Diverse Policy Committees Can Reach Underrepresented Groups

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Reasons to promote diversity in (monetary) policy making

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

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

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

This paper

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

Shed light on channels through which potential effects operate:
- trust in the Fed
- "paying attention" / information acquisition
- demand for diversity in policy making vs. homophily (not today)

This paper

- Large-scale online survey ($N \approx 9000$) in US

- Randomized information provision within survey
    - e.g. Armantier et al. (2016), Cavallo et al. (2017), Coibion et al. (2019), Binder-Rodrigue (2018), Roth-Wohlfart (2019), Armona et al. (2019), D'Acunto et al. (2021)
    - So far focused on *what* is communicated. We focus on *who* communicates it.

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- Compare effects of making salient membership on FOMC of
  - Mary Daly, white female policy maker
  - Raphael Bostic, black male policy maker
  - Thomas Barkin, white male policy maker

- All three non-voting members in 2020 and regional Fed presidents

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 1 of 3 regional Fed presidents

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 – Survey 1

- 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

Effects of information on expectations

- Study 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%)

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    - 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%)
- Study treatment effects relative to control group
- Study heterogeneity across demographic groups
    - For presentation, focus on 4 groups: White male, white female, AA male, AA female
    - Focus on unemployment expectations

Effects on expectations – Unemployment: White respondents
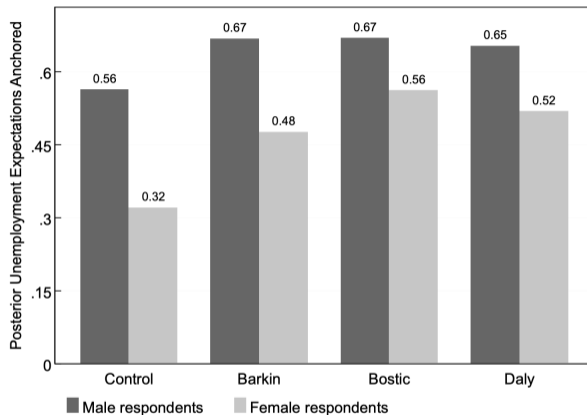
- Providing forecasts increases share with anchored expectations relative to control
- Women react stronger to Daly and Bostic relative to Barkin
- White men not "put off"

Effects on expectations – Unemployment: Black respondents
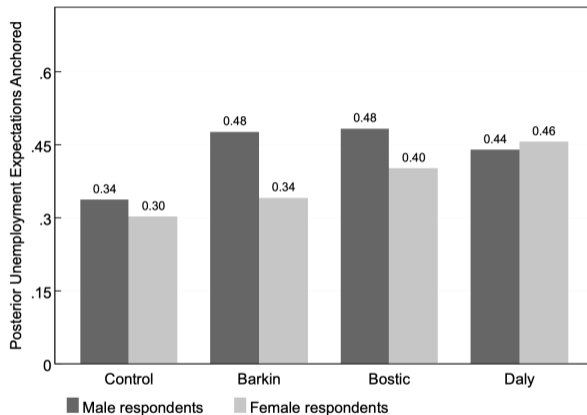
- Black women's differential response to Daly and Bostic even stronger
- Black men react less to Daly relative to Barkin and Bostic

Posterior mean expectations

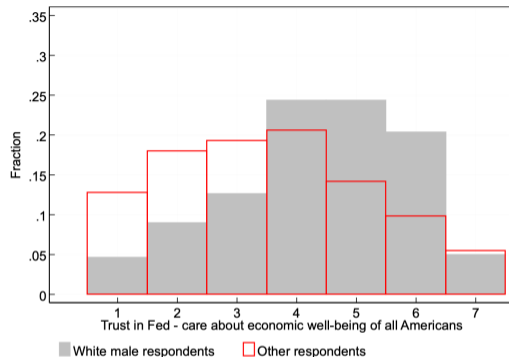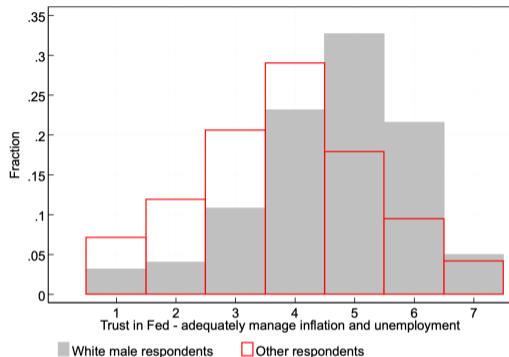|	White		Black	
	M	F	M	F
Bostic	−0.183	−0.119	−0.362*	−0.163
	(0.134)	(0.153)	(0.202)	(0.227)
Daly	−0.059	−0.303**	0.043	−0.385*
	(0.140)	(0.153)	(0.200)	(0.218)
UR forecast	−0.194	−0.964***	−0.498*	−0.705**
	(0.185)	(0.196)	(0.258)	(0.293)
Infl. forecast	0.026	−0.035	−0.138	−0.086
	(0.189)	(0.195)	(0.261)	(0.301)
Controls	Yes	Yes	Yes	Yes
Avg. Y	10.30	11.75	11.72	12.51
Adj. R2	0.44	0.36	0.18	0.18
Obs.	2,305	2,472	1,540	1,237

