# *Central banking in risk discourses: 'Remaking' the economy after crisis*

Chapter for forthcoming title: ***Communicating Risk***

– edited by Jonathan Crichton, Christopher N. Candlin and Arthur S. Firkins

Submitted by Dr Clea D Bourne

Lecturer, Promotional Media (PR, Advertising & Marketing)

Goldsmiths, University of London, UK

Revised: 21 May 2015

Contact: Room PSH 219, Professor Stuart Hall Building, New Cross, London SE14 6NW

Email: c.bourne@gold.ac.uk; DDL: 00 44 (0)20 7919 7630

**Chapter**

## *'Central banking in risk discourses: 'Remaking' the economy after crisis*

### Introduction

Global markets illustrate well Ulrich Beck's (1992) notion of the 'risk society', one marked not by more hazards, but rather a society in which risk itself has become a global discourse and set of practices; "*a gaze*" which attempts to bring the future into the present and make it calculable (Horlick-Jones, 2004: 109). As such, the risk society is increasingly preoccupied with responsibility, safety and security generated by 'manufactured' risks emerging from new environments for which history provides little experience (Giddens, 1999). Nowhere is this truer than in financial markets, where periodic crises pose substantial risks to global and national systems. Financial crises have proved far more common than either investors or regulators expected, with 'once in a century' events taking place in quick succession – from the global financial crisis which began with a 'credit crunch' in 2007; the Libor scandal which peaked in 2008; and the eurozone crisis which emerged in 2009 – all illustrating the far-reaching consequences of spreading manufactured risks around the globe.

The aftermath of the 2007-2009 global financial crisis led to mass recriminations against those who allegedly failed to *see* the new manufactured risks inherent in financial systems. Such recriminations are symptomatic of the moral climate of the risk society, featuring a "push-and-pull" of accusations of scaremongering on the one hand and cover-ups on the other (Giddens, 1999: 5). In the absence of a global regulator to blame for the financial crisis, the three most powerful central banks – the ECB, the Bank of England and particularly the US Federal Reserve (Fed) – found themselves under immense public scrutiny. Central banks' role as a buffer between state and market interests had offered a unique vantage point from which to 'see' major global risks and assure market stability. Yet the combined actions and *in*action of central banks leading up to the crisis made risks less visible and less governable (Vestergaard, 2009). Specifically, central banks were accused of stoking market excesses through weak governance, inconsistent inflation targeting and 'too easy' monetary policies. The Fed was even accused of helping to contribute to the sub-prime mortgage crisis by producing the flawed data upon which US government policy devised home ownership loans for the financially-excluded (Schwartz, 2012). Central banks were further criticised for failing to heed the pundits who *did* predict the crisis (Kirsner, 2012), for compounding the loss of trust during the early days of the crisis by denying markets liquidity, and for collectively refusing to take action as the crisis grew (Warner, 2011).

This chapter explores risk discourses by deconstructing public recriminations made during a 2008 Congressional hearing into the global financial crisis and the role of US regulators, including the nation's central bank, better-known as 'the Fed'. However, the chapter repositions the Congressional hearing as part of the Fed's own risk management of the US economy. The chapter begins by exploring risk discourses in wholesale financial markets, as well as central banks' techniques for managing attendant risks. The chapter then provides a brief background to the US Federal Reserve, before setting out the methods and materials for deconstructing US Congressional hearings as discursive events, closing with a discussion of themes arising from testimony given by Alan Greenspan, renowned economist and former Chair of the US Federal Reserve.

## Central banks in risk discourses

Central banks play a distinctive role in institutionalising patterns of risk in national economies by guaranteeing overall trust in and sustaining the stability of a nation's financial system. Risk management in central banking is primarily carried out through monetary policy – the 'sharp end' of central banking – used to guarantee national money supply, set interest rates and manage inflation (Irwin, 2013). Monetary policy encompasses a number of central bank activities, including 'open market operations' or the buying and selling of government bonds in the open market (Shafik, 2013). Central banks further manage risk by supervising, regulating and scrutinising the nation's banking system with a light-enough touch to maintain the system's vitality, while sustaining the trustworthiness of banks and financial institutions (FCIC, 2010; Woodward, 2000). Central banks also help maintain financial stability, a role straddling the first two areas of risk management, and involving additional central banking experts to identify, analyse and communicate systemic risks.

