspan …who would at the end of his little interesting whatever, say 'And therefore I think we need to raise the interest rate 25 basis points today'. Bernanke doesn't do that. He says 'Now I'd be interested in hearing your policy views'. He might lay some issues on the table, particularly in this … quantitative easing unconventional policy period. He would say I would like to hear your views. Now, so he doesn't lead off …. I think he's very good, he is a very smart guy, and he's very good at reasoning through his position but he also listens to people and modifies things a bit around the edges to make people feel better about being in the consensus. So, I think he does a very good job of basically having the committee move when he thinks it should move, although he listens to people and [decides] what he thinks can be modified by what people say …. It's a different meeting than it was under Greenspan, particularly in the policy part.

In our interview with him, Blinder also recognizes a significant change in Bernanke's approach to balancing the "shades of opinion" with the concern for building consensus in the FOMC, when he remarks on greater acceptance of outside speeches by FOMC members, in which they express their views::

> Blinder: Oh definitely [there is a change with Bernanke]. There was much, much less of that in the Greenspan period. There was some but I stood out as an outlier. I was once negatively profiled in *Business Week* as the 'leader of the open-mouth committee' because … you were supposed to be seen and not heard. So there was a little bit of it and you would find it sometimes but there was very little of these outside speeches and press interviews or anything like that; not non-existent but much, much less than today. There has been a huge change in members, and this goes both for governors and for presidents, but especially for presidents, latitude in just singing from their own hymnal book instead of the common hymnal book. There was a lot of peer-group pressure; it wasn't illegal or anything like that but there was a lot of peer-group pressure not to do that [under Greenspan].

What, then, can we conclude regarding the effects of both the chairman and the culture of consensus decision making on deliberation in the FOMC? Two themes emerge. First, under Greenspan's tenure, not everyone felt equally constrained either in expressing reservations or in casting a dissenting vote, so Blinder's description of the committee as autocratically collegial may be said to be compromised or less applicable, in the face of strong personalities. Second, whether we attribute it to personality, academic background, or the financial crisis, Bernanke's FOMC appears to have evolved into a forum in which deliberation is less constrained, and the differing shades of opinions among members interpreted as less of a threat to the traditional norm of consensual decision making. While it is probably too early to judge, it may be that Bernanke's FOMC is approaching Blinder's *ideal* type of monetary policy committee—that is, a "genuinely collegial committee" but still one with a "clear leader". Such a committee would be "individualistic enough to reap most of the benefits of diversity and yet collegial and disciplined enough to project a clear and transparent message"; it would allow argumentation within the bounds of committee discussion, but would be "like-minded from the outside" (Blinder 2004: 62). To this description of an *ideal* monetary policy committee, we would add that the ultimate decision reflect not simply an aggregation of preferences, models, and modes of thinking (as Blinder depicts), but also a fundamental respect for the deliberative process and the legitimacy and justification to be attained from *reasoned* decision making.

b. Congress

In our interviews with congressional staff and MCs, we asked a number of questions pertaining to the institutional environment of banking committee hearings on monetary policy. We focus here on the extent to which deliberation in these hearings is affected by (i) the quality of the chairmanship of the committee; (ii) the procedures for questioning the Fed Chairman, combined with the size of the committee; and (iii) extreme transparency (i.e., televised hearings).

i. Chairmanship

Perhaps a common sense response to a query regarding the effect of chairman's knowledge and expertise on the committee's quality of deliberation would be "it depends on the chairman". Interestingly, none of our interviewees provided us with this response. Rather, they were fairly divided on the question. Two staffers remark that the quality of the chair is not necessarily a determining factor in the success of the hearing, but they offer different reasons. One notes that while some chairmen might exceed their five minute time limit, they—like everyone else—are still allotted the same amount of time. The second staffer adds to this observation that the chairman has only limited control over the hearing, and particularly the substance of each member's questions. Hence, "if somebody wants to be a jerk, or someone wants to press an issue which had already been pressed, there is nothing at all that the chairman can do about that." In illustration, this staffer remarks that, "when Jim Bunning starts railing about socialism there is nothing Chris Dodd can do to make that a sensible discussion. It is Senator Bunning's five minutes, and he can do with it what he wants."

While Galbraith also notes that the members, rather than the chair, drive the success of the committee, in his view, the House members tend to engage the Fed Chairman more than do Senate members, given the greater committee specialization that occurs in the House of Representatives:

> Galbraith: I'm a members' person. I think if you have very good staff, if they are feeding questions to Roger Jepsen, it is a bit of a charade and everybody knows it. If you have a Paul Sarbanes, Henry Reuss, or Bill Proxmire, the staff are going to be good because they were demanding bosses. But it is really the member who can carry the line of questioning and follow up and see an opportunity or know when you want to pursue a matter past the hearing ….[To have committee members] with both perspective and independence …is fairly rare. … Sarbanes [is] an exception because he had a strong interest in this. [Members with perspective and independence] are much more likely … on the House side than on the Senate side and the reason is that the House members are much more specialized in their committee assignments. They don't serve on so many and they don't rotate on seniority from one committee to the next. So, you come up through the House system; your seniority is in the committee that you are in and at the end of your career, or a certain stage of your career, maybe you get to be a sub-committee chairman or ultimately the chairman of the committee. But you don't move as senators do from armed services to …banking and so on ….It doesn't happen.

In direct contrast to Galbraith's assessment, some staffers tend to take a different view by rating senators more highly. One staffer remarks that senators (and their staff) generally view themselves as engaged more in the broader principles of policy, whereas representatives tend to be "more in the weeds" (i.e., concerned with the lesser important details of policy).

Another set of congressional interviewees place greater weight on the importance of the banking committee *chair* in determining the quality of discussion. One staff advisor remarks that the chairman's decision to allow questions either by seniority (toggling back and forth between majority and minority party members), or by the order in which MCs arrive at the committee hearing, can allow a fair bit of control over the questioning. Another staff advisor adds to this by remarking that if the MC is a junior member, the order of questioning can matter significantly, as "all the good questions are already taken", so members tend to repeat previous questions. D'Arista comments that "whoever is chair, his interests are going to dominate the discussions at the committee level—it also depends on the sub-committee chairs, and that is important." Barratt is even more definitive, adding that the partisan orientation of the committee chair can substantially shape the nature of the hearings:

> Barratt: Absolutely [the chairmanship matters], and the direction too, not only the quality but the direction. For example, if your chairman is a guy like Barney Frank, you can expect the kind of emphasis that Barney Frank would bring to the table, whereas my first four years, I served with Mike Oxley who was a fantastic

> chairman. [As chairman] you can mould the witnesses, you can mould the testimony, you can give deference to amendments, whatever, that tend to agree with the chairman's philosophy. So …unfortunately politics does play a huge part of that. If it is a Republican controlling the committee, yes, it is going to be mostly Republican stuff coming out of it. On the other hand, if it is Democrat, you know kind of the same thing there.

ii. Questioning and Committee Size

Building on some of the comments above regarding the chair's control over the order of questioning, many of our interviewees agree that procedures for managing questions coupled with a House committee that is too large, degrade the quality of deliberation. In particular, they comment on three factors that harm deliberation within hearings: (1) members generally come and go throughout the hearing, and therefore do not know what has been already asked and answered; (2) partly owing to (1), members are unable or unwilling to adapt their questions as the hearing progresses; and (3) House members are not even assured of *any* time during the hearing when they can ask their own questions, given that the committee has grown to over 70 members.

1. Committee Attendance

On the first point, Kohn (who attended all the congressional hearings during Greenspan's tenure, in addition to the last year of Volcker's tenure) and D'Arista (who recently offered expert testimony before the HFSC) both remark on the poor attendance:

> Kohn: My observation is that there are at least a handful of the representatives that tend to stay for long periods [during the hearings]. They might not stay for the entire hearing, these things go on for 3, 3½ hours sometimes….Some of them drift in and drift out. I think there is a little more of that on the Senate side, the drifting in and drifting out. I think these hearings get boring after a while because they ask the same questions over and over, and they're just trying to get Greenspan, Bernanke, whomever, to buy into their particular concern.
>
> D'Arista: Right, yes [the HFSC hearings are not well-attended]. Part of this is technological; they can watch it in their offices. …That is how they know that it is their turn. They may not be watching it; their staff may be watching it, just to say 'OK, you better get over now to the committee, you are now two questions up' but I think it does reflect … less participation, less of a sense of the deliberative [process]. I was very struck when I was testifying that day, that senior members stayed and one or two juniors but it was a very empty room.

Our two Members of Congress provide an insightful contrast of experiences, with Bayh (whose interest in monetary policy is—as he describes—"atypical") opting to remain for most of the hearing, and Barratt (whose interest in the subject is more typical of the average member) describing attendance as more "hit or miss":

Bayh: The chairman is usually there for the duration. The ranking member is usually there for most of it, and there would be a few of us, I was among them, who would just like these issues and want to hear what [the Fed Chairman] has to say. Also, this is going to sound kind of mundane but sometimes these things can drive the process. [In] some committees, the questions are asked in order of seniority, so no matter when you show up, if you are more senior you get to ask, you have your place in line. The Banking committee and the Armed Services Committee I was on as well, they operate under what is called the 'Early Bird rule' so it is in order of when you arrive before the chairman drops the gavel, so if you arrive after that, you go to the back of the queue. … [I would usually arrive late and] that had the effect of me being at the back of the queue. So I had to sit there and listen to it all. But I found, notably listening to [the Fed Chairman's] testimony but then [also] listening to my colleague's questions and his answers really enabled me to hone my own thinking and penetrate to the heart of the matter so that I could ask a well-informed question, because you could hear his answer, you could hear where he was trying to hedge a little bit and then follow-up So the order in which the questions are asked sometimes determines who sticks around and if you are at the end [of the queue], you've got to stick around.

Now, with regard to people coming in and out that is true but that in some ways is a sign of the dysfunction of Congress in general, where people have so many things to do. If you are not sitting there listening to the proceedings, it is not a deliberative process. There is no give and take—you show up with a pre-conceived idea, you ask your questions according to your pre-conceived ideas, uninformed by the testimony or the previous questions and answers, then you leave, and so there is really no give and take and that is unfortunate.

Barratt: […*Describing his schedule as akin to* "juggling a million balls"…] so when we talk about going to hearings …you know, we are so busy and so crammed unfortunately that [attending the hearing] … is a hit-or-miss kind of thing. There may be times, whether it is Alan Greenspan or not, that in coming to your hearing, you may have two other hearings at that same time that are as important or more important than what you are dealing with right there. So, it is sometimes a hit or a miss. If it happens to be your passion yes, you are going to be there. Some people, this is what really drove them and it was part of my responsibility, but it was not a passion of mine ….

2. Adapting Questions to the Discussion

A staffer notes that members tend to come to hearings "with something in their mind and even if it has been broached earlier, and discussed at length earlier, they nonetheless ask the question that they came prepared to ask." This staffer adds that younger committee members "are at the bottom of the food-chain" and because "it is late in the day, people are tired, the hearing has gone on for hours" and their questions have already been asked and answered, these younger members "get short-shrift". Or, from a different perspective, as Barratt remarks, members often "spend their entire five minutes pontificating, and then your witness has no time to answer". He adds that, "One of the things I really tried to do is to be very short and to the point: ‘Chairman Greenspan, in your testimony you said this, what about this, and then unfortunately he would get into it a little bit and you have to cut him off and say well, ‘what about this?’ because it is amazing how fast five minutes goes [by].” These comments reinforce a perception of the HFSC hearings in particular as consisting of a series of repetitive, self-contained questions, where committee members are uninterested in facilitating a cumulative exchange of views and information.

3. Size of Committee Membership

Several of our interviewees remark that the increase in size of the House Financial Services Committee (as can be seen from our details of committee memberships from 1977-2008, in our book appendix) to over seventy members has severely hampered deliberation. One staffer remarks that because there is not enough time for all committee members to ask questions, many decide not to attend at all, and instead merely read the transcript after the hearing. This staffer adds that, before Greenspan, the hearing could last up to eight hours. But, from the Greenspan era onwards, “the Fed Chair has said that he would only come for three hours.” Simple arithmetic suggests that, even if the HFSC were to eliminate all opening remarks, three hours would allow just 36 members to question the Fed Chairman.

