

**“Are Monetary Policy Preferences Egocentric?
Evidence from Two American Surveys and an Experiment”**

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Context: The Political Economy “Behavior” Debate

Original research question: Are individual policy preferences based more on one's factor endowments or sector of employment?

Tentative theoretical conclusion: factors for trade policy preferences and sectors for monetary policy preferences.

Some supportive evidence for trade policy preferences (e.g. Scheve and Slaughter 2001, Mayda and Rodrik 2005).

But recent survey evidence (e.g. Hainmueller and Hiscox 2006, Mansfield and Mutz 2009) shows little basis for egocentric preferences in terms of trade policy.

New research question: do economic policy preferences have any basis in egocentrism?

We seek to enter this debate with a focus on monetary policy preferences.

An Argument for Egocentric Monetary Preferences

Well-developed macroeconomic theory

Ricardo-Viner – factors cannot move between sectors in the short-term.
Thus preferences within an industry should be relatively uniform.

Mundell-Fleming – governments must choose between domestic monetary autonomy or exchange rate stability (given currency convertibility).

Egocentric predictions

Individuals associated with domestically-oriented industries prefer more domestic monetary autonomy.

Individuals associated with internationally-oriented industries prefer more exchange rate stability.

Skepticism about Egocentric Monetary Preferences

Do citizens even understand the tradeoff between domestic monetary autonomy and exchange rate stability?

But some of these informational problems may be reduced with a vignette in the context of a public opinion survey.

Similar to Fishkin's deliberative polling exercise

With more information, citizens may be able to articulate a coherent monetary policy preference.

But do these expressed preferences have any sectoral basis?

Survey Evidence on American Monetary Preferences

Start with two national surveys.

1. Convenience sample using Mechanical Turk (MT) in August 2012.
2. Representative sample within the Cooperative Congressional Election Study (CCES) in November 2012.

Both surveys begin with an informative vignette, which was longer with more follow-up questions in the MT survey than in the CCES survey.

The term “monetary policy” refers to the government’s use of interest rates to address different economic problems. When the domestic economy falls into a recession, the government could lower interest rates to stimulate economic growth. Alternatively, when prices are rising in the domestic economy, the government might raise interest rates in order to fight inflation (rising prices).

The government can also use its monetary policy to stabilize or change the U.S. dollar’s value in the international marketplace. When the dollar’s value is falling, the government could raise interest rates in an effort to strengthen the dollar internationally. Alternatively, when the dollar becomes too strong, it hurts U.S. exports by making American products seem more expensive in international markets. Thus, the government might lower interest rates in order to make U.S. exports more internationally price-competitive.

While all of these economic problems may be important, monetary policy cannot be used to address them all at the same time. Consider the following scenario: the domestic economy is not growing and the dollar’s value is falling in the international marketplace. If the government wants to stimulate economic growth, then it would need to lower interest rates. But if it lowers interest rates, then the dollar will only fall further in the international marketplace. In order to strengthen the dollar, the government would need to raise interest rates, but this would hurt U.S. economic growth.

To further illustrate this point, consider another scenario: prices are rising in the domestic economy (inflation), but the U.S. dollar is becoming too strong in the international marketplace, hurting US exports. If the government wants to fight inflation, then it would need to raise interest rates. But if the government wants to make U.S. exports more price-competitive, then it would need to lower interest rates. Once again, the government cannot address both of these economic problems using monetary policy because it cannot both lower and raise interest rates at the same time.

Having read these paragraphs, please answer the following [4] questions about what you have read.

When the domestic economy is in a recession, which monetary policy might increase economic growth?

- A. raising interest rates B. leaving interest rates unchanged C. lowering interest rates

When the dollar is too strong in international markets, which monetary policy might make American exports more price competitive?

- A. raising interest rates B. leaving interest rates unchanged C. lowering interest rates

According to the information above, is it possible for the government to use the same monetary policy both to improve domestic economic growth and to strengthen the dollar in international markets?

- A. Yes B. No

Would it be possible for the government to use the same monetary policy both to improve domestic economic growth and to make American exports more price competitive in international markets?

- A. Yes B. No

Cooperative Congressional Election Study Vignette (214 words)

When the economy falls into a recession, the government could lower interest rates to stimulate economic growth. Alternatively, when prices are rising, the government might raise interest rates in order to fight inflation (rising prices).

