Diverse Policy Committees Can Reach Underrepresented Groups

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May 19, 2022

Christine Lagarde tweet, November 14, 2019

"I was pleased to invite my new Governing Council colleagues to join me at an off-site retreat yesterday. We discussed in an open and informal setting the running of the Governing Council."



Christine Lagarde tweet, November 14, 2019

"I was pleased to invite my new Governing Council colleagues to join me at an off-site retreat yesterday. We discussed in an open and informal setting the running of the Governing Council."



Twitter reaction: *"Is that really just white men?! Doesn't look like an open discussion. #DiversityandInclusion" / "Très blanc, très vieux, très male."*

Lack of diversity at the Fed has become big concern

FEDERAL RESERVE

The Fed is 'overwhelmingly' white and male and needs to change, study says

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"The Federal Reserve System ... has a diversity problem," said the Brookings Institution report, authored by economists Peter Conti-Brown and Kaleb Nygaard. "This has long been obvious at the top of the organization, among the members of the Fed's Board of Governors and the presidents of the Federal Reserve Banks."

While those top Fed officials are "overwhelmingly white, overwhelmingly male," the report said, the problem also extends into the boards of directors at the local operations, where "we find a staggering homogeneity among them, with only recent signs of diversification."

Fed officials have been challenged repeatedly over the lack of diversity within their ranks.

Fed Chairman Jerome Powell was asked at the issue in February during a hearing before the House Financial Services Committee.

"I would say we're not where we want to be on this," the central bank leader said then. "It's something that I'm personally committed with and that all the leadership of the Fed and the whole Fed is very focused on strengthening our workforce diversity."

Reasons to promote diversity in (monetary) policy making

- "We should mirror the society we serve." (Christine Lagarde, 2020)
  $\Rightarrow$ "Representation/ legitimacy"

- "Diversity can help move us away from groupthink, poor risk assessment and insufficient challenge." (Sharon Donnery, Deputy Governor CBoI, 2020)
  $\Rightarrow$ "Better decisions"

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- "Diverse organizations are also better able to relate to and talk to many different communities." (Jay Powell, 2018)
  $\Rightarrow$ "More effective/ inclusive communication"

This paper

Study whether female and minority representation on the FOMC affects extent to which different demographic groups (men vs. women; white vs. minority) incorporate information from Fed forecasts into subjective beliefs about macroeconomy

- Large-scale survey ($N \approx 9000$) where randomly show different Fed policy makers (White male, White female, Black male)

Shed light on channels through which effects operate:

- trust in the Fed
- "paying attention" / information acquisition

Document differences in ex-ante knowledge about the Fed and pillars of policy

Why would policymaker identity matter?

- One possibility: homophily — tendency of humans to associate more with others that are similar to themselves along personal characteristics

  $\Rightarrow$ in this case, "positive" effects on underrepresented groups might be (more than) offset by "negative" effects on majority group

- Alternative: underrepresented group may have taste for diversity and respond better to perceived "outsiders" while majority group doesn't care

- Or perhaps it simply doesn't matter — a null result would be interesting as well

- In any case, can then assess against other benefits/costs from increased committee diversity

Preview of main results

- Seeing a female or Black Fed policy maker leads female and Black respondents to incorporate Fed forecast more strongly into their own expectations
  - More so for unemployment than inflation
  - No countervailing negative effect on white male respondents
- Channel 1: increase in trust in the Fed for these respondents
  - Large baseline differences between White male vs. underrepresented groups
- Channel 2: female respondents more likely to read Fed-related news article when female Fed governor featured
  - (weakly) increase attention paid to information during main survey
- Underlying driver: more support for heterogeneous “taste for diversity” than homophily

Related literature

- Expectation formation / effects of information: Armantier et al. (2016), Cavallo-Cruces-Perez-Truglia (2017), Coibion-Gorodnichenko-Weber (2019), Binder-Rodrigue (2018), Roth-Wohlfart (2019), Armona-Fuster-Zafar (2019)
  So far focused on *what* is communicated. We focus on *who* communicates it.
- Central bank communication: Blinder et al. (2008), Haldane-McMahon (2018)
- Trust in central banks: Ehrmann-Soudan-Stracca (2013), Jost (2017), Christelis-Georgarakos-Jappelli-van Rooij (2020)
- Demographic differences in economic expectations & link to actions: D'Acunto-Malmendier-Ospina-Weber (2020), D'Acunto-Hoang-Paloviita-Weber (2020)
- Social identity & economic beliefs/decisions: Akerlof-Kranton (2000), Benjamin-Choi-Strickland (2010), D'Acunto (2020), Shayo (2020)
- Homophily and propensity to follow advice: Alsan-Garrick-Graziani (2019): Stolper-Walter (2019)

