Discussion: Policy by Committee

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Summary of the Paper

- **Question:** how does the FOMC aggregate members' views?
  Data: forecasts + arguments from ∼30 years of transcripts (LLM-extracted).

- **Result 1:** members hold distinct, persistent models of the economy – the slope of the Phillips curve, the interest-rate sensitivity of the IS curve:
  1. different beliefs within the same meeting;
  2. the differences are large;
  3. and persistent – members keep their views for years;
  4. predict members' own forecasts – captures real beliefs.

- **Result 2:** how are these conflicting views aggregated?
  The committee tilts toward members whose models best fit recent data – can improve decisions, but risks overfitting.

Main Comments – Outline

- **Contributions:**
  - Remarkable measurement: transcripts $\times$ LLM $\Rightarrow$ member-level structural beliefs.
  - Moves the committee literature beyond *information* aggregation to *model aggregation*.
  - Insightful, rich setting, and will be very influential.
- **Comments:**
  - **Comment 1**: what the members' statements measure? The slope – or a forecast about fundamental shocks, inferred from the equilibrium relationship?
  - **Comment 2**: the paper assumes common inflation expectations – but different beliefs about future inflation change the observed slope.
  - Minor: aggregation – weighting members' models, or responding to updated data?

Comment 1: Measurement

The paper's examples about slope of Phillips curve κ (Table 1):

STEEP – Yellen '15	"... as resource utilization tightens, eventually inflation will begin to rise."
MODERATE – Fischer '15	"... the Phillips-curve relationship will reassert itself ... but only faintly so."
FLAT – Bullard '17	"... any linkage between relatively low unemployment and inflation is empirically very minor in recent years."

Two ways to understand each statement:

1. **(The paper)** a belief about the structural slope κ: steep, moderate, or flat.
2. **(Alternative)** a forecast based on the equilibrium relation: the comovement is driven by beliefs about the shock decomposition.

Is the member talking about 1 or 2?

Comment 1: A Simplified New-Keynesian Model

The three-equation NK model (κ = PC slope, ϕ = interest-rate sensitivity):

$$\pi_t = \kappa\, y_t + \beta\, \mathbb{E}_t[\pi_{t+1}] + u_t \qquad \text{(Phillips curve, supply shock } u_t\text{)}$$
$$y_t = \mathbb{E}_t[y_{t+1}] - \phi\,(i_t - \mathbb{E}_t[\pi_{t+1}]) \qquad \text{(IS curve)}$$
$$i_t = \gamma\, \pi_t + v_t \qquad \text{(Taylor rule, MP shock } v_t\text{)}$$

With i.i.d. shocks, the **equilibrium** is

$$\pi_t = \frac{u_t - \kappa\phi\, v_t}{1 + \kappa\phi\gamma}, \qquad y_t = -\frac{\phi\gamma\, u_t + \phi\, v_t}{1 + \kappa\phi\gamma}.$$

- Adverse supply shock ($u_t \uparrow$): $\pi \uparrow$, $y \downarrow \Rightarrow$ *negative* comovement (e.g., Covid).
- Contractionary MP shock ($v_t \uparrow$): $\pi \downarrow$, $y \downarrow \Rightarrow$ *positive* comovement.

Comment 1: What Does the Inflation–Output Comovement Identify?

The inflation–output relation **in equilibrium** is the projection

$$b \equiv \frac{\mathrm{Cov}(\pi_t, y_t)}{\mathrm{Var}(y_t)} = \frac{\kappa\phi\,\sigma_v^2 - \gamma\,\sigma_u^2}{\phi\,\sigma_v^2 + \phi\gamma^2\,\sigma_u^2}.$$

Shock decomposition	Observed slope b	
Only demand/MP shocks ($\sigma_u^2 = 0$)	$b = \kappa$	structural slope recovered
Only supply shocks ($\sigma_v^2 = 0$)	$b = -\dfrac{1}{\phi\gamma} < 0$	sign flips!

The observed b changes with the shock decomposition – b is in general not κ.

Comment 1: One Question, Two Interpretations

"Unemployment is 1% lower (output gap higher) – where is inflation?"

1. All else equal: the answer is κ.
2. As an equilibrium outcome: it depends on the forecast of the shock
   – demand: inflation higher; supply: lower.

Which question is the member answering? The statement alone cannot pin down κ.