D’Arista, who served as a House staffer in the 1960s and 1970s, relays her experience when she recently returned to offer expert testimony before the HFSC, noting (as have others) that the increased membership reflects the committee’s benefit to MCs as a “cash cow”:

> D’Arista: I was very shocked when I walked in to testify in November 2009 to see what had happened to the Banking Committee’s room in the House side. There were now 74 members, and someone I knew in the audience came up to me and he said ‘Paul Nelson would never have allowed this—you get beyond 49 and you can’t have a deliberative body’. That was absolutely true but all of the young members who had come in wanted to be on the Banking Committee because it was a source of funding. …[Expansion in membership occurred] as more Democrats came in and wanted to be, and were put, on the committee deliberately. I’m going to say something that is commonplace. I mean Rahm Emanuel sitting there in the White House, and sitting in the Congress at the time and very close to Nancy Pelosi, said ‘the way we keep getting these people elected is if we put them on the Banking Committee because they can get the funding’. ..[So they] really ramped up the membership of the committee.

D’Arista is correct to note that party strategies to exploit the campaign contributions accruing to HFSC members is commonplace knowledge, as evidenced by news reports of increased contributions to these members in the midst of legislation on new banking regulations following the financial crisis—particularly for members from marginal, or swing districts. Following the 2008 election, leaders of both political parties are said to have assigned 11 of the 24 new members of the House of Representatives “who won their seats by the narrowest margins" to the HFSC. "Now, as they consider the broadest rewrite of financial rules in decades, those members are getting money from donors such as the American Bankers Association, Citigroup Inc. and Visa Inc." (Jensen and Salant 2009, April 17).

While the ratcheting up of its membership is a more recent phenomenon, its dubious reputation as a "cash cow" for MCs has a longer history, and is associated with occasional corruption scandals, as Galbraith describes:

> Galbraith: The Banking Committee was already developing its present reputation as a cash-cow [in the 1970s], and for a great many members, and particularly this was true of liberal members, the way you financed a congressional career as a liberal, as a liberal on the side of the Vietnam war, or on social issues of various kinds, civil rights, women's rights, was to be in your Banking Committee function, was to be a faithful representative of the constituent banks, many of whom took their cues on what they wanted from the Federal Reserve. …So you could be a good liberal and have a very strong reputation as a liberal Democrat but still have a pretty well-funded campaign because the banks in your District felt you were a reliable ally…. I'm talking about the Democratic side…There was openness to corruption in this too. The career of Fernand St. Germain being a classic example of that and ultimately this would lead to the bi-partisan agreements on deregulation which led to disaster. …Just as that transition was occurring, and St. Germain became the Chairman of the Banking Committee, you've got the Reaganite takeover and you've got the placing of aggressive deregulators in top regulatory positions. Then you've got the Monetary Control Act of 1980, which among other things, raised deposit insurance limits to $100,000 and in other ways opened up the floodgates for these bidding wars over bank deposits and speculative activities in the Savings and Loans debacle, and of course that was very much with a strong element of corrupt interference, notably by the majority leader who became Speaker, Jim Wright.

iii. Transparency

Clearly, televised coverage of the congressional hearings on the Fed's Monetary Policy report is a well-established tradition.[5] While for the FOMC, transparency of the decision making process has been an on-going controversy between the Fed and Congress, for the congressional banking committee hearings, it is an institutional norm. One ironic effect of the heavily televised oversight hearings is that it appears to have shifted at least some of the "real" deliberation outside the hearings themselves. Our interviewees comment that if one is interested in finding "real" deliberation on monetary policy in Congress, it is not found in the high profile congressional hearings, but rather elsewhere, for example during lunches (as Lindsey describes of Senator Corker, above). A staffer remarks that important deliberation on monetary policy is likely not to happen in committee meetings but rather in "hallway conversations, staff briefings, and weekly meetings of same-party members of the Banking Committee". As this staffer also concedes, no minutes or notes are taken of these meetings and so they are in no way "transparent" or available for public scrutiny.

So, while the hearings themselves may be entirely transparent, it is not at all evident that "real" deliberation in Congress is equally as transparent.

Indeed, Poole argues that, because extreme transparency in the congressional hearings has shifted real deliberation outside the hearings, the actual record of decision making is more transparent for the FOMC than it is for Congress, in part because the minutes of the FOMC function as a "check" for the transcript:

> Poole: The FOMC deliberations … are obviously confidential but the transcript is released with a 5-year lag. And the transcript is a very complete record of, well, it is a verbatim transcript, there are a few things which are excised as you will know, redacted, but it's a pretty complete record. One difference between the two institutions that you are talking about is that for the congressional stuff, a lot of the main decisions are taken in the offices, and are confidential, and they are never exposed unless somebody writes about them. …My sense was that the transcript was quite accurate, and I used to say any number of times when reviewing the minutes, that the minutes have got to be true to the transcript because in five years the transcript will be published and at some point somebody is going to compare the transcript to the minutes that are eased with what, a three-week lag, but I just point that out as a preliminary observation.*[CSB: So what does one do about this from a research perspective?]* One thing you do about it is you simply make note of it so that the reader understands that the key considerations from the congressional point of view are simply hidden whereas there is much more in the open for the FOMC stuff.

But, what are the effects of extreme transparency on deliberation *within* the hearings themselves? We prompted our interviewees with the question of whether, having the intensive media focus of the monetary policy hearings, committee members were tempted to "grandstand"—i.e., take a public position with the primary intention of speaking to one's constituents—rather than to participate in any deliberative discussion. We pointed to YouTube videos of Bernie Sanders and Alan Grayson as examples. All of our congressional interviewees accepted grandstanding as natural element of the oversight hearings, with some adding more names to our list—e.g., Ron Paul, Chuck Schumer, and to a lesser extent, Maxine Waters. Barratt remarks that heavily televised monetary policy hearings are both "the best and worst thing in the world":

> Barratt: I mean, it is the best thing because the average person can tune in if they so choose to do so. I think I would rather watch grass grow, but you can watch what is going on in the hearing, and be very well-informed about the policy, the hearings, the issues. But unfortunately, on the down-side, it does give each and every Congress-person a tremendous way to 'grand-stand' and that unfortunately happens all the time but I do think that is a very fair assessment.

D'Arista comments that new media outlets have increased the opportunity to exploit the media presence at the hearings:

> D'Arista: Yes, I think it was always there but it was not, it could never have been as great until the present time when we have You Tube and all of this going on. I mean it just has ramped up the situation tremendously, and given someone like Grayson who was a one-termer after all a sort of a huge position. It didn't mean that he would get re-elected on it but at least he got a lot of attention and he asked some very good questions. He did his job.

By "doing his job" D'Arista sets the tone for many of the observations from congressional staffers, one of whom notes that "speaking to the cameras" is simply a reflection of the committee hearings being "closely linked to what is going on outside of Congress. What is of concern to the public is reflected by MCs in the hearings—it is all intertwined". Another says that committee members have real concerns which "they don't get much of an opportunity to raise, and they take advantage of the fact that these hearings are unusually well-attended by the press, to press those concerns." Even if committee members take what appear to be offensive and/or extreme views, "one should not confuse being annoyed at the persona of folks who have a hobby-horse with the fact that hobby-horses are a perfectly legitimate thing for someone who has a serious interest in these issues to have."

Whereas for some committee members with specific and on-going concerns (e.g., Grayson with governance and democratic accountability), grandstanding may afford an opportunity to raise the public profile for these concerns, for other committee members, the cameras are more a means of raising one's own recognition with constituents back home. This fleeting recognition may serve a political purpose, but it does not contribute to effective oversight, as Barratt astutely notes from his own experience:

> Barratt: To do correct oversight, especially on an issue that is as important as monetary policy, you have got to have members that can spend the time, that can roll up their sleeves and get more involved coming in. Getting the attention of the chairman, asking your little question, and then you are gone, because you are playing to the cameras, you want to make sure constituents back home [are saying] 'There is Gresham, I saw you'. You ask your one question, and you were thinking about ten other things when you did it, and then you were gone. So, having some dedicated time is extremely important.

From these responses, one is left with a somewhat jaded view of the merits of heavily televised congressional hearings on monetary policy. Although for a dedicated few, the cameras may allow a higher profile to push substantive policy concerns (which, notably, may or may not pertain to monetary policy), for others, the cameras merely serve as a instrument of self-promotion. And, even more damaging, the intensive media coverage diverts at least some of the "real" deliberation to backroom venues, thereby potentially making claims to "government in the sunshine" a sham.

VI. Textual Analysis Findings: Do They Make Sense to Participants?

a. FOMC

As can be seen from Table 2, we queried FOMC participants on five specific findings that pertained to our textual analysis of the FOMC transcripts: (i) the lack of references to "politics" or political influence; (ii) the tendency for bank presidents (not governors) to talk about money and monetary aggregates; (iii) the apparent shift in discourse over time, with presidents playing a larger role in deliberation on the policy decision in the late 1970s/early 1980s, but by the later 1990s, governors taking this role, leaving presidents focusing more on the state of the economy; (iv) a tendency over time for all the members to focus their discussions more on the data and state of the economy and less on deliberating the policy decision; and (v) no explicit discussion of key tools of economic theory, such as time inconsistency or the Phillips Curve. We address the responses from interviewees to each of these findings, in order.

(i) "Politics" or political influence in FOMC discussions

None of our FOMC interviewees were surprised that we found no evidence in the transcripts to suggest that members were cognizant of political pressures on the Federal Reserve, but they offered different reasons for this. One group argues strongly that because the Fed really *is* independent of politics, FOMC members behave accordingly. Part of this behaviour may, however, reflect (a) norms of etiquette within the FOMC meeting (Blinder); (b) that political pressure—should it exist—would be more likely to be felt by the Fed Chairman, *outside* the FOMC meeting itself (Broaddus); or (c) that politicians are sometimes tempted to exert pressure on the Fed, but dissuaded by their advisors (Rivlin). And, Minehan notes that where monetary policy intersected with fiscal policy, political considerations may have influenced the discussion—but perhaps not to the extent that our textual analysis captured this.

> Hoskins: Members believe that the Fed is independent of politics and tend to behave that way. Some members may have tempered their statements with political considerations in mind, particularly when political critics were aggressively outspoken. They did this not to help a party but to protect the independence of the Fed. …The lack of discussion at meetings about political pressure is because there was rarely any direct pressure put on members by political agents.

> Blinder: One of the things that I found most gratifying when I went from an outsider to an insider is that what I thought might be part-myth about the apolitical technocratic nature of Federal Reserve decision-making was more or less correct. It is very non-political so it is not just that it's not polite to say these things and you don't want to put them on the tape, but people for the most part really felt that way, that politics should not enter the room. … Talking political was like slurping your soup. It was just very impolite; you weren't supposed to do it. Even if you had political thoughts, you were not supposed to voice them.

> Broaddus [Political influence] was never very prominent in my view, and I think this one of the great strengths of the Fed. Keep in mind that I wasn't the chairman. Obviously, the chairman is in contact with the political authorities. The treasury secretary, you know, typically meets with the Fed Chairman once a week so he's fairly exposed to those kinds of pressures to a far greater degree than a Reserve Bank President like me would have been….. I never experienced that and I didn't sense it.

> Minehan: Frankly, we never talked about that…. The minutes correctly reflect the fact that we took it as a matter of obligation that we voted on the basis of our understanding of the economics, and not the political cycle, so you know I have always wondered about this extreme focus on 'you can't do this because this is happening in Congress, you can't do that because that is happening, an election, and this and that'. We just did not talk about that….unless of course it was something that had both economic and political implications, you know, the fiscal deficit issues that clearly has both economic [and political implications]. If the Congress is really going to tighten fiscal policy, well, monetary policy has to take account of it and vice versa.

> Rivlin: No, you didn't even think about [political influence]. The culture of the Fed was 'we don't do that; we do what is right for the economy'…. I never saw this in the Fed at all, [but] I did see it in the other side because I was in the Clinton administration in 1994 when the Fed was raising rates. …They were worried about inflation creeping up and so they raised rates in 1994 quite aggressively and Clinton was upset about it. He thought they are going to derail our recovery. …In the meetings in the White House, people like me and Alan Blinder, and others, Laura Tyson, the economists, were saying 'Mr. President, don't say anything'. He wanted to talk about it, he wanted to say this is bad, go out publicly and we were saying 'no, no, that is not a good idea', and he didn't. …We certainly thought it was inappropriate for a president but also that it might even backfire and that we had better let the Fed do its thing. But that is the only time I ever encountered that issue, [and] that was from the other side.