- Unemployment forecasts result in significant downward revisions (on average biased upward)

- Women react most to Daly treatment

- Black men adjust expectations downward in Bostic treatment

- Little reaction to inflation forecast

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

- Large differences in "trust" across demographic groups — especially female
  respondents indicate lower trust in Fed

Trust in Fed – control group only (Scale: 1 "no trust at all" to 7 "complete trust")
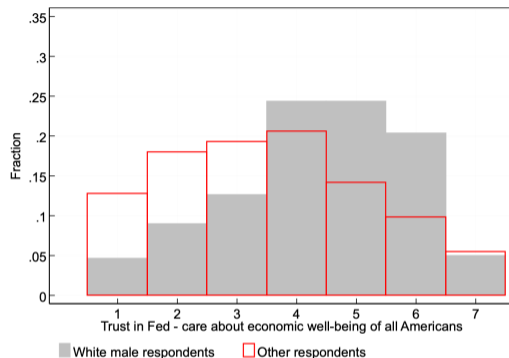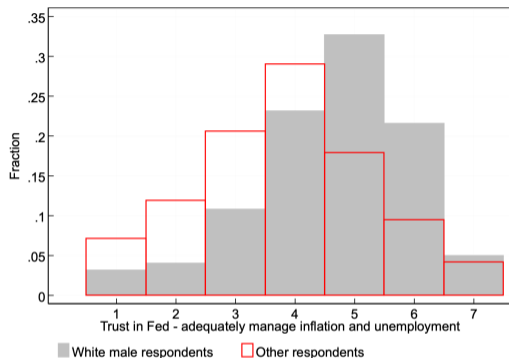
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- Next: differential effects of policy maker treatments.

- Focus on share with low trust ($\leq$ 3 out of 7)

Distrust in Fed – differential effects of policy maker treatments

Distrust that Fed adequately manages unemployment and inflation

	White		Black		All
	M	F	M	F	
	(1)	(2)	(3)	(4)	(5)
Bostic	0.018	-0.054**	-0.075**	-0.066*	-0.027**
	(0.023)	(0.026)	(0.032)	(0.038)	(0.013)
Daly	0.026	-0.039	-0.073**	-0.070*	-0.019
	(0.024)	(0.026)	(0.032)	(0.037)	(0.013)
UR forecast	-0.020	-0.017	-0.057**	0.000	-0.025**
	(0.019)	(0.021)	(0.026)	(0.031)	(0.010)
Controls	Yes	Yes	Yes	Yes	Yes
Avg. Y	0.26	0.43	0.34	0.42	0.35
Obs.	1980	2132	1320	1068	7846

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Distrust in Fed – differential effects of policy maker treatments

Distrust that Fed cares about economic well-being of all Americans

	White		Black		All
	M	F	M	F	
	(1)	(2)	(3)	(4)	(5)
Bostic	-0.005	-0.085***	-0.012	-0.103***	-0.044***
	(0.024)	(0.025)	(0.033)	(0.038)	(0.013)
Daly	-0.015	-0.086***	-0.050	-0.063*	-0.047***
	(0.025)	(0.025)	(0.033)	(0.037)	(0.013)
UR forecast	-0.027	-0.034	-0.021	-0.007	-0.027**
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Controls	Yes	Yes	Yes	Yes	Yes
Avg. Y	0.32	0.55	0.42	0.52	0.44
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- 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 between (unnamed) policy maker from Congressional Budget Office (CBO) or Federal Reserve

2. Choice between Mr. Philipp Swagel, Director of the Congressional Budget Office or Mr. Richard Clarida, Governor, Federal Reserve Board

