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Senior Honors Thesis

The Rhetoric of the Financial Crisis:
Examining 2007-2009 Federal Open Market Committee Statements

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Introduction

In the financial world, words move markets. Of this, there can be no doubt. Some words are spoken—on conference calls, on television, on podiums, and on trading floors. Some words are read—in SEC filings, in stock tickers, in congressional hearings, and in the Wall Street Journal. Some words are typed—on Blackberries, in emails, in editorials, and in blogs. Some words are celebrated; some words are illegal. (What are bans on insider if not restrictions on the audience for certain utterances?) Some words are rumors, and some words are official.

This paper examines words from the latter group—official statements from the Federal Reserve. Specifically, this paper analyzes statements from Federal Open Market Committee (FOMC) meetings during the 2007-2009 crisis. In matters of monetary policy, the FOMC is the most powerful institution within the Fed, and its statements are among the most influential texts in the financial world. In 2007-2009, FOMC statements were shaped by two important variables: the aspirations of a new Fed chairman, Ben Bernanke, and the pressures of a raging liquidity panic. Markets become sensitive to all forms of information—including language—in times of crisis. Well-placed, well-formed words can calm investors; hasty statements can cause markets to erupt with volatility.

Given the importance of language in the financial world, the relative lack of scholarly interest in financial texts is surprising. To date, there is no significant body of rhetorical analysis on texts from the financial crisis. Part of this is surely due to the tedium of the peer-review process, and perhaps some articles are in review or revision. But no serious scholar in rhetoric would question the value of analyzing political texts; why, then, has no one *asserted* the value of analyzing financial texts? In financial texts—particularly those that reach Wall Street audiences quickly—we find an amazing set of mechanisms for gauging audience reactions. We can look to

market indexes, like the Dow Jones industrial Average, the Standard and Poor's 500, or the NASDAQ. We can look at the stock price of an individual company, or at measures of liquidity, like the London interbank overnight lending rate. We can look at the secondary market for Treasury securities. The financial world is rife with quantitative gauges of audience reactions. This saves us from guesswork, or from speculating about how audiences *might* have responded to a text. Instead, we can simply ask of any text—Who on Wall Street has a stake in this text? When could they access it? When could they act on the information in the text? What is the best measure of their action?

During the financial crisis, some remarkable chains of events occurred, and many of these were caused by language. When Bear Stearns fell in March 2008, investors worried that many of the weaknesses that destroyed Bear would also plague Lehman Brothers. Amidst this panic, Lehman's then-CFO, Erin Callan, held a warmly received conference call with investors, buoying Lehman's stock price. Later that year, hedge fund manager David Einhorn reinterpreted language *from that very conference call* to motivate a massive short selling of Lehman stock. Lehman Brothers went bankrupt in September 2008. Communications from the Fed are never this hostile or aggressive, but they are no less important.

To analyze the 2007-2009 FOMC statements, this paper presents a brief historical overview of the crisis and its causes, and some background information on how the FOMC and its statements function. Then, using Norman Fairclough's critical language study (CLS) theory, this paper offers a critical analysis of the FOMC statements.

Broadly, we find that 2007 statements were characterized by adherence to traditional generic structures, and that these statements had difficulty achieving their rhetorical goals. As the crisis unfolded, the statements show trends away from previous genre conventions and towards a

crisis rhetoric. Concurrently, statements throughout the crisis reflect Bernanke's efforts to make Fed communications clearer and more transparent. By 2009, statements barely resemble 2007 statements, representing a shift to a new set of generic structures. This paper argues that, if the strategies used in 2009 statements had been adopted earlier, the FOMC might have enjoyed greater rhetorical success, particularly in mediating Wall Street expectations about monetary policy. Finally, this paper concludes with an attempt to motivate further rhetorical research in financial texts.

Historical Context

Introduction

This overview serves as a brief summary of the crisis and its causes. Readers interested only in historical information that directly informs the analysis should read the historical background from 2001 onward, and refer to the glossary for any unfamiliar terms.

Broadly, several forces emerged in the 1990's and early 2000's that made mortgage-backed investments extremely lucrative and popular. Unfortunately, most investors in mortgage debt wrongly assumed that housing prices would continue to rise indefinitely, and when housing prices fell, the collateral for mortgage back debt lost its value. With the collateral for many mortgages suddenly worth less than the debt, defaults on mortgages began to affect anyone who invested in mortgage debt. Since lending practices grew lax—in some cases, outright predatory—during the 1990's housing boom, many borrowers could not afford their loan payments. When these borrowers defaulted, everyone holding mortgage debt, including most major Wall Street banks, faced huge losses. With these losses, banks lost capital, and became reluctant to lend to each other. This behavior sparked a liquidity freeze (a “credit crunch”), making it difficult for borrowers of *any* size to secure credit. To restore liquidity and stability to the financial system, the Federal Reserve was forced to make several aggressive interventions. Many of these interventions were politically unpopular, forcing the Fed to convincingly justify its actions.

To unearth the root causes of the financial crisis, we must begin our inquiry by looking at a piece of banking legislation from 1933.

1933: The Glass-Steagall Act

Following the 1929 stock market crash, legislators searched for ways to reign in risky banks. In the early thirties, Congress passed a number of reforms aimed at preventing deflation and stabilizing markets. One of the most significant such reforms was the Glass-Steagall Act, also called the Banking Act of 1933.

The Glass-Steagall Act did three things: it created the Federal Deposit Insurance Corporation (FDIC), created a legal distinction between investment and commercial banks, and prevented bank holding companies from owning investment banks (Sorkin 173). The second and third components work together, and the third is especially significant. Commercial banks have depositors, who receive a modest interest rate for capital they deposit. Banks then invest using capital from deposits.

However, commercial banks—and the bank holding companies that often control them—are subject to moderate oversight and regulation. In return for “playing by the rules,” commercial banks receive government protection and insurance, including FDIC backing. One restriction on commercial banks is on their leverage, or the ratio between their debt and equity. If a bank must maintain a leverage ratio of at least 10%, this means that for every ten million dollars in debt, the bank must hold at least one million dollars in liquid capital.

A crucial distinction between investment and commercial banks is that investment banks are much more lightly regulated, and receive little or no government protection. Investment banks also work differently than commercial banks. Commercial banks have depositors, and can invest on their own behalf using deposits. Investment banks have clients, rather than depositors, and they invest on behalf of their clients, using client capital. When investment banks invest on their own behalf, they must raise capital do so. This is usually done by selling stock or through other means. With this capital, investment banks can pursue profits aggressively, unbound by

restrictions on commercial banks. This is especially noticeable in leverage ratios. Commercial banks maintain leverage ratios between 10 and 20 times (debt=20 times equity); in 2007, some investment banks were leveraged 40 times or more (McDonald 287).

Following this distinction, the third point of Glass-Steagall makes more sense. Keeping investment banks away from commercial banks keeps unregulated, aggressive investors away from deposits. Without this separation, an investment bank could conceivably gamble and lose depositor capital, undermining the whole banking system (Sorkin 75). The distinction between bank types and the FDIC are still law today; the third provision was repealed, as we will see later.

1993-1999: Easy Lending

In the 1992 presidential election, Bill Clinton enjoyed strong support among low-income and minority groups. Once in office, he sought to increase home ownership in poor and minority communities. To do this, he enlisted Roberta Achtenberg, appointing her the assistant secretary of the Department of Housing and Urban Development (McDonald 4).

Like other sectors of the economy, the housing market was unusually robust during the Clinton administration. With housing prices rising steadily, Clinton and Achtenberg encouraged banks to lend more generously. Even if borrowers defaulted on their mortgages, the collateral—their houses—would be worth more than their debt, so lenders faced little risk.

Achtenberg took up this cause with “missionary zeal” (McDonald 5). She believed that racism was a significant factor for banks that refused to loan. Once in office, she did anything she could to persuade the banks to provide mortgages to people who were underqualified by traditional standards. One of her first moves was to set up a national grid of offices to enforce

discrimination laws against lenders. Banks charged with discrimination faced multi-million dollar fines; this provided a forceful incentive to cooperate (McDonald 4).

In 1995, regulatory changes to the Community Reinvestment Act gave Achtenberg another powerful enforcement mechanism. Banks trying to court Clinton's favor needed high Community Reinvestment Act ratings, and generous lending was the only way to earn good marks (McDonald 4). This created an unprecedented situation where banks were bending their own rules to lend to underqualified clients. Many borrowers could not afford down payments, but banks continued to extend lines of credit.

Between 1993 and 1999, over two million of these people became homeowners. Some had trouble making their monthly payments, but as long as housing prices continued to rise, banks could lend generously with relatively little risk.

1999: The Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act (GLBA), also called the Financial Services Modernization Act of 1999, repealed the third provision of Glass-Steagall. This allowed commercial banks, investment banks, and insurance companies to exist under the same umbrella.

GLBA's passage was a huge victory for the banking lobby, which had tried unsuccessfully to repeal parts of Glass-Steagall in 1988 (McDonald 5). The law also legalized the 1998 merger of Citibank and Travelers Group, which would have been illegal under the old provisions of Glass-Steagall (Sorkin 75). Citigroup emerged as the largest financial services conglomerate in the world, with a hand in banking, securities, and insurance.

Though Citigroup is exceptional for its size, other similar institutions emerged in the early 2000's. Many of these came to be known as shadow banks. Shadow banks are non-bank institutions that nevertheless invest in bank-like ways. Because of GLBA, insurance firms and

other companies with big sources of capital could invest in securities, much like an investment bank. However, shadow banks do not submit to *any* designated regulatory authority. So, shadow banks have capital from depositors and commercial revenue, but even less regulation than investment banks. The third provision of Glass-Steagall was created to prohibit exactly this kind of institution (McDonald 7). Shadow banks with a hand in securities, insurance, and mortgage lending were instrumental troublemakers in the financial crisis. Major examples include AIG, Lehman Brothers, and GMAC.

A little-noticed provision at the time also deregulated a financial instrument called a credit default swap (CDS). Consider a \$100 million loan that yields \$10 million in interest. The lender makes money as long as the borrower pays. But, if the borrower defaults, the lender loses not only the \$10 million profit, but also the \$100 million principal—a devastating loss. In a credit default swap, the lender might approach an insurer with the following offer: “I stand to make \$10 million on this \$100 million investment. I’ll give you \$9 million to insure the principal.” If the borrower is likely to pay off all of the debt, a CDS works for both parties. The original lender has made \$1 million, and now has no risk, and the insurer will make \$9 million on a relatively safe investment. The GLBA expressly prohibits the SEC from regulating CDSs, a restriction that would prove crucial in the late stages of the crisis.