Outline

1. Survey design & sample
2. Treatment effects on expectations
3. Channel 1: effects on trust
4. Channel 2: effects on attention/interest
5. Underlying drivers
6. Conclusion

Survey design

Four stages:

1. Knowledge and "priors" – e.g.,
   - Who sets the basic interest rate level in the US?
   - What is the level of inflation the Fed targets?
   - Best guess for inflation over the past 12 months & next 12 months
   - Best guess for unemployment rate today & in 12 months

2. Information stage – randomized into 1 of 7 equal-sized groups:
   - "Control": general info on Fed, but no forecast info
   - June 2020 "Survey of Economic Projections" median forecast (for 2020&2021):
     inflation or unemployment $\times$
     picture of Thomas Barkin or Raphael Bostic or Mary Daly
     (all three $=$ regional Fed presidents & non-voting FOMC members in 2020)

Screenshot – control group

"We would now like to provide you with some information about monetary policy in the United States, and then ask you some more questions."

The Federal Reserve, or Fed, conducts the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices.

The Federal Reserve System includes three key entities: the Board of Governors, 12 Federal Reserve Banks, and the Federal Open Market Committee (FOMC). The FOMC is the monetary policymaking body of the Federal Reserve System, and sets short-term interest rates. The FOMC is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.



Respondent forced to stay on page for 20 seconds: "Please review the information on this screen – you will be able to move to the next screen shortly."

Screenshot – inflation forecast; Barkin

The Federal Reserve, or Fed, conducts the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices.

At their meeting in June 2020, the Federal Reserve Bank Presidents and Federal Reserve Board Governors forecasted (on average)

- *a 0.8% inflation rate in 2020*
- *a 1.6% inflation rate in 2021*



Thomas Barkin, President of the Federal Reserve Bank of Richmond, **who participated in the June 2020 Fed meeting.**

Screenshot – inflation forecast; Bostic

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Raphael Bostic, President of the Federal Reserve Bank of Atlanta, **who participated in the June 2020 Fed meeting.**

Screenshot – unemployment forecast; Daly

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At their meeting in June 2020, the Federal Reserve Bank Presidents and Federal Reserve Board Governors forecasted (on average)

- *a 9.3% unemployment rate in the fourth quarter of 2020*
- *a 6.5% unemployment rate in the fourth quarter of 2021*



Mary Daly, President of the Federal Reserve Bank of San Francisco, **who participated in the June 2020 Fed meeting.**

Survey design

3. Trust in Fed and “posteriors”
   - How much do you trust the Fed to adequately manage inflation and unemployment?
   - And how much do you trust the Fed to care about the economic well-being of **all** Americans, including people like yourself?
   - Expected unemployment in 12 months, “Manski style” ▸ More
   - Expected inflation over next 12 months, “Manski style”

4. Personal characteristics – gender, race/ethnicity, age, marital status, zip code, education, income bin, home-/stock-ownership, political leaning, etc.

Sample – Main Survey

- Survey conducted online, via Qualtrics platform
- Targeted 8,750 respondents, with following quotas:
  - 50% white, 30% African-American, 20% Hispanic
  - 50/50 gender ratio
  - Representative of population in terms of age categories, education, region
- 9,200 respondents over Aug 10 - Sept 11, 2020 (90% by Aug 28)
- Attention and “speeding” checks
- Pre-registered at AEA RCT registry
- $\sim$6 weeks later: follow-up survey for a subset of respondents (discussed later)

Analysis

For presentation, focus on 4 groups: White male, white female, AA male, AA female

