



Gender and central banking

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ABSTRACT

Female Central Bank chairs represent but a tiny minority. To understand why, this article analyzes socio-economic and socio-political characteristics of the countries where women have chaired Central Banks. Then, it suggests that gender differences in preferences as regards monetary policy goals may have some influence. This hypothesis is based on an empirical analysis showing that female Central Bank chairs focus more than their male counterparts on achieving the price stability goal. This means, then, that women are more resistant than men to political pressures. Finally, it concludes that gender differences in degree of conservatism may be an explanatory factor in female underrepresentation in the Central Bank chairs.

1. Introduction

« Mr. Summers and Mr. Yellen... euh, Ms. Yellen ».

This slip of the tongue by President Obama speaks volumes about women's absence in the world of central bankers (Perlberg, 2013).

As known, Central Banks are among the largest institutions in modern economies. In charge of defining and implementing of monetary policy, they determine the stock of money in circulation, set the level of short rates and perform the essential public functions (management of foreign exchange reserves, banking supervision). Central Bankers' actions have an immense impact on the functioning of our economy. But, until recently, women were deeply underrepresented in Central Banks. It seems that women have greater access to positions of responsibility in politics than in Central Banks where the *glass ceiling* is tougher. For instance, in Europe, among the 23-member policy board and the six-member Executive Board of the European Central Bank (ECB), there are no women at all. Since its creation, the ECB's Executive Board has included only two.

The literature has just begun to worry about women's absence in monetary policy making (Chappell and McGregor, 2000). Most of the existing studies focus on the composition of the Monetary Policy Committees (MPC). They are related to the Federal Open Market Committee (FOMC) of the US Federal Reserve and the Board of the European Central Bank (ECB). The main idea is that the diversity in the

MPC, in terms of gender, but also of age, of professional, sectoral and academic backgrounds, can influence the monetary policy decisions (Farvaque et al., 2014; Masciandaro et al., 2016). In particular, it points out that women's presence in the MPC could have an important effect on policy outcomes (Chappell et al., 2005; Farvaque et al., 2011; Bennani et al., 2015; Masciandaro et al., 2016). The findings obtained by the empirical literature highlighted a higher share of women in the MPC is associated positively with price stability.

In others words, in their decisions, female monetary policymakers are rather inclined to fight against inflation. To explain this attitude, it is observed that, from some level of responsibility, women seek to prove that they can be tougher than men. In particular, as central bankers, they need to make or to acquire a reputation and credibility. Hence they are invited to have hawkish rather than dovish attitude (Wilson, 2014; Hix et al., 2010; Farvaque et al., 2011, 2014; Eijffinger et al., 2015; Masciandaro et al., 2016). Thus, higher women's presence in MPC is associated with better performance in terms of price stability.

In this paper, we try to identify the factors which may explain the absence of females' Central Bank chairs. Indeed, in many countries, women have access to the highest political positions as Head of State, Prime ministers. For instance, in Germany, France, England, Norway, women have been Prime ministers, but, have never been appointed Central Bank chairwoman. Only a minority of women have managed to break the *glass ceiling* and reached the Central Bank chair. This

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prestigious function remains monopolized by men.

Nowadays, there is every indication Central Bank chairs are important people. In their duties, they have the mastering of the monetary policy agenda (Riboni and Francisco, 2008). This tends to show that they are powerful and influential: powerful, because the Central Bank's independence protect them from all kinds of political pressures; influential, through the credit that markets and governments attribute to their words and the consequences of their decisions on the economy. This is why Ms. Janet Yellen is considered as the second most powerful person after the US President (Gergen, 2013). Her appointment, in 2014, as the first female to chair the Federal Reserve Bank, i.e. the world's largest Central Bank, is definitely an essential milestone for female representation in the world of central bankers, i.e. people who actually make monetary policy (Jones, 2013).

So what factors can account for the women's absence as Central Bank chairs? Obviously, there is not one specific factor. Formal or informal barriers are often pointed out, for example:

- A) The reluctance of women for economics and finance studies (Hale and Regev, 2001);
- B) The women's absence in the closed networks of influence from which Central Bank chairs are chosen.

The first argument is not consistent with the facts. As noted by the website *Worldwide Guide to Women in Leadership*, between 2000 and 2015, over 200 women headed the Ministry of economy, finance and/or budget in their country or territory. In early 2015, five are still in office, in: East Timor; Lesotho; Republic of Bosnia-Herzegovina; Somaliland; the United Kingdom. Holding these positions requires commitment, availability and skills, at least equal with those of a Central Bank chair.

The second argument is, finally, misleading. That is what appears from Galbraith (1977, p. 217) ironic words when he observed "In Central Banks, as in diplomacy, the look, well-cut conventional clothing and an ease to keep company with very rich people counts for a lot with much lower results". However, it should not be excluded from discussion. The idea is that there are differences in preferences for the monetary policy goals (Krause and Méndez, 2008). These differences are explained simply because monetary policy decisions will affect, as the case may be, price levels, economic growth, employment and income with consequences on individual and collective well-being (Epstein and Yeldan, 2010). Hence, the aversion to inflation will change according to individuals or individual generations (Farvaque and Mihailov, 2009, Scheve, 2004). Thus, considering the independence that Central Banks enjoy, governments want someone with preferences compatible with theirs to chair Central Banks. Commercial banks wish to know the Central Bank chair appointed to ensure that the preferences are not in conflict with their own interests.