2001-2006: The Federal Reserve

Before Bernanke, Greenspan chaired the Fed from 1987 to 2006, the second-longest tenure of any chairman. Greenspan came from a Wall Street background, and was regarded highly by both bankers and government officials. He won universal praise for his handling of the 1997 financial crisis in Asia; he managed to insulate the United States from major damage while aiding other nations. Following the September 11 attacks, Greenspan cut the Federal Funds rate drastically, to

1%, where it stayed until 2004 (FOMC). This low interest rate created inflationary pressures that Bernanke had to address upon taking office.

Greenspan's longevity at the Federal Reserve, as well as his generally successful management of monetary policy, granted him an exceptional amount of authority. Combined with his obtuse communication style, this led Wall Street analysts to read his statements very closely for clues about the Fed's intentions. Bernanke's academic style was very different, which caused problems in the early stages of the crisis. We will discuss these differences later.

2001-2006: Seeds of the Financial Crisis

Housing prices climbed steadily from 1997 to 2006, and the easy lending practices promoted by Clinton and Achtenberg became more pervasive (McDonald 5). After the GLBA passed, commercial banks merged with investment houses, which increased the securitization of mortgage debt. From here, the crisis unfolded in the following way.

Rising housing prices reduced risks for mortgage lenders. Since the collateral on the mortgages was worth more than the debt, defaults rarely hurt lenders. Because lending was low-risk, mortgage standards became lax. Banks and mortgage houses routinely extended credit without down payments or proof of sufficient income. Many of the people purchasing homes were underqualified and undereducated, so unscrupulous lenders favored adjustable rate mortgages (ARMs). In ARMs, borrowers pay very low interest for a few years, but then face a shift to higher—often insurmountable—rates. The “subprime mortgage crisis” refers to these mortgages: adjustable rate, no down payment, no documentation mortgages to underqualified (subprime) borrowers.

Once banks signed borrowers onto mortgages, they used investment banks to repackage them. The investment banks would either buy the mortgage debt as a bond, or else work for the

mortgage lender on a fee basis. In either case, investment banks took mortgage debt and turned it into a security—an entity that can be traded in financial markets, like a share of stock. These tradable packages are called mortgage-backed securities (MBSs).

Since defaults were offset by rising home prices, most investors viewed MBSs as nearly risk-free: even if people defaulted on their loans, the holder of a MBS would still collect by selling off the collateral. To underscore the safety of MBSs, investment banks hired rating agencies to help them repackage mortgage debt. Rating agencies traditionally assess the riskiness of a security, and give the security a rating, AAA being the highest. AAA-rated securities are about as safe as U.S. Treasury bonds, which are AAA by definition and the safest investment on the planet (the Treasury has *never* defaulted). Because MBSs seemed safe, rating agencies stamped them with AAA ratings, while collecting lucrative fees from investment banks.

MBSs seemed extremely safe, and they boasted a better return rate than Treasury bonds. This made MBSs immensely popular among investment banks and shadow banks: between 2001 and 2006, banks issued \$13.4 trillion of MBSs (McDonald 201). Because they seemed so safe, plenty of companies—notably AIG—rushed to get on board with CDSs. Since the debt would almost certainly be repaid, why not insure investments and collect a risk-free profit?

2007: The Financial Crisis

Unfortunately, the housing market was in a bubble, and in 2007, the bubble burst. Lax lending had inflated housing prices, and once housing prices started to drop—“correct” or “stabilize” in financial terms—the entire chain unwound. Suddenly, defaults mattered. When borrowers in ARMs faced drastic shifts in their interest rates, they defaulted on mortgages. With lower housing prices, this made MBSs less valuable. A panic soon followed.

Investment banks saw the negative forecast, and tried to sell off their MBSs. However, *all* of the Wall Street firms had piles of MBSs on their books, creating a market with many sellers and no buyers. Because banks must practice mark-to-market accounting—they must price the assets on their balance sheets relative to current market prices—all of the banks faced large write-downs, or losses. With banks reeling from losses, most financial firms became very reluctant to lend. Banks became particularly wary of each other, refusing to lend to firms that were too tied up in MBSs. Since many investment and shadow banks depended on short term, bank-to-bank loans to stay afloat, this loss of liquidity forced some firms to the brink of bankruptcy. Soon, parties in CDSs were called on to insure investments. When insurers realized the scope of their risk, they too faced bankruptcy. All of these factors decreased liquidity among major commercial banks, making borrowing harder and more expensive for smaller banks, which made borrowing harder and more expensive for individuals. Wall Street was panicking, and its panic was spreading to Main Street.

Facing threats to the core of the financial system, the Fed invoked the “unusual and exigent” circumstances clause of its charter, allowing it to take drastic measures to prevent an economic depression (Wessel 304). The Fed had to justify these policies, while simultaneously adapting its communications to the demands of a crisis and the aspirations of a new chairman.

Corpus

Introduction

This paper examines 2007-2009 FOMC meeting statements. To analyze these texts critically, we must first establish a basic knowledge of what the FOMC is, the audience for these texts, and the rhetorical goals of FOMC statements. Without an understanding of these factors, we will be unable to connect textual features to their social context—we will be stuck at the description stage of CLS.

The FOMC

The FOMC is the body within the Federal Reserve responsible for setting the federal funds rate and the discount window rate. These rates are two of the most important mechanisms the Fed possesses to influence monetary policy. The FOMC includes all members of the Fed's Board of Governors, plus a rotating group of 5 regional bank presidents. The president of the Federal Reserve Bank of New York is always one of the five voting presidents. Normally, the FOMC meets 8 times per year, but the committee holds emergency meetings during crises. In 2007-2009, the FOMC convened for 24 regularly scheduled meetings and 12 unscheduled emergency meetings (FOMC). The committee issues statements at the end of each meeting, which it releases to news outlets at exactly 2:15 PM. Because financial markets remain open until 4 PM, we can compare closing prices to midday highs for an immediate market reaction to the statements.

Interest Rates

When journalists report that the Fed has changed interest rates, they mean the federal funds rate. The federal funds rate is a target for overnight interbank loans. The federal funds rate is a target because the FOMC cannot set rates directly. Instead, it uses open market operations to increase or decrease the supply of money in bank reserves.

Open market operations refer to the Fed's direct trading with banks. When the Federal Reserve conducts open market operations, the New York branch executes trades with a select group of large, reputable banks, known as primary dealers. Pre-crisis, there were 22 primary dealers; now, there are 18 (Federal Reserve). In normal circumstances, primary dealers are the *only* private institutions permitted to trade directly with the Fed.

To lower the federal funds rate, the FOMC instructs the New York branch to buy Treasury securities from primary dealers, injecting money into the system. With more capital, banks can lend more freely and cheaply to each other, which increases liquidity but promotes inflation. To raise the federal funds rate, the Fed sells Treasury securities from its vast portfolio, removing money from the system. With less capital, banks cannot lend as freely or as cheaply to each other, which tightens liquidity and prevents inflation.

The discount window rate is the interest rate the Fed charges on direct loans to banks. By offering direct loans through the discount window, the Fed fulfills its obligations as lender of last resort. Usually, the discount rate is symbolic, since borrowing from the discount window is a public sign of very weak credit. The FOMC keeps the discount rate higher than the federal funds rate, to discourage banks from borrowing directly from the Fed. In normal circumstances, the discount rate is kept 100 basis points higher than the federal funds rate, and discount window loans must be repaid overnight. During the crisis, the FOMC dropped the discount rate to only 25 points above the federal funds rate, and extended the term of loans to thirty days. Generally, direct borrowers must provide excellent collateral—often Treasury securities—for discount loans, but during the crisis, the Fed accepted other forms of collateral, including MBSs. These changes were important rhetorical actions that helped to restore confidence in ailing banks.

Audience

Since changes in the federal funds rate require massive trades with primary dealers, these banks have a huge stake in the decisions communicated by FOMC statements. When the FOMC raises the federal funds rate, primary dealers must prepare to buy large quantities of Treasury securities. When the FOMC lowers the federal funds rate, primary dealers quickly receive millions of dollars. More than any other group, the primary dealers are directly and significantly affected by FOMC decisions, so the primary dealers are the core audience for the FOMC statements. Note that the primary dealers would probably be the core audience for these texts anyway, as all of them are large, reputable banks. Many are regulated by the Federal Reserve, and changes to monetary policy affect Wall Street banks more immediately than any other group.

However, the influence of FOMC statements extends far beyond Wall Street. FOMC statements reach the public through financial media outlets like the Wall Street Journal and CNBC. Smart private investors pay attention to the federal funds rate, and small banks look to the FOMC for a forecast of liquidity in the near future. Finally, FOMC statements explain policy decisions to government officials who do not communicate regularly with the Fed.

Rhetorical Goals

Given this audience, FOMC statements have two main rhetorical goals: to explain and justify monetary policy actions, and to keep markets informed about the Fed's intentions for future action.

In normal conditions, the only monetary policy actions executed at FOMC meetings are changes to the federal funds rate and the discount window rate. To justify shifts in the federal funds rate, the Fed weighs the current market pressures for growth and inflation. If growth can be promoted without an undesirable increase in inflation, the Fed lowers the federal funds target. If inflation is too high, the Fed raises the rate. If growth cannot be promoted without creating too

many inflationary pressures, or if infraction cannot be reduced without threatening growth, the Fed keeps rates constant. Changes to the discount window rate usually come after changes to the federal funds target. Because the discount window receives only limited use, changes to the discount rate are not justified in FOMC statements. Interested parties can read FOMC meeting minutes to examine the motivations for a shift in the discount rate. Generally, these rate changes are the only actions that require justification, but during the crisis, the Fed pursued some aggressive interventions that required additional justification work.

Except in cases of rampant inflation, primary dealers will always welcome a cut in the federal funds rate. However, Wall Street receives information about Fed policy through many informal channels, forming expectations about policy actions before they happen. When these expectations are in line with the Fed's intentions, changes to monetary policy work smoothly. When expectations are out of sync with intentions, markets respond poorly, creating volatility. Markets respond especially harshly when primary dealers expect a rate cut, but do not receive one (Or, if they expect constant rates and the Fed raises the target. Or, when a rate change is of a greater or lesser magnitude than expectations). So, guiding Wall Street expectations is another important goal for FOMC statements.