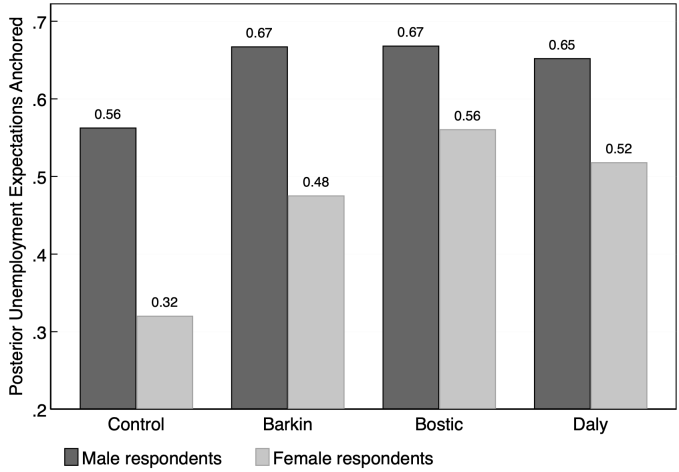
Show results from

1. "raw" descriptive statistics
2. regressions that additionally control for: date, income, education, age, employment status, region, politics, COVID-affected, homeownership, stock ownership, 401k, liquidity, financial literacy, whether do grocery shopping, whether take own financial decisions
   ($\approx$ 65 fixed effects)

Effects of information on expectations

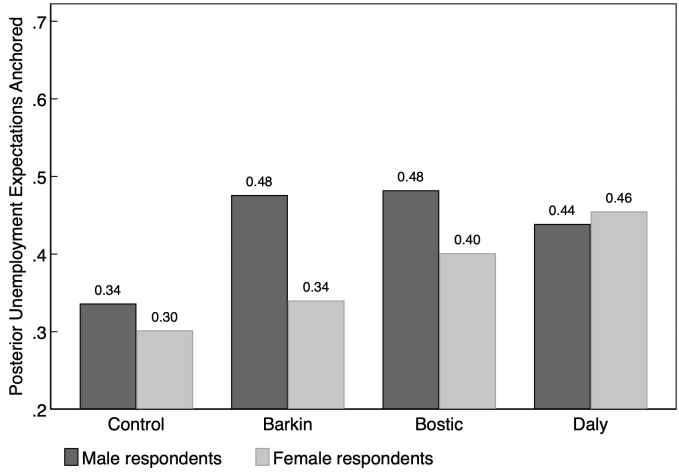
- Main outcome: share of respondents with “anchored expectations”
  - Elicit posteriors with distribution question (Manski)
  - “Anchored” = modal bin covers one of two forecasts by Fed (Unemployment: 9.3/6.5%; inflation: 0.8/1.6%)
- Secondary outcome: imputed mean of posterior distribution
  - Requires assumptions, esp. about top/bottom bin
- Study treatment effects relative to control group
- Study heterogeneity across demographic groups

Effects on expectations – Unemployment: White respondents



- Providing forecasts increases share with anchored expectations relative to control
- Women react stronger to Daly (25%) and Bostic (50%) relative to Barkin
- White men not “put off”

Effects on expectations – Unemployment: Black respondents



- Black women respond more strongly to Daly: 16pp vs. 4pp
- Black women respond more strongly to Bostic: 6pp vs. 4pp

Regression version

Effects on Binary Indicator for Anchored Unemployment Expectations

	White		Black		All	
	M	F	M	F	Unw.	Wtd.
	(1)	(2)	(3)	(4)	(5)	(6)
Bostic	0.010	0.052**	0.024	0.083**	0.025*	0.023*
	(0.025)	(0.024)	(0.033)	(0.034)	(0.013)	(0.013)
Daly	-0.029	0.047*	-0.031	0.096***	0.013	0.012
	(0.025)	(0.024)	(0.032)	(0.034)	(0.013)	(0.013)
UR forecast	0.094***	0.142***	0.134***	0.020	0.118***	0.122***
	(0.032)	(0.031)	(0.041)	(0.043)	(0.016)	(0.017)
Infl. forecast	0.021	0.017	0.086**	-0.077*	0.024	0.023
	(0.033)	(0.031)	(0.041)	(0.043)	(0.016)	(0.017)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Avg. Y	0.61	0.44	0.43	0.33	0.47	0.49
Obs.	2305	2472	1540	1237	9140	9140

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$\Rightarrow$ More anchoring with Bostic/Daly for female respondents

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$\Rightarrow$ Slightly positive effect overall

Posterior mean expectations

Effects on E(unemployment rate)

