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Committee on the situation of women in economics

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The Gender Promotion Gap in Central Banking

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The matter of female leadership and gender diversity is an economic concern of global importance, which, according to the World Economic Forum, after the pandemic of 2020, has suffered a setback with respect to the progress that was previously made: "gender equality is still almost a century away from being achieved with the current rate of change."

Prominent figures in Central Banking have offered arguments to support diversity in the economics profession and –in particular– in central banks. In October 2014 the Federal Reserve hosted a National Summit on Diversity in the Economics Profession. In her remarks, Janet Yellen stated: "[W]hen economics is tested by future challenges, I hope that our profession will be able to say that we have done all we could to attract the best people and the best ideas". In November 2021 at the WE ARE IN Macroeconomics and Finance Conference in Frankfurt, Christine Lagarde said: "Diversity is key to creating knowledge (...). Broadening women participation and removing the obstacles they face is not just a matter of fairness, which in and of itself would be sufficient, but it is also needed because preventing women from achieving leadership roles is detrimental to society as a whole". Academic research conducted by economists and other social scientists also supports the view that considering a diversity of perspectives and ideas leads to better decisions in an organization.[2]

Although women represent half of the overall population, the economics profession includes disproportionately few women, even relative to other disciplines.[3] This result also tends to hold in many decision-making bodies of central banks and international financial institutions.[4] Around one third of the Fed's economists are women. At the European Central Bank (ECB), 32% of managers are female and the target is to reach 40% by 2026. Among the measures undertaken since 2010 to reach that goal, the ECB has diversity ambassadors in each business area, mentoring and a dedicated "women in leadership" network and training program, as well as

1 Hospido, L., L. Laeven, and A. Lamo (2022); The Gender Promotion Gap: Evidence from Central Banking. *The Review of Economics and Statistics*, 104 (5): 981–996. doi: https://doi.org/10.1162/rest_a_00988

2 Woolley, A. W., C. F. Chabris, A. Pentland, N. Hashmi, and T. W. Malone (2010): Evidence for a Collective Intelligence Factor in the Performance of Human Groups. *Science* 330(6004): 686–688.

Hoogendoorn, S., H. Oosterbeek, and M. Van Praag (2013): The Impact of Gender Diversity on the Performance of Business Teams: Evidence from a Field Experiment. Management Science 59(7): 1514–28.

3 Bayer, A. and C. E. Rouse (2016): Diversity in the Economics Profession: A New Attack on an Old Problem, *Journal of Economic Perspectives 30(4): 221–242.*

4 By July 2019, among executive directors there were 13% of women at the IMF, and 14.7% at the World Bank.

opportunities for flexible working hours and teleworking for all employees. To evaluate whether these policies have been successful in improving the gender balance at the institution, we were granted access to anonymized data from ECB personnel records and data from selection processes.

The ECB is an expert-based organisation. Experts join at different salary bands (publicly set), depending on their level of education and previous work experience. Salaries are reviewed annually based on each employee's personal development and contribution to the performance of the ECB. According to that annual review, each employee receives a given wage increase within the band. Moving to the next salary band implies applying and wining a promotion campaign.

The data first show that a wage gap emerges between men and women within a few years of hiring, despite roughly similar initial conditions in terms of salary levels and other observables. This wage gap grows steadily with tenure. Second, we find that women are less likely to be promoted to a higher salary band prior to the change in corporate diversity policy in 2010, while this promotion gap disappears after this change. Third, using detailed data on selection campaigns available since 2012, we examine the selection process for promotions and find that women are less likely to apply for promotion opportunities, even when they hold the same qualifications and work experience as men. Moreover, we confirm that during this period women are as likely to be promoted as men. This points to a compositional effect whereby women conditional on applying are more likely to be promoted, other things equal. The gender gap in the probability of applying is larger for women that compete for promotion within a stronger peer group, suggesting that aversion to more intensive competition partly drives this application gap. Following promotion, women perform better in terms of salary progression, indicating positive self-selection instead of positive discrimination. We do not find evidence that the presence of children or the composition of the selection committee, including the fraction of women on the panel, alters these results.

Taken together, our results point to the effectiveness of corporate diversity policies in reducing gender bias in promotion rates. However, the results on selection campaigns show that following this policy change there are remaining gender differences in promotion applications despite a convergence in promotion rates. This suggests that, in this context, supply-side explanations remain relevant to explain gender differences in promotion applications.