

# INEQUITY DETECTIVE

*Prakash Loungani profiles Chicago's Marianne Bertrand, an advocate for inclusive growth*

**L**ast December, there were news reports that a Black woman, Tenisha Tate-Austin, had the appraised value of her home raised by half a million dollars by having a white friend pretend to own it. When I mentioned this to an economist friend, he shrugged and simply said, “Bertrand and Mullainathan.”

He didn't need to say more: he was citing one of the most famous papers in economics of the past two decades, a 2004 study by Marianne Bertrand and Sendhil Mullainathan, both currently professors at the University of Chicago's Booth School of Business. They sent nearly 5,000 fictitious resumes in response to job ads in Boston and Chicago and found that Black-sounding names, such as Lakisha, were 50 percent less likely to get a callback than white-sounding names, such as Emily, even though the resumes had been rigged to be alike in qualifications. It was difficult to attribute the result to anything other than explicit prejudice or unconscious bias.

It's one of several papers that have cemented Bertrand's reputation for documenting why so many, such as women and minorities, do not do as well as they deserve, while some, such as top CEOs, are paid a lot more than they deserve. “Marianne indeed comes up with clever ways of detecting inequity,” says her PhD dissertation advisor and mentor Lawrence Katz, a noted professor of labor economics at Harvard, “but she also works very hard and very well with others. This combination of talents makes her unique,” Katz—who has been on the dissertation committees of over 200 students at Harvard over the years—told F&D.

The profession has showered Bertrand with awards and accolades, including a prize in 2004 for “outstanding contributions by young women”

in economics and another in 2012 for “outstanding contributions to the field of labor economics.” And in 2020 she was picked to give the prestigious Ely Lecture at the annual meetings of the American Economic Association (AEA); the person making the choice was Janet Yellen, currently the US treasury secretary, who said she felt Bertrand was “the economist that I would most like to hear and the economist that others would most like to hear.”

## **Brussels to Booth**

It was not the career Bertrand envisaged. She grew up in Belgium, helping her parents sell fish and poultry in their small shop, an experience that taught her “what hard work is really about,” she said in a Bloomberg interview. She enrolled at the Université Libre de Bruxelles intending to become a journalist, and took some economics courses thinking they would come in handy in her career.

But she soon switched majors on the advice of an economics professor, who also encouraged her to pursue a PhD and recommended her to Harvard, from which she received her doctorate in 1998. Bertrand started her academic career at Princeton, but moved in 2000 to Chicago's Booth School of Business, where—unusually in a profession known for peripatetic top scholars—she has remained.

Bertrand recalls that initial reactions at Chicago to her work, particularly on the pervasiveness of racial discrimination, were somewhat tepid. “At Chicago, you have to show that you can take it,” she told F&D, referring to its reputation for hard-nosed debate. She persisted and has thrived. Booth has given her a place where she can work on both labor economics and corporate finance, her two main fields of research. She also likes the interdisciplinary







and “big-tent” features of the school. “It’s a place where I can work with psychologists. And it’s where you have [Nobel Prize winners] Gene Fama and Dick Thaler in the same building,” she says—Fama is noted for work on the efficiency of financial markets and Thaler for work on their anomalies.

### Messy motherhood

While her work on racial inequity was the source of her initial fame, Bertrand has become well known for her work on gender inequity. She says the two forms of discrimination are different. It’s difficult to deny the “central role of prejudice” in explaining racial discrimination; in contrast, she has written that “sexism in the workplace is not the leading explanation” for why women’s careers do not match those of their husbands in earnings and in reaching the top rungs of their professions. She does not deny that sexism exists, including in her own profession—as she documented in a survey conducted for the AEA in 2019.

Bertrand has argued, however, that there is a more potent yet prosaic explanation for gender gaps: childbearing and childcare. Her careful work has documented that the careers of college-educated women essentially track those of their husbands until the birth of the first child. “Mothers take a massive earnings hit right after that first birth, and their income never recovers.” This seems to occur even among women with advanced professional degrees: in work with Katz and Claudia Goldin (see F&D profile of Goldin), Bertrand showed that women graduates of top MBA programs also tend to cut back hours and interrupt their careers on becoming mothers. Women have a harder time dealing with the inflexible schedules and longer daily time commitment required in higher-paying occupations, such as those in the financial industry, says Bertrand, “because they remain disproportionately responsible for everything to do with the home, including raising children.”

It’s a finding that resonates with Ratna Sahay, senior advisor on gender to the IMF’s managing director, whose research has shown that women are underrepresented worldwide “at all levels of the global financial system, from depositors and borrowers to bank board members and regulators.” In work with the IMF’s Martin Čihák and others, Sahay found that women accounted for fewer than 5 percent of CEOs at financial institutions and made up less than 25 percent of the representation

on bank boards. “This is the case,” says Sahay, “even though banks with higher shares of women board members were managed better.”

There is a great loss to society from this “misallocation of human capital,” says Bertrand. “Women are not born with a comparative advantage in changing diapers, so it follows that we must be leaving some money on the table by having only 5 percent of Fortune 500 companies run by women.”