	White		Black		All	
	M	F	M	F	Unw.	Wtd.
	(1)	(2)	(3)	(4)	(5)	(6)
Bostic	-0.183	-0.098	-0.359*	-0.162	-0.156**	-0.133*
	(0.134)	(0.153)	(0.203)	(0.227)	(0.078)	(0.080)
Daly	-0.059	-0.288*	0.019	-0.362*	-0.122	-0.124
	(0.139)	(0.152)	(0.200)	(0.218)	(0.078)	(0.081)
UR forecast	-0.193	-0.967***	-0.466*	-0.693**	-0.594***	-0.589***
	(0.184)	(0.195)	(0.259)	(0.292)	(0.101)	(0.104)
Infl. forecast	0.023	-0.034	-0.099	-0.097	-0.039	-0.023
	(0.189)	(0.194)	(0.262)	(0.301)	(0.102)	(0.105)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Avg. Y	10.30	11.75	11.72	12.51	11.42	11.25
Adj. R2	0.45	0.36	0.17	0.18	0.34	0.38
Obs.	2305	2472	1540	1237	9140	9140

$\Rightarrow$ Effects largely similar; now effect of Bostic treatment on Black M respondents

Posterior mean expectations

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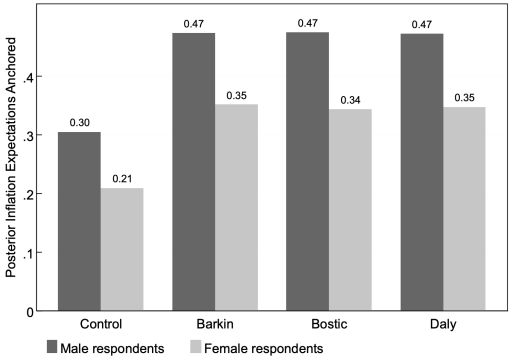
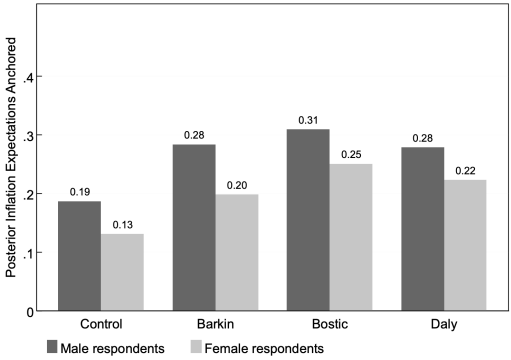
$\Rightarrow$ Large effect of UR forecast info, especially for underrepresented groups

Inflation expectations – effects smaller

White respondents



Black respondents



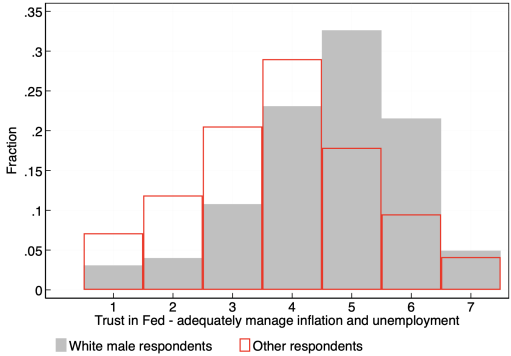
- Information again matters
- No differential effects by policymaker for White respondents
- Some small differential effects of Bostic/Daly for Black respondents, but smaller than for unemployment $\Rightarrow$ identity may matter less for less “personal” variable

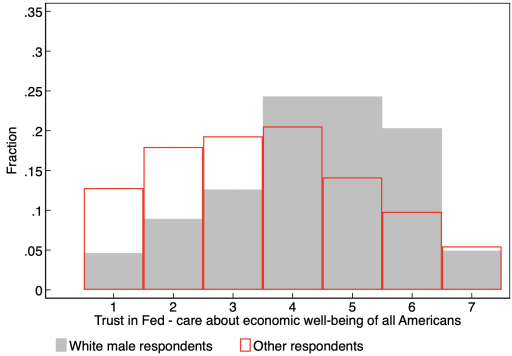
Channels

Non-exclusive potential drivers of effects:

- Trust towards the Fed (also an outcome of independent interest)
  - Unconditional differences across groups
  - Differential reaction to making diverse policymakers salient
- Attention to information / information acquisition

Trust in Fed – control group only (Scale: 1 “no trust at all” to 7 “complete trust”)



