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Gender Diversity and Monetary Policy

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Abstract:
Gender diversity matters in many respects. Obviously. Does gender diversity also matter in monetary policy? This is perhaps not so obvious. In the present SUERF Policy Note, the authors refer to some recent studies, which document some impact of gender diversity on monetary policy making. Data from the US FOMC reveals different patterns of voting behavior for respectively women and men. Women tend in this study more often than men to have a dovish attitude i.e. being in favor of an active monetary policy. Results from studies of central bankers in other OECD countries are somewhat different. A 2016-study by the three authors applying an index of gender diversity suggests that presence of women in central bank boards can be associated with a more hawkish approach to monetary policy making.

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Can the delay in the US monetary policy liftoff be attributed to a gender dovishness, other things being equal? In the United States the Great Recession started in December 2007 and ended in June 2009. Yet, only in December 2015 the Board of Governors of the Federal Reserve System (FED) began the process of monetary policy normalization. The episode has been considered as a case of missing lift-off (Orphanides, 2015), since, during the Great Recession, the FED's monetary policy acquired an activist bent, familiar to the one experienced in the 1960s and 1970s, i.e. consistent with dovish preferences in the FED governing body. Since 2014, the FED has been headed by a woman – Janet Yellen. That may inspire further studies of the gender issue in the context of monetary policy in the future.

The role of preferences in shaping the monetary policy stance has been explored by focusing on the degree of activism in designing and implementing monetary policy actions. High inflation performances are usually correlated with active (Keynesian) monetary policies (Eijffinger and Masciandaro, 2014). Policymakers tend to use monetary tools with an anti-cyclical perspective, using the inflation tax to smooth different kinds of macroeconomic shocks – i.e. real (Barro and Gordon, 1983) and/or fiscal (Sargent and Wallace, 1981) unbalances – thus trying to exploit the trade-off between real gains and nominal inflationary) costs.

In this literature, a specific jargon has been coined: a "dove" is a policymaker that likes to implement active monetary policies, while a "hawk" one dislikes these policies (Chappell et al., 1993; Jung, 2013; Jung and Kiss, 2012; Jung and Latsos, 2014; Eijffinger et al., 2013a, 2013b and 2013c; Neuenkirch and Neumeier, 2013; Wilson, 2014; Eijffinger et al., 2015). Throughout time, the dovish/hawkish attitude may become a more important focus of the analysis of monetary policy decisions.

In exploring the drivers of the monetary policy preferences, the attention zoomed also in on the possible role of gender diversification. Chappell and McGregor (2000) were among the first to draw the attention to gender. Using voting records and board transcripts, their study documents the voting behavior of individual FOMC members over the period 1966-1996, providing a ranking by preference for ease – dovishness – of 84 individuals who served on the FOMC. During this period, seven women have served on the FED board and six of them are ranked among the thirteen most dovish members. In other words, this study shows that female members of the FOMC could more often be qualified as doves rather than hawks.

It is interesting to note that the dovish attitude in the actions and/or in the representation of women behavior has been already analyzed in political sciences. A prominent line of research has shown that voters tend to view female candidates as associated with a dovish behavior, i.e. being more competent in social welfare policies, while men are perceived to be more hawkish, focusing more on other policy areas, such as national security, defense and crime (among others: Lawless, 2004; Dolan, 2010; Thomsen, 2011). Therefore, dovishness may be considered a gender trait. In general, if women care more about social problems, in the field of monetary policy this may imply that women are more likely to use monetary tools to fix cyclical macroeconomic problems.

Recently, the interest on the link between gender and dovishness has been revived. Farvaque et al. (2010) study the impact of the composition of monetary policy committees on the inflation performances of nine central banks from major OECD countries and 175 central bankers, over the period 1999-2008. In their sample, lower inflation levels are associated with a higher share of female members; therefore, women seem to be more hawkish, and the gender issue is more important in inflation targeting countries.

Given the controversial results obtained so far, we decided to test whether gender diversity in central bank boards affects the conduct of monetary policy and hence macroeconomic outcomes (Masciandaro et al., 2016). To that end, we augment several classical models of monetary economics by introducing a newly created index of gender diversity (GMT Index).

We find a negative and highly significant link between the gender composition of monetary policy boards and average inflation rates, after controlling for the usual determinants of inflation dynamics such as level of central bank independence (CBI), output gap, past inflation, trade openness, and a dummy for inflation targeting countries and for OECD members.

Our goal is to show that the degree of gender diversity in boards matters, even after taking into account the classical control variables used to explain inflation rates dynamics.

This result suggests that a higher participation of women in monetary policy committees is associated with better performance in terms of inflation. This evidence suggests that gender representation can be a signal of prudence in implementing monetary policy actions. In other words, the presence of women in central bank boards can be associated with a more hawkish approach to monetary policy making.

It is worth noting that we are cautious in making any inferences about a causal link between the gender composition of central bank boards and monetary policy outcomes. While we control for the usual determinants of inflation, potential omitted correlates can bias our results. We thus do quantify the magnitude of our estimates and simply limit the discussion on the sign and significance of the relationship between the variables of interest.

Our second empirical strategy relates the GMP index to money supply growth as an alternate proxy for monetary policymaking. The testable hypothesis remains the same: if higher women presence in central bank boards is associated with lower money supply growth, then boards with a higher share of women are associated with a more hawkish attitude. Again, the coefficient of interest is highly significant across all models and negatively associated with money supply growth, suggesting that countries with higher women's participation in the central bank board experience lower growth in their monetary base, controlling for other usual determinants of money growth.

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