THE EFFECTS OF GENDER DIVERSITY ON MONETARY POLICY AT THE FEDERAL RESERVE

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ABSTRACT

The recent debate in Congress and the Senate about diversification at the Federal Reserve spurred the growth of research on this subject. Studies on diversity in the Federal Reserve, especially the FOMC, analyze the gender composition of Boards of Governors of regional Federal Reserve banks and voting patterns for males vs. females. However, there is a critical question that no study has chosen to address, which is: Does it matter to investors whether FOMC members are males or females? This study finds that females within the Federal Reserve generally have a greater significant impact on market volatility when communicating in public. However, when considering the rank of Chairman, a male Chairman has a greater significant impact on market volatility than a female Chairman.

Keywords: *Federal Reserve, Monetary Policy, Diversity, Gender, Market Volatility*

1. LITERATURE REVIEW

A 2011 U.S. Government Accountability Office (GAO, 2011) report on the recruitment effort of the Federal Reserve Bank Board of Directors recommended that the Federal Reserve enhance “demographic diversity and broaden perspectives among Reserve bank directors who are elected to represent the public.” This was in response to a memorandum sent to all Reserve Bank Presidents, by then Federal Reserve Vice Chair Janet Yellen, to emphasize increasing director diversity. Since that report, a single and first female Chairman has been appointed, but the general diversity of Reserve Bank Boards remains relatively the same.

In October 2012, a group of 66 economists and academicians published an open letter to urge the Eurogroup to reconsider the nomination of a male for Governor of the Central Bank of Luxembourg. The open letter notes that the Governing Council contains 23 members, none of whom are a woman, and that it was “impossible over the last four appointments to [not] find at least one suitable female candidate in the Eurozone” (Redazione, 2012). Four years after that open letter was published, only 14% of all OECD countries had female board members (Charléty et al., 2017).

Current literature on Federal Reserve diversity, specifically gender, is scarce. Ainsley (2019) finds that gender diversity in monetary policy committees affects policymaking. Jarque and Davis (2019) discuss the issues surrounding the underrepresentation of females on the Board of Directors of the regional Federal Reserve banks, and that it could take between thirteen and thirty-one years to reach equality between males and females in terms of representation.

A possible reason for this underrepresentation of females may be due to the unequal representation distribution of females in U.S. undergrad educational programs (Bayer and Wilcox, 2019). However, several papers find that greater gender diversity in economics and related fields has a greater impact on economic growth and sustainability (Maddi and Gingras, 2021; Duppati et al., 2020; D'Ippoliti,2010). Central bank research on monetary policy committees such as the U.S. Federal Open Market Committee (FOMC), the interest rate decision-marking arm of Central Banks, has found that female policy members have a strong hawkish bias (Diouf and Pépin, 2017; Masciandaro et al., 2020).