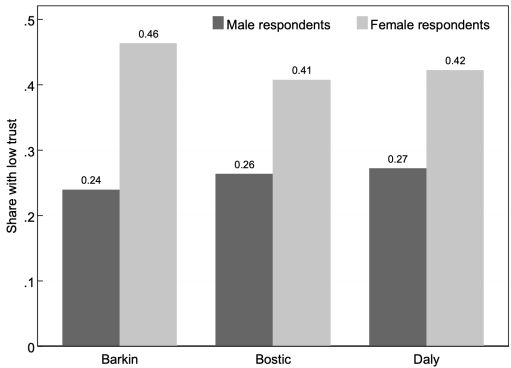


- Large differences in trust across demographic groups — especially female respondents indicate lower trust in Fed $\Rightarrow$ “Scope” for trust channel to play a role
  - Consistent with findings for ECB (Ehrmann et al. 2013) and BoE (Jost 2017)
- Next: differential effects of policy maker treatments.
- Focus on share with low trust (≤ 3 out of 7)

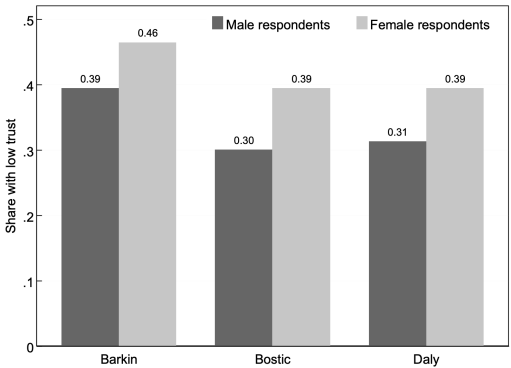
Distrust in Fed – differential effects of policy maker treatments

Distrust that Fed adequately manages inflation and unemployment

White respondents



Black respondents



- White female and Black respondents: substantially less distrust in Bostic/Daly treatments
- Little differential effects on White male respondents

Attention to Fed communication

- Complementary channel: underrepresented groups could become (differentially) more attentive to Fed communications
- Baseline: large differences across groups in terms of "Fed knowledge," even after controlling for many observables ▸ More
  - Knowing that short-term interest rates are set by Fed/FOMC
  - Knowing (exactly or approximately) the Fed's inflation target

$\Rightarrow$ Again, scope for this channel

Attention proxies within main survey

- How much time spent on information screen
- Whether recall (at end of the survey) what was in the Fed-related picture
- Whether state at the end that survey was interesting

	Log(Time)		Recall (0/1)		Interest. (0/1)	
	(1)	(2)	(3)	(4)	(5)	(6)
(WF/BM/BF) $\times$ (Bostic/Daly)	0.041*	0.038*	0.003	-0.002	0.035*	0.027
	(0.023)	(0.023)	(0.018)	(0.017)	(0.021)	(0.020)
Controls	No	Yes	No	Yes	No	Yes
Avg. Y	3.68	3.68	0.75	0.75	0.59	0.59

$\Rightarrow$ Suggestive of more attention/interest, but relatively weak

- More direct test: information selection experiment within follow-up survey
  - 2,973 respondents, 4-6 weeks after survey 1

Information selection – Survey 2

"On the next page, you will be shown a short article that features a statement about the future of the U.S. economy from a high-ranked official from ONE of the following TWO policy-making agencies [or: policy makers]. Then you will be asked some questions about the article you were shown."
(...) "Please choose which article you would like to see"

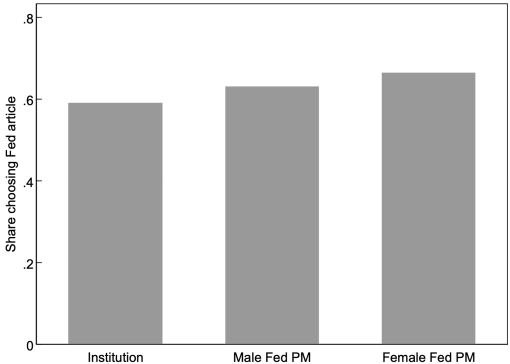
Randomized into 3 groups:

1. Choice: Congressional Budget Office (CBO) or Federal Reserve
2. Choice: Mr. Swagel, CBO Director or Mr. Clarida, Fed Governor
3. Choice: Mr. Swagel, CBO Director or Ms. Bowman, Fed Governor

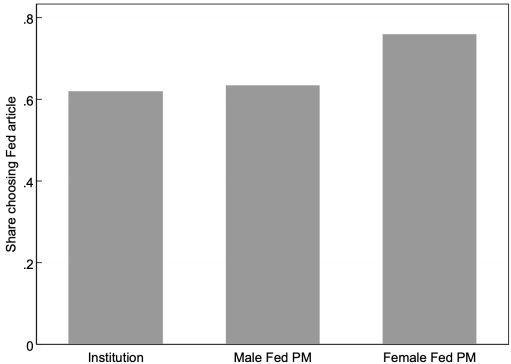
Hypothesis: Do women choose Fed article more in group 3?