Indeed, according to the economic theory of bureaucracy, people are driven by self-interest, and appointing them as central banker does not change his nature. In others words, Central Banks' decisions can be politically expensive (Toma and Toma, 1986). Hence, the rational choice(s) made by governments when appointing Central Bank chair with particular profiles (Chang, 2006). This rationality can be extended to commercial banks concerned to preserve their interests. In the light of the effects of central bankers' decisions, we assume that the women's absence from Central Bank chairs can be accounted for by their version to inflation.

In this respect, this paper examines female Central Bank chairs' degree of conservatism, as defined by Rogoff (1985), with respect to their male counterparts. For that purpose, an innovative econometric methodology, which does not require estimating all the structural and preference parameters of a monetary model, but only how men and women's parameters differ, is developed to measure the influence of gender's role in central banking. But first, it is worth to note that only a minority of women have managed to break the *glass ceiling* to reach

the chair of the Central Bank.

2. A minority of female Central Bank chairs

A close scrutiny of Central Banks' organization charts reveals that they are overwhelmingly chaired by men. The oldest among them, the Swedish Riksbank (founded in 1668), has never been chaired by a female.¹ Since the 1950s, only 56 women have chaired a Central Bank. In 2015, on a full-time basis, only 16 women chaired a Central Bank out of a total of 184 worldwide i.e. less than 10% (8.69%). Among the 34 Organization for Economic Cooperation and Development (OECD) countries, i.e. economically influential, 27 have never appointed female Central Bank chairs; the seven exceptions are Austria, Denmark, Finland, former East Germany, Israel, Poland and the United States.

By crossing available data in periodicals and newspapers (Central Banking; Financial Times) and several websites (CentralBankNews.info; The Group of Thirty; Council for Parity Democracy; Worldwide Guide to Women in Leadership; www.guide2womenleaders.com; BloombergBusiness; CentralBanking.com; Connecting Women in Sovereign Entities Globally (WSE)), we have identified 56 female chairs, since 1949, for 46 Central Banks.² The results obtained are summarized in Table 1.

The majority of female Central Bank chairs were appointed in emerging countries. Among the 46 Central Banks listed, only seven (Belarus, East Germany, Russia, Serbia, Honduras, Kyrgyzstan) have been chaired by women more than once³ since 1949. Similarly, those with a high turnover rate have only one nomination. Thus, the Banco Central de Bolivia has only one female (less than 2%) among its 53 successive governors; Banco Central de la Republica de Argentina, one out of 36 (2.7%); Banco Central del Ecuador, one out of 35, (2.8%); Central Bank of Finland, one out of 32 (3%).

Many arguments have been put forward to explain this underrepresentation, including: the conservative and reactionary ideology of Central Banks; the stereotypes in children's education related to customs, religion; the differentiated educational guidance received by boys and girls in terms of curriculum preparing them for the world of work; the absence, in some countries, of gender-positive policies; the way Central Bank chairs are appointed with a sort of natural bias in favor of men.⁴

These arguments pose the existence of circumstances that are more or less favorable to the promotion of female as Central Bank chairs. What are those circumstances? What are their characteristics? To highlight them, we will refer to the socio-economic and socio-political indicators established by the United Nations Development Program (UNDP).

2.1. The socio-economic indicators

They concern the Human Development Index (HDI) and the Gender Inequality Index (GII). The HDI measures the average level of human development achieved in a country in three basic dimensions: health and life expectancy, access to education and decent

¹ That even with the highest proportion of females members in the MPC (50% since 2003) (see Farvaque et al., 2011)

² Some websites, such as the *Worldwide Guide to Women in Leadership*, wrongly include female Central Bank chairs: Ms Ellen Johnson Sirleaf (the current president of Liberia); Violeta Asfura in Venezuela; Felisa Miceli Jsefina (former Minister of Economy and Production of Argentina, 2005–2007); Ana Dias Lourenco (former Ministry of Planning in Angola). On Guatemala, there is confusion between Ms. Lilly Zapata and Mr. Willy Zapata Waldemar Sagastume (President of the Banco Central, 1993–1997).

³ Of the 56 female Central Bank chairs, 4 were named twice at different periods (Ms. Maria Elena Mondragón Villar in Honduras; Ms Zeti Akhtar Aziz in Malaysia; Ms Yathotou Pany in Lao PDR; Ms Maria Do Carmo Trovoada in Sao Tome principle). In total, there are thus 60 nominations.

⁴ See interviews of female Central Bank chairs in Central Banking Journal, Vol. XI, No. 3, Feb 16, 2001.

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