The FOMC also considers other, lesser goals. The Fed always needs to appear competent, so FOMC statements must project a credible, authoritative ethos. Furthermore, the Fed needs to appear responsive to market developments—if the FOMC responds slowly or is oblivious to market conditions, Wall Street will react with confusion and volatility.

With this conception of the FOMC, its audience, and its goals, we can finally begin our examination of the 2007-2009 FOMC statements.

Analysis

Introduction

The textual features of FOMC statements changed dramatically from 2007 to 2010. In 2007, differences in communication and managerial styles between Bernanke and Greenspan caused problems for Bernanke, stifling his attempts to make Federal Reserve communications clearer and more transparent. Statements from early 2007 adhere closely to Greenspan-era generic structures, and feature low levels of deontic commitment.

In August 2007, problems in the housing sector forced the FOMC to hold two unscheduled meetings. At these meetings, the FOMC employed a terse, clear style. This was the first break from traditional genre conventions, and after August, the FOMC continued to depart from Greenspan's style. In 2008, Bernanke and the FOMC started to forge a new generic structure for statements, which peaked in December 2008. In December, the FOMC reduced the federal funds rate to zero, and 2009 statements are characterized by a move from strategic to communicative speech.

This analysis presents the changes in Fed communications as a rejection of Greenspan-era generic conventions and a subsequent adoption of Bernanke's rhetorical style. I argue that the defining characteristics of Bernanke's style are detail, clarity, the active voice, and high levels of deontic commitment. To make this case, I draw on work by Norman Fairclough on discourse analysis, and on work by William Benoit on image restoration strategies. Further, I argue that this style successfully achieves the chief rhetorical goal of FOMC statements: to inform Wall Street so that market expectations match the Fed's plans for monetary policy.

Theory

We cannot examine the FOMC statements rigorously without some rhetorical vocabulary and a structured approach to analysis. This paper draws principally on Norman Fairclough's theory in discourse analysis, supplementing this approach with William Benoit's work on image restoration strategies and some other general rhetorical concepts.

Fairclough: Critical Language Study

The bulk of this analysis uses Fairclough's Critical Language Study (CLS) approach, as presented in *Language and Power*. Fairclough divides his model into three stages: description, interpretation, and explanation (21-22). Description focuses on describing features of the text precisely, interpretation connects these features to rhetorical goals and audience reaction, and explanation connects this interpretation to the broader social context (*L&P* 21-22).

In the description stage, we examine features of the text, looking at word choice, agency, grammar, modality, and organization (*L&P* 92-93). The interpretation stage asks questions about rhetorical intentions and effects—about the content and purpose of a text, the role of language, audience interpretations, genre, and schemata (*L&P* 119, 134-135). After proceeding through these stages, the analyst is ready to offer an explanation. The objective of explanation “is to portray a discourse as part of a social process,” and to show the effects of texts on society (*L&P* 135). Since social conditions color both production and interpretation, interpretation without explanation is incomplete, and explanation without a thorough consideration of context is impossible.

We create and interpret texts by relating points in the text to our “members’ resources” (MR) (*L&P* 20). For Fairclough, MR include background knowledge and assumptions. Analysts looking at a text must try to acquire the MR held by the original audience of that text, underscoring the importance of context. However, Fairclough wisely cautions against reducing

MR to background knowledge, since MR incorporate beliefs and assumptions, which are often controversial or ideological (118). Fairclough takes special issue with ideological assumptions about power relations within society.

As the title suggests, *Language and Power* is principally concerned with power relationships that influence and are influenced by discourse. The “power behind discourse” reflects struggles over control of discourse; the “power of discourse” refers to discourse as a site of social struggle (*L&P* 61). Bernanke and Greenspan wield the “power behind discourse” very differently, as we will see later. Although the Federal Reserve undoubtedly contributes to our power structure, Fairclough’s focus on social struggle lies outside the scope of this paper.

To complement *Language and Power*, we turn to a broader text by Fairclough, *Analyzing Discourse*. In this book, Fairclough expands on his CLS method, with added emphasis on genre, intertextuality, and modality. These three factors are fundamental to understanding the FOMC statements.

With genre, Fairclough observes that “a chain of events may involve a chain or network of different, interconnected texts which manifest a ‘chain’ of different genres” (*AD* 66). The events in the financial crisis causes just such a chain. Some genres, like narrative, are abstract; some, like interviews, are disembedded; others are situated (*AD* 68). Situated genres are “specific to particular networks of practices,” and FOMC statements fall into this group (*AD* 69). Strategic, purpose driven genres lend themselves to an analysis of generic structure, and this sort of analysis becomes more valuable with highly ritualized genres (*AD* 72).

FOMC statements are extraordinarily intertextual—the interpretation of a statement from one meeting depends directly on the statement from the previous meeting. In this way, each statement enters the MR of the audience and directs the interpretation of the next statement.

Texts are parts of chains of social events, and texts form their own chains (*AD* 191). Considering texts within a chain of related documents will yield a more fruitful analysis than looking at the text in isolation.

For Fairclough, modality depends on the function of speech. FOMC texts rely on statements and offers. Statements have epistemic modality—we can map statements based on the author's commitment to truth. Offers have deontic modality, falling somewhere between undertaking and refusal. If a speaker has a high level of deontic authority, we would expect unambiguous undertaking or refusal, expressed without modal verbs (*AD* 168). Speakers with low levels of deontic authority would use hedged, modal forms, marking uncertainty about future action. Through the crisis, the Fed shifts in modality on both axes in interesting ways.

Fairclough's concepts underlie most of this analysis, but we still need to consider the function of the FOMC statements. Since the statements aim to shape expectations and justify actions, some theory on justification will be both useful and necessary for a strong analysis.

Benoit: Accounts

In *Accounts, Excuses, and Apologies: A Theory of Image Restoration*, William Benoit gives an overview of scholarly approaches to image restoration, then offers his own theory. Here, by image restoration, Benoit means discourse concerned with self-defense (Benoit 9). Theorists classify defensive strategies differently, but most accept a division between denials, excuses, justifications, and apologies (Benoit 51-61).

Of image restoration strategies, the Fed only uses justifications. Justifications in FOMC statements are slightly atypical, because the justification occurs concurrently with the announcement of action, *preceding* anticipated criticism rather than responding to it. When presenting his own theory, Benoit classifies defensive strategies into one of five types: denial,

evading responsibility, reducing the offensiveness of the event, corrective action, and mortification (Benoit 95). “Evading responsibility” roughly corresponds to other scholars’ “excuses” category; reducing offensiveness corresponds to justification, and corrective action and mortification correspond to apologies.

In justifications, speakers accept responsibility for an action, but deny that the action was wrong. According to Benoit, speakers can reduce the offensiveness of a criticized action in one of six ways: through “bolstering, minimization, differentiation, transcendence, attacking one’s accuser, and compensation” (77). Attempts at bolstering do not engage with the offensive action itself, but instead appeal to ethos and pathos to “strengthen the audience’s positive affect for the rhetor, while minimization engages with the action directly, arguing that the action was not wrong (Benoit 77). Transcendence situates the action in a broader context, and uses this new context to reduce the offensiveness of an action (Benoit 77). Compensation accepts responsibility for an action, but attempts to “remunerate the victim to offset the negative feeling (Benoit 77). To justify aggressive interventions, the Fed often uses minimization and transcendence.

Other Theory

Some other general rhetorical vocabulary will be useful to describe these texts. This theory will inform our analysis, even if it does not constitute our main analytical tool. Here, we should consider Perelman and Olbrechts-Tyteca’s approach to presence, and their thoughts on how consistency contributes to ethos.

In their *New Rhetoric*, Perelman and Olbrechts-Tyteca claim that the presence or absence of ideas in a text is always a deliberate rhetorical choice (143). Because speakers have limited time and writers have limited length, no text can cover all topics, so some must be given

presence, while others are omitted (Perelman 143). And choices about presence must be made carefully: “Effective presentation that impresses itself on the hearers’ consciousness is essential...in all argumentation” (Perelman 142). So, in texts like the FOMC statements, choices about *what* to include privilege some topics over others.

By repeatedly giving an idea presence, speakers promote the importance of that idea, and in fact, repetition is the “simplest way of creating this presence” (Perelman 144). Repetition across texts also creates an ethos of consistency. To claim one thing, then later claim its opposite is inconsistent (Perelman 195). Giving something presence asserts its relevance; to withhold presence later denies its relevance, and this is also inconsistent. By avoiding inconsistency, a speaker can defend and enhance their ethos. Doing so is exceptionally important, especially when a speaker communicates regularly through the same kind of text (as Bernanke and the FOMC do through meeting statements). “The speaker’s life, insofar as it is public, forms a long prelude to his speech,” and this prelude should serve the rhetorical goals of the current speech, not undermine them (Perelman 320). This desire for consistency can motivate other rhetorical decisions, like adherence to genre conventions, as we will soon see.

These theories are by no means exhaustive, but they will be sufficient to discuss the most important textual features of our texts, and to connect these features with the social context of the financial crisis.

March 2006 – December 2007: Big Shoes to Fill

Before Bernanke, Greenspan chaired the Federal Reserve for 19 years, during which time he “created the Fed in his image” (Wessel 54). The advent of business TV channels and the internet only increased Greenspan’s power and authority: Clinton labor secretary Robert Reich described him as “the most powerful man in the world,” while another account granted Greenspan “more

credibility than the president” (Wessel 52-53). Fully aware of his authority, Greenspan consolidated the ‘power behind discourse’ exceptionally well, and became skillful at “disarming or disabling his opponents inside and outside the Fed” (Wessel 52).

This dictatorial style of management contrasts strongly with Bernanke’s. Bernanke holds regular seminars with other Fed governors, but Greenspan rarely consulted them. Bernanke lets other committee members speak first, and he incorporates their ideas into his judgment; Greenspan *always* spoke first, and dissenters often found themselves silenced. But most importantly, Bernanke vowed to bring clarity and transparency to monetary policy, while Greenspan “was famously cryptic, even boasting of his ability to put fewer thoughts into more words than anyone else” (Wessel 85).