Information selection – Results

Male respondents



Female respondents



Regression with controls:

- Within female respondents only: increase in pr(Fed) of +12.6 ppt, $p < 0.001$
- "Diff-in-diff" for female vs. male respondents: +9.2 ppt, $p = 0.06$

Additional analyses

- “Manipulation check”: seeing a given policymaker alters beliefs about gender/race composition of committee ▸ More
- No differences in recognition of names or pictures across groups ▸ More
- Do not find significant persistence of effect in follow-up sample, but limited power

Underlying drivers – homophily or taste for diversity?

- Pure homophily would predict differential reactions by group as follows:
  - White females: Daly $>$ Barkin $>$ Bostic
    $\Rightarrow$ No, respond similarly to Daly and Bostic
  - Black males: Bostic $>$ Barkin $>$ Daly
    $\Rightarrow$ No, respond similarly to Daly and Bostic
  - White males: Barkin $>$ Daly/Bostic
    $\Rightarrow$ No, respond similarly to all
  - Black females: Daly/Bostic $>$ Barkin
    $\Rightarrow$ Yes

- Results overall seem more consistent with heterogeneous "taste for diversity":
  Underrepresented groups respond more to non-white-male policymakers

Direct evidence on heterogeneous taste for diversity

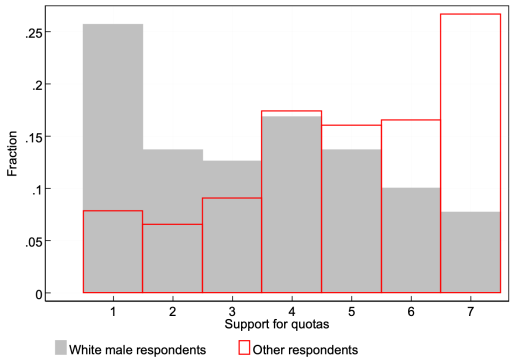
Heterogeneity within White male respondents (majority group):
sort based on support for BLM, anti gender discrimination, politics, age

	Unempl. Expectations Anchoring (0/1)					Distrust in Fed Ability (0/1)				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
BLM Support	0.118***				0.104**	-0.084**				-0.030
× (Bostic/Daly)	(0.038)				(0.050)	(0.034)				(0.043)
Women Discr.		0.077**			0.016		-0.113***			-0.097**
× (Bostic/Daly)		(0.039)			(0.048)		(0.036)			(0.043)
Age $\leq$ 40)			0.067		0.051			-0.047		-0.035
× (Bostic/Daly)			(0.044)		(0.044)			(0.040)		(0.040)
Democrat				0.050	-0.001				-0.035	-0.003
× (Bostic/Daly)				(0.043)	(0.048)				(0.039)	(0.042)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Avg. Y	0.61	0.61	0.61	0.61	0.61	0.25	0.25	0.25	0.25	0.25
Obs.	2305	2305	2305	2305	2305	2305	2305	2305	2305	2305

$\Rightarrow$ more "progressive" White male respondents respond more to Bostic/Daly

Demand for diversity in policy making

Final question in follow-up survey: *"Public organizations such as the Federal Reserve should be required by law to have at least the same share of women and minorities in their top management as in the population overall"* (agreement on 1-7 scale)



Coeff. w/controls: White female: +0.77, Black male: +0.98, Black female: +1.25 (all $t > 7$)

Conclusion

- Increasing diversity of policy committees could be beneficial for many reasons
- Our finding: diversity can improve expectations management & public trust
- Salience of non-white-male policy maker:
  - increases trust
  - increases usage of information
  - increases acquisition of information

  of female and Black respondents
- No evidence for negative effects on white male respondents
- Still a lot more to learn
  - Persistence of effect
  - Role of content of communication (wording, dissemination mode, etc.)
  - “Optimal” degree of diversity

Additional slides

Manski-style measure of unemployment expectations

Back

(following New York Fed's Survey of Consumer Expectations)

First, we would like you to think about the different things that may happen to the official unemployment rate **over the next 12 months.**

What do you think is that percent chance that, **12 months from now…**

(Please note: The numbers need to add up to 100.)

the unemployment rate will be 17% or higher	0
the unemployment rate will be between 14% and 17%	0
the unemployment rate will be between 11% and 14%	0
the unemployment rate will be between 8% and 11%	0
the unemployment rate will be between 5% and 8%	0
the unemployment rate will be 5% or lower	0
Total	0

Manski-style measure of inflation expectations

Back

Now we would like you to think about the different things that may happen to inflation **over the next 12 months.**

(Note: inflation is the percentage rise in prices of goods and services in the economy, most commonly measured by the Consumer Price Index. Deflation means prices are falling, and hence is the opposite of inflation.)