Broaddus adds a further, more nuanced, observation on measuring the influence of political pressure on the Federal Reserve, which points to the limitations of models which fail to consider the actual decision making process (and conversely, illustrates the value in adding contextual insights from interviews to textual data analysis). He argues that FOMC members (particularly prior to the emergence of the low inflation consensus) may have behaved as though they were following the political business cycle, when in fact this was not at all their intention:

> Broaddus; The individual members of the FOMC might have behaved in a way that is consistent with a political-business cycle simply because that's the way they view the proper function of monetary policy, you know, resisting weakening of the economy. Although … we have a consensus now [which] I think it's pretty strong, that the Fed's principal objective is price stability, despite the dual

> mandate, mainly because that's the way you get both of the mandates met. But that was not always the case. ….[In the earlier period, when credibility was not a consensus…] … there were people who were much more interested in fine-tuning the economy, and actively, we called it 'activist policy'—[i.e.,] reacting to what was happening currently and maybe in the expected near-term future and letting that be the main driver for their monetary policy preferences. I can imagine that people in that group would behave in way that might make it look like they were responding to political pressures when they weren't actually doing that.

Others place a greater weight on the role of politics, but predominantly at the level of the Fed Chairman—and only during the Burns (and possibly Martin) chairmanships. Hoskins, Blinder and Lindsey comment that during these previous chairs, the Fed *was* more influenced by politics. Hoskins notes simply that "in earlier days, two Fed Chairmen did react directly to the president. Martin and Burns." Blinder characterizes monetary policy in this earlier period as more partisan (though also notes its possible resurgence in the aftermath of the financial crisis). He remarks that "the old-fashioned Republican-Democrat division" in terms of emphasis on inflation versus unemployment "may be coming back now". But,

> Blinder: … if you look historically, the Republican Party and its predecessors going back to the Federalists in America were much more anti-inflation and much less worried about 'full employment'. We didn't have that phrase back in the old, old days, you know, and the Democrats [were] conversely much less worried about inflation if not indeed at some periods of time favouring inflation, and much more worried about growth and employment. That ended around Reagan, and there ceased being a political difference on the short-run trade-off between inflation and unemployment around Reagan's time. As to the political-business cycle, as to trying to juice up the economy before an election, other than the Fed under Arthur Burns, … the Fed just didn't do that.

Lindsey explains that "it was the Carter experience that really galvanized the Board and created its political independence, because Carter and his manipulation of monetary policy was such a disaster. [Hence] the Board was able to assert itself as independent of the political institutions."

Another group of interviewees (Jordan, Axilrod, Kohn, Poole) does not disagree with the first group, but their general assessment is that politics may matter in a more subtle way for the Fed, namely in terms of constraining the FOMC to "lay low" around election-time:

> Jordan: There certainly would have still been some amount of reluctance to talk about proximity to an election in the influence of a decision though I'm sure that all of us were aware that if we didn't move in the July or August meeting, it was unlikely we would move in the September-October meeting, immediately before an FOMC [meeting] if it was in a tightening direction….

> Axilrod: It was generally accepted that … about three months before an election you didn't want to change policy. Now, one of the Chairmen, Paul [Volcker] actually, was quite proud of the fact that we raised the discount rate within a month or two of Carter's second running.

> Kohn: I think what I've seen on the political-business cycle with respect to the Fed has said, they try and stay out of the limelight near elections, and I think there may have been some of that going on. So if we can avoid being in the headlines in September and October, then let's do it. I think there was a little of that but you know that wasn't about favouring one party or another, it was about protecting the institution.

> Poole: The Fed tried very, very hard, and I believe on the whole has been quite successful to be apolitical… On occasion, I might have said something to the effect that 'We need to be aware, let's say in the spring-time, we need to be aware that it's going to become increasingly difficult as we come up to election time to make a decision, let's say, to raise rates, or whatever it was'. And I was usually beaten back by others on that: 'no, we'll do what we have to do'. …The Fed does not want to rock the political boat if it can help it …. I think it would be quite rare for the FOMC to act in September ahead of the November election. …The Fed tries to lie low before an election, it doesn't want to attract any, it doesn't want any visibility at all. …The major exception is 1980, and Carter was so weakened and Volcker was so determined to re-establish Federal Reserve credibility, that there were very sharp interest-rate increases.

Two final remarks by Kohn and Reinhart point to one further subtly with respect to the influence of political pressure on the FOMC—namely, with the acceptance of the low inflation consensus, political influence was simply less relevant to the formulation of monetary policy:

> Reinhart: [The] political aspect of monetary policy was essentially the thing that should not be said and it was understood as that. That it was just not done in that environment. [Think of] the example of the billiards player, who doesn't need to know geometry, he just needs to know how to play billiards. The fact that they haven't worked it out and explicitly said it doesn't mean that it is not done internally. So I don't have a lot of trouble rationalizing the two. The fact that they might not have talked about [politics], doesn't mean that it wasn't an influence. Part of it is clearly the great moderation… For the 1983-2005 [period] they weren't really significantly tested by events, so in some sense it is just not informative, but clearly there is an ethos that you don't talk about politics…

> Kohn: It is certainly the case that I have hardly ever heard a political dimension. I can't recall any case where someone was overtly bringing political inclinations to bear on their monetary policy decision…. I can only recall a couple of occasions where someone would raise a criticism of the incumbent administration and someone else would jump to their defense But even that kind of stuff was very,

> very rare, so politics didn't really enter into it … particularly as inflation came down and the consensus was, [that] low, stable inflation was a contribution the central bank could make to stable growth, there was less reason for all that [i.e., politics].

(ii) A Focus on Money and Monetary Aggregates by Bank Presidents

Our question concerning the tendency of Research Bank Presidents to focus on the topic of money and monetary aggregates elicited four types of responses. First, some simply accept the finding as according with their own experience, and offer little in the way of comment (Rivlin, Kohn). A second group reason that the finding reflects a period (1979-1999) during which the serving Reserve Bank Presidents had greater expertise in economics than did Board Governors. This expertise was further aided by a large discrepancy in staff resources, with the former enjoying reasonably large research departments while the latter had virtually no support staff. On the first point, Hoskins remarks, that "most governors were not PhD economists and felt more comfortable with ad hoc discussions of the economy." On the second point, Lindsey, as a Board Governor, declares that "I *was* support staff for me!" Jordan and Poole go on to expand upon both points:

> Jordan: For the period you are studying, the presidents were for the most part economists, picked by the directors of the reserve bank because of their views on inflation principally and on growth, the factors that created growth. So the selection process was biased in favor of economists who had gained a reputation for certain kinds of approaches to macro-economic issues and to be more in the direction of what we would call hawkish on inflation. Some of those governors that carried over the 1970s often didn't know any economics at all. The process of selecting governors [entailed selecting] somebody that was a banker, or a campaign contributor, party chairman, or somebody that needed to be rewarded ….That had happened occasionally with presidents but by the period you are looking, from 1979 on, that was not so much of a factor. Even those that came in say from Wall Street, or from the private sector somewhere, tended to be pretty solid in their determination, [and] ridding the country of inflation was the top priority.
>
> Also, each of the presidents had a minimum of a dozen economists, often career staffers at the reserve banks that had devoted a tremendous amount of time into studying the issues of the way the FOMC works, the way monetary policy in other countries works, and the issues of inflation. Most were well-versed in all the literature of the so-called Philips Curve and the notion of a trade-off …. So even Reserve Bank Presidents that came in with little academic background in economics or were staffers within the reserve bank and [were] elevated to president …tended to be surrounded by a staff of pretty solid people, and that influenced them going into an FOMC meeting.
>
> The governors were, by comparison, quite handicapped. Except for the Chairman, there is no effective staff for a member of the Board of Governors, and so if they came in as a trained economist, like a Larry Meyer or an Alan Blinder

> or something, they could certainly hold their own at the table with anyone. They had been doing it in their academic lives whereas the other governors were severely handicapped, as they were really on their own. No staff, maybe no background, even if they were trained in economics they sometimes had not practiced as academic economists, and experienced in give and take with other economists and arguing things, so it was kind of hard to know what to expect from them.

Poole agrees that the greater professional expertise of Reserve Bank Presidents vis-à-vis that of governors helps to explain the difference, but he adds to this the longer tenures of presidents as also enhancing their expertise and experience relative to that of governors, and intriguingly, he offers a number a reasons for why governors leave their positions prematurely:

> Poole: The bank presidents almost always had a much longer tenure. If you look at the average tenure of members of the Board of Governors, putting the chairman aside, you'll probably come up with four years or something like that…. It's pretty short. There's a lot of turnover at the Board of Governors whereas the bank presidents would often be in office for …12 or 15 years so the reserve banks in a way provide institutional memory for the Federal Reserve. And [from them] you have people on the FOMC who can talk from first-hand experience about what happened, something that happened ten years ago, or fifteen years ago. So that's one difference that I think is pretty marked and is a source of considerable strength to the FOMC that you've got people who have that long experience.
> [*CSB: Why is the turnover higher for governors?]* Why is it higher? I think it is higher for a couple of reasons. One is that the pay is a lot lower. … Oh yes, the pay is dramatically lower. …The Bank Presidents are paid a good bit more, not anything close to what is paid in the private sector, but still a lot more than the Board of Governors. That's part of it; another part of it is the members of the Board of Governors often take those employments, I'm sure quite explicitly, with the idea that they will spend a few years there and then they will go out, and having had that experience and having added that to the résumé they can make a lot more money. A third thing is, I think many members of the Board of Governors come in and end up being a bit disillusioned by the experience, and how much influence they actually have. I'll give you an example ….Henry Wallich was a distinguished academic at Yale University, who was appointed to the Board by Nixon. I remember talking with him a few years after he was appointed, and he said '99% of this job is worse than grading exams'. That's what he said, and the reason was that the Board of Governors [had] a tremendous load of stuff that they have to do. Back in that era, the Board had to OK every single merger application. I think they also had to approve the opening of new branches on the corner of Market and Main Street …The law was subsequently changed …but they have an enormous load of courtesy visits. There are fifty state banking associations in the United States; every one of them sends a delegation to Washington once a year.…They want to go and visit the Board ….There is a steady stream of foreign visitors who come through ….So you've got a steady

> stream of luncheons and meetings. That's really not all that interesting but you've got to do it, it is part of the job. …I think a lot of people get worn down by that, and [hold the view] that 'I don't want to spend any more years of my life doing that stuff'.

A third type of response focuses on the institutional differences between the Board of Governors and Reserve Bank Presidents. Reinhart, for instance, agrees that bank presidents and governors have different backgrounds and expertise, but he argues that the contrasting selection processes for each gives rise to differences in their economic perspectives:

> Reinhart: Historically, it is important [to consider] the selection process, that governors tend to be drawn, among the economists … from the narrower set of policy 'wonks' [that is,] …people who believe in models and believe in a fairly traditional view of the monetary transmission mechanism. …It is the Council of Economic Advisors and the Treasury that draw up a list of potential candidates, so economists are asked to come up with a list of candidates. In boards [of reserve banks] … it could be bankers coming up with a list of candidates. …So, if it is a bunch of Washington economists sitting round saying 'Who do you think would be a good governor?' the odds are the list is going to be filled with people who more [often] than not believe in the Phillips Curve, who believe in a narrow channel of monetary policy that works through interest rates. If it is a bunch of bankers that [are seeking] … a different strain of economic thought, you could wind up with a different outcome.

Lindsey offers another institutional perspective, but one that focuses more on the nature of the requisite duties of each job:

> Lindsey: Again this is institutional. The balance-sheet of the Federal Reserve sits on the member banks' balance sheets, meaning the 12 districts' balance-sheets, so these guys really cared, because they are the Chief Executive Officers who sign off the integrity of the balance-sheet, so part of it is that is part of their job.
>
> Presidents have small corporations that they have to manage out there in the real world …so they have got other obligations.
>
> For members of the Board, we were all on other governing committees, supervisory and regulation. The one I was responsible for was Community and Consumer Affairs, and that was most of my job …. This is the committee that no-one wants to be in charge of, because it was fair lending, and community re-investment, and anti-discrimination laws.