These differences in style are apparent in several kinds of texts. Bernanke’s reports to Congress feature detailed, forward-looking inflation targets, but Greenspan’s reports “avoided anything approaching specificity about the Fed’s goals” (Wessel 87). Markets grew used to Greenspan’s opaque style, shifting their assumptions about the connection between deontic modality and future action. Generally, we weigh commitments to future action by the level of deontic commitment: if a speaker expresses an obligation as *required*, we take this as a strong commitment, but if they express it as merely *permissible*, we do not view it as strongly (*AS* 170). With rare exceptions, Greenspan communicates with low levels of deontic commitment, even when obligations are serious. “If Greenspan said something ‘might’ happen to interest rates, he meant it was almost a sure thing” (Wessel 85). When Bernanke says something might happen, he means it might happen.

In April 2006, this difference caused a blunder for Bernanke. Before Congress, he said “at some point in the future [the FOMC] may decide to take no [federal funds rate] action at one

or more meetings” (Wessel 85). To unconditioned readers, this statement appears vague and nearly meaningless. But financial markets, “conditioned to listening to Greenspan,” saw this as a pledge that the FOMC would keep rates constant at the next meeting (Wessel 85). When Bernanke clarified his position, markets reacted turbulently. This episode was only the first of many problems caused by differences between Greenspan and Bernanke. Until August 2007, this tension frequently poisoned Bernanke’s relationship with the public.

Bernanke attempted to bring clarity to the Fed, and markets balked. Since “the people who mattered in the markets had grown accustomed to Greenspan’s peculiar prose,” Bernanke’s candor caused some volatility (Wessel 133). Were Bernanke immediately endowed with Greenspan’s authoritative ethos, this problem might have faded quickly, without causing much trouble. However, Bernanke was not only trying to make the Fed’s communications clearer, he was also trying to make the FOMC more democratic. For the first time in over a decade, the Fed chairman gave his fellow governors a voice. Unfortunately, some of the governors used their voices to dissent against Bernanke in public. With dissenters from the Richmond, Dallas, Kansas City, and St. Louis regional banks speaking out, Bernanke had to either assert himself or abandon his goal of clarity. He chose the former: “the Fed has a chairman for a reason, and Bernanke had to begin talking like one” (Wessel 133). This strategy worked: in 2008, speeches by Bernanke had five times the market impact (in trading volume) than speeches by the next most prominent Fed governor; in 2006, Bernanke’s influence was only twice that of his board members.

March 2006 – August 2007: Adherence to Genre and a Focus on Inflation

On March 28, 2006, Bernanke presided over his first FOMC meeting. The action was uncontroversial—he continued Greenspan’s trend of gradually increasing the federal funds rate

to curb inflation. Markets, hoping for stable rates, or an indication that rate increases would soon end, responded poorly: the DOW closed at 11,154, down from a midday high of 11,312. After this meeting, the Bernanke Fed continued to raise interest rates up to 5.25%, a necessary move to prevent inflation after years of low interest rates during Greenspan's tenure.

From January to August 2007, the FOMC maintained the federal funds rate at 5.25%. Because few policy shifts occurred in this period, the wording of meeting statements became a larger factor in market reactions. The statements in this period are characterized by three features: exceptional adherence to genre structure, inflation as a dominant topic, and low levels of deontic commitment.

In 2007, Bernanke was still a green chairman, having replaced Greenspan only nine months prior. Given Greenspan's reputation, this put a few pressures on Bernanke. Greenspan was a rock-solid fiscal conservative, and a darling of Wall Street. Bernanke came from an academic background, and is usually silent on political issues. In a job interview for the Fed position, Andy Card had to ask Bernanke, "You're a Republican, right?" (Wessel 77). Bernanke also had to demonstrate his authority—he may be Person of the Year now, but in 2007 he was a fresh face in Washington. Finally, because of the differences in their managerial styles, Bernanke faced a very different FOMC than the one Greenspan helmed. Under Greenspan, dissenters rarely spoke up: between 2000 and 2006, only two Fed governors *dared* to vote against an FOMC action (FOMC). Between 2006 and 2010, governors dissented against Bernanke *14 times* (FOMC).

So, the Bernanke fed needed to appear authoritative, consistent, and conservative. Their emphasis on inflation does an excellent job of addressing the latter two goals. This helped to

establish Bernanke's competence as Chairman, but the emphasis on inflation and reluctance to commit to future action created tension between the Fed and Wall Street.

All normal 2007 FOMC statements share two paragraphs: the first and the last. The first details the federal funds rate action, if any, and the last records the votes for the action. In between, the statement discusses the motivation behind the decision, and sometimes offers clues about the Fed's behavior in the future. I call these middle paragraphs the justification section.

Between March 2006 and August 2007, the emphasis on inflation is astounding. Fully two-thirds of the justification section of every statement concern inflation; compared to about one-fifth after August. Certainly, the crisis caused some of this disparity—drastic action and extreme volatility demand attention. But inflation pressures and concerns do not disappear in a crisis; in fact, they become more serious. The increased presence of inflation in these early statements, then, must serve a rhetorical goal: focusing on inflation helped the Bernanke Fed establish a conservative ethos. In 2006, Jeffrey Lackner, president of the Federal Reserve Bank of Richmond, protested consistent rates five times, favoring rate increases. His approval of early 2007 actions reflects a vote of confidence on behalf of fiscal conservatives.

Emphasizing inflation had clear benefits for Bernanke, but it also helped the FOMC cultivate an ethos of consistency. These two sentences, for instance, appear verbatim in *every* statement between January and August 2007: “In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.” In some statements, these sentences form a whole paragraph; in others, they are supplemented by additional justification. Another sentence on inflation appears verbatim in all of the statements: “Although inflation pressures

seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.” Again, the consistent phrasing across statements contributes to an ethos of competence, and the focus on inflation enhances Bernanke’s credibility as a fiscal conservative.

The remarkable consistency of 2007 statements reflects a strong adherence to generic structures. Since the primary goals of monetary policy are to promote economic growth and check inflation, these topics usually dominate the justification section. Typical statements, then, have five paragraphs: the first details the federal funds rate action, the second assesses economic growth, the third assesses inflationary pressures, the fourth weighs the balance of these two issues and hints at future action, and the fifth paragraph records the vote for the federal funds rate action. If the FOMC changes the discount rate, details of this action occupy a sixth paragraph. Within paragraphs, genre conventions dictate the number of sentences for each topic: one for describing the action, two each for assessing growth and inflation, two for evaluation and future action, and one for the vote. Word choice features heavy hedging, modal verbs, and jargon. Where the active voice appears, abstract nouns occupy subjects. These textual features characterize nearly all post-2003 statements under the Greenspan Fed, and represent a rigidly defined generic structure.

The early 2007 statements follow this genre to the letter. Structurally, all of the statements conform to generic standards for organization, paragraph content, paragraph length, and sentence structure. Hedging is pervasive: expressions like “economic growth *appears to have been* moderate” (my emphasis) appear constantly, even when “economic growth *was* moderate” would have been clearer. Modal verbs consistently dampen deontic commitments, as we will see below. Jargon masks many important assessments—early statements describe the

crumbling housing market as experiencing “ongoing adjustment”, and this sort of euphemism is typical. Abstract nouns occupy subjects in nearly every sentence. The March 21 statement, for instance, uses these subjects: “recent indicators,” “adjustment in the housing sector,” “the economy,” “recent readings on core inflation,” “inflation pressures,” “the high level of resource utilization,” “the Committee’s predominant policy concern,” and “future policy adjustments.” In every dimension of the text, early 2007 statements adhere to generic structures, creating a consistent ethos and a conservative approach to governance.

Unfortunately, while the early 2007 FOMC statements did well to communicate conservatism and consistency, they lacked deontic commitment. As the crisis unfolded, the Bernanke Fed offered strong commitments to future action, when necessary. But pre-crisis, the FOMC employed an approach favored by Geithner and Larry Summers: “preserving optionality,” the practice of avoiding any public commitments that might limit options in the future (Wessel 15). This approach has clear political benefits—one can avoid the “flip-flop” moniker, for instance, but FOMC statements are supposed to inform markets about the Fed’s thought process, and preserving optionality means obscuring obligations.

When describing the possibility of future action, the Bernanke Fed spoke vaguely, buried verbs in nominalizations, and preferred modal verbs. This sentence from the January 31, 2007 meeting is paradigmatic: “The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information” (Fed). In plain language, this means “our future interest rate actions will depend on information we receive about relevant developments,” representing an absolutely minimal level of deontic commitment. Markets were accustomed to this ambiguity from Greenspan’s years, but then, interest rates were low and banks were not

hoping for cuts at every FOMC meeting. This ambiguity, coupled with high interest rates, produced poor market reactions for the early 2007 FOMC statements. The Fed releases meeting statements at exactly 2:15 PM, and after the release of every early 2007 statement, the DOW closed lower than its pre-2:15 high.

So, to cultivate a consistent, conservative ethos, the Bernanke Fed focused on inflation and stuck closely to generic structures. However, genre conventions regarding word choice, agency, and deontic modality made the FOMC reluctant to communicate forcefully about future action. This low level of deontic commitment left Wall Street confused about the Fed's intentions, so markets responded poorly to early 2007 FOMC statements.

August 2007: Clear Words for Big Problems

On August 6, 2007, the American Home Mortgage Investment Corporation (AHMIC), then the nation's tenth-largest mortgage lender, filed for bankruptcy. This casualty was the latest in a series of signs that problems in the housing market could infect the rest of the economy. In April, New Century Financial, then the world's largest subprime lender, filed for bankruptcy. Two Bear Stearns hedge funds took huge losses in June, and many liquidity-reliant SPVs faced losses in July and early August (Sorkin 101). To its credit, the Fed observed weaknesses in the housing market in January, and referenced "corrections" in the housing sector at every meeting. But banks and shadow banks, eager to outperform each other, continued to make risky mortgage-backed investments. Throughout most of 2007, this aggressive strategy worked, and many banks posted record profits for several consecutive quarters. However, by August, investors could no longer hide their exposure to the housing market, and liquidity froze.