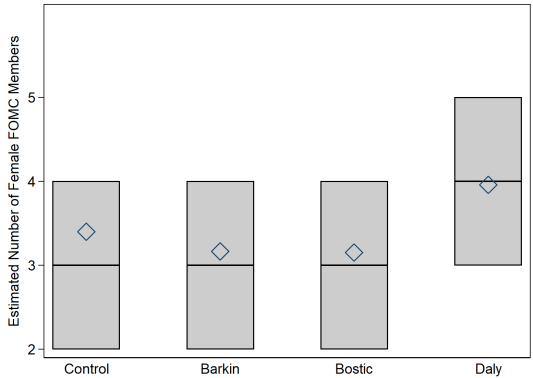
What do you think is the percent chance that, **over the next 12 months…**

(Please note: The numbers need to add up to 100.)

the rate of inflation will be 8% or more	0
the rate of inflation will be between 4% and 8%	0
the rate of inflation will be between 2% and 4%	0
the rate of inflation will be between 0% and 2%	0
the rate of deflation (opposite of inflation) will be between 0% and 2%	0
the rate of deflation (opposite of inflation) will be between 2% and 4%	0
the rate of deflation (opposite of inflation) will be between 4% and 8%	0
the rate of deflation (opposite of inflation) will be 8% or more	0
Total	0

Manipulation check

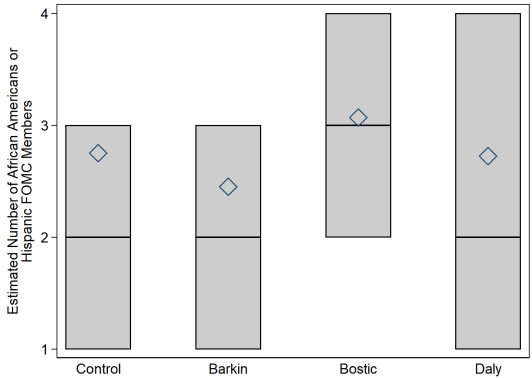
Back



- Separate survey on Amazon Mechanical Turk, $N = 1,062$.
- Shown treatment screen, then asked to guess composition of FOMC (gender, race/ethnicity, age, PhD)
- Daly treatment $\Rightarrow$ think more women; Bostic treatment $\Rightarrow$ think more minorities
- Important: similar effects across groups (M/F; W/NW).

Manipulation check

Back



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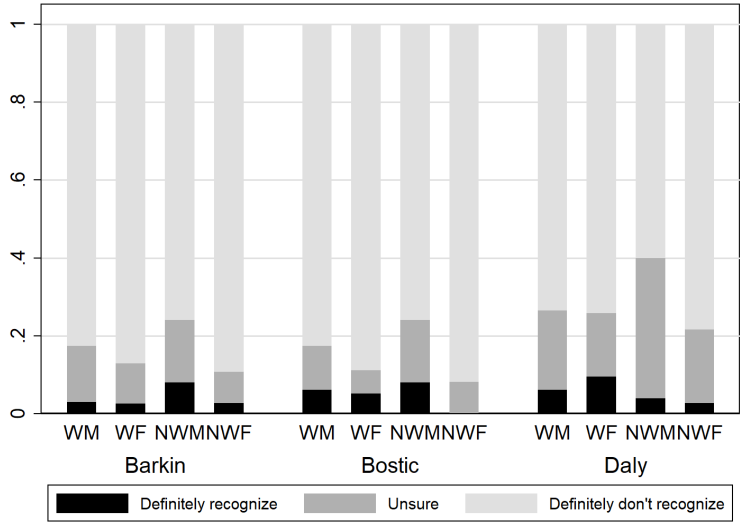
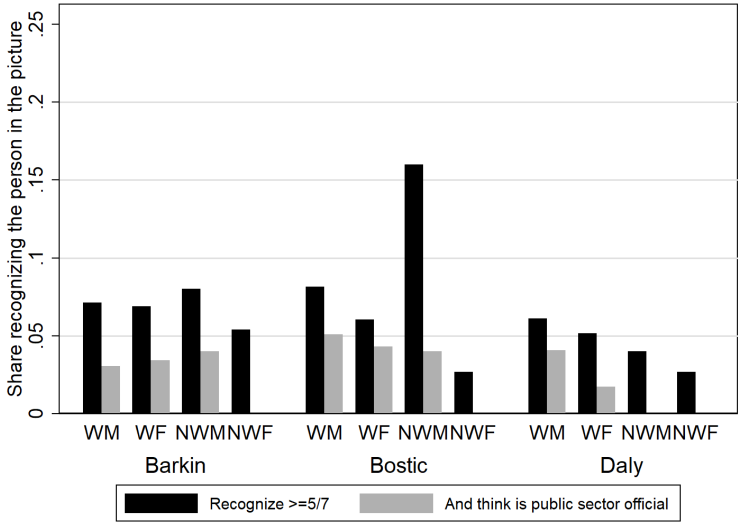
Recognition of names/pictures