Broaddus offers a fourth perspective on the finding—namely, that over time, the regional reserve banks tended to follow the lead of the St. Louis Fed in growing their research departments, and so the focus on money and monetary aggregates by presidents simply reflects the enhanced research staff serving them. This also had the effect of building the prominence of the relevant reserve bank, so that when its president spoke at the FOMC, he would have "more weight and credibility":

> Broaddus: [In the 1950s and 1960s] the reserve banks were not very influential. … I think it was mainly dominated by the governors in Martin's years, and in Burns …. It seemed to me that it was St. Louis that really broke that. St. Louis went out on a limb and I think Burns didn't like it. They challenged him and I think he pushed back some. … St. Louis was really the leader in that. Minneapolis is another bank that began to really get serious about research. They had this long-running relationship with some very good economists at the University of Minnesota, a good department. We [the Richmond Fed] got into the act fairly early on, and I think built a strong research department, so in a sense, maybe some of what you are observing there is the strengthening of the research efforts of the reserve banks. That's a good way to put it. I think it may well be the case that the governors were dominant in the sixties, and early 1970s as a group. But that balance began to change and become more equal over the years that I was there. *What happened was that the reserve banks made a point to build their own credibility by getting their research staff stronger so that when the president said something at a meeting it would have more weight and credibility. … I would hammer that point.*

(iii) *The Apparent Shift in Discourse Over Time: Presidents vs. Governors*

We asked our interviewees for their views on our finding that presidents tended to participate relatively more in the deliberation on the policy decision in the earlier period, while in the later period, it was governors who focused more on the policy decision, leaving presidents to focus more on the state of the economy. Many of our interviewees were somewhat puzzled by our finding, which raises some doubt as to its robustness. A first group implicitly suggest that it may simply be a spurious result, reflecting no more than a change in the nature of the identities and backgrounds of the members at the time. Hoskins, for example, thinks that the result emerges from the "mix of members with respect to training" in economics; for Broaddus, it is more from "a random impact of personalities on the Board as distinct from presidents" than from any "systematic institutional difference between the behaviour of the governors and the behaviour of the presidents; and for Kohn, it is quite simply from "the people involved, the particular folks who were occupying those seats at the time." These assessments certainly cast into doubt the weight that we should place on this finding.

Reinhart and Poole do, however, suggest a possible explanation for this finding, namely that it may reflect the nature of the chairmanships of the FOMC:

> Reinhart: It has got to be chairman-specific. Chairmen over the years have viewed themselves as holding different roles. William Miller brought in the egg-timer and thought his job was to facilitate the discussion. He viewed himself as among everybody who was at the table. Paul Volcker's policy decisions were made in his office…. Alan Greenspan and Ben Bernanke are economists and like talking about that stuff. I think probably part of it is also how much the governors felt that they had already talked about those things, and so the briefing documents got

> more complicated over time. You know, the Green Book and the Blue Book had all sorts of policy simulations and alternatives, and so governors would have discussions with staff in their office before the meeting, the pre-FOMC meetings. My bet [is they were] more involved in those sorts of things. So they had already talked about [that], they had already signalled. So the only contribution in terms of an economic discussion would be was there anything heard out there in the regions? And the Bank Presidents would be relied on to talk more.

Reinhart thus suggests that as more of the economics discussion occurred among the governors prior to the FOMC meeting, this left them wanting to hear more from the presidents about the state of the economy in their districts during the meeting itself—which accords with Rivlin's earlier remarks that she went to the FOMC wanting to hear what the presidents had to say.

Poole's slant is more specific to Volcker's chairmanship, and suggests at least an implicit alliance between the bank presidents and Volcker, which may have enhanced their relative contributions to the policy discussion in the earlier period.

> Poole: Volcker had a tremendous amount of opposition on the Board. … The Board was mostly opposed to Volcker, [but] …Volcker had a tremendous amount of support in the FOMC because the bank presidents were with him. And yet … Volcker had to contend with a Board that simply was not at all sympathetic to what he wanted to do, feared the consequences of tight money, did not think that bringing inflation down was worth the cost and so forth. So my guess is that Volcker knew of the opposition on the Board and probably… found some comments of Board members indicating that they were not on board but they didn't make a big deal out of it, whereas the bank presidents were probably quite clear on the whole in their support of Volcker.

Taken together, Reinhart's rationale for the increased focus on the state of the economy by the presidents in the later period, coupled with Poole's rationale for Volcker's reliance on the president in the earlier period for his policy decisions may together offer a coherent explanation for this finding. Or it is possible that, as our first group suggests, the finding is a spurious one. In any case, we can only conclude that our interviews have not dismissed the plausibility of the finding, but they have raised some doubts as to its robustness.

(iv) *An Overall Decline in Deliberation on the Policy Decision by FOMC*

Our interviewees had probably the most to say (and hypotheses to offer, with some interviewees offering multiple ones) on our finding that over time, members of the FOMC tended to deliberate less on the policy decision and focus more on discussing the data and state of the economy. We prompted our interviewees by offering two hypotheses of our own for this finding: (1) it may reflect Alan Greenspan's well-known tendency to focus on data and the state of the economy (thereby prompting other members to do likewise); and/or (2) the increasing acceptance of the low inflation consensus may have led to greater consensus on the objectives and tools of monetary policy among committee members (thereby lessening discussion on uncertainty and alternatives surrounding the policy decision). Some of our interviewees reckoned that one or both of these hypotheses offered sufficient explanation, but many others developed their own variants of our hypotheses or offered entirely new ones.

1. A Data-Driven Chairman

Greenspan's attention to economic data is well-known, as he describes himself quite explicitly (Greenspan 2007), so this hypothesis resonated immediately with many of our interviewees: "Chairman Greenspan really liked talking about economic data" (Reinhart); "That is what [Greenspan] really loved and what he really liked to get into. It was astounding to me (Axilrod); "He was, and is still, a master of data so he did bring it to bear and I think it maybe gave us all greater comfort to get into the data-wheeze a little bit more (Broaddus); "He just loved those sort of off-beat macro-economic things. 'Did you know that the relationship between this variable and that variable had changed dramatically over the last six months?' …He was suddenly fascinated by something that might or might not have some relevance to macro-policy or to monetary policy" (Rivlin). She also notes that Greenspan reflected a larger economics discipline that had become more "data-oriented over that period".

Kohn adds to this explanation his own variant—namely that because Greenspan had "proven himself to have better analysis intuition over the economy" members tended to defer to him, and consequently arguments and discussion concerning the policy decision "withered away to some extent":

> Kohn: Greenspan became more and more dominant over time in part because he was right on [a number of things], particularly through the 1990s, and certainly on the productivity surge issue and a lot of other people were wrong. So when you have this guy who has proven himself to have better analysis intuition over the economy over a long period of time, I think there is a tendency to defer to him. So … the policy discussions at those meetings withered away to some extent in the late 1990s. …The way [Greenspan] handled these meetings [was that] … he formed a bridge between the economics and the policy discussion and he would give some wild idea about what was going on in the economy. [It] would seem wild but was more often right than wrong, and then he would say 'I think we should do such and such'. Bill McDonough would be the next speaker always, and he would say 'I agree with you, Mr. Chairman', so and then there was no discussion to speak of often, at least I'm sure that is what you are seeing in the transcripts. So I think this is partly the Greenspan dominance because he was right.

2. The Influence of Ideas

Our second hypothesis lends weight to the role of ideas (namely, the emerging low inflation consensus) as the explanatory factor for declining deliberation on the policy decision. Kohn and Reinhart add to this a contextual factor—namely, that as the low inflation consensus evolved and as price stability became more embedded, the decisions became easier. Conversely, when inflation was high and the transmission mechanism less certain, policy decisions were more difficult and more contentious:

> Kohn: In the earlier period, the situation was much more difficult. …You had started with this very high inflation period and getting that down, that was very painful, and [led to] a big recession. The kinds of choices that needed to be made were harder … so I can understand why the policy discussions in the late 1970s and early 1980s were more intense. Everything kind of settled down in part because of the actions those guys took, in large part to get inflation under control but that was a very difficult period for the nation, for the global economy, and certainly for the committee trying to figure out what to do, so [the result you find] is not surprising.

Reinhart comments that "the Great Moderation [of the 1990s] was associated with low variance of a lot of things including the discussions at the FOMC meetings. When the world is going to hell in a hand-basket [in the 1970s or during the financial crisis], they have a much broader range of things to talk about."

Most of our interviewees seemed to accept the low inflation consensus as a background factor, but some tended to offer more explicit ideas that may have lessened the policy deliberation while enhancing the focus on economic data. Hoskins, Broaddus and Poole note that the prevailing economic models had changed, thereby shaping the discussion among FOMC members:

> Hoskins: I believe it had to do more with the adoption of gap models by staff economists in the early 90's. Those models and Taylor rules focused the discussion on potential GDP versus actual [GDP]. Monetary aggregates are not part of the discussion with these models.

> Broaddus: When I first went into the Fed and started going to FOMC meetings in the early 1970s that was the heyday of the monetarist/Keynesian debate …when Milton Friedman's influence was just beginning to be felt. You had people in the Federal Reserve like Jerry Jordan. He wasn't a bank President but he was working in St. Louis and he was the leading monetarist and so [Monetarism and Keynesianism] … were actively debated and that spilled over into FOMC meetings. Now …eventually that debate goes away. …[In the 1980s] all the interest rate deregulation made it much more difficult to measure the relationship between the various M's that we used to use to understand economic activity. …So there was maybe less discussion of the policy differences of opinion …and more focus on just the state of the economy … [but] I don't want to overdo that because as we get into the 1990s there were still very meaningful debates about policy ….

> Poole: I'll throw out another hypothesis for you. The academic work in the 1970s clearly had a major effect on the thinking of the individual members of the FOMC

> before Lucas and Sargent, John Taylor, before the rational expectation analysis. There was a lot of confusion in macroeconomics …. So the rational expectation revolution took hold not instantaneously but over a period of years and you had people coming into the FOMC who had …adopted those ideas and those ideas emphasized the importance of great clarity in the policy decision and transmission of information about that. Then the logic of it is that, to make the policy decision correctly, you needed to know as much as you could about the state of the economy. The earlier view was much more from an optimal control framework and the Board of Governors staff actually [put an] extraordinary amount of resources into optimal control models. The problem with those models is that they [paid] … almost no attention to the role of expectations in the private sector about what the central bank was going to do. And there was also elaborate modelling, very computer-intensive, and it was driven by guys who had a very high degree of technical competence in constructing elaborate computer models, stochastic simulations and stuff like that, whereas the later emphasis was much, much more in both the academic work and the policy discussion on the expectation in the private sector about what the Fed was going to do. So …I think you would find a lot more discussion about expectations, extracting private sector expectations from the data, that became particularly clear when we had trading in the index bonds; before that in terms of inflation expectations, you had various surveys so I think you would find over time substantial increase in the attention paid to the role of expectations, and what those expectations are or what they were at any particular time.

3. Changing Institutions and Procedures

Our interviewees offered three distinct hypotheses that we had not previously considered—namely, the effect of changing institutions and procedures within the FOMC on the committee's deliberations.

The first hypothesis emerges from the 1994 development of the immediate post-meeting announcement of the committee's policy stance in a press release (rather than simply signalling the decision to the trading desk). In a lengthy email following our interview, Jordan provides the contextual backdrop for this change, humorously remarking that "this very significant development was an historical accident and all the fault of the British". In Jordan's telling of the story, Greenspan's attendance in London for a special event to celebrate the Bank of England's tercentenary –conflicting with a critical FOMC meeting—prompted the new procedure, which was not intended as a precedent but nonetheless became one.[6] Kohn points to these press releases of the policy decision as having the effect of reducing the discretion of the chairman during the intermeeting period to take action without a conference call among the FOMC members. Hence, with less scope for discretion by the chairman in the intermeeting period, the knock-on effect may have been to lessen deliberation within the FOMC meeting itself on defining what would previously have been the agreed boundaries for the chairman's discretion.

> Kohn: I do recall long discussions that Volcker would have with a handful of other interested members of the committee at the end of the meeting about the wording of the [unpublished] directive to the New York Fed…. This really was about the instructions the committee sent to the New York Fed in a very un-transparent way to the general public. Through part of the period there was a considerable amount of leeway in those instructions to have things changed over the intervening period with regard to interest rates in particular. That was partly because we were operating on a money supply target and the money supply was supposed to dictate the interest rates. So you needed scope for interest rates to move around but there was a lot of discretion for the chairman to do inter-meeting changes, and that has faded out over time. I think the last one we did that wasn't in the middle of a crisis was in 1994. So a lot of the members of the committee who were very sort of aware of what was going on and why it was important engaged in some pretty long discussions of exactly how to word that directive and it wasn't so much about what they were telling the New York Fed, it was about what they were telling the chairman—e.g., what order should words come in. There were 'woulds' and 'mights' and …those were all signals really to the chairman from the committee, even though it was framed as signals to the Desk about inter-meeting changes in the Federal Funds Rate and under what circumstances those could be made. All that's faded so there is no need for that complex discussion on inter-meeting changes ….