- A member's statement gives one answer – the words do not say which interpretation.
- Reading the answer as κ requires knowing the member's belief about shocks first.

Comment 1: A Belief about the Curve – or a Forecast?

Late 2015: unemployment $\downarrow$ (so $y \uparrow$), $\pi \downarrow \Rightarrow b < 0$ – a favorable supply shock.

Fischer (the paper's MODERATE example: κ slightly > 0), in one statement:

"... the Phillips-curve relationship will reassert itself ... but only faintly so."

"... largely temporary forces are keeping the inflation rate ... below its target level ... the declines in the price of energy and ... appreciation of the dollar are temporary."

- In the data, the negative b suggests $\kappa \leq 0$: a flat or negative Phillips slope.
- Fischer concludes κ slightly > 0 because the shocks are temporary ($b \to \kappa$).
- His conclusion relies on his belief about the shocks – the second interpretation.

Suggestion 1: Possible Solutions

In general this requires an IV – but several tests the paper could do using existing data:

1. **Within-member test:**
   1. extract the reasoning behind each slope statement (demand, supply, or both);
   2. split into demand/supply-driven episodes within each member.

   This paper: slope invariant. *Equilibrium*: demand $\to \kappa$, supply $\to -1/(\phi\gamma)$.

2. **Consequences for decisions:** split time into demand- vs. supply-driven periods – does forecast-error predictability differ, and how does it influence decisions?

Comment 2: The Unmeasured Belief – Expectations

Comment 1's Phillips curve has an expectations term:

$$\pi_t \;=\; \kappa\, y_t \;+\; \beta\, \mathbb{E}_t[\pi_{t+1}] \;+\; u_t$$

- In the paper, expectations are the same for every member (a common coefficient).
- But members have different expectations about future inflation – anchored vs. adaptive (Blanchard, 2016; Hazell et al., 2022):

$$\mathbb{E}^i_t[\pi_{t+1}] \;=\; a_i\, \bar{\pi} \;+\; (1 - a_i)\, \pi_t, \qquad a_i{=}1 : \text{anchored at } 2\%; \quad a_i{=}0 : \text{adaptive.}$$

Two members with the same κ can talk about future inflation completely differently.

Comment 2: The Unmeasured Belief – Expectations

Plug member i's expectations into their Phillips curve and solve for π:

$$\pi \;=\; \kappa_i\, y \;+\; \beta\big[a_i\,\bar{\pi} + (1 - a_i)\,\pi\big] + u \qquad \Longrightarrow \qquad \pi \;=\; \frac{\kappa_i}{1 - \beta(1 - a_i)}\, y \;+\; \text{const}$$

The observed slope depends on a_i, not only κ_i $(\beta = 0.9)$:

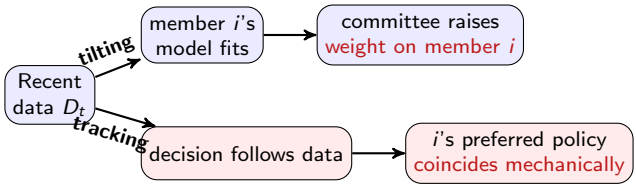
	slope κ_i	anchoring a_i	observed slope	classified
A	0	—	0	FLAT
B	0.3	1	0.3	FLAT but $\kappa_B = \kappa_C$
C	0.3	0	3.0	STEEP

Member B exists – BOSTIC, June 2017: "long-run inflation expectations ... the dominant determinant of inflation dynamics ... well anchored at the Committee's 2 percent objective."

Suggestion 2: add an anchoring category to the measurement.

Minor Comment: Tilting vs. Tracking

Better fit $\Rightarrow$ closer to the decision. Two stories predict this:



- Under tracking, the decision simply follows the data, and members whose models fit the data agree with it mechanically, without any weighting by the committee.
- Fits tracking: the coefficient is identical with and without voting rights; decisions surprise markets only via the *response to news*.
- **One test:** does the fit-weighted members' stance predict the decision *beyond* the staff's data-based prescription?

Conclusion

- Insightful and ambitious:
  - an important question: how does the FOMC aggregate members' views?
  - a remarkable dataset of member-level beliefs; committees as *model* aggregators.
- **Comment 1:** the labels may capture a joint slope–shock belief, not the slope alone.
- **Comment 2:** different beliefs about future inflation change the observed slope.
- Minor: tilting vs. tracking – weighting members' models, or responding to the data?