### Pace of progress

Bertrand is quick to recognize that progress has been made in reducing gender gaps. Her Ely Lecture stressed the “good news” that across the world, and particularly in the developed world, gender gaps in education and labor force participation are on the decline.

Bertrand says the pace of progress would be faster were it not for “slowly changing norms.” One norm she has studied is that men should earn more than their wives. She and her co-authors found that there is a sharp drop-off in the percentage of US households where the wife earns more. Remarkably, this drop-off occurs just past the point where the woman makes over half the family income, suggesting that couples seem very much influenced by the norm that the man should earn more. Digging deeper, they found that in households where the woman makes more, there is “compensating behavior” by the wife to take on more of the household chores. Despite this—or perhaps because of it—households where the women earned more were more prone to marital strife and divorce.

As the mother of two daughters, Bertrand hopes that things will continue to improve for women. Still, in giving the commencement address at the University of Chicago, she told the young women in the audience that they would have to keep fighting to change norms: “if you want to have it all, make sure to check your date’s willingness for diaper duty and to let you shine as the brightest star at work.”

### Starring or skimming?

CEOs are the stars of the corporate world. In the United States today, the average CEO makes 350 times the average worker, a huge increase from the 20-to-1 ratio that prevailed in 1965. At the time that Bertrand was in graduate school in the 1990s, the dominant theory to explain rising levels of CEO pay was that the company’s shareholders were designing the pay package in order to increase

the CEO's incentive to work hard and maximize the company's value.

Bertrand's paper with Mullainathan, then a fellow graduate student at Harvard, showed, however, that many CEOs were paid not for hard work but for luck. In the oil industry, for instance, they found that CEO compensation went up when oil prices went up, even though global oil prices are set in a world market over which no CEO has any control. Likewise, CEOs in companies whose products were internationally traded saw compensation increases when exchange rates moved in their favor. In an oft-cited quote from the paper, they concluded that "CEO pay is as sensitive to a lucky dollar as to a general dollar."

Bertrand remembers presenting the paper at the National Bureau of Economic Research Summer Institute, a prestigious venue to debut new work. In the 1990s, the notion that CEO pay could be excessive was much less accepted in corporate finance circles, "and I must say that the first reaction we got on that paper was not great." Since then, however, many others have found evidence in favor of what Bertrand and Mullainathan called the "skimming" view of CEO compensation: when corporate governance is weak, CEOs are able to set their own pay with little oversight from shareholders. There is also support for their finding that such skimming is less prevalent in better-governed firms, such as those with a large shareholder present on the board who can limit the CEO's ability to capture the pay process.

The work of Bertrand and her colleagues has fostered a dialogue on the role of corporations in society, exemplified in a letter by Larry Fink, CEO of investment management firm BlackRock. Fink wrote that companies needed "a sense of [social] purpose," a far cry from the view attributed to Chicago economist Milton Friedman that the sole purpose of a company was to maximize shareholder value. Bertrand says that "training workers and thinking about the community are often good for the value of the firm in the long run, and I don't think that's something that Friedman would have at all disagreed with." She adds that "a lot of short-termism among corporations" happens because of how CEOs are compensated.

She admits that there can often be a "trade-off between financial return and social impact," but notes that increasingly "some people out there are really willing to leave money on the table if they think they can have a [social] impact."

## Imperial to inclusive

Bertrand's work showcases the changing face of economics. In 1984, economics Nobel laureate George Stigler, from the University of Chicago, called economics "an imperial science," with "economist-missionaries" colonizing other social sciences "often against apprehensive and hostile natives." Four decades later, Bertrand says, the tables have been turned: "to put it humbly, economists have realized their mistakes and now embrace, rather than dismiss, the other social sciences."

Another profound change is in the attention being given in economics to issues of equity. Robert Lucas, another Chicago Nobel laureate, famously warned his colleagues that "of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution." Bertrand says that attention to inequality does not require "diminishing the focus on efficiency [because] inequality also hurts efficiency." She cites the work of her Booth colleague Chang-Tai Hsieh, who found that the lowering of barriers to entry for women and African Americans accounted for a quarter of the growth experienced by the United States.

Bertrand has also argued that the impacts of economic policies should be looked at through a more holistic lens. A particular trade policy, for instance, might pass the overall cost-benefit test, but if it means shutting down 80 percent of the manufacturing plants in some communities, the inequity of such concentrated losses needs to be taken into account: "you have to find a way to balance those considerations," she notes. As challenging as this is, Bertrand is optimistic: She told F&D she is pleased to see international financial institutions like the IMF embrace the turn to balancing efficiency and equity: "it's a no-brainer, really."

It's a sentiment echoed by Valerie Cerra, who headed a division at the IMF on Inclusive Growth and Structural Policies that put together a comprehensive book on how—along the full spectrum of policies on which the IMF gives advice—countries can better balance efficiency and equity. Bertrand adds that "as countries get richer, they have more time and resources to devote to considerations of equity. We can afford an inclusive world." **FD**

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