Back



Recognition of names/pictures

Back



Trust and expectation anchoring

Back

Effects of Distrust in Fed Ability on Expectation Anchoring

	Unempl. Expectations			Inflation Expectations		
	(1)	(2)	(3)	(4)	(5)	(6)
Distrust in Fed Ability	-0.061**	-0.098***	-0.084***	-0.005	-0.065***	-0.040***
	(0.028)	(0.010)	(0.013)	(0.024)	(0.009)	(0.012)
Distrust in Fed × UR forecast			-0.034*			
			(0.020)			
Distrust in Fed × Infl. forecast						-0.057***
						(0.019)
Sample	Control	All	All	Control	All	All
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Avg. Y	0.39	0.47	0.47	0.22	0.28	0.28
Adj. R2	0.17	0.17	0.17	0.09	0.11	0.11
Obs.	1294	9140	9140	1294	9140	9140

Eight times a year a group of people meets to set the basic interest rate level in the United States.

Who do you think comprises this group? (Inspired by BoE's "Inflation Attitudes Survey") ‣ Back

7 options; correct: "The Federal Open Market Committee (part of the Federal Reserve, or Fed)"

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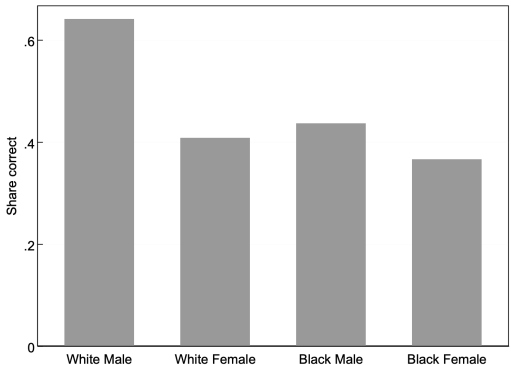
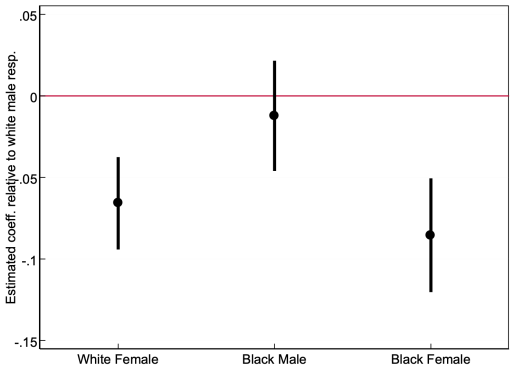
Shares with correct answer:



Group differences after controls:

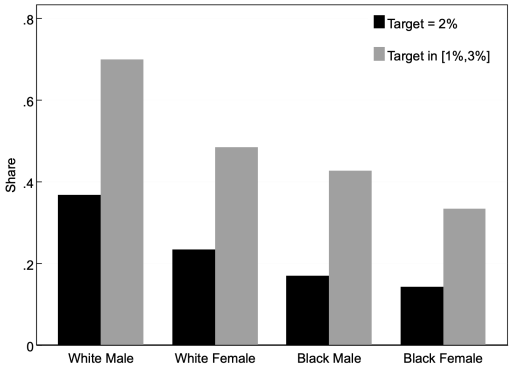


What is your best guess about the annual inflation rate that the Federal Reserve tries to achieve?

▸ Back

Shares with correct answer

(exactly or approx.)



Group differences after controls

(for approx. correct)