To create liquidity and stabilize financial markets, the FOMC held unscheduled meetings on August 10 and 17, where the governors decided to lend aggressively. These were the first

unscheduled meetings since the September 11 attacks, and the very act of holding an unscheduled meeting carries rhetorical import: if the Fed holds two emergency meetings, things *must* be bad. Given the rhetorical significance of meeting, the FOMC discarded genre conventions and adopted a clear, terse style for these statements. The statements from the two unscheduled August meetings are characterized by a rejection of genre conventions, brevity, clearer word choice, and a higher level of deontic commitment.

We discussed the generic structure of FOMC statements above, outlining genre conventions for length, organization, content, and word choice. While the early 2007 statements adhered closely to generic structures, statements from the emergency August meetings reject them entirely. Both statements are two paragraphs long, instead of the traditional five. Neither statement mentions federal funds rate action or inflation. Instead, the August 10 statement opens with, “The Federal Reserve is providing liquidity to facilitate the orderly functioning of financial markets.” The other paragraph in this statement details the attempt to promote liquidity, justifying the move because “in current circumstances, depository institutions may experience unusual funding needs.” Because interbank rates were substantially higher than the 5.25% federal funds target, the Fed was justified in using open market operations to drive rates down. Finally, the statement operates with a high level of deontic commitment: “The Federal Reserve *will provide* reserves as necessary” to promote trading at rates close to the federal funds target. By positioning itself as an actor, and using the unhedged form “will provide...as necessary,” the FOMC communicates an *undertaking*, or the willingness to fulfill a serious obligation (AS 170). This is much stronger than the Fed’s typical deontic commitments, which merely express the *possibility* of future action.

The August 17 statement has similar features, but is most notable for its word choice and overall content. Like the August 10 statement, this release is a brief two paragraphs. Unlike the first emergency statement, however, the August 17 release does not present any official policy action. Instead, its purpose is to reassure Wall Street that the Fed is taking the credit crunch seriously. This seriousness is evident in word choice. Where earlier statements referred to housing problems as “corrections” and threats to growth as “downside risks,” this statement sheds some nominalizations, and describes a volatile situation with clear verbs: “Financial market conditions *have deteriorated*, and tighter credit conditions and increased uncertainty have the potential to *restrain* economic growth going forward.” After acknowledging the severity of market conditions, the FOMC reassures investors that the Fed will respond forcefully to prevent further problems: “The committee is monitoring the situation and is prepared to act as needed to mitigate the adverse effects on the economy...”. This reassurance is the only policy action present in the August 17 statement, making the statement a rhetorical appeal to pathos. If investors know that the Fed is on top of the situation, perhaps they will calm down and markets will stabilize. The August 17 statement also frames the Fed’s obligation in different terms. Usually, the FOMC stated obligations in positive forms—“promote growth,” “foster stability,” etc. The August 17 release presents the Fed’s obligation not as a promotion of desirable outcomes, but as a prevention of undesirable outcomes: “[the Committee]...is prepared to act as needed to mitigate adverse effects on the economy.” Of all the 2007-2009 statements, only the August 17, 2007 and January 22, 2008 meetings frame the Fed’s duty in negative terms. The second paragraph of the statement records a unanimous vote “in favor of the policy announcement,” demonstrating that the FOMC, though divided on inflation concerns only a year prior, stands unified to combat the crisis.

So, in response to a liquidity crunch and the spread of housing problems, the FOMC held two emergency meetings in August 2007. The statements from these meetings describe financial conditions briefly and accurately, then assert the Fed's commitment to stabilizing markets. By choosing clear words and accepting future action as an undertaking—not just a possibility—Bernanke and the FOMC managed to bolster investor confidence in the Fed. These statements *tried* to restore stability in markets, but with extreme volatility and tight lending, Wall Street continued to panic.

September 2007 – December 2007: Bernanke Finds His Voice

The emergency August meetings were a turning point for Bernanke, and late 2007 FOMC statements show a new confidence, and a willingness to part with genre conventions. The late 2007 statements do not ignore generic structures entirely—they are not emergency meetings—but overall, they represent a departure from pre-crisis rhetorical forms. These statements are characterized by longer evaluations, a shift in focus from inflation to growth, increased attribution of agency, and firmer deontic commitments.

In our discussion of genre, we outlined the standard length for paragraphs in FOMC statements. Assessments of growth and inflation usually take two sentences each, with an additional two sentences for evaluation and future action. Here, assessments and evaluation sometimes receive three sentences, but differences in the number of clauses and words show a more dramatic shift. In early 2007 statements, each paragraph in the justification section included 3 or 4 independent clauses; in late 2007, paragraphs included 6 or 7. In early 2007 statements, each paragraph in the justification section was about 39 words long; in late 2007, the average paragraph was 50 words long. The additional length allows for more detailed

assessments, and late 2007 statements mark the beginning of a trend towards assessing individual *markets* instead of the economy taken as a unified whole.

Extra attention in evaluation paragraphs allows for clearer indications of future action. The August emergency meetings changed the FOMC's approach to deontic commitment, and this change is best characterized by the following sentence, which appears verbatim in every late 2007 statement: "The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth." This commitment replaces the vague pledge to consider policy actions with regard to "the evolution of the outlook for both inflation and economic growth, as implied by incoming information." The new sentence still features modal verbs—"will continue," "will act,"—but these verbs are no longer hedged by markers of epistemic uncertainty. Rhetorically, this represents a move away from "preserving optionality," but the willingness to undertake future action bolstered investor confidence in the Fed, and in Bernanke. Market conditions during this period were terrible, but overall, the DOW fared slightly better on FOMC meeting days than on other trading days.

After the August emergency meetings, the FOMC broke with some genre conventions, particularly those regarding length, word choice, and deontic commitment. By offering more detailed market assessments, focusing on growth, choosing clearer words, and operating at a higher level of deontic commitment, late 2007 statements increased Wall Street's confidence in the Fed. The trend towards a clearer, more descriptive style represents a move away from Greenspan's rhetoric, and in this period, we see Bernanke asserting himself and finally finding his voice.

Note that during this period, Bernanke faced three dissenting votes—one against rate cuts, and one in favor of more aggressive cuts. However, unlike early 2007, these dissents did little harm to Bernanke’s authority or the FOMC’s. Dissenters faced at least as much scrutiny as Bernanke, and the difference of opinion was viewed as tolerable. This represents a substantial victory for Bernanke in making the FOMC more democratic: by late 2007, Wall Street and federal officials understood that Bernanke encouraged dialogue, and that Fed governors were permitted to use their votes to express dissent. Furthermore, Bernanke’s ability to handle dissenters means that by this point, he had established a credible ethos with Wall Street and the public: he was not Greenspan, but he was still a competent Fed chairman.

January 2008 – October 2008: Towards a Crisis Rhetoric

Generally, the early 2008 statements continue the trends started in late 2007: towards longer, more detailed, clearer communication with higher levels of deontic commitment. Early 2008 statements also show a move towards a crisis rhetoric, where most external developments are handled within the generic structure, and without emergency meetings.

These statements also continue a trend, started in August 2007, of backgrounding or suppressing textual references to actors and events (*AD* 145). That is, in the early 2008 statements, references concrete actors and events are either absent, implicit, or abstracted. Instead of referencing actors and events in the text, the FOMC begins to rely on the considerable MR of its audience (*L&P* 119). This has the effect of recontextualizing chains of events as the result of processes, rather than individual actions or decisions (*AD* 139). Actors are implied as affected parties in a circumstance, or as objects of passive verbs. So, when Bear Stearns falls, is bailed out, and is bought by JPMorgan Chase, the FOMC mentions that “financial markets remain under considerable stress,” abstracting away from the particulars of Bear Stearns. This is

a sort of enthymeme—an incomplete syllogism. The text must interact with audience’s MR to form a complete picture of the situation. Since *everyone* on Wall Street knew about Bear Stearns, the enthymeme functions safely.

Here, the FOMC’s uses backgrounding, abstraction, and recontextualization to maintain their professional obligations. Fed chairmen “rarely appreciate how large and loud the megaphone they’ve been handed is:” Bernanke’s is one of the only voices heard by every ear on Wall Street (Sorkin 87). If the Fed indicts an institution in an official statement, the mention could shatter the firm’s reputation. Bear Stearns, like New Century and AHMIC before them, destroyed their own standing, rendering any concrete mention by the Fed unnecessary.

Though the early 2008 statements use backgrounding and abstraction when describing actors, in general the FOMC continued its shift toward detail, clarity, and deontic commitment. For scheduled meetings in early 2008, paragraphs in the justification section expanded to an average of 53 words. However, owing to an unscheduled meeting on January 22, the January 30 statement is unusually short, with justification paragraphs averaging just 38 words. With this outlier removed, the average length of justification paragraphs for early 2008 statements increases to 56 words, up 5 from late 2007 and up 16 from early 2007. The number of sentences and independent clauses remained roughly constant from late 2007 to early 2008.

As in late 2007, in early 2008 we see a move towards clearer word choice, particularly in verbs. For instance, we see phrases like “growth in consumer spending has slowed,” “economic activity remains weak,” and “financial markets remain under considerable stress.” The FOMC also speaks honestly about its own policies, referring to the “substantial easing of monetary policy to date,” rather than using an abstract term or jargon. This clarity helps the Fed offer a market-by-market assessment of the economy, continuing the trend away from vague, blanket

observations. In most early 2008 statements, the FOMC comments on overall economic activity, the housing market, the labor market, financial markets, consumer spending, and liquidity. In early 2007 statements, only economic growth and stability received major attention, and the rotting housing market was the only section of the economy that “earned” specific mention. Though the focus shifts away from inflation, when discussions of inflation do appear, they are actually *more* detailed, with carefully weighed epistemic commitments.

With levels of deontic commitment, early 2008 statements again continue trends started late in 2007. In early 2007, the sentence discussing future action was vague, with almost no commitment to future action. In late 2007, the FOMC accepted future action as an obligation—“The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.” In early 2008, the FOMC increased their level of commitment by removing epistemic concerns and adding an intensifier: “The Committee will act *in a timely manner* as needed to promote sustainable economic growth and price stability.” This articulation communicates a stronger undertaking by committing the Fed to act both forcefully and quickly.

Generally, then, early 2008 statements continue trends towards longer descriptions, more detailed assessments of individual markets, clearer word choice, and higher levels of deontic commitment. During turbulent times, the increased clarity of these texts helped to keep the Fed and Wall Street on the same page, aiding in the Fed’s goals of maintaining stability and promoting liquidity.