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Hypothesis: Female respondents are differentially more likely to choose Fed article if they are in group 3 than in other groups.
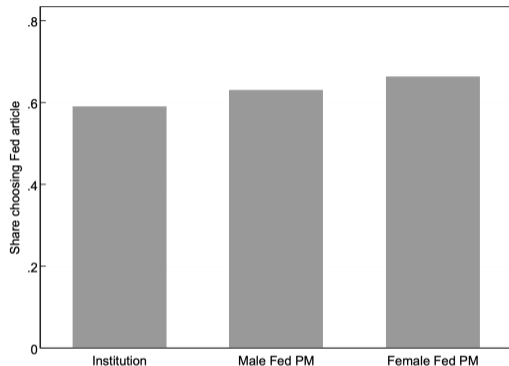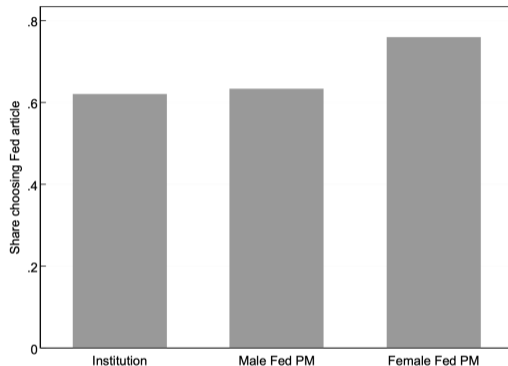
Information selection – Results
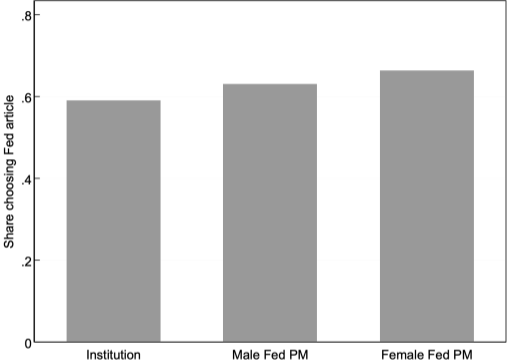
Male respondents

Information selection – Results

Male respondents

Female respondents

Regression with controls:

- Within female respondents only: increase in pr(Fed) of +12.4 ppt, $p < 0.001$
- "Diff-in-diff" for female vs. male respondents: +9.2 ppt, $p = 0.06$

Conclusion

- Increasing diversity of policy committees could be beneficial for many reasons

- Diversity improves public trust & expectations management

- Salience of non-white-male policy maker
    - increases trust
    - increases usage of information
    - increases acquisition of information

  of female and Black respondents (paper: ∼no effect on Hispanic respondents)

- No evidence for negative effects on white male respondents

- Large baseline differences across groups in "Fed knowledge" and trust

- Still a lot more to learn
    - Persistence of effect
    - More salient interventions

Additional slides

Demand for diversity in policy making

Very final question: *"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)
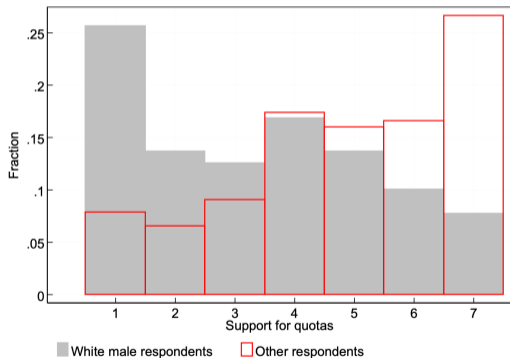
Coeff. w/controls: White female: +0.8, Black male: +1.1, Black female: +1.3 (all $t > 8$)

Manski-style measure of unemployment 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

Evaluation of article

(Using only respondents who had chosen Fed over CBO in treatment w/o names)

Male respondents
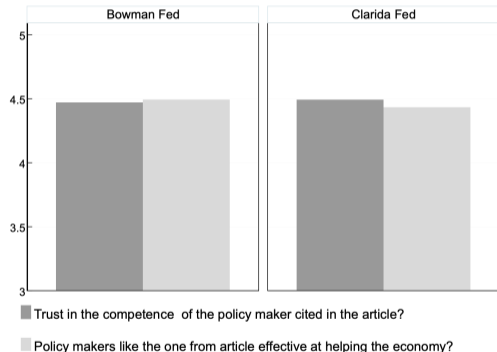
Female respondents
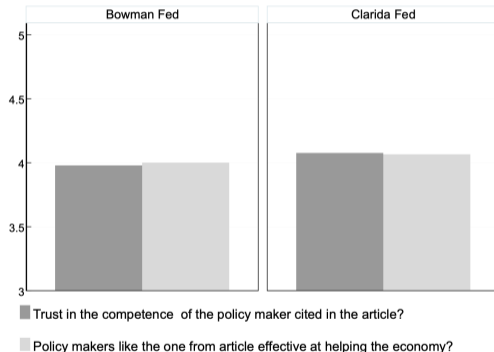
Directionally, female respondents rate article with female Fed official less favorably. Diff-in-diff not statistically significant, however. Also, could reflect article content.