Jordan offers a second institutional hypothesis—namely, that as bank presidents increasingly sought ways to challenge Fed staff forecasts and persuade other FOMC members of their arguments, they tended to employ more anecdotal evidence from their districts (evidence, which Greenspan welcomed and encouraged)—thereby giving greater weight to discussions of the state of the economy in the overall meeting transcript:

> Jordan: I think it reflected Greenspan's interest [in] … the regional reports and anecdotal information … and it took up more time in the meeting just because there were twelve of us from the hinterland …. I certainly was very conscious and deliberate in seeking out little anecdotal stories from [meetings of boards of] directors and others as I travelled the district or brought them into meetings that would help me to build a case for something or other in an FOMC meeting. It was a slow process, it was cumulative. I didn't expect to go in and affect the decision of any one FOMC meeting by doing this but I thought that over a period of time if I built on the consistent theme, as reflected in the anecdotal reports that I made, that it might be woven into something that would be coherent and substantive from the standpoint of my colleagues. … The purpose in reflecting in district reports the anecdotal argumentation was more to make it fit, be consistent with, or fail to be consistent with, something larger that you were trying to develop.
>
> Let me be clear about that. In the case of the 1990s, when we had the dot-com boom and productivity surprises …, meeting after meeting, year after year, we saw upward revisions of Board staff estimates of what productivity both had been and what it was likely to be in the future, consistent with what the view of economic analysis was doing, Labor Department was doing, and so on. What we

could do in the anecdotal information from the district is point out the degree to which our skepticism about the official data series was reflected in the anecdotal information and try and pull the consensus of opinion in a direction and try and influence the chairman and others to be skeptical of Staff estimates because we had other information coming there from the grass-roots that simply didn't jive with what those data were [saying]. …For the 1990s for the most part it was a period of trying to drag a very grudging Board staff, a career bureaucracy in Washington, not just in the Fed but in the Commerce Department and other agencies to believe that something was going on in the economy that was not readily being reflected in the data both in the employment statistics and the productivity output numbers. They were constantly being surprised and having to revise upwards very consistently throughout that period. The FOMC discussions showed that we were ahead of the real data that were coming in. Greenspan was a part of that, [he] was excellent, in trying to say, let's find out from real people about what's really going on out there, whether we even believe these numbers that are being reported, let alone the forecasts and projections at what the future is going to be like.

As a third hypothesis for declining deliberation on the policy decision, Poole and Blinder reflect on changes made by Greenspan in the organization and structure of the FOMC. Specifically, Greenspan more firmly embedded the division of discussion on (a) information and analysis on the economy, and (b) the policy decision. By dividing the meeting more clearly into two separate discussions, Greenspan could then exert greater control by allowing himself "first mover advantage" in shaping the discussion.

Poole: When I arrived [1998] the pattern of the two separate go-rounds was thoroughly established and Greenspan encouraged, that … division of labour, division of concentration. The idea was that you would have a more disciplined policy meeting if you could focus the first go-round on what was going on in the economy, the anecdotal information, the analysis, and the second go-round on the policy. …I think it was the right way to go, and some of my colleagues used to get very frustrated with that organization and would start discussing policy in the first go-round. By and large, I resisted that but Greenspan may have encouraged it to work that way because he would lead off the policy discussion in the second go-round making his position quite clear at least most the time and that probably served his purpose in terms of retaining control over the meeting and how it was going to progress. But the two go-rounds that go back …in the seventies [were] not structured so clearly between the analysis go-round and the [policy go-round].

Blinder: [Greenspan] would end the economy round with a lengthy speech on how he saw the economy. Then in that same speech without an intermission, he would go right into his policy recommendation which was not a surprise to most of us. ….So the ground rules were that you were not supposed to poach into policy when you talked about the economy, although people did. [They did so] because, if you were going to get your two cents in about the policy, that was

> almost the only time to do it because once Greenspan's policy recommendation was on the table, you were either going to defy the chairman or you were not.

The effect of this sharpened division in discussions does not necessarily translate into a plausible explanation for our finding. While Greenspan probably did not intend to impinge on the deliberative content of the policy decision, it may have had that effect nonetheless. Or, it is possible that the division between the discussions may have simply sharpened the definition of the words and phrases, and thereby creating what appears to be an decrease in the deliberation on the policy decision but what may in fact be an artefact of the textual analysis. Reinhart seems to square the circle here by lending weight to the validity of this hypothesis, but at the same time justifying the greater weight given to deliberation on the state of the economy by pointing to the increasing length and level of specificity in the briefing documents:

> Reinhart: Increasingly over time, Chairman Greenspan …was not big on improvising on policy so by the time you got into the meeting he had pretty much laid out the key policy choices. *[CSB: You mean laid them out in communications with members prior to the meeting?]* Yes, I would say in multiple ways. We did talk about how the board would use the discount rate decision at the Board meeting to argue in advance of the meeting so board members didn't have to talk as much about monetary policy deliberations. They already did. Briefing documents also probably got more explicit, particularly as the statement became more important, so if you look at Bluebooks from the 1970s and 1980s certainly the mid-1980s until the early part of the 1990s they gave generic choices: you could be easier, you could be tighter but didn't necessarily tell you what to do explicitly. Within the Fed is what Alan Greenspan was called by about the 1990s and that was 'quarter-point Al': from 1989 to 1993 the FOMC raised the funds rate 24 times on quarter-point increments. So, if it is all going to be quarter-point increments you have got less things to talk about, since you know what you are doing. Also to the extent that you [have] embarked on a gradual path then decisions at each meeting accumulate. [*CSB*: *So it all becomes a bit marginal?]* Yes, I mean you have already decided to embark on a quarter-point hike [so] you don't let them talk about it in the real meetings.

(v) No Explicit Discussion of Key Tools of Economic Theory

Our finding of no explicit discussion of what might be considered to be key tools of economic theory—such as time inconsistency or the Phillips Curve—received very mixed views from our interviewees, ranging from somewhat sceptical to completely accepting.

Hoskins, Blinder, and Kohn all thought that the concepts surrounding these terms *were* discussed at meetings, but perhaps not as explicitly as we may have anticipated (and, as Kohn adds, the use of some terms may have been discouraged by Greenspan):

Hoskins: Early on members tried to exploit the Phillips Curve but discussed it as a trade off between inflation and employment. Later on no one supported it. Time inconsistency and other economic terms are not understood by many non-economist members so the terms are not used directly. You must look for inferences.

Blinder: I thought there was a great deal of discussion of the Phillips Curve but maybe without using that name. It was about marginal effects of this or that policy on both unemployment and inflation, and what the trade-offs were. … I would not have thought that the Philips Curve was a neglected subject and indeed in my period at the Fed, a crucial question that we were constantly debating tacitly or explicitly was where was the natural rate? How far could unemployment go down without there being a danger of inflation? Or …was the choice between "deliberate" and "opportunistic" (that was my coinage) disinflation. Deliberate means you deliberately try to ride down the Philips Curve and opportunistic is [that], you just let shocks happen and you react asymmetrically to shocks. So when you have a shock that brings down inflation you welcome it and when you have a shock that brings up inflation you fight it, that's the opportunistic. …There was some discussion of that ….

Kohn: You know, maybe those words don't show up, but the concepts certainly do …. But the other part is that Greenspan was not a big believer in the Phillips Curve. He felt that, with some justification, it was a reduced form kind of thing, and it didn't really get at the underlying dynamics of price and wage determination. …So maybe one reason why the two words didn't get mentioned was, you would get a reaction from Alan Greenspan but you could still talk about it, and we did. I can remember being on the staff and talking about it so the concepts, certainly that concept, was there. On the time inconsistency, I don't recall a direct discussion of that. There were discussions however in the mid-1990s, [when] Larry Meyer was on the Board, and Gary Stern was engaging in this ….

A variant of this perspective is that because many were not professional economists, they did not readily employ the technical or theoretical language of economics:

Broaddus: In the early years when I was there [*probably 1970s, 1980s]*, the simple fact is there …weren't many people capable of doing that. I would argue that at the end of my years there, the last ten years or so, …still many people on the FOMC are not professional economists or if they are, they are not heavily theoretical. So you still had some reticence about that. … On average, around the table the vast majority of members were not really heavily conversant with those ideas because … if they were economists, myself included, [they] had not focused their career on research. It's changing a little bit…. Going back to my own period, there was some bias against doing that. You could be dismissed as academic. There was a real risk that if you were to come out with something about 'time inconsistency' and I won't name names but some people there would turn to you

> and say 'what in the hell is that all about' or they might … say 'despite President Broaddus's highfalutin language I still think he is full of baloney'. … That's not misleading. That is an accurate point.

Others embraced the finding more readily, remarking either that that as the focus of the meetings was more on the practical aspects of policymaking, such theoretical terms were not particularly relevant (Rivlin, Minehan, Axilrod), or that such terms were more appropriately discussed at longer meetings specifically set aside for this purpose (Jordan, Reinhart):

> Rivlin: Well I'm a little surprised about Phillips Curve because we did talk about that some but I think we were more practical-oriented. We were trying to figure out what was really going on and we talked about inflation and prices you know, and housing and so forth but we didn't put it in very theoretical terms probably.

> Minehan: We had all kinds of economic conferences on issues to do with time inconsistency and the usefulness of the Phillips Curve and NAIRU. That was the background to our discussion. We weren't at an Open Market meeting to talk about the basics of economic theory. I mean it was assumed people understood and had perspectives on all of those things which would then feed in to the policy discussions….. We work in the Federal Reserve all the time and we interact with each other on a thousand subjects all the time, so we know each other's perspectives, we'd talked at each other's seminars, we'd read each other's stuff, we'd read each other's staff stuff so we really didn't need to talk about time inconsistency necessarily.

> Axilrod: Because they were talking about whether they ought to raise the funds rates a quarter or an eighth or a half. Basically what you are talking about in the end when you get down to [it is] policy … So who cares whether the rational expectations that had a big prevalence in economics…. There would be no reason to talk about it every day or every meeting. You are down to very practical problems. We are here to decide whether to raise the funds rate or lower it.

> Jordan: The second half of the 1990s you would get more in the transcripts; in fact, we had one whole debate of pretty much the bulk of a day was on what was called 'longer term objectives' and a lot of that had to do with notions about the Philips Curve.

> Reinhart: I think part of the answer is where you are looking at the discussion at a meeting you are looking at a discussion on monetary policy in the next six weeks and so these other issues might not come up. When the committee did talk about those things, it was back when they had two-day meetings, without a crisis to occupy their time, so I think from about, probably the late 1990s through to the mid-2000s, a one day or half-day meeting, was about topics of particular interest to the committee of a longer-term nature, so there were several of those meetings on the Philips curve, one on the credit channels, one on policy gradualism.

One further explanation offered for this finding is that over time, many of the committee members simply did not find either the long-run Phillips Curve or time inconsistency persuasive, and so had dismissed either or both from consideration:

> Poole: By, I'll say 1980, the overwhelming consensus in the economics profession and among Ph.D.s in the FOMC and the senior staff was that there was no long-run Phillips Curve and that was taken for granted so we didn't have to discuss that… but the role of expectations in terms of affecting even current inflation became a more key thing to talk about.
>
> Jordan: I think there evolved a fairly firm understanding that … coming into the 1970s, we had switched as a nation from a regime in which people believed that *increases* in inflation and interest rates were temporary … to an environment where the dominant psychology of households and businesses was that *declines* in inflation and interest rates were temporary ….What was needed was to reverse the paradigm again, and so that people tended to think that increases were temporary and trust the central bank to beat it back down again and that took all of the 1980s and well into the 1990s before I felt that, that had been achieved and as it became more evident that there [was] success on that then you started to see a re-surfacing of people saying that tolerance of a bit more inflation in exchange for lower unemployment or faster growth was somehow possible or something desirable to have. But that changed, I would say, in the second half of the 1990s as we got certain governors that came in, arguing for those kinds of things. Rarely did I see that come from the presidents, certainly never from the chairman but we would get more governors that would play the trade-off game or assert that there was a trade-off to be exploited.
>
> Blinder: The time inconsistency is an easier one. I think everyone on the committee thought it was balderdash. … The notion that we as a committee or even any one individual via their vote would favour a short-term goosing of the economy to play on the short-term trade-off at the expense of the long-run I think was just considered poppycock. I don't think the thought of actually doing it ever crossed anybody's mind.
>
> Minehan: Well, 'time inconsistency'? ... I read all of that with a lot of interest and really felt that it was time-constrained by a particular set of circumstances that applied in the 1970s and with the wringing out of inflation during the Volcker era.

Taken together, we may conclude from these varied perspectives that (a) perhaps because many FOMC were not professional economists, they were not as comfortable using the more theoretical language of economics; (b) most of the time, the decisions of the committee were more oriented towards the practicalities of policy-making, not the theory; (c) where relevant, more theoretical discussions were held in other meetings; and (d) the relevance of key theoretical tools of economic theory evolved over time, so that perhaps for our time period, certain concepts held less sway over members.

We conclude this section by drawing upon our interview with Paul Volcker. As we note in Chapter 6 in our section on the Volcker Revolution, our interview with him was shorter than our other interviews and so we focused specifically on his experience and thinking surrounding that time period. Hence, as our findings and Volcker's responses to those are so specific to that discussion, we do not address them here—except for one fascinating exchange, which pertains here to how FOMC members think about economic theory. We sought to gain some traction on the mechanisms through which important ideas from the academic literature percolate through to FOMC decision making, hypothesizing that Kydland and Prescott's famous 1977 article (Kydland and Prescott 1977) may have shaped Volcker's thinking in 1979, when he launched his historic policy change. When asked whether he was aware of the Kydland and Prescott piece, Volcker replies: "I have no idea whatsoever" and "The what article?". The important part of this exchange is that Volcker later explains how he became convinced of the importance of credible commitment—namely via an academic advisory meeting:

> Volcker: So I think there was also a kind of collegial spirit at that point because we had embarked upon this new policy and it was arguably politically dangerous with extremely high interest rates and there was kind of a feeling that we were all in this together and we ought to see it through. Now there was a lot of worry about expectations and credibility. I don't remember whatsoever that article…. I don't pay attention to the economic literature. But I was convinced that expectations were important. And credibility was important. …And I can remember we had this academic advisory board meeting and there was a guy there who was a professor of mine Willie Fellner. He was very well known and … he made a big point about credibility and expectations so I lapped that up because that mattered.

In respect to the extent to which theoretical literature pertains to discussions within the FOMC, part of the exchange with Volcker was relayed to Blinder, who then quite astutely comments that being a technical economist is not necessarily essential to excellence in monetary policy decision making:

> Blinder: Paul Volcker was never a technical economist; he was a business economist before he was a government official. I don't think he has a Ph.D. in Economics; he has a Masters degree from the LSE. …Most members or many members of the FOMC were not technical economists. Volcker was one of those that was not a technical economist. What he is, is a saint: which is better. You got your choice—take the saint.

b. Congress

In our earlier section on the Quality of Deliberation, we examined in length our key finding—that committee members tended to devote very little attention to the details of monetary policy. Here, we focus on respondents' views with respect to four other findings from our textual analysis of the congressional oversight hearings (Table 3): (i) the tendency for Democrats to question the Fed Chairman more on labour market issues, and Republicans to give greater weight to fiscal policy; (ii) the apparent tendency of Congress to gauge oversight of and interest in monetary policy in accordance with the perceived success of the Fed's policy; (iii) the growing tendency of MCs to use the Fed's reputation (and Greenspan's in particular) to underpin their own fiscal policy objectives; and (iv) the lack of attention to issues of financial stability, prior to the recent financial crisis.

(i) Democrats and Jobs; Republicans and Fiscal Policy

No one of our respondents perceive monetary policy oversight hearings as non-partisan, but on the other hand, neither do they all interpret the partisan differences as simply as "Democrats talk about jobs; Republicans talk about fiscal policy." One congressional staff member dismisses the issue of partisan influence on the hearings, *except* for the appointment of the Federal Reserve Chairman by the Senate Banking Committee. For these hearings, and these hearings alone, the partisanship of those who decides matters. Another staffer remarks that "by and large" partisan divisions have not mattered, but for this staffer, the exception is that Republican members tend to focus more on inflationary pressures—or, "in the case of sophisticated Republicans, inflationary expectations".

Others—including our two Members of Congress—place a greater weight on partisan differences. Galbraith remarks that during the Reagan years, Democrats used the hearings to try "to limit the political reach of a very successful and powerful President [while] the Republicans … were trying to deflect criticism and defend him." D'Arista also comments on a clear partisan divide, which she also notes has increased as the amount of "money in the political process" has grown:

> D'Arista: It was definitely the case that the Republicans were just not that interested in employment. They were also less interested in housing ….The Democrats were interested in housing: housing was mother and apple-pie to them. If they satisfied [their housing constituency], it was doing their duty as members of the committee. I would say that was the large proportion of the Democrats, that was their focus in the 1970s …. *[CSB: Do you think the area of the difference in focus between Democrats and Republicans was more a reflection of their ideological differences or of the constituents who might be coming to them with particular requests or questions?*] I think it depended on the District itself and there were many Democrats who were very beholden to and concerned about their community banking system, the smaller banks, and that led them to be concerned about interest rates as well and they were trying to protect that system. Democrats from the larger cities, including Barney Frank, during that period and later … were much more concerned about some of the larger banks …. [Even] Democrats who had sterling records in terms of social policy were nevertheless very beholden to large banks, and would hide behind various votes where they were favouring those banks, and then … their modus operandi of this was to … promote the savings and loans. So there were some real divisions there. Now, some Republicans were more concerned about community banks, and very hostile

> to the large city banks, but in general it was ideological, it was more a question of the business and financial interests among the Republicans, and the constituents, the workers and co, on the part of the Democrats.
>
> I think [the partisan divide] has grown because there is so much more money in the process. What we talk about in this country about the lobbying and the buying of votes, and that organization of buying of votes is very strong within the Wall Street sector, and the community banks have fallen to some extent by the wayside. They can't afford to compete in terms of the amount of contributions.

Both our Members of Congress—Bayh a Democrat; Barratt a Republican—agree that the parties tend to divide in the monetary policy oversight hearings. For Barratt, the divide is precisely as our findings suggest:

> Barratt: I would say that is a fair assessment …unfortunately, because the Republicans tend to be as guilty as the Democrats. There is always [some partisanship] in the way you ask your questions or follow-up questions, you can always mould that to your particular party or your particular philosophy. [As for the Democrats talking about labor markets and the Republicans talking about fiscal policy]: that is spot-on, right there.

Bayh is more nuanced in his interpretation, noting that occasionally—as with the post-financial crisis anti-Federal Reserve grouping between Democratic Populists and Tea Party supporters—we may observe "populist strains in both parties" so that sometimes "it is not ideological, it is not Left versus Right, it is big versus small":

> Bayh: You do get small-government Republicans on the Right who would be suspicious of the Fed, and then you got on the Left people who are suspicious of large institutions, capitalism in general, and would feel that the Fed's mandate to restrain inflation should be subordinated to easier money and leaning on the side of more growth and that sort of thing. So yes it is true there are Populist strains in both parties, and I think that is a non-ideological phenomena.

In short, the empirical finding of a partisan divide seems to resonate with our interviewees, with the caveat that other divisions (big versus small financial institutions) can often intersect this partisan divide, thereby, in the words of one staffer, creating "strange bedfellows" for monetary policy.

(ii) Oversight as a Function of Fed's Policy Success or Failure

From our analysis of the hearings from the mid 1970s to 2008, we found that the scale of challenge from MCs to the Fed Chairman declined with the apparent success of monetary policy in the 1990s. Whereas in the 1970s and early 1980s, MCs (and particularly Democrats) tended to challenge issues concerning the core governance of the Fed, by the late 1990s, support for the Fed had become bipartisan. Perhaps not surprisingly, our staff respondents point out the obvious: "Everybody loves a hero. In the late 1990s, everyone wanted their photo taken with Greenspan;" "If it seems to be working, why change it?"

One remarks: “That is sort of self-evidently correct”—although this staffer adds that Greenspan enjoyed “a fortuitous set of circumstances where you could have put the Fed on automatic pilot in the late 1990s”.

The flip-side to “everybody loves a hero” is, of course that politicians (not unlike the rest of us) like to avoid blame where possible, and the Fed is a useful scapegoat, as Galbraith, D’Arista and Bayh concede:

> Galbraith: [In the 1970s] I think it is fair to say that the Congress, under a lot of electoral discontent over economic conditions, wanted to bring the Federal Reserve into the game and deflect some of the pressure on to them …[which in part] factored into the decision to pass House Concurrent Resolution 133 in early 1975.
>
> D’Arista :Well, I think [the empirical finding] is right but I would also say in a very cynical and simplistic way that the Fed is a wonderful kicking ball. In other words, is the Fed our friend or is the Fed our enemy? It is possible to generate up among constituents considerable distrust of the Fed and that has been done, and the interesting thing is, in the entire time that I have been involved in these issues, going back to the 1960s I would say it is both on the Right and the Left. … So, it is wonderful to use the Fed. …It is this mysterious and powerful organization, so a member can either make it the great friend as they did under Greenspan, or the great enemy.
>
> Bayh: It is not uncommon for members of the elected branches of government to seek to deflect criticism or public anger on to non-elected branches of government, so the Fed is a convenient scapegoat because you can say ‘oh, those elitists over in the Fed, they just don’t understand the need to do X, Y, or Z’, so it is a way to kind of shift the blame so to speak.

(iii) Employing the Fed’s Reputation for Fiscal Policy Objectives

We observed from our textual analysis of the congressional hearings that MCs on the House and Senate Banking Committees tended to discuss fiscal policy not in the traditional sense of analyzing the mix between monetary and fiscal policy, but rather by focusing on specific tax issues—such as Social Security, education, energy, and so on. We thus asked our congressional interviewees whether this merely reflected the tendency for committee members to use the Fed’s reputation to bolster members’ views on fiscal policy. Staffers offer some disparate interpretations, including the possible impact of Reagan’s focus on tax policy, or Clinton’s budget surplus, but one staffer manages to pull all the threads together, explaining that the Humphrey-Hawkins hearings offered MCs their only opportunity within the congressional setting to discuss the budget surplus:

> [Anonymous staffer]: It’s important to remember that there is not a venue on either side of the Capitol in which Members get to think about broad macro-policy issues

> except in the context of the Humphrey-Hawkins hearings. The Budget Committee doesn't think about fiscal policy; they think about deficits. But that is a very narrow piece of fiscal policy. In the second half of the 1990s, all of a sudden for the first time in anybody's memory, the Federal government ran surpluses three years in a row—not big but a dramatic change from the late seventies and early eighties when the deficit concern had been paramount. All of a sudden this raised sort of goofy conversations—Greenspan being concerned about not eliminating the deficit; eliminating the deficit would screw up the bond market which would screw up Social Security. That became, in 1997-8, a fiscal policy question which Members of Congress had seldom ever thought about and more importantly, outside the context of talking to the Fed, didn't have a way to talk about it. The budget debate was always much narrower than that, and the budget debate, dominated by how the budget was allocated rather than its size…. The concern about Social Security in the late 1990s and early part of the last decade was driven in part by this crazy privatization debate that was going on.

Similar to the institutional hypotheses suggested to us by our FOMC respondents, this is an excellent example where our textual analysis offered us little in the way of context for understanding the constraints and opportunities for deliberation on particular topics which might emerge from particular institutional settings.

(iv) Financial Stability

As the saying goes, one always has 20-20 vision in hindsight—so, of course it is easy to question why, prior to the financial crisis, congressional banking committee members failed to devote much attention to the stability of the financial system. We therefore phrased our question more benignly by prompting our interviewees whether committee members were simply taking their lead from the Fed Chairman in giving little attention to financial stability or whether there was something else at play. D'Arista offers the typical response—namely, that when times are good, why question things?

> D'Arista: Well, I would say that they were [taking a lead from Greenspan] and that they were looking at a situation in which everything looked so rosy and the financial sector was making so much money and everything was going [well], competition with the rest of the world, it all looked so [good], why would you want to change it? Clearly, people were getting houses and for many people the fact that housing prices were rising, was great news. So, they were complacent, and they were certainly seeing the Chair of the Fed as complacent, if not more so than they, and reassuring them constantly with the constant belief that the Fed had the power to stop a problem should it arise. I think some of that faith began to dissipate a little bit with the dot-com crisis but at the same time, you know, it was not as pervasive as what was to come.

To this explanation, other staffers add that "committee members were put off by Greenspan's long sentences, where you couldn't follow him from the beginning of the sentence to the end," or that on the whole, "about ten people in the country understood the exposure of American financial institutions". Another staffer remarks that "it also depends on the definition of what constitutes financial stability. If we include housing prices, then probably we would find that more MCs *were* talking about financial stability" (i.e., the housing bubble).

Our two Members of Congress both admit that in the end, oversight is invariably reactionary. For Barratt, this is because MCs have too many other issues to address, and so the tendency is not to be forward-looking:

> Barratt: If things seem to be on automatic pilot, and it is not a problem, at least in the immediate future, then there are too many other things that are a problem right now that you are dealing with… [When] the banking system is askew is when we start really focussing on it ….When things are good and the economy is clicking along, you don't stop and think 'are we doing what we really need to do'. …We were not being as forward-thinking as we needed to be because the crisis had not hit, and once it did, we were more reactionary ….