December 2008: Justifying Zero Percent Rates

In December 2008, with the federal funds rate already down to between .5 and 1%, the FOMC made a bold move—it lowered the target to between 0 and .25%. By doing so, the Fed crossed a

threshold. When rates are above zero, the Fed can always stimulate lending by lowering rates. Sometimes, this creates dangerous inflationary pressures, but even then, if liquidity is tight enough, lowering rates can help to stabilize markets. When rates reach zero, the Fed has exhausted its best—and in normal times, its *only*—method of influencing monetary policy. In the heat of the crisis, this move was necessary, especially because interbank rates were several hundred basis points above the federal funds target. Still, reducing rates to zero amounts to a qualitative shift, from a state where the FOMC can influence lending through normal channels, to one where only drastic interventions remain viable.

The December 2008 statement represents a peak for crisis rhetoric, and a culmination of all the trends from late 2007 and early 2008. Of regularly scheduled meetings that do not announce unusual interventions, the December statement is the longest, most detailed, and clearest, and it offers the most thorough attempt at justification and the strongest deontic commitment of any normal statement.

Throughout 2007 and 2008, paragraphs in the justification sections FOMC statements expanded, from 39 words in early 2007 to 58 in late 2008. In the December statement, there are four justification paragraphs instead of three, and these paragraphs average 68 words in length. The evaluation and future action section is especially significant, taking two paragraphs instead of the usual one, and averaging nearly 100 words per paragraph. As we might expect, the number of sentences and independent clauses is also unusually large, with four sentences and over ten independent clauses per paragraph.

This additional length allows for clear overviews of financial markets and inflation, and an exceptionally robust justification and future action section. Late 2008 statements described market problems with verbs, and in the December release, the active voice becomes the

dominant style for the entire statement: “labor market conditions *have deteriorated*,” “consumer spending, business investment, and industrial production *have declined*,” “Financial markets *remain quite strained* and credit conditions [*remain*] *tight*,” “the outlook for economic activity *has weakened further*,” “inflationary pressures *have diminished appreciably*.” These descriptions use adverbs and adjectives, rather than burying value assessments in nominalizations (recall “housing corrections” and “downside risks to growth”).

When describing its own actions, the FOMC again uses the active voice, with unambiguous word choice: “The Federal Reserve *will employ all available tools...*,” “the Committee *anticipates...*,” “the Federal Reserve *will purchase...*,” “[The Fed] *stands ready to expand its purchases...*,” “The Federal Reserve *will also implement...*,” etc. Here, the departure from Greenspan-era genre structures is astounding. Pre-2007, statements followed a set, five paragraph model, with only one or two sentences per paragraph. The passive voice dominated, with actions and value judgments buried in nominalizations and jargon. In the December statement, the Fed (or the FOMC) appears as the subject of seven sentences, and in fact, passive constructions do not appear *anywhere* in the justification section. As in late 2008 statements, some events and actors are backgrounded, absent, or abstracted, but overall, the December statement is remarkably clear and accessible.

The December statement couples this clarity with a bold level of undertaking. While statements from 2003-2007 use hedges and low levels of deontic commitment, the December statement dispenses with hedges, offering unequivocal commitments to future action. In some cases, the FOMC even uses intensifiers. Of modal verbs, only “will”—the modal conveying the highest level of deontic certainty—appears. “Could,” “may,” and “might,” are completely absent, as are indirect hedges like “will depend on,” “seems likely,” and “as implied by incoming

information.” These changes give the December statement an authoritative, reassuring tone, with obvious rewards for Bernanke’s ethos.

Because, by lowering rates to zero, the Fed exhausted its normal mechanisms for influencing liquidity, the December statement needed to reassure Wall Street that the Fed would continue its work to stabilize markets. To do this, the December release includes a few statements aimed at calming the audience. One paragraph stands out: “The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.” The mention of “all available tools” is a clear rhetorical appeal to pathos. With the federal funds rate mechanism exhausted, if the Fed wants to use tools, it must *create* new tools. Still, the phrase sounds reassuring. The second sentence is even more important. Bankers reading it would likely—and correctly—infer a pledge to keep rates at zero until the crisis subsides, which would remove one source of worry from their minds. Considered with the Fed’s promise to explore new ways of using its balance sheet (new ways to inject capital into the system), the December statement is reassuring, and represents the Bernanke Fed as a helpful, authoritative custodian over the financial system.

We can imagine a primary dealer’s response to this statement: “Interest rates are down to zero—hopefully that will spur some lending. At any rate, the Fed will buy some of our Treasuries to influence rates, and this will give us some quick cash. With rates at zero, the Fed’s powers are limited, but they’ve pledged to use everything at their disposal to boost liquidity, and they’re exploring more ways to lend. They’re going to start buying MBSs; that’s good news, we need to get those off of our books, or we’re looking at huge write-downs next year. Hopefully,

with the Fed lending aggressively and creating a market for MBSs, liquidity will start to flow again. If we can't borrow from other banks, we can go to the discount window to remain solvent. As long as we can stay solvent, we might make it through this crisis." Granted, this is a charitable interpretation, but every element in it is true. Banks needed liquidity, and they needed to jettison their MBSs. MBSs were losing their value because banks had to comply with mark-to-market standards, and without a substantial market for MBSs, they became worthless. If the Fed purchased MBSs, they would set prices for them, effectively reviving the market. Finally, with the Fed's pledge to keep rates low, primary dealers would not have to worry about being called on to purchase Fed assets.

So, to justify dropping the federal funds rate to zero percent, the FOMC issued their longest, clearest, most detailed statement in years, and offered unambiguous commitments to stabilize markets. In many ways, the December 2008 statement represents a complete departure from Greenspan-era generic structures, particularly those governing length, paragraphing, deontic commitment, the voice of verbs, and word choice. Some of these breaks with genre reflect a crisis rhetoric, but, as we will soon see, many others were permanent, reflecting Bernanke's new, transparent approach to communications.

January 2009 – December 2009: A Reconsideration of Genre and Rhetorical Goals

The federal funds rate target stayed at 0 to .25% throughout 2009. With rates at zero, the form of FOMC statements changed completely, and 2009 statements barely resemble those from 2007 or earlier. These statements are longer, more detailed, clearer, and more active than previous statements, and fulfill previous deontic commitments. These textual features track a change in genre, a move away from crisis rhetoric, and a shift from strategic to communicative speech.

Because the structure of 2009 statements differs so greatly from the structure of earlier statements, the “justification section” moniker no longer applies accurately. Furthermore, since the Fed’s plans for future action remain constant during 2009 (and unfold as the year progresses), speaking of a future action section is no longer quite accurate, either. Instead, we should consider the entire statement—except for the vote tally—as concerned with evaluation. In 2009 statements, the three or four paragraphs in the evaluation section average 119 words, up dramatically from 39 in 2007 and 56 in late 2008. On average, paragraphs include four to five sentences, with around ten independent clauses.

The organization of these statements differ markedly from earlier generic structures, so we should briefly discuss the new structure. 2007 statements featured five paragraphs: one for the federal funds rate action, one each for assessing growth and inflation, one for evaluation and future action, and one for a vote tally. Discount rate actions occupied a sixth paragraph. 2009 statements feature three paragraphs: one for market-by-market assessments, one for assessing inflation, and one for an update on Fed actions. Significant developments in Fed actions occupy a fourth paragraph.

Importantly, 2009 statements do not mention the federal funds rate until the third paragraph. This demotion is both a cause and a product of consistent low rates: the zero percent target has entered the audience’s MR as an assumption, reducing its importance. At the same time, moving the federal funds rate to a less prominent position *encourages* the audience to think of it as an assumption.

Previously, inflation assessments received slightly more attention than assessments of growth; here, paragraphs for market-by-market assessments are three times longer than inflation

paragraphs. Part of this shift reflects Bernanke's communication style, but inflation conditions also remained stable throughout 2009, reducing the need for a more detailed treatment.

In 2009 statements, market assessments are more detailed than ever, with comments on financial markets, the housing sector, the job market, liquidity, industrial production, business expenditures, commodity prices, consumer spending, and general economic growth. Each statement comments on *at least four* of these issues. Here, the January statement is paradigmatic:

“...the economy has weakened further... Industrial production, housing starts, and employment have continued to decline steeply, as consumers and businesses have cut back spending. Furthermore, global demand appears to be slowing significantly. Conditions in some financial markets have improved... nevertheless, credit conditions for households and firms remain tight... a gradual recovery in economic activity will begin later this year, but the downside risks to growth are significant.”

This level of detail completes the trend—started in early 2008—towards a market-by-market breakdown of the economy. Notice that, with rates fixed at zero, these assessments function more as an update and less as justification for Fed action. Inflation receives a brief treatment that is similar in form and content to 2007 assessments of inflation.

2009 statements are longer than previous ones, and much of this added length comes from the Fed action paragraph. As we will see soon, the Fed pursued unusual, aggressive interventions to stabilize markets, and the third paragraph of most 2009 statements tracks the progress of these interventions. In January, this paragraph features strong deontic commitments: “The Federal Reserve will employ all available tools to promote the resumption of sustainable

economic growth and to preserve price stability,” “The Federal Reserve continues to purchase large quantities of agency debt and mortgage-backed securities...and it stands ready to expand the quantity of such purchases and the duration of the purchase program,” “The Committee also is prepared to purchase longer-term Treasury securities.” These obligations are quickly fulfilled in March: “the Committee decided today to increase the size of the Federal Reserve’s balance sheet further by purchasing up to an additional \$750 billion of agency mortgage-backed securities...and to increase its purchases of agency debt this year by up to \$100 billion,” “the Committee decided to purchase up to \$300 billion of longer-term Treasury securities over the next six months” (FOMC). Note that, while modal verbs disappear from portions of the March statement, the FOMC describes its actions unapologetically in the active voice. In 2009 statements, the passive voice resurfaces occasionally, but the active voice continues to be the dominant form.

These textual features both reflect and cause three trends: a change in genre, a move away from crisis rhetoric, and a shift from strategic to communicative speech.

