Deliberations, Decisions, and Justifications: Transparency of the FOMC

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Abstract

Organizations regularly engage in private deliberations, make decisions, and then offer public justifications to legitimize the decision and manage expectations. However, organizations today face increasing demands to be more transparent about their reasoning during this process. What are the implications of increasing their transparency? In this paper, we explore the idea that transparency increases the fidelity between their private deliberations and public justifications, driven by concerns for consistency between their back and frontstage. Although existing research on this topic generally assumes this outcome, it has not been tested because we rarely observe both deliberations and justifications for the same decision. More important, since we haven’t been able to observe both, we also haven’t been able to interpret the theoretical and practical implications of increased transparency. For instance, does transparency force organizations to prospectively conform the way they deliberate to match their public justifications, or does it encourage them to expand their justifications to include more information from their private deliberations? To examine these considerations, this study exploits an exogenous shock to the Federal Open Market Committee (FOMC) deliberations in 1993 that instantly forced more transparency upon the organization. Use a semantic networks analysis, we compare the private deliberations that lead to decisions about changing interest rates (i.e., transcripts from each meeting) and public justifications of this decision (i.e., edited minutes that summarize each meeting) before and after the 1993 shock, employing a difference-in-difference approach.