Available online at www.sciencedirect.com
ScienceDirect
European Journal of Political Economy 24 (2008) 283 – 293
European Journal of POLITICAL ECONOMY
www.elsevier.com/locate/ejpe

Regional economic conditions and monetary policy

Henry W. Chappell Jr. [a,1], Rob Roy McGregor [b,*], Todd A. Vermilyea [c,2]

[a] Department of Economics University of South Carolina Columbia, SC 29208, USA
[b] University of North Carolina at Charlotte, 9201 University City Boulevard Charlotte, NC 28223, USA
[c] Federal Reserve Bank of Philadelphia Ten Independence Mall Philadelphia, PA 19106, USA

Received 5 April 2006; received in revised form 5 October 2007; accepted 18 October 2007
Available online 9 February 2008

Abstract

We use county-level unemployment data and data derived from FOMC meeting transcripts to test the hypothesis that monetary policymakers are influenced by economic conditions in regions that they represent. The analysis confirms that regional conditions affect the policy preferences of Reserve Bank presidents. Regional conditions also appear to influence Governors, but the evidence is weaker. For all FOMC members, we find that national conditions matter more than regional conditions; however, we are unable to verify that the evolving regional composition of the Committee's voting membership has any effect on the adopted policy stance.
© 2008 Elsevier B.V. All rights reserved.

JEL classification: E52; E58
Keywords: Central banking; Federal Reserve; Monetary policy; Regional economic conditions

> … [T]he most likely scenario is that we are going to get back to … the soufflé economy—one that is rather soft in the middle and firm around the edges. … [I]f we see some weakness in our area, that will make it difficult for those of us in the middle part of the country to have a proper perspective on the appropriate national … monetary policy.
>
> —Cleveland Fed President Jerry Jordan, *FOMC Transcripts*, November 16, 1999, p. 17

1. Introduction

Monetary policy decisions in a number of countries are now made by committees whose members have regional affiliations. The increasing prevalence of monetary policy committees has prompted a significant amount of research that compares committee decision-making to individual decision-making. For example, Blinder and Morgan (2005),

* Corresponding author. Tel.: +1 704 687 7639; fax: +1 704 687 6442.
E-mail addresses: chappell@moore.sc.edu (H.W. Chappell Jr.), rrmcgreg@uncc.edu (R.R. McGregor), Todd.Vermilyea@phil.frb.org (T.A. Vermilyea).
[1] Tel.: +1 803 777 4940; fax: +1 803 777 6876.
[2] Tel.: +1 215 574 4125; fax: +1 215 574 4146.

0176-2680/$ - see front matter © 2008 Elsevier B.V. All rights reserved.
doi:10.1016/j.ejpoleco.2007.10.002

Gerlach-Kristen (2006), and Lombardelli, Proudman, and Talbot (2005) argue that committee decisions are superior to individual decisions.[3] Whether regional representation improves the quality of committee decisions is less clear. Because monetary policy cannot be targeted to produce different effects across regions, most economists would argue that policy choices should be based on aggregate economic conditions rather than regional ones. However, Berger (2006) and Goodfriend (2000) have argued that regional representation may result in an increase in the information available to a monetary policy committee, thereby improving its decisions.[4]

Regional representation is, in any case, an important attribute of institutional arrangements in both the United States and Europe. At the European Central Bank (ECB), the Governing Council includes the governors of the national central banks from euro-area countries, as well as members of the Executive Board. At the Federal Reserve, the voting membership of the Federal Open Market Committee (FOMC) consists of five presidents of regional Federal Reserve Banks and the seven members of the Board of Governors. The Reserve Bank presidents have clear regional affiliations. Perhaps less well known is that members of the Board of Governors must come from different Federal Reserve districts. Thus, both Reserve Bank presidents and Governors can be considered regional representatives.

Several previous studies have examined how regional representation has affected monetary policy decisions. Berger and De Haan (2002) have shown that economic differences across German states affected the voting behavior of regional representatives on the Bundesbank's Governing Council during the 1948–1961 period. Although the absence of voting records makes an analysis of individual ECB policymakers impossible, Heinemann and Huefner (2004) have reported evidence supporting the view that country-specific economic considerations affected ECB policy outcomes over the early years of the euro (1999–2002).[5] For the United States, Gildea (1992) and Meade and Sheets (2005) have found that FOMC members respond to regional conditions when they vote on policy directives, but Tootell (1991) has concluded that they do not.

In this paper, we reconsider the influence of regional economic conditions on the policy preferences of individual FOMC members and on the monetary policy stance adopted by the Committee. Our analysis is distinguished by two improvements to the data that have been used in earlier studies. First, we have supplemented formal FOMC voting records with more nuanced information gleaned from transcripts of meeting proceedings. Second, we have used measures of regional economic conditions that have been appropriately aggregated to the Federal Reserve district level from the original county-level observations. To take advantage of these data improvements, we focus our attention on the 1987–1999 portion of Alan Greenspan's chairmanship.[6] With more precisely-measured indicators of decision-makers' preferences and more accurately matched regional economic data, it should be possible to make more reliable inferences about the effects of regional economic conditions on monetary policy choices.

Our analysis will focus on three questions. First, do regional economic conditions influence the policies advocated by individual FOMC members? Second, if regional conditions matter, do they matter in the same way for Governors and Reserve Bank presidents? Finally, if regional conditions shape individuals' policy preferences, do changes over time in the regional composition of the Committee's voting membership affect the stance of monetary policy? Although our empirical analysis is limited to the Federal Reserve, we will briefly consider what implications our results might have for the European Central Bank.

The remainder of our paper is organized as follows. In Section 2, we review the role of regional considerations in the Federal Reserve's organizational structure and examine previous work on the influence of regional conditions on monetary policy decisions. In Section 3, we describe our data on FOMC members' monetary policy preferences and

[3] See Blinder (2007) for a critical survey of recent literature on the advantages of group decision-making and the mechanics of monetary policymaking by committee (e.g., the appropriate voting rule and the appropriate communication strategy). Sibert (2006) draws on the social psychology literature for insights about the appropriate size and structure of the ideal monetary policy committee.

[4] Balke and Petersen (2002) show that the anecdotal regional reports in the Federal Reserve's Beige Books contain information about economic activity not reflected in other current macroeconomic data.

[5] Arnold (2006) offers a theoretical analysis that clarifies the circumstances under which it may be optimal for the ECB to attach greater weight in its policy decisions to output and inflation developments in the larger euro-area economies (e.g., Germany and France).

[6] Transcripts are published with a five-year lag, and 1999 was the last year available when this study was begun. Prior to 1987, the FOMC did not always directly target an interest rate. Although Thornton (2006) has argued that the Committee has been effectively targeting the federal funds rate since late 1982, we have found that the coding of interest rate policy preferences is much less straightforward in the early and middle years of the 1980s. County-level unemployment data are not available before 1980.

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات