



## Why a FOMC member is a hawk or a dove?

### Ideology and Politics

Monetary policy decisions typically arise from the deliberation and vote of a committee. Committees are in a continuous flux as personalities change, preferences change and majorities change. Who sits in these committees and what molds their preference on monetary policy? The authors discuss these questions with regard to the body that decides on monetary policy in the United States, the Federal Open Market Committee (FOMC) of the Federal Reserve. They highlight ideology by education and early life economic experience of the FOMC members that served during the last 55 years. As these members are appointed, authors discuss as well whom politicians choose for the FOMC.

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### Hawks

Odds of being a "hawk" (most concerned with stable, low inflation) are higher when a member graduated from a university linked to the Chicago School of Economics

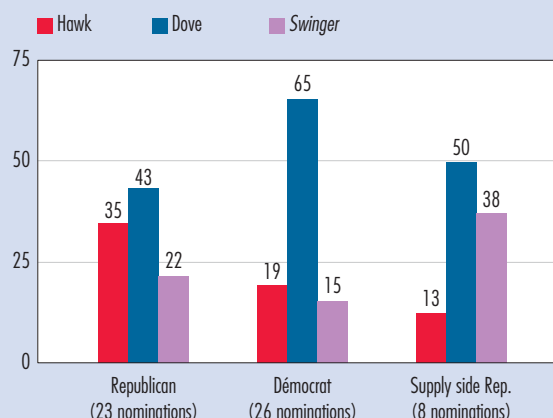
### Doves

Odds of being a "dove" (most concerned with low unemployment and stimulating growth) are higher when a member graduated from a university with strong Keynesian beliefs

### Politics

Members of the Board of Governors of the Federal Reserve that are nominated by a Democrat president are generally perceived as doves. Those nominated by a Republican president are more equally divided between hawks and doves.

### The Board member's type and the party of the president who nominated them



Notes: Sample period 1960-2015.

"Supply side Republican" refers to Reagan and his nominations.

Source: Bordo and Istrefi (2018).



In a recent paper (Bordo and Istrefi 2018) we examined the policy preferences of FOMC<sup>1</sup> members, who served from the early 1960s to 2015, in relation to the ideology of who appointed them. We considered both the members of the Board of Governors of the Federal Reserve (Fed) relative to the party of the U.S. presidents, and the Regional Federal Reserve Bank presidents relative to the Board of Directors of the regional Federal Reserve Bank that appointed them. We investigated three types of policymakers: the inflation-fighting hawks, the growth-promoting doves and swingers, those members perceived as swinging between the hawkish and dovish camps at the FOMC.

The hawk and dove measure is constructed by Istrefi (2017) and is based on narrative records in U.S. newspapers regarding the policy leanings of FOMC members with respect to the Federal Reserve's dual mandate. It is compiled for 130 FOMC members who served from the early 1960s to 2015. This measure is based on all the relevant information derived from the policymaker's backgrounds (origins, education, political preferences and political supporters), their economic

beliefs (expressed in writings, testimonies, and speeches) and actions (votes and dissents). About 20,000 articles or reports, from more than 30 newspapers, and referencing 130 members were read (human reading instead of text mining algorithms) to collect quotes that are informative on the policy preference of each member. These quotes are quantified as perceptions for a hawk or a dove, the usual terms that Fed watchers or monetary analysts use to describe these policymakers. Perceptions are traced year by year, for the whole tenure of the FOMC member. Overall, Istrefi (2017) finds that about 39 percent of these members were perceived as all-time hawks, 30 percent as all-time-doves and about 24 percent as swingers (changing type). The rest remained unknown.

### 1 Ideology by who appointed the FOMC members and the link with these nominations

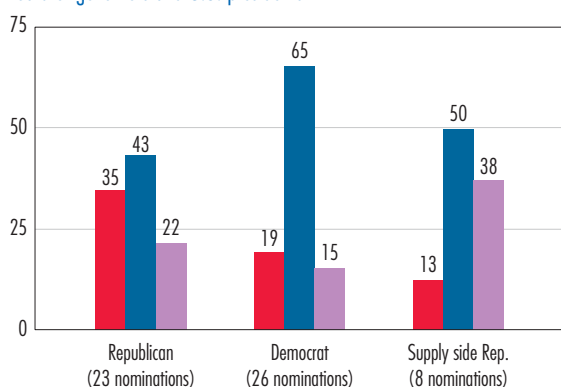
The "Partisan theory" of monetary policy first formulated by Hibbs (1977) and supported empirically by Beck (1982), Stein (1985) and Alesina and Sachs (1988), among others, suggests that Democratic administrations

#### C1 The type of FOMC appointees and the party in power at the time of their appointment

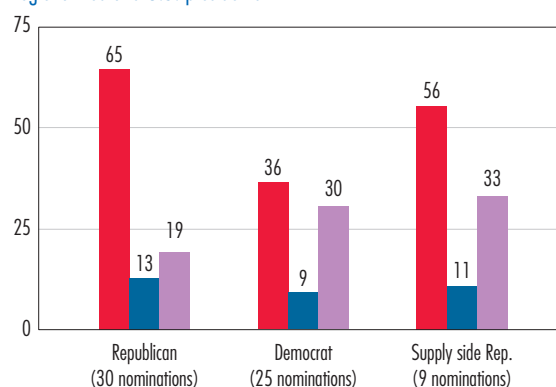
(%)

■ Hawk ■ Dove ■ Swinger

##### a) Board of governors and U.S. presidents



##### b) Regional Fed and U.S. presidents



Notes: Sample in the chart comprises all the FOMC members that have served at the FOMC during 1960-2015. In chart a, supply side republican refer to Reagan and his nominations. Chart b abstracts from the regional Fed presidents for which the policy preference remained unknown, therefore the sums do not add to 100%.

Source: Bordo and Istrefi (2018).

<sup>1</sup> The FOMC (Federal Open Market Committee) is composed of 12 members: the 7 members of the Board of Governors and 5 of the 12 regional Federal Reserve Bank presidents.



prefer “easy” monetary policies and choose doves whereas Republican administrations prefer tightness and thus, choose hawks. Indeed, our analysis shows that Democratic Board nominees have been mostly perceived to be doves during their tenure in the FOMC and very few have been perceived as hawks (see Chart 1a). The share of hawks does appear higher for Republican nominees but a slightly higher share of Republican nominees is also perceived to be doves. This is not very surprising. First, if re-election motives are present, even Republicans might choose members with dovish preferences in expectation of policies to support growth and employment. Secondly, the U.S. president appoints the Board members but each of them must be confirmed by the Senate. Nominees have higher chances of confirmation if they are “likable” by both sides in the Senate. Our data shows that 70% of the members in the Board of Governors in our sample were confirmed in a Democratic-majority Senate.

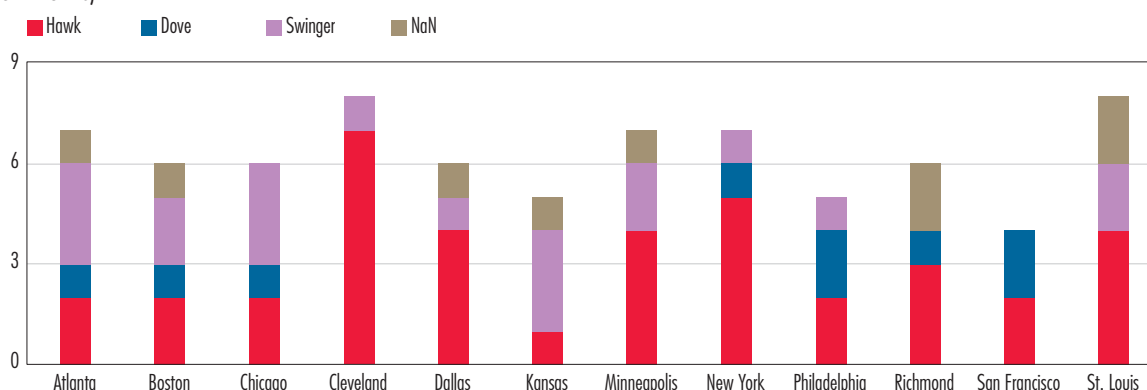
In contrast, when we consider regional Federal Reserve Bank presidents who are appointed by their bank’s board of directors, we observe a high share of hawks irrespective of the president’s party (see Chart 1b). Federal Reserve Bank presidents seem to be picked

rather for having beliefs that go in line with those of the regional Federal Reserve Bank that they represent. This seems especially true for Federal Reserve Banks that have a long tradition of institutional ideology, e.g. the Federal Reserve Bank of Cleveland as having “outspoken, inflation-fighting roots”. Several regional Feds like the Federal Reserve Banks of Cleveland, Dallas, New York or St. Louis have had presidents predominantly perceived as hawks (see Chart 2). The Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Kansas City had presidents predominantly perceived as swingers whereas the Federal Reserve Bank of Philadelphia and the Federal Reserve Bank of San Francisco had presidents predominantly perceived as doves.

Beyond institutional memory and ideology, several other factors could explain this distribution of types of preference, such as the ties of the Federal Reserve Banks with the Board of Governors (which is believed to have become more influential over time in choosing Federal Reserve Bank presidents), how strong the ties of the Federal Reserve Banks with the commercial banks of the region are, or the conservative versus liberal tendencies of regions.

## C2 Federal Reserve Bank appointments as hawks, doves and swingers

(number in units)



Note: Sample in the chart comprises all the Reserve Bank presidents that have served at the FOMC during 1960-2015.

Source: Bordo and Istrefi (2018).



## 2 What molds the central banker's type as a hawk or a dove?

In our paper, we highlight two important factors in moulding the policy preferences of FOMC members who have served over the past 60 years: ideology by education and events that shaped their lives before joining the FOMC.

By ideology in education we mean the graduate schools that PhD economists on the FOMC studied at. We distinguish between, on the one hand, the so-called "freshwater" schools like the University of Chicago, Rochester and UCLA associated with monetarist (stable money) views and scholars like Milton Friedman, Karl Brunner, Allan Meltzer and Robert Lucas, and, on the other, "saltwater" schools like Harvard, MIT, Yale and Berkeley associated with scholars like Paul Samuelson, Robert Solow and James Tobin who were Keynesians and who emphasized full employment over low inflation. Our results show that about 70% of members from freshwater schools have been hawks, while the majority of members from saltwater schools have been doves (see Chart 3a). Our work also shows that members who

did not have a Ph. D. (e.g. bachelor's, master's, MBA) were less polarized; most of them were perceived as hawks irrespective of the school type (see Chart 3b).

Our second salient determining factor is events that shape FOMC members' lives. We examine for each member the major economic events (high inflation and high unemployment) that occurred during their early life (when born and until 25-30 years old). This investigation is motivated by the literature in political science and social psychology which suggests that people form their core economic and political beliefs mostly during the early stages of life (age 18 to 25), which then remain fairly unaltered for the rest of their lives. For instance, our results indicate that members who were born during the Great Depression tended to be doves and swingers (see Chart 4a). Those that lived their early life during periods of high inflation (like during the two World Wars) tended to be hawks (see Chart 4b).

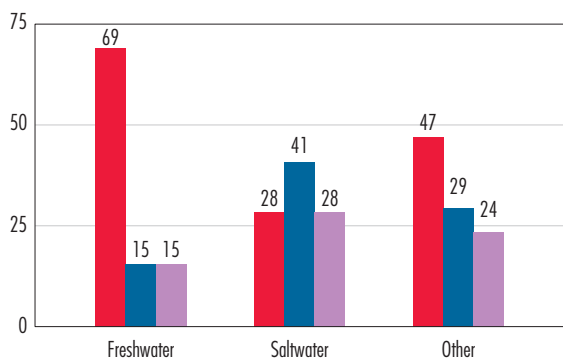
Obviously, there are other factors that we have not discussed. Overall in our analysis, we find that the odds of being a hawk are higher when a member is born during a period of high inflation or graduated from a

### C3 Ideology by education and school of thought

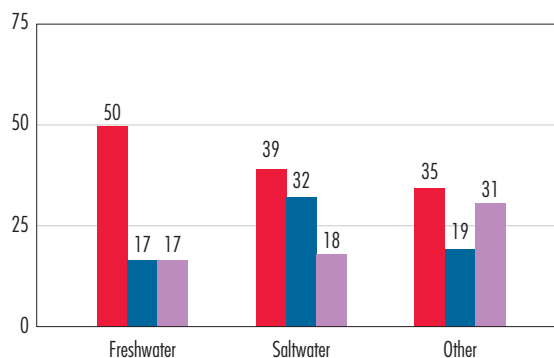
(%)

■ Hawk ■ Dove ■ Swinger

a) Ph. D.



b) Non Ph. D.



Notes: "Freshwater" describes schools linked to the Chicago School of Economics; "Saltwater" describes schools with strong Keynesian beliefs, like Harvard, MIT, Yale and Berkeley; "Other" describes schools that are not particularly known to be either freshwater or saltwater. Sample in the chart comprises all the FOMC members that have served at the FOMC during 1960-2015.

Source: Bordo and Istrefi (2018).

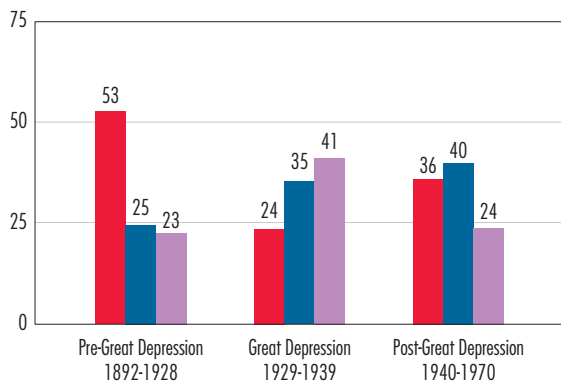


### C4 Anchoring of the Great Depression and the Great Inflation in memory

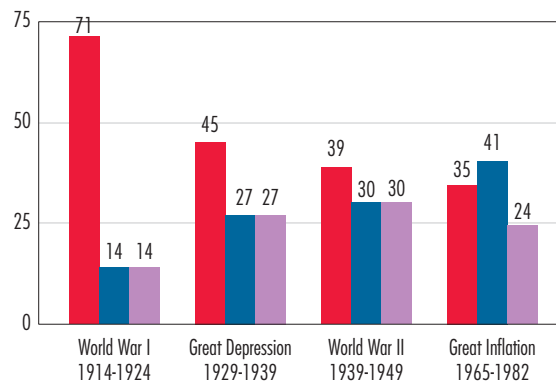
(%)

■ Hawk ■ Dove ■ Swinger

a) Birth years



b) Impressionable years (18-25 years)



Notes: For WWI (1914-1924) and WWII (1939-1949), each period includes the years of the war plus post-war inflation years. Chart a: all FOMC members (119 in total, excluding the unknown types); Chart b: only FOMC members with impressionable years in the defined periods (89 members), formation years during the age of 18 to 25 years old. Sample comprises all the FOMC members that have served at the FOMC during 1960-2015.

Source: Bordo and Istrefi (2018).

university linked to the Chicago School of Economics (“freshwater”). Most likely, a dove is born during a period of high unemployment, like the Great Depression

or graduated from a university with strong Keynesian beliefs (“saltwater”). Swingers share several background characteristics of the doves, but not always.



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