By now, changes in the generic structure of statements should be apparent. Old FOMC statements were short, vague, unclear, and passive, with a focus on inflation and low levels of deontic commitment. 2009 statements are long, detailed, clear, and active, with a focus on markets and Fed interventions. These newer statements describe Fed actions clearly, and are much more accessible than previous jargon-heavy releases. For at least one type of text, then, Bernanke has succeeded in making Fed communications clearer and more transparent. And, since these statements document longer meetings with a plurality of voices, Bernanke has also succeeded in making the FOMC more democratic. Through the crisis, Wall Street came to understand Bernanke’s style, keeping the Fed and its audience—particularly the primary

dealers—in sync. Because Bernanke and the FOMC were willing to make higher levels of deontic commitment, they stated their intentions clearly, effectively moderating Wall Street expectations. With actions meeting expectations, markets reacted favorably to 2009 FOMC statements: on their 2:15 release, most statements had almost no visible effect on the DOW. This—*not* a positive bump—is the goal. An outright positive market reaction conveys an element of surprise: the markets like what they hear, but the Fed could have said it sooner.

Though 2009 statements share some features with the December 2008 statement, they are less terse. Because they track economic recovery, they represent a move away from crisis rhetoric. This is evident in the FOMC's overall economic assessments, predictions about economic recovery, and level of commitment to additional interventions.

In January, the FOMC said that “the economy has weakened further,” but predicted “that a gradual recovery in economic activity will begin later this year,” and pledged to “employ all available tools” to help the economy. This pledge appears unchanged in every statement until September. In March, the economy continued “to contract,” but the Fed anticipated “a gradual resumption of sustainable economic growth,” owing in part to “policy actions to stabilize markets...together with fiscal and monetary stimulus.” In April, the “pace of contraction appears to be somewhat slower...the economic outlook has improved modestly since March,” and the committee predicted a “gradual resumption of economic growth in a context of price stability.” This prediction remained unchanged until September. In June, the FOMC said that “the pace of economic contraction is slowing; by August, the Fed observed that “economic activity is leveling out.” In September, the committee said that “economic activity has picked up following its severe downturn,” and it anticipated “a strengthening of economic growth and a gradual return to higher levels of resource utilization.” With a better economic outlook, the Fed backed off of its

“all available tools” commitment, pledging instead to “employ a wide range of tools to promote economic recovery.” In November and December, economic activity continued to pick up, and in December, the FOMC said that “the deterioration in the labor market is abating.” With more positive signs, the committee again reduced its level of deontic commitment, reminding its audience that “most of the Federal Reserve’s special liquidity facilities will expire” in early 2010.

As economic conditions improved, the FOMC offered an increasingly positive outlook, and reduced the intensity of its deontic commitments. These three elements track economic recovery, accompanied by a move away from crisis rhetoric.

With interest rates still at zero and Fed interventions becoming less drastic, the 2009 statements address communicative goals, rather than strategic ones. The absence of new actions reduces the need for justification, and the consistency of FOMC monetary policy reduces the need to make commitments. Generally, then, 2009 statements function “as interaction oriented to arriving at understanding, as opposed to interaction oriented to getting results” (*AD* 72). Again, this underscores Bernanke’s success at making Fed communications clearer and more transparent. 2009 statements do little to “preserve optionality,” but with clear commitments to action, and timely satisfaction of those commitments, optionality diminishes in importance (Wessel 15).

March 2008 – December 2009: Justifying Aggressive Interventions

We have finished our discussion of changes in the generic structure of regularly scheduled FOMC statements from 2007 to 2009, but until this point, we have ignored the Fed’s efforts to justify some aggressive interventions. In particular, we have not considered the March 11, 2008 emergency meeting, or the committee’s attempts to situate its actions in the context of a *global*

financial crisis. Though Fairclough has been exceptionally useful to this point, these particular strategies are best considered using Benoit.

Usually, the FOMC sounds calm and unified in its releases, but this hides the political maelstrom caused by the Fed's more dramatic interventions. Because some Fed policies were extremely unpopular, the FOMC had to engage in verbal self-defense, using image restoration strategies. Of image restoration strategies, some deny or evade responsibility for an unpopular action, while others accept responsibility for the action and try to reduce the offensiveness of the event (Benoit 95). The Bernanke Fed uses the latter group of strategies exclusively. In particular, FOMC justifications focus on minimizing and transcendence. When a speaker uses bolstering, they accept responsibility for an action, but argue against the accusation (explicit or implied) that the action was wrong (Benoit 77). One effective minimization strategy argues that the benefits of an action outweigh the harms (Tedesci 282). When using transcendence, a speaker connects their actions to a broader context, and argues that when this context is considered, the action loses its negative qualities (Benoit 77-78). One effective transcendence strategy appeals to higher ideological values—in this case, protecting society by preventing a global economic depression (Benoit 59).

The Bernanke Fed justifies unusual interventions by connecting financial markets to the broader economy, by situating the American crisis as part of a global crisis, and by documenting the good done by these interventions.

Throughout the crisis, anyone with ears was tortured at the hands of the “Wall Street vs. Main Street” coinage. Both the media and politicians seized on this divide as a way to criticize Wall Street, the Fed, and the Treasury, but the apparent disconnect is patently false. Individuals and businesses borrow from small banks, small banks borrow from larger banks, larger banks

borrow from Wall Street banks—including the primary dealers, and Wall Street banks borrow from each other and from the Fed. We can have doubts about whether wealth trickles down, but there can be no doubt that liquidity does. The largest banks have the most capital and the best credit, letting them borrow more freely and cheaply than smaller banks. If Wall Street banks are not lending (or are charging steep rates) to each other, they will not lend to smaller regional banks. If regional banks cannot borrow from Wall Street, they will not lend to community savings-and-loan banks. If community banks cannot borrow from regional banks, they will not lend to individuals and businesses. In this way, Main Street needs Wall Street, and to defend itself against Congress and the press, the Fed highlighted this fact in FOMC statements.

Markers of image restoration become more frequent as Fed interventions intensify. With the exception of the August 7, 2007 statement, early statements make no mention of liquidity problems for households or businesses. The January 22, 2008 is the first to do so: "...credit has tightened further for some businesses and households." Credit issues for households and businesses appear as problems in the next two regularly scheduled statements. At the unscheduled October 8, 2008 meeting, the FOMC explicitly linked the interests of Wall Street and Main Street: "financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit." In the December 2008 statement, the Fed cites liquidity for businesses and individuals as the primary goal of the Term Asset-Backed Securities Loan Facility (TALF): "Early next year, the Federal Reserve will also implement the TALF to facilitate the extension of credit to households and small businesses." Here, the use of "facilitate the extension of credit" rather than "to extend credit" reflects the trickle down nature of liquidity. The Federal Reserve can only lend to and trade with certain institutions, so it cannot lend directly to small businesses and individuals. After

December 2008, every statement mentions liquidity for businesses and individuals, usually as beneficiaries of FOMC actions: “The Federal Reserve is facilitating the extension of credit to households and businesses...through a range of liquidity programs.” 2009 statements also tie credit issues for businesses to spending and unemployment: “difficulties in obtaining credit have led businesses to cut back on inventories, fixed investment, and staffing.” Similar statements appear in all of the 2009 statements.

These attempts to tie Wall Street to Main Street represent both transcendence and minimization. When defining transcendence, Benoit imagines Robin Hood using the strategy: “Robin Hood might suggest that his actions be viewed not as theft, but as assistance to the poor and downtrodden” (78). In a similar way, by making causal connections between Wall Street “bailouts” and businesses, households, and individuals, the Fed suggests that its actions be viewed not as theft from taxpayers, but as assistance to the entire economy.

The FOMC also uses transcendence to situate its actions as part of a global financial crisis. At unscheduled meetings on March 11 and October 8, 2008, the Fed discusses its cooperation with central banks worldwide, saying that they have “engaged in continuous close consultation and have cooperated in unprecedented joint actions...to reduce stress in financial markets.” The March statement introduced the controversial Term Securities Lending Facility (TSLF), where the Fed lent \$200b of supersafe Treasury bills to banks in exchange for risky MBSs. TSLF loans lasted 28 days, rather than overnight. Under normal conditions, the loose standards for acceptable collateral and the long duration of TSLF loans would be illegal. So, the Fed invoked the “unusual and exigent circumstances” clause of its charter, which permits it to lend to “nearly anyone” to combat critical threats to the financial system (Wessel 305). Anticipating criticism, the FOMC framed the introduction of TSLF by appeals to transcendence.

The paragraphs before TSLF discuss international cooperation, and the paragraph following it details the FOMC's attempts to assist the European Central Bank and the Swiss National Bank. These efforts situate the Fed's actions as part of a global financial crisis in an attempt to reduce hostility to FOMC policy.

By connecting problems on Wall Street to the broader American economy, and to a global financial crisis, Bernanke and the FOMC used transcendence and minimization to justify aggressive interventions. Without these strategic moves, Congress and the public may have restricted the Fed's options, possibly leading to a worse recession or depression.

Bernanke's Rhetoric, Vindicated

In 2007, Ben Bernanke was plagued by comparisons to his authoritative predecessor, Alan Greenspan. Bernanke attempted to make Federal Reserve communications clearer, and to make the FOMC more democratic, but without a sufficiently authoritative ethos and strong levels of deontic commitment, markets balked at his efforts. Because Bernanke was unproven, some Fed governors viewed his affinity for dialogue as weakness, and dissenters enjoyed great influence in the public forum. Statements from this period adhered closely to Greenspan-era generic structures, particularly those regarding deontic modality, leaving markets confused about the Fed's intentions.

In August 2007, deep fissures in the housing sector spread to Wall Street, demanding a quick response from the Fed. The FOMC convened for two emergency meetings, and the statements from these meetings adopted a terse, clear style of communication.

After August 2007, FOMC statements began to change, and trends developed towards greater length, detail, clarity, agency, and higher levels of deontic commitment. Throughout 2008, the active voice came to dominate over the passive, and statements conveyed value

assessments using common verbs, adjectives, and adverbs, rather than jargon and nominalizations. Bernanke and the FOMC became more assertive in their commitments to future action, which helped to inform market expectations. As a result of these changes, the Fed enjoyed a better, more open relationship with Wall Street. The confident tone of these communications helped Bernanke establish a credible, authoritative ethos, which aided him in his attempts to make the FOMC more democratic. Though committee members still dissented on occasion, dissenters did not harm Bernanke's reputation in the public forum.