The government could also use interest rates to stabilize or change the U.S. dollar's value in the international marketplace. When the dollar's value is falling, the government could raise interest rates to strengthen the dollar internationally. Alternatively, when the dollar becomes overvalued, it hurts U.S. exports by making American products seem more expensive. Thus, the government might lower interest rates to boost U.S. exports.

Unfortunately, interest rates cannot be used to address all of these problems at the same time. Consider the following scenario: the economy is not growing and the U.S. dollar's value is falling in the international marketplace. If the government wants to stimulate economic growth, it would need to lower interest rates. But if the government instead wants to strengthen the dollar, it would need to raise interest rates.

Now consider another scenario: prices are rising (inflation) and the U.S. dollar is overvalued, hurting American exports. If the government wants to fight inflation, it would need to raise interest rates. But if the government wants to boost American exports, it would need to lower interest rates.

[Follow-up Questions]

When the US dollar is overvalued, which policy might boost American exports?

A. Raising interest rates B. Leaving interest rates unchanged C. Lowering interest rates

According to the information above, would it be possible for the government to use interest rates to improve economic growth and to strengthen the dollar at the same time?

A. Yes B. No

Dependent Variable

“When the domestic economy is not growing and the U.S. dollar’s value is weakening in the international marketplace, use the sliding scale below to indicate which policy goal the government should prioritize using its monetary policy.”

The sliding scale has “strengthening the U.S. dollar internationally” at one end with “promoting domestic economy growth” on the other end, with higher values (0-100) associated with a more *Domestic Monetary Preference*.

Independent Variables

Sectoral Measures: a series of *Overseas* variables based on following question:

“To what extent does your business/employer export their production to or do business in overseas markets?” In respond to this query, respondents had four options: *None* (omitted category), *Some Overseas*, *Most Overseas*, and *All Overseas*.

Egocentric Expectation: these *Overseas* measures should be negatively signed and get larger with more international business activity.

Controls: *Income*, *Education*, *Age*, *Female*, *White*, *Liberal Ideology*, *Democrat* and *Republican*.

Survey Results

Estimates of *Domestic Monetary Preference*

	MT Sample	CCES Sample	CCES Sample
<i>Some Overseas</i>	-3.96+	0.66	1.07
	(2.36)	(3.66)	(3.19)
<i>Most Overseas</i>	-14.53**	-0.94	4.16
	(5.15)	(4.95)	(4.94)
<i>All Overseas</i>	-28.50**	-26.74*	-28.94*
	(9.46)	(10.56)	(11.03)
Observations	603	321	684
R-squared	0.085	0.209	0.107

+ p<0.10, * p<0.05, ** p<0.01

Control variables not reported for space considerations.

So why are the CCES results weaker?

1. CCES sample has lower percentage of respondents associated with an overseas business, perhaps leading to a weaker egocentric signal.

2. Weaker informative vignette?

MT sample received a longer and more informative vignette than did the CCES sample due to time limitations in the latter survey.

Due to the complicated nature of monetary policy, individuals may not be able to articulate a coherent policy preference without a more informative vignette.

Survey Experiment varying the Vignette:

Individuals randomly chosen for:

1) no vignette, 2) shorter CCES vignette, or 3) longer MT vignette.

Experimental Results

Table 4. Estimates of *Domestic Monetary Preference* varying the Vignette

	Full Sample	No Vignette	CCES Vignette	MT Vignette
<i>Some Overseas</i>	-2.88+	-5.32	1.90	-4.74
	(1.76)	(3.87)	(4.29)	(3.96)
<i>Most Overseas</i>	-13.79*	-13.17	-7.38	-15.02
	(6.87)	(10.87)	(8.73)	(12.96)
<i>All Overseas</i>	-25.76*	1.83	-20.10	-53.68**
	(11.76)	(7.90)	(15.20)	(4.77)
Observations	579	194	196	189
R-squared	0.046	0.081	0.056	0.082

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

Control variables not reported for space considerations.

Conclusion

American monetary policy preferences appear to have a sectoral basis.

But this sectoral egocentric basis is conditional on sufficient information.

More exploration needed in other national contexts with a different informational context.

Figure 1: Frieden's Sectoral Preference Model

	Preference for Exchange Rate Stability	Preference for Domestic Monetary Autonomy
Preference for Depreciated Currency	Exporters	Import-Competing Producers
Preference for Appreciated Currency	International Investors	Non-tradable Producers