AMERICAN BANKER.

Yellen's Impact on Banking's Glass Ceiling

by Victoria Finkle
SEP 22, 2014 12:00am ET

Janet Yellen is an unlikely revolutionary.

In her nine months as head of the Federal Reserve Board and — the first woman to chair the central bank in its 100-year history — she's largely charted the same course as her predecessor and seems more interested in continuity than radical changes.

But Yellen's ascension is still likely to have a significant and long-lasting impact on women in the financial services industry, both from her direct influence and the message her role sends to others. Here are four key insights into why Yellen's success at the Fed matters and what it means for other women.

Yellen has become an important role model for women in finance.

One of the most enduring effects Yellen's appointment could have on the industry would be to attract more women into economics and finance. Studies have shown that young women respond to having role models in their selected fields — and Yellen's new position as the most influential central banker in the world should certainly give her increased visibility, even outside of the banking industry.

"It sends a huge signal that no job should be closed to women in financial services," says Sheila Bair, the former head of the Federal Deposit Insurance Corp.

Yellen's trajectory seems to have been set early on, despite a paucity of potential female role models in economics at the time. The Brooklyn native was valedictorian of her high school class in 1963 and was voted "class scholar" in her yearbook. She then graduated summa cum laude from Brown University, before completing her PhD in economics at Yale University in 1971, where she was the only woman in her class.

While her innate talents are clearly at the root of her success, there's hope that her rise, and greater discussion of her story, could spur increased participation in math and related fields among younger women today.

"Here you have a woman in the most important policy position in America in which mathematics is very relevant," says former congressman Barney Frank. "She's a first-rate economist, and you can't be a first-rate economist if you can't do the math."

For now, the crucial pipeline of women studying economics and finance remains slack. Women are underrepresented among MBA graduates, and they earn just one-third of economics PhDs and an even smaller portion of finance PhDs.

"It's still mysterious to me why economics and finance attract so few women," says Alice Rivlin, a senior fellow at the Brookings Institution, and the first woman to be vice chair at the Fed (she served for three years starting in June 1996). "When I was in graduate school there were hardly any women. I would have sort of expected that to have changed in two generations, but it hasn't changed as much as I expected. Having a woman lead the Fed will help."

Yellen's appointment underscores that gender disparities in the industry persist, particularly in positions of leadership.

Despite significant and ongoing progress, there remains a dearth of women in the top spots across the financial services industry. No woman has ever led one of the country's megabanks, served as Treasury secretary, or chaired the banking committee in either the House or the Senate.

An analysis by the New York Times last year found that while women made up more than half of the employees at Citigroup, JPMorgan Chase and Bank of America, they accounted for just 4%, 17%, and 36%, respectively, of the companies' senior management committees. Women accounted for just over a third of the employees at Goldman Sachs and Morgan Stanley, but made up only 13% of the senior management committees at each company.

Yellen, who declined to be interviewed for this story, acknowledged last spring that efforts to bring more women into the field are still lacking. "In my own profession, there has been a gradual increase in the share of women in economics, but women still remain underrepresented at the highest levels in academia, in government and in business," Yellen, 68, said at a Capitol Hill reception in her honor, calling the benefits of greater female participation "clear and substantial."

It's worth noting, however, that although Yellen is the first woman to lead the central bank, the Federal Reserve System has been a leader in promoting women to top positions. Yellen was the fourth woman appointed to the Board of Governors when she first joined in 1994, and Lael Brainard, confirmed earlier this year, is the ninth.

"Janet Yellen leading the Fed is not an accident or an anomaly, in my view, but rather the culmination of a conscious and deliberate program to recruit and advance qualified women," says Diane Schumaker-Krieg, global head of research at Wells Fargo. "The organization has been at the vanguard of advancing women to positions of leadership throughout the system for quite some time."

Yellen previously led the Federal Reserve Bank of San Francisco, and women have run (or are currently running) Fed banks in Boston, Cleveland and Kansas City. Observers noted that women are also well represented further down the leadership structure of the central bank system, particularly in the supervision and examination divisions. Sarah Dahlgren, for example, serves as head of supervision at the New York Fed, which oversees some of the country's biggest financial firms.

"It's significant that you now have two of the most powerful positions in the Federal Reserve System — the chair of the Board of Governors as well as the head of supervision at the New York Reserve Bank — both occupied by women for the first time," says John Dearie, executive vice president at the Financial Services Forum. In addition to Dahlgren, women serve as heads of supervision at another four of the 12 district banks, and the deputy director of the bank supervision and regulation division at the Fed Board in Washington is also a woman.

Yellen's succession was still a struggle.

Despite her many professional successes — including more than a decade at the Fed and more than three years as the Fed's No. 2 — Yellen's appointment to lead the Fed was not a foregone conclusion when former chairman Ben Bernanke announced he would be stepping down at the end of his term in February 2014. That could serve as a warning to other women in the industry.

"She was the most qualified person for the job," says Christina Romer, a professor at the University of California at Berkley and former chair of the Council of Economic Advisers. Given that, the decision to choose Yellen "was closer than it should have been."

Yellen was always viewed as being on the shortlist for Bernanke's replacement, but her candidacy was temporarily overshadowed by chatter that President Obama was considering his economic advisor Larry Summers, a former Treasury secretary and Harvard economist.