In December 2008, the FOMC reduced the federal funds target to zero, exhausting its chief mechanism for influencing monetary policy. The statement from this meeting represents a culmination of all of the trends up to that point: it is the longest, most detailed, most active, clearest statement, with unequivocal commitments to future action. In many ways, the December 2008 statement was a final break from Greenspan-era generic structures, and 2009 statements barely resemble pre-2008 statements.

The 2009 releases established a new set of genre conventions for FOMC statements. They are characterized by detailed market-by-market assessments, a de-emphasis on inflation, clarity, the active voice, and lengthy discussions of monetary policy actions. Owing to a consistent zero percent rate target, 2009 statements also mark a shift from strategic to communicative speech, reading more like economic updates and less like justifications of policy action. In early 2010, it seems that Bernanke's attempts to make Fed communications clearer and more transparent were successful, and his rhetorical style seems to be characterized by its clarity, accessibility, detail, and high level of deontic commitment.

Throughout the crisis, the Fed had to pursue unusual, aggressive interventions to stabilize markets and prevent an economic depression. Some of these policies were politically unpopular,

so Bernanke and the FOMC had to engage in verbal self-defense, or image restoration. To justify aggressive interventions, the FOMC used strategies of minimization and transcendence. Namely, they connected problems on Wall Street to the broader American economy, and situated Fed policy actions in the context of a global financial crisis. These attempts may have curbed opposition to certain monetary policies, and without these rhetorical moves, Congress and the public may have restricted the Fed's options.

Overall, the evolution of FOMC statements from 2007 to 2009 represents a rejection of Greenspan-era genre conventions and a vindication of Bernanke's efforts to make Fed communications clearer and more transparent. Once markets adapted to Bernanke's approach, the increased clarity and frank commitments of FOMC statements kept Wall Street expectations in line with the Fed's policy plans, successfully fulfilling a major rhetorical goal of Federal Reserve communications.

Discussion

This analysis encourages us to study financial study in greater detail. In particular, two facts about financial communications suggest that the field can provide fruitful material for further inquiry. One observation is the importance of communications to the functioning of the financial system; the other is the financial world's quantitative mechanisms for gauging audience reactions.

By now, the importance of communications to the financial world should be clear. Most of the trading on Wall Street involves forming and acting on expectations, and on the accuracy of expectations. Language is the most common way to influence and express expectations. Even when expectations are assessed using mathematical models or other nonlinguistic means, the findings of these assessments must be communicated through language. In the financial world,

then, we see many of the same motivations that appear in political arenas: sometimes, actors are motivated to speak clearly, at other times, ambiguity better serves their rhetorical goals.

Unfortunately, the financial system produces frequent incentives for outright deception, using both linguistic and nonlinguistic means. 2007-2008 communications from Lehman Brothers are a prime example: through “creative” accounting practices and well-crafted speech, Lehman briefly convinced markets of its solvency. However, when David Einhorn unpacked some of these statements and introduced more accurate data, Lehman’s stock price tumbled down, and never recovered. As we have seen, for the Federal Reserve, clarity is paramount in communications, as clear explanations of intent are the best way to guide market expectations. On Wall Street, honest, well-crafted communications can make markets healthier, more stable, and more efficient, while dishonest, deceptive communications can cause bubbles and panics. Badly articulated communications, even when well-intentioned, can cause volatility, as we saw in some of the 2007 FOMC statements. In short, the financial world provide us with an arena where communications often carry high stakes, and where bad communications can have consequences for the entire economy.

Wall Street also provides rhetorical scholars with a unique tool: highly responsive, quantitative measurements of audience reactions to texts. Rhetoricians often speculate about audience reactions, and in some cases—like elections—reactions are even quantifiable. But rhetoricians have a very different set of MR than most other audiences, and even when a thorough consideration of context can approximate the audience’s MR, scholars are likely to read texts differently than the original audience would have. Often, this is unproblematic: in situations where a speaker’s rhetorical goals are clear and a text’s reception is obvious, we do not *need* responsive, quantitative measures of audience reaction. However, the financial world offers us a

wealth of information about audience reactions that few other fields can duplicate. How did a statement affect markets in general? Look at stock indexes, like the DOW or Nasdaq. Did a firm's attempt to bolster its image work? Look at the firm's stock price, or the credit rating of their bonds. Since markets react instantly to texts—since traders execute positions within minutes of receiving new information—we can look at a text, look at the time of its release, and gauge the audience's reaction using any number of quantitative mechanisms.

These two factors—the importance of communications to the financial system, and Wall Street's responsive, quantitative measures of opinion— suggest that the financial world may provide rewarding results for further rhetorical study. This analysis only looked at one set of texts, but with more research, rhetoricians may be able to expand our field and help our financial system communicate more efficiently.

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Glossary

People

Ben Bernanke—Chairman, Federal Reserve, 2006-present. Former chairman of the Princeton University economics department. Bernanke communicates much more clearly than Greenspan, which caused some problems in the early years of his tenure. Bernanke also manages the Fed in a more democratic way, forcing him to cultivate a very different ethos than Greenspan's. Though Bernanke alone does not author all Fed communications, he is the public face and mouthpiece of the Federal Reserve, so statements by the Fed are nearly always attributed to him as well.

Alan Greenspan—Chairman, Federal Reserve, 1987-2006. Former chairman and president of Townsend-Greenspan & Co. A few notable exceptions aside, Greenspan's communication style was cryptic. Markets grew accustomed to his style, which caused problems for Bernanke, who communicates more clearly. Greenspan's decision to keep the federal funds rate low from 2001-2004 created inflationary pressures that Bernanke had to address upon taking office.

Institutions

Federal Reserve—The central bank of the United States. Within the Fed, the main bodies are the Board of Governors, the FOMC, and the 12 regional Federal Reserve Banks. The President appoints members of the Board of Governors. Aside from these appointments, the Fed is politically independent. This independence grants flexibility in times of crisis, like the 2007-2009 panic. The Fed directs U.S. monetary policy, and is responsible for issuing currency. In the larger banking system, the Fed acts as the lender of last resort, providing liquidity to banks who cannot borrow elsewhere. Along with the SEC and Treasury, the Fed plays an important role in financial regulation.

Federal Open Market Committee (FOMC)—The body within the Federal Reserve responsible for setting the federal funds rate and the discount window rate. The FOMC includes the Board of Governors, plus a rotating group of 5 regional bank presidents. The president of the Federal Reserve Bank of New York has a permanent vote, and does not rotate like other regional presidents. Normally, the FOMC meets 8 times per year, but the committee holds emergency meetings during times of crisis. At the end of each FOMC meeting, the committee issues a statement, which it releases to news outlets at *exactly* 2:15 P.M.

Federal Reserve Bank of New York—The Fed's Wall Street branch, and the most important of the regional Fed banks. In addition to its role as a liaison to Wall Street, the New York branch executes all of the Fed's open market operations, including FOMC federal funds rate actions.

Financial Terms

Basis point—1/100th of a percent. So, a shift of 50 basis points is a .5% change. Basis points allow financial analysts to describe interest rates more accurately.

Collateralized Debt Obligation (CDO)—A security backed by collateralized debt. Here, the collateral differentiates CDOs from entities like commercial paper, which are not backed by collateral. Types of debt behind CDOs include corporate bonds, municipal bonds, commercial mortgages, and residential mortgages. Among other things, collateral can include corporate assets, real estate, and houses. MBSs are a subset of CDOs. Until 1999, commercial banks could not trade CDOs, but the GLBA lifted this ban. Between 2004 and 2007, over \$1.5 *trillion* of CDOs were issued. For more discussion of CDOs and their role in the crisis, see the Historical Context chapter.

Discount window rate—The interest rate banks must pay to borrow directly from the Federal Reserve, set by the FOMC. By offering direct loans through the discount window, the Fed fulfills its obligations as lender of last resort. Usually, the discount rate is symbolic, since borrowing from the discount window is a public sign of very weak credit. The FOMC keeps the discount rate higher than the federal funds rate, to discourage banks from borrowing directly from the Fed. In normal circumstances, the discount rate is kept 100 basis points higher than the federal funds rate, and discount window loans must be repaid overnight. During the crisis, the FOMC dropped the discount rate to only 25 points above the federal funds rate, and extended the term of loans to thirty days. Generally, direct borrowers must provide safe collateral—often Treasury securities—for discount loans, but during the crisis, the Fed accepted other forms of collateral, including MBSs and CDOs.

Federal funds rate—The target interest rate for overnight interbank loans, set by the FOMC. When media outlets say that the Federal Reserve has changed interest rates, they mean the federal funds rate. However, the FOMC cannot set rates directly. Instead, it increases or decreases the supply of money in bank reserves. The Fed does this through open market operations: it buys or sells Treasury debt and securities with large banks known as primary dealers. Pre-crisis, there were 22 primary dealers; now, there are 19. In normal circumstances, primary dealers are the only private institutions that can trade directly with the Fed, and they purchase most new Treasury debt. To lower the federal funds rate, the FOMC instructs the New York branch to buy Treasury securities from primary dealers, injecting money into the system. With more capital, banks can lend more freely and more cheaply to each other, which increases liquidity but promotes inflation. To raise the federal funds rate, the Fed sells Treasury securities from its vast portfolio, removing money from the system. With less capital, banks cannot lend as freely or as cheaply, which tightens liquidity and prevents inflation.

Mortgage-backed security (MBS)—A CDO backed by mortgage debt. MBSs are backed by commercial mortgage debt (CMBS) or residential mortgage debt (RMBS). In this paper, unless otherwise noted, “MBS” refers to RMBSs. In an RMBS, the collateral is the house. Of special concern are MBSs backed by subprime mortgages—no down payment, no documentation, adjustable rate mortgages extended to underqualified (subprime) borrowers. MBSs come about in the following way. A mortgage lender will hire an investment bank to securitize a pool of mortgages. The investment bank then creates an SPV, which buys the mortgage pool and packages the debt as bonds. With the help of a rating agency, the investment bank divides the bonds by risk level, then converts the bonds into securities, which are sold by the SPV. Since many MBSs received AAA ratings but offered better returns than other AAA bonds, MBSs

became immensely popular. For more discussion of MBSs and their role in the crisis, see the Historical Context chapter.

Specialized Investment Vehicle (SIV) / Special Purpose Vehicle (SPV)—An offshore bank-like entity serving one of several purposes. SPVs can be used like hedge funds, to create CDOs, or to avoid write-downs.