Bayh offers an excellent (though somewhat disheartening) rationale for the improbability of Congress ever being prescient in anticipating problems when the economy seems to be working well:

> Bayh: Well, I think so much of life, particularly public life, gets into the realm of basic human psychology, and I think it is only human nature when times are good to not want to rock the boat and to think that whatever the current structure is must be appropriate because times are good. And there is a certain amount of natural inertia to government. It is only when there is a crisis or times are bad that it leads to a fundamental rethinking. Now, of course it would be better to be prescient and to see beyond the horizon and anticipate problems and as Greenspan used to say 'You can recognize bubbles in hindsight and you think you might recognize one when you are in the middle of it but you never really know'. Valuations and other things can deviate from the mean for quite a period of time before they correct themselves, so it is basic human psychology when times are good to not have that kind of fundamental re-thinking about it if there are flaws in the system. So, in my time, you had the crash in 1987; certainly that focussed attention on some of the problems; you had the tech bubble and collapse, that was another moment of introspection. Long-Term Capital [Management] was another situation, and then… some of the international episodes but ... the political class here didn't really see that as touching upon us so much at least with regard to the systemic stability of our own system. That was something that happened in Third World countries. Well then lo and behold, we had the crash here that emanated out and affected the rest of the world and had its roots in the housing markets. People had been talking about Fannie Mae and Freddie Mac—you can go back and look at my own testimony. I asked Greenspan very directly. I said 'Mr. Chairman, how long can housing price increases outstrip real wages growth?' I mean, at some point, this was not sustainable and his response was 'well, that is right but' and he kind of gave a non-answer answer. I can't claim that I foresaw

> [the financial crisis], that would be totally inaccurate. But from time to time, some of us were saying ‘well, look, aren’t there imbalances in the system here that the longer they compound, the day of reckoning will be more painful?’ Yes, some of that went on, but when the party is going strong, it takes a strong individual to take away the punch-bowl, and particularly in a free society. That is a difficult thing, and there are interests who like to make their voices heard but I think the most difficult thing is, when things are going well, it is only natural to think ‘well, the system must be functioning because we feel good about things’. It takes a pretty far-sighted individual during good times to say ‘Now, wait a minute, there may be some fundamental flaws here that we are just now recognizing and we need to fix them’. It is difficult to get a political consensus for that because you know voters are feeling good and are reluctant to change.

VII. Conclusion

We had two key goals for conducting our interviews with participants from both the FOMC meetings and the congressional oversight hearings on monetary policy. First, we sought to provide context and understanding for the motivations of both the central bankers themselves and for the politicians whose role it is to oversee the policy decisions of the Federal Reserve. We asked our interviewees to explain the *reasons* for their behaviour and that of their colleagues in their respective venues, focusing predominantly on their discussions within the meetings. Our bottom line for this chapter has thus been to obtain a more direct measure for the intentions and motivations of Fed officials and congressional participants as they discuss monetary policy. Our second goal has been to check the robustness of the empirical findings from our textual analysis, by asking interviewees to compare our results with their own experiences. With respect to our first goal, we focused on three key issue areas: the quality of deliberation; the effect of transparency on deliberation; and institutional features in either the FOMC or congressional committees that might impinge on deliberation. For our second goal, we followed reasonably closely the specific findings of our textual analysis, as reported in our chapters 5 and 6, in order to glean whether (a) the results made sense to our interviewees; and if so (b) to gain their insights as to the interpretation of these results.

We do not intend to summarize here the plethora of opinions and perspectives offered by our interviewees. Instead, we reflect on our discussion of deliberation in Chapter 3, where we provided an overview of a newly emerging literature by Dietrich and List on “reason-based” theories of rational choice (Dietrich and List 2010; Dietrich and List 2011; Dietrich and List forthcoming). As these authors note, standard rational choice theory fails to take into account for the possibility that an individual’s “preferences may change as a result of changes in his or her motivating reasons in relation to the given alternatives” and in turn, “(s)uch changes may … be prompted by various experiences and especially by individual or collective deliberation” (Dietrich and List forthcoming: 20). While this chapter has not offered any formal presentation for how collective deliberation may (or may not) have prompted changes in the motivating reasons given by Fed officials or members of the congressional banking committees, it has, however presented several pertinent examples for the factors and conditions under which deliberation may be more or less important for shaping the reasoned behaviour of policy makers or politicians.

We have found clear endorsement that the nature of deliberation changes over time, both in the FOMC and in the congressional oversight committees. On the face of it, this suggests that there is a purpose and reason for understanding deliberation in these settings. What is harder to discern is the contribution to this change made by a number of underlying factors, though we find that they are all plausible and not mutually exclusive. One is that deliberation varies with the context of the policy setting. Put simply, it is a different process when policy is perceived to be achieving its goals than it is when policy is clearly failing to achieve its goals. That is not surprising because the public and therefore elected representatives and appointed officials are more likely to be concerned when policy is failing to achieve its objectives and likewise more likely to be less attentive when policy is perceived as successful. Second, the role of deliberation can change as the personalities involved change. We see evidence of this in our assessment over the final several decades of the 20th century and early years of the 21st century. There have been changes in the make-up of the FOMC and changes in the chairmen. Likewise, the role of congressional oversight has changed. This reflects a number of developments, e.g., the apparent success of policy, which we believe affects the form and substance of accountability, and internal changes within the committees themselves (e.g., the size of the HFSC).

In our final chapter, we examine where reasoned arguments have mattered in the FOMC meetings and in the congressional banking committees, the conditions under which they have mattered, and the means by which this has shaped the discourse on monetary policy by central bankers, by politicians, and most importantly, *between* central bankers and politicians.

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[1] All the recorded interviews were transcribed by our research assistant, Dr Gordon Bannerman. Funding for this project has been provided by The Suntory and Toyota International Centres for Economics and

Related Disciplines of the LSE. We thank Gordon for his meticulous and careful transcriptions, and STICERD for its funding.

[2] The target for the Manager has changed over time, and has included the Fed Funds Rate, monetary aggregates or non-borrowed reserves.

[3] One staffer from the Senate side, in anonymity, summarizes the problem in conveying monetary policy information to the public and using it for electoral advantage succinctly:

1. The details are not easily conveyed in simple statements. Because it takes longer to explain things, even if you were to explain the details, many people wouldn't understand them anyway.
2. Even if a MC tried to explain the details of monetary policy (e.g., causes and effect relationships), the media would generally ignore this technical, detailed stuff.
3. Even if a MC explained the details, his political opponent(s) wouldn't engage in this sort of discussion, because it is easier to go for the sound bites. The opponent wouldn't play the same game, so it doesn't pay the MC to do so. It does you no good (politically) to give detailed information on monetary policy to constituents.

[4] While Blinder's label for the FOMC reflects his own familiarity with the Greenspan Fed, it is worth adding one current observation which reinforces the continued relevance of "collegial" description of the committee under Bernanke--though perhaps not as autocratically so as under Greenspan. Following Bernanke's historic press conference (noted above), one of our interviewees, Vincent Reinhart, remarks in a New York Times editorial that Bernanke "did not characterize the range of opinion or depth of feeling expressed at the meeting. This makes it hard to determine how the balance of opinion within the confines of the Fed's marble palace will shift as events unfold" (Reinhart 2011).

[5] C-SPAN began covering proceedings in the House of Representatives in 1979, and the coverage was extended to the Senate in 1986 (Koempel, Schneider et al. 2007: 67)

[6] Jordan: Prior to February 1994, the decisions by the FOMC to "tighten" or "ease"--raise or lower the target Fed Funds rate--were not announced but were "signaled" by the trading desk of the NY Fed on the first business day following a meeting. This cultivated an industry of Fed Watchers (usually former Fed employees) whose income was earned by reading and interpreting the timing and types of actions of the trading desk.

At least some 20 years earlier there had been Reserve Bank presidents … who would occasionally ask why the committee did not simply issue a press release, like the Bundesbank and others. The Washington answers were about how the US was different. When I arrived in Cleveland in early '92 I took up the issue again, joined by a few others, but a minority of the committee, with the governors, including the chairman, and NY much opposed.

At the December 1993 meeting my recollection is that after over 2 years of an unchanged Fed Funds rate of 3% and the economy picking up steam, the majority was solidly in favor of an increase. The argument against doing so at that meeting … was that we were only a few days before Christmas, so the timing was bad, and besides, a few more weeks wouldn't do any harm.

So, barring some surprising negative news, there was no disagreement that we would act at the February '94 meeting….

The first meeting of '94 was to be two days, but could not be early in the week because the chairman would be in London for the Bank of England anniversary meeting. The FOMC would have to meet on Thursday and Friday. The staff pre-meeting materials and the discussions on Thursday were all about raising the FF rate for the first time in a couple of years, and how much should this initial increase be, with everyone acknowledging that it would be only the first of several increases and that we would set off a wave of speculation about how many increases, how fast, and how much in total would we do.

Friday morning was time to vote which was an easy decision, but all the disagreement was the "signaling" by the desk which would not take place until the following Monday morning. I and others argued that the risks that the decision would leak and be in the newspapers before Monday morning were too great, the damages of a leak too harmful politically, we had no choice but to issue a press release. Finally the chairman conceded these points and agreed that we would have a press release at 11:00 am announcing the decision to raise the target intervention rate. We all adjourned for coffee and went to the offices of the governors to watch the TVs as the news came across--and the Dow Jones plunged 100 pts.

The chairman had been clear to the committee that he did not view this as a precedent, that it was only done because of having to meet on Thursday and Friday, and that we would observe and assess the effects of the announcement before ever, ever, ever doing so again. The rest is now history. Thank you, Bank of England [email correspondence to author, 23 September 2010].

TABLE 1: DETAILS OF INTERVIEWS

NAME	*DATE OF INTERVIEW*	*PLACE/MODE*	*BACKGROUND OF INTERVIEWEE (relevant positions at Fed or in Congress; and education)*
Paul Volcker	13 May 2010	In person, London (LSE)	Chairman of Federal Reserve, 1979 – 1987; President of New York Federal Reserve Bank, 1975-1979 [Chairman of President Obama's Economic Recovery Advisory Board, 2009 – 2011] B.A., Princeton; M.A., Harvard (Political Economy); Rotary Fellow, LSE
Lee Hoskins	12 September 2010	Email	President of Cleveland Federal Reserve Bank, 1987-1991; Economist, Research Officer at Philadelphia Federal Reserve Bank (1969-), becoming Vice-President in 1973 B.A., M.A., and Ph.D.(Economics) UCLA
Jerry Jordan	21 September 2010	Phone	President of Cleveland Federal Reserve Bank, 1992-2003; Senior Vice President of Director of Research at Federal Reserve Bank of St Louis; Member of President Reagan's Council of Economic Advisers, 1981-82 Ph.D. (Economics) UCLA
Steve Axilrod	30 September 2010	In person, London (LSE)	Staff Director and Secretary of the FOMC, and Staff Director for monetary and financial policy for Federal Reserve Board of Governors, 1952 – 1986 A.B., Harvard (Economics).and M.A., University of Chicago (Planning)
Al Broaddus	11 October 2010	Phone	President of Richmond Federal Reserve Bank, 1993-2004 (prior to 1993, he held a variety of posts with the bank over a 34-year career) BA (Political Science) Washington and Lee University, 1961 MA & Ph.D. (Economics), Indiana University, 1970 & 1972
Anonymous / Non-Attributable	12 October 2010	Phone	Staffer / Advisor to Member of Senate Banking Committee
Don Kohn	14 October 2010	Phone	Vice-Chairman of Federal Reserve Board of Governors, 2006-2010; Member, Federal Reserve Board, 2002- ; before that, holding several positions at the Fed over a 40 year career, including Director of the Division of Monetary Affairs (1987-2001) and Secretary of the FOMC (1987-2002).