"The issue was that presidents, senators, higher officials don't stop being human beings," says Frank. "Barack Obama went through hell in the early days of his presidency. He obviously felt very grateful to the handful of people who helped him through that, and one of them was Larry Summers."

The consideration of Summers was particularly galling to some because of comments he made as president of Harvard that were perceived as questioning women's natural abilities in math and science.

Yellen was reportedly unaffected by the political firestorm, including rumors that she wasn't up to the task.She did very little advocating on her own behalf. This may have frustrated some of her colleagues, but supporters came to the aid of the unassuming academic in droves, publicly and privately.

"It would have been a slap in the face to women for her not to get the job," says Heidi Hartmann, president of the Institute for Women's Policy Research, who helped organize a letter of support signed by more than 500 economists. "Obama has really, for all practical purposes, been a good feminist, and it was quite distressing that this was going on when there was an incredibly qualified woman right there that the banking community was already expecting to be appointed."

At the same time, Joseph Stiglitz, who taught Yellen at Yale and later shared the Nobel Prize with economist George Akerlof, Yellen's husband, penned a pointed New York Times op-ed in her favor, while dozens of lawmakers signaled their backing, and the liberal blog The Daily Kos organized a petition with over 130,000 signatures.

Ultimately, Yellen's quiet fortitude and unflappability during the deliberation process paid off, and Summers pulled his name from consideration following the left-wing backlash.

"The way in which Janet handled the whole thing really raised my already high opinion of her," says Richard Fisher, president of the Dallas Fed, in a profile of Yellen that Time magazine published in January. "She was steady and even-handed, and she didn't overreact."

Still, the incident is a reminder of the difficult balancing act women face when advocating for more power or responsibility. Research suggests that they often underestimate their own abilities and lack the confidence needed to take career risks. But when they do speak up, they can quickly be labeled as pushy — or worse.

Yellen's success (or failure) will help shape the economy, and the lives of women all over the country, for years to come.

Yellen inherited a host of challenges when she took office. She is still in the process of managing the tapering of the Fed's massive quantitative easing program and must decide when it will be safe to raise interest rates without sending the economy stumbling. She also has to put her stamp on implementing several unfinished pieces of the Dodd-Frank Act.

In navigating those upcoming policy debates, Yellen will need to draw on her demonstrated abilities to communicate effectively and foster cooperation.

"She's just a uniquely talented person at building consensus and listening to people," says Romer. "Anybody watching the Fed these days knows that it's a really tough time, because there's such a big difference of opinion about whether bubbles are developing and inflation is about to take off. You need a consensus builder and a strong intellectual leader to try and get the Fed to not fracture — and to also figure out what's the right path."

While neither skill is exclusively female, the ability to listen and establish consensus are some of the core strengths that experts suggest female leaders can bring to the boardroom.

The banking industry will be watching carefully to see how hard Yellen comes down on the largest institutions, as the regulator works to resolve ongoing debates over capital standards and the best way to wind down the most complex financial institutions in a future crisis, among other issues.

"There have been some tough rules that have come out under her chairmanship, and most people look to the power that she has given Fed Gov. Daniel Tarullo as an example of her willingness to be fairly aggressive on bank regulatory actions," says Edward Mills, a policy analyst at FBR Capital Markets.

Meanwhile, schisms among members of the central bank's monetary policy arm, the Federal Open Market Committee, have already begun to surface. Yellen has so far been tasked with carrying out many of the policies launched under Bernanke to rescue the country from the financial crisis and the ensuing recession. But as the recovery continues, she will be forced to draw increasingly from her own playbook. Already policy hawks are calling for higher interest rates to head off fears of inflation, while doves like Yellen worry more about unemployment.

"Yellen believes that the economic challenges are more structural, due to demographic and skills mismatches. So she's likely to stay accommodative for longer than Bernanke, even though they were both architects of the same policy," says Jason Ware, market strategist at Albion Financial Group. "Eventually there's going to be a fork in the road between how they behave."

Charles Plosser, president of the Philadelphia Fed, and Dallas' Fisher both dissented on the committee's vote in September to keep interest rates low for a "considerable time" after bond purchases end.

"One dissent is okay, even two is manageable, but once you get to three and four, you're going to get questions from business leaders and analysts and investors as to where things are going," says Ware. "Deep divisions cause dislocations in the market."

Yellen's decision about when to raise rates is likely to be closely tied to her concerns about unemployment and wages — long-time priorities for the central banker. She even voiced her desire to help struggling Americans during her first speech as Fed chair in March, which has helped set the tone for her reign thus far. "When the Federal Reserve's policies are effective, they improve the welfare of everyone who benefits from a stronger economy, most of all those who have been hit hardest by the recession and the slow recovery," she told attendees at a community reinvestment conference in Chicago.

Some saw the speech as important, not just because of how her focus could help female workers, who are more likely to have low-wage or part-time jobs, but because of where she gave it. "It's symbolic when this is the first foray that a Fed chair makes out into the world, instead of speaking first to a bankers association or visiting Wall Street," says Hartmann.

Still, how much she works with — and even pushes back on — her opponents will have profound effects on the economy and the struggling workers she has pledged to help.

And even though continuity has been her hallmark so far, how she handles what comes after the challenges that preceded her into office is bound to set her apart. "The test will be a true crisis or when the time comes to pivot away from the policies of the last several years," says Mills.

Yellen's rise to the top of the world's most powerful central bank is historic, but her legacy is still being defined.
