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Research Note

Just a little "froth": Tracing Greenspan's ideology

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ABSTRACT

Although not receiving the attention it deserves, Greenspan's rhetorical rationalization of the extraordinary developments in the housing market contributed significantly to its unsustainable expansion between 2002 and 2006. His rhetorical campaign served to justify his regulatory inaction, much like the language masking the stock market bubble of the 1920s. Informed by this historical pattern, this paper offers a rhetorical analysis of the housing market developments as represented in Alan Greenspan's last speech on the housing market in September 2005, near the peak of the housing market euphoria, as the Fed's outgoing chairman. Although Greenspan explicitly recognized many signs of the bubble, his ideology prevented him from making necessary inferences regarding the true extent and potential ramifications of the bubble burst for the broader economy.

1. Introduction

Between 1996 and the time Alan Greenspan declared, "in the United States, signs of froth have clearly emerged in some local markets" on September 26, 2005, real home prices had already nearly doubled. "Froth . . . refers to a bunch of bubbles rather than a single big one. [So this meant] that there was no nationwide housing bubble. . ." (Leonhardt, 2005). Unlike bubbles that pop abruptly, froths would only retreat—a convenient descriptor. This seemingly innocent metaphor came to represent the common opinion at the time. Between his speech and by the time he recognized the flaw in the model he perceived as the critical functioning structure that defines how world works in October 2008, the Case-Shiller Home Price Index had already fallen by a whopping 25%. Soon thereafter, Greenspan appears defensive. Indeed, he constantly shifts blame for the financial crisis away from his ideology and on to China (Lee, 2009) and other global developments outside the Fed's control. One wonders what prevented him from realizing sooner rather than later that without excess demand from those securitizing these loans, subprime mortgage originations, undeniably the original source of crisis, would have been far smaller and defaults accordingly far fewer (Greenspan, 2008a, 2008b). This will inevitably bring us to the notion of ideology, the topic of this research note.

2. Ideology and economics

We do not use the term economic ideology in its potentially derogatory connotation, nor do we contrast it with any arbitrary notion of objectivity. Rather, it refers to a sincere effort to make sense of economic experience as economists themselves perceive it (Heilbroner, 1988). It also refers to "the shared framework of mental models" that groups of economists provide for interpreting economic developments and for prescribing how the economy should be structured (Denzau and North, 1993). Greenspan's definition falls along these lines when he called ideology "a set of ideas that we each believe explains how the world works and how we need to act to achieve our goals." This understanding follows the footsteps of Austrian economist Schumpeter (1949) who located the ideological bias in a pre-scientific vision of the economic process. This vision is

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the perception of a set of related phenomena. In this sense of the term, Greenspan certainly did have an ideology.

Ideology in standard economics is subtle and often communicated in veiled scientific vocabulary and metaphors such as Deadweight Loss (Avsar, 2011). For instance, the labor market frictions metaphor—which exemplifies the influence Physics has on economics as Mirowski (1991) convincingly argued in his *More Heat Than Light*—shifts attention away from the welfare of actual persons and treats some measure of economic activity as an end in itself.

Economists, like other scientists, are motivated to persuade their peers through use of formalism, metaphors, etc. (McCloskey, 1983). However, economic rhetoric, while utilized as a tool for persuasion, has material consequences. Warren Samuels articulated the relevance of economic rhetoric for policy making. Economic language, according to Samuels, controls the definition of reality and thereby economic policy and the social (re)construction of this produced reality. As a result, among the "several . . . possible futures, only one will be actualized and produced at any place and time" (1991, pp. 518–519). Let us consider the notion of the moral hazard frequently used in policy debates. It is hardly a neutral notion despite the scientific pretentions of those who employ it extensively. Indeed, the notion of moral hazard takes opportunistic behavior as the norm and extrinsic rewards as the primary motivator. Inevitably, when invoked as a guiding principle, it has expected policy implications: "By 'proving' that helping people has harmful consequences, the economics of moral hazard legitimatizes the abandonment of redistributive policies" (Baker, 1996, p. 290). Ferrano, Jeffrey, and Sutton (2005) investigated consequences of economic language for managerial practices. They found that economic language, when widely and mindlessly used, helps reinforce assumptions underlying economic theories such as the notion that self-interested individuals only respond to extrinsic rewards. These assumptions take on a self-fulfilling nature at the organizational level regardless of their empirical validity. Emergence of market-like relationships between employer and employees, or employment at will, as they argue, could be attributed to management practices that take self-interested behavior and the power of extrinsic incentives as behavioral norms without questioning the truth of that proposition. Consequences of economic rhetoric are not limited to the domain of policy or managerial practices; they extend into the legal system as well. References to economic categories (e.g. private property), as Malloy (2004) convincingly demonstrated, shape socio-legal meanings and values and, in turn, influence the allocation of scarce resources and the opportunities for capturing, creating, and distributing wealth. Simply put, economic language matters.

3. Greenspan's language

In this research note, we turn to the economic rhetoric of policymakers, the basis of official narrative, and its consequences. In comparison, the official narrative is more accessible to the public—particularly through the media's decoding of "Fedspeak[1]." In our analysis of the text, we utilize the perspective offered by critical discourse analysis (CDA). CDA builds on the Marxian insight that language and other elements of the social life are dialectically interconnected (Fariclough and Graham, 2002) and claims that a close textual analysis should be a significant part of social scientific analysis of a whole range of social and cultural practices such as policy making and processes (Fairclough, 1995). CDA helps uncover ideologies as they are imbedded in political language communicated through rhetorical documents with the capacity to dictate decisions and control public beliefs and behaviors (McGee, 1980). For instance, ideology could manifest itself in a vocabulary representing ideas such as liberty, which McGee (1980) calls ideographs, to which persons of a particular culture will react predictably and automatically.

Ideologies are reflected in both content and form. Consider the following Tony Blair quote: "In the increasingly global economy of today, we cannot compete in the old way. Capital is mobile, technology can migrate quickly and goods can be made in low cost countries and shipped to developed markets." This quote is interesting as it presents globalization as an inevitable and exogenous process—even though it is regulated and facilitated by international agreements. This representation is reinforced by two rhetorical choices: first, primary social actors of the global economy such as multinational corporations are not present and, secondly, the use of passive voice helps refer to actions without necessarily identifying the responsible agents engaging in them (Fairclough, 2000).

The policy-maker discourse, given the diversity of its intended audience, is a unique case and somewhat differs from academic discourse: linguistic style, metaphors and, more importantly, framing, become primary instruments in rationalizing normative commitments such as self-regulation. One major thesis of this paper is that the way policymakers frame economic events – defined broadly as particular representations of reality – has major consequences because it helps form expectations and sets the tone for public debate, just as the appearance of words like downturn in the media lowers consumer confidence (McCarthy and Dolfsma, 2009). When Alan Greenspan downplayed the bubble at its peak in September 2005 by calling it "froth;" and when the President rationalized, in 2004, the rapid increase in homeownership thanks to risky and complicated mortgage products by declaring that he wanted everybody in America to own a home, both were framing housing market developments as ordinary, planned, and under control. The public takes cues from the official narrative that projects the future. As John R. Commons once said, ". . . it is the hopes and fears, the expectations and cautions, the foresight and impatience, respecting the future that determine what shall be done in the present" (2004, p. 337). In other words, today's actions are caused by what is expected to happen in the future.

Such representations of economic realities have implications for resource allocation and income distribution.

[1] Refer to Blinder, Goodhart, and Hildebrand (2001) for a more detailed analysis for the evolution of Fedspeak as a distinctive genre of speech.