			BA (Economics) College of Wooster Ph.D. (Economics) University of Michigan
William (Bill) Poole	25 October 2010	Phone	President of St. Louis Federal Reserve Bank, 1998-2008; Member of the Council of Economic Advisers, 1982-85; Senior Economist, Board of Governors of the Federal Reserve System, 1969-74 Ph.D. in Economics at the University of Chicago
Alan Blinder	24 November 2010	Phone	Vice-Chairman of Federal Reserve Board of Governors, 1994-1996; Deputy Assistant Director of CBO, 1975 [Economic Advisor to Al Gore and John Kerry, during the 2000 and 2004 presidential campaigns] A.B. (Economics) Princeton University M.Sc. (Economics) LSE Ph.D. (Economics) MIT
David Smith* **Agreed to be recorded but his quotes non-attributable*	30 November 2010	Phone	Chief Economist, House Financial Services Committee, 2006- [previously positions include Senior Economist at the Joint Economic Committee; advisor to Senator Edward Kennedy]
Lawrence (Larry) Lindsey	1 December 2010	Phone	Member of Federal Reserve Board of Governors, 1991–1997; [Director of the National Economic Council, 2001-02; Assistant to President George W. Bush on economic policy] A.B. Bowdoin College A.M. (Economics) & Ph.D. (Economics) Harvard
James Galbraith	6 December 2010	Phone	Executive Director of the Joint Economic Committee. U.S. Congress, 1981-1982; Economist, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives,1975-80 *[Assisted in drafting the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978]*

			A.B., Harvard M.A., Yale Ph.D. (Economics), Yale Marshall Scholar, King's College, Cambridge
Anonymous / Non-Attributable	7 December 2010	Phone	Staffer, House Financial Services Committee
Cathy Minehan	6 January 2011	Phone	President of Boston Federal Reserve Bank, 1994-July 2007 (first woman to be appointed CEO of any FRB Bank); First Vice-President and Chief Operating Officer of Boston Federal Reserve Bank, 1991-1994 Joined the Federal Reserve in 1968 as a bank examiner of the FRB, New York B.A., University of Rochester MBA, New York University
Jane D'Arista	13 January 2011	Phone	Staff Economist for Banking and Commerce Committees of the U.S. House of Representatives & Principal Analyst in the international division of the Congressional Budget Office, 1966-1978; Principal Analyst for International Affairs in the Fiscal Analysis division, Congressional Budget Office, 1981-1983; Chief Finance Economist, Subcommittee on Telecommunications, House of Representatives, 1983-1986 B.A., Barnard College
Anonymous / Non-Attributable	24 January 2011	In person, Capitol, Washington, DC	Staffer / Advisor to Member of Senate Homeland Security Committee (speaking more generally to Senate Committee deliberations on technical issues)
Anonymous / Non-Attributable	24 January 2011	In person, Capitol, Washington, DC	Staffer / Advisor to Member of Senate Banking Committee
Alice Rivlin	25 January 2011	In person, Brookings, Washington, DC	Vice-Chair, Federal Reserve Board of Governors, 1996–1999; First Director of newly established Congressional Budget Office, 1975-1983; Deputy Director, Office of Management and Budget, 1993-1994; Director of OMB, 1994-1996 (first woman to hold the Cabinet-level position) [Appointed to the National Commission on Fiscal Responsibility and Reform, 2010]

			B.A., Bryn Mawr College Ph.D., Radcliffe College
Evan Bayh	26 January 2011	Phone (from Brookings)	U.S. Senator, Indiana (D) and Member of Senate Banking, Housing and Urban Affairs Committee (1998-2010); Chairman of the Subcommittee on Security and International Trade and Finance (1996-2010) Business Economics & Public Policy undergraduate degree, Indiana University, J.D., University of Virginia School of Law
Anonymous / Non-Attributable	31 January 2011	In person, Capitol, Washington, DC	Staffer / Advisor to Member of Senate Banking Committee
J. Gresham Barrett	16 February 2011	Phone	U.S. Representative, South Carolina 3rd Congressional District (R) and Member of House Financial Services Committee, Member of the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises, and Member of the Subcommittee on Financial Institutions and Consumer Credit (2003-2011) B.A., The Citadel, The Military College of South Carolina
Vincent Reinhart	22 & 24 Feb. 2011	Phone	Director, Division of Monetary Affairs, Board of Governors of the Federal Reserve, 2001-2007; Secretary and Economist FOMC, 2001-2007; Deputy Director, Division of International Finance, and Associate Economist, FOMC, 1999-2001; Deputy Associate Director, 1998-99; Assistant Director, 1994-98, Division of Monetary Affairs, Federal Reserve Chief, 1991-94; Senior Economist, 1990-91; Economist, 1988-90, Banking and Money Market Analysis Section, Division of Monetary Affairs, Federal Reserve; Senior Economist, International Research Department, 1987-88; Economist, Domestic Research Department, 1985-87; Economist, International Research Department, 1983-85, Federal Reserve Bank of New York B.S., Fordham University M.Phil. and M.A., Columbia University

Table 2: Questions to FOMC Interviewees

Questions	Issue Area
Did you tend to change your views after listening to the discussion in meetings or was your position on policy more or less fixed prior to attending each FOMC meeting? In your experience, would you say that deliberations in FOMC meetings shaped the views of members? Was there a give-and-take of ideas and a willingness to contrast opposing views?	Quality of deliberation
In your experience, what influence did the Fed Chairman have on both the flow of discussion and the structure of the FOMC meetings? While we know that dissent rates were low, and that members often expressed reservations to the recommendations made by Fed staff and the Chair, they tended to vote with the majority for purposes of obtaining consensus. Even if votes were constrained, to what extent did members feel at liberty to express dissenting views during the discussion?	Institutional Constraints
Did it often (ever?) seem that committee members had made firm decisions on the policy prior to the actual FOMC meetings (perhaps decisions having been made by the Board, or perhaps in more informal bilateral discussions prior to the FOMC discussion)?	Transparency / Quality of Deliberation
As you will be aware, there was a period before 1993 when the Fed did not publish verbatim transcripts of FOMC meetings. Some would say that publication of these transcripts has adversely influenced participation and input in these meetings. Would you agree?	Transparency / Quality of Deliberation
In the older academic literature on politics and monetary policy, there is a strand which is often referred to as the political business cycle. According to this strand, there is a channel of political influence (driven either by Congress or the Administration) which is said to shape behaviour of the FOMC. In our textual analysis of FOMC transcripts, we do not observe this sort of political influence in what committee members said. Some reasons for this may be that (a) members were reluctant to give voice to political influences; and/or (b) the consensus around the idea of low inflation as the objective of monetary policy over time removed the temptation of the political business cycle to have influence. In your experience of FOMC meetings, how might you account for this absence of discussion about outside political pressure?	Key Findings from Our Textual Analysis
Our results provide evidence that the Presidents were more associated with the discussion of	Key Findings from Our

money and monetary aggregates than the Governors. Why do you think this difference is observable quite consistently over time?	Textual Analysis
Our textual analysis of the transcripts suggests that Presidents played a larger role in the deliberation of the policy decision itself than the Governors in the earlier period (around the late 1970s – early 1980s). By the later 1990s, the Governors were relatively more associated with the deliberation on the policy decision and the Presidents were more associated with commenting on the state of the economy. We would be interested in your thoughts on this result.	Key Findings from Our Textual Analysis
Our results also indicate that over time, *all* members tended to focus their discussions more on the data and the state of the economy and less on deliberating the policy decision. Do you think this might be due to greater consensus around the objectives and tools of monetary policy in the later period, as the low inflation consensus became more embedded, thus reducing uncertainty around the policy decision? Or was it more due to the well-known tendency of Alan Greenspan to focus on data and the state of the economy?	Key Findings from Our Textual Analysis
We don't observe explicit discussion of key tools of economic theory such as time inconsistency or the Phillips Curve. We would be interested in your views on why this is so.	Key Findings from Our Textual Analysis
Alan Greenspan once commented (in a conference call FOMC meeting, 22 Oct 1993) that researchers would not find much of value in the FOMC transcripts [quote: "People think reading the raw transcripts is a way of learning things; I would suggest that if they spend six or eight months reading through some of this stuff, they won't like it."]. He preferred the Memoranda for capturing the substance of the meeting. Our premise is that if it is worth studying the process of deliberation, the transcripts should be a good tool for understanding this process. Again, we would be interested in your thoughts on this.	Transparency / Value of Transcripts for Research
[Questions for FOMC members with experience of congressional hearings on monetary policy]	
Our examination of the congressional hearings on monetary policy indicates that Members of Congress generally showed little interest in the detail of monetary policy. Why do you	Key Findings from Our Textual Analysis / Merits of

think this might be so?	Congressional Oversight of Monetary Policy
More broadly, what do you think were the incentives for members of Congress to participate actively in oversight hearings?	Merits of Congressional Oversight of Monetary Policy
The scale of the challenge from members of Congress to the Fed chairman appears to have declined with the more recent success of monetary policy (at least until the recent crisis) and there is more evidence of bipartisanship. Going back to the Burns period there was more challenge and more focus on the governance of the Fed, and the challenge came more from Democrats than Republicans. Is it reasonable to think that the level of interest in monetary policy from Congress is related to the success of the policy?	Key Findings from Our Textual Analysis
The debate on fiscal policy appears to have shifted from issues on the policy mix to seeking the Fed's support for more micro tax issues. Do you think that members of Congress started to use the Fed's reputation to attach to their views on fiscal policy?	Key Findings from Our Textual Analysis

Table 3: Questions to Congressional Staff and Members of Congress

Questions	Issue Area
Thinking about your participation in the House Financial Services Committee (Senate Banking Committee) hearings in which the Committee hears testimony from the Fed Chairman on the Monetary Policy Report, what do you think motivates the questions and deliberations of committee members?	Quality of Deliberation
Political scientists often characterize Members of Congress as seeking to (a) serve the interests of their constituents back home; (b) adhere to partisan alignments; or (c) formulate "good" public policy. Realistically, all these concerns matter, but in the oversight hearings, which factor do you think appears to have greater weight?	Quality of Deliberation / Merits of Congressional Oversight of Monetary Policy
Our findings from our automated textual analysis of the transcripts suggest that there is a clear difference between the subject matter of questions from Democrats (real economy—labour market) and Republicans (fiscal policy). Does this accord with your experience? Do you think there is any real difference between the stance of Democrats & Republicans with respect to monetary policy?	Key Findings from Our Textual Analysis / Merits of Congressional Oversight of Monetary Policy
Our examination of the committee transcripts of the hearings on monetary policy indicates that members of Congress offered relatively few questions and comments on the details of monetary policy (for example, the Fed's forecasts on inflation and economic growth). Why do you think this might be so?	Key Findings from Our Textual Analysis / Merits of Congressional Oversight of Monetary Policy
Does the ordering of speaking in the committee have an impact on the questions (e.g., in order of seniority)?	Institutional Constraints
Our analysis of the hearings from the 1970s to 2008 indicates that the scale of the challenge from Members of Congress to the Fed chairman appears to have declined with the apparent success of monetary policy in the 1990s, and there is more evidence of bipartisanship. Going back to the Arthur Burns period in the 1970s there was more challenge and more focus on the governance of the Fed, and the challenge came more from Democrats than Republicans. Is it reasonable to think that the level of interest in monetary policy from Congress is related to the perceived success of the policy?	Key Findings from Our Textual Analysis / Merits of Congressional Oversight of Monetary Policy
We would be interested to hear your views on another finding of our research—namely that	Key Findings from Our

the focus in the committee hearings on fiscal policy appears to have shifted in the 1990s from issues on the mix of monetary and fiscal policy to seeking the Fed's support for more specific tax issues (e.g., Social Security, education, energy). Do you think that members of Congress started to use the Fed's reputation under Greenspan to attach to their views on fiscal policy?	Textual Analysis / Merits of Congressional Oversight of Monetary Policy
Prior to the outbreak of the current financial crisis, committee members—along with Greenspan himself—tended not to devote much attention to the stability of the financial system. Do you think that committee members were simply taking their lead from the Fed chair here or was there something else at play?	Key Findings from Our Textual Analysis / Merits of Congressional Oversight of Monetary Policy
Do you think that hearings on the Monetary Policy Report are generally well-attended or do committee members tend to appear for a short time to ask questions and then leave shortly thereafter? If the latter, does this reflect more a lack of time or lack of interest?	Institutional Constraints / Quality of Deliberation
How much does the success of the committee's proceedings depend on the quality of this committee's chairman? If this is significant, does personality or detailed knowledge of monetary policy seem to have greater bearing?	Institutional Constraints / Quality of Deliberation
On occasion, some committee members have appeared to become quasi- celebrities with appearances on YouTube (e.g., Bernie Sanders and Alan Grayson). Do you think that the temptation to "grandstand" or "play to the gallery" during the much televised oversight hearings on the Monetary Policy Report is a strong one?	Transparency / Quality of Deliberation
In your experience, how much access do Members of Congress have to Fed Chairmen outside the hearings?	Institutional Constraints