Monetary policy remains a central bank's most consistent risk management tool and its most discursive, shaping national economies through carefully-crafted 'monetary stories' (Holmes, 2014; Resche, 2004; Woodward, 2000). A central bank's monetary story is an attempt to see into the future: identifying what business conditions and inflation might be, providing careful interpretations of the economy, and communicating stability by sending advance signals or forecasts of potential risk, such as whether interest rates might move, or whether inflation is on the horizon (Holmes, 2014; Resche, 2004). Signals *must* be sent in advance so as to avoid surprising the markets, thus ruining the intended goal, namely to stabilise the economy. It is through this monetary story that an economy is "made, remade, and unmade" (Holmes, 2014: 14). Losing control of the monetary story could mean losing control of the central bank's communicative relationship with its many publics (Holmes, 2014). Language is therefore pivotal to the central banker's job, and careful wording the 'sharp edge' of his risk management tool. For example, 'hedging', the economist's notion for covering against risk, in central-bank-speak translates into opaque statements designed to send messages in many directions, so as not to move markets (Resche, 2004). As prudent risk managers, central bankers use language that is neutral in tone – 'non-journalistic', 'non-colourful', 'technocratic deadpan' (Smart, 2006; Resche, 2004; Holmes, 2014). A central bank's authority and trustworthiness emerges through these complex narratives. In a post-crisis era, central banks had an even more pivotal role to play. Since governments had little fiscal room to stimulate economies, central banks became more 'activist' in support of economic recovery (Shafik, 2013). Communication became the central bank's most powerful tool, as central bankers moved beyond open market operations to "open mouth operations" (Shafik, 2013), developing a 'financial stability story' that mimicked the monetary policy story (Holmes, 2014).

Central banking activity took on mythical status in the late 1990s, when combined efforts of major central banks supposedly quelled the Asian Financial Crisis (Irwin, 2013). During this 'Age of the Central Banker' (Krugman, 1999), regulators in Western economies developed an International Financial Architecture (IFA) to share monetary policy techniques for containing the impact of adverse events such as inflation, thus 'mastering' economies (Vestergaard, 2009; Irwin, 2013). But this halcyon period of perceived low risk in Western markets proved a double-edged sword. Not only did financial markets expand and deepen; investors took *more* risks, borrowing greater amounts at cheaper rates than ever before, investing in a multitude of instruments catering to every possible risk profile, while allowing risks to spread across the globe (Irwin, 2013; Rajan, 2005).

No individual central banker was more mythologised during this period than Alan Greenspan, Chairman of the US Federal Reserve from 1987 to 2006. Widely-admired for his personal ideology of 'light-touch' regulation, Greenspan was a cult figure in the business media; the man "who held more power over the financial future than any other individual on the planet "(Irwin, 2013: 124). But only months after Greenspan demitted office in January 2006, the highly-leveraged US housing market peaked, causing the value of related securities to plummet, and damaging financial institutions globally. The ensuing global financial crisis wreaked havoc on the US economy. Critiques of Greenspan (ever-present on the political left) became mainstream. In 2008, Greenspan was summoned before a Congressional hearing to defend his legacy, together with representatives of the Treasury and the Securities Exchange Commission (SEC). The Congressional Hearing gave the US government a national and global platform to account for its own role in governing market mechanisms that lay at the root of the crisis. Greenspan's testimony, in particular, made headlines in all major financial news outlets. His testimony therefore provides a useful lens through which to explore how a central bank makes sense of its own risk-management techniques in the wake of one of the largest financial crises ever seen.

Risk-taking in wholesale financial markets is different from everyday financial risk. For ordinary citizens, risk-taking is a personal endeavour at the household level. Market professionals, by contrast, generally take on *other* people's risks, which they price and package up to be sold via financial products and services, thus distributing risk away from those best able to purchase safety and freedom from it (Giddens 1999; Beck, 1992). Market professionals therefore view risk positively since it generates profit, with risk management now a specialism, where risk is segmented into various categories from credit and currency risk to market and political risk. Alongside the rational, scientific language of risk management is the contrasting language used to describe risk-*taking*, often couched in terms of exploration and bold initiatives taken at the 'frontiers of finance' (Giddens, 1999). Greenspan himself had "waxed lyrically" about the wonders of spreading and reducing risk through financial engineering (Keegan, 2007: 8). Despite the opportunities and potential profits inherent in volatility, risk has its winners and losers. When there are enough losers, borrowing and lending becomes constrained, markets become risk averse, and 'freeze up'.

Governments view risk in quite a different way. Much of political decision-making is about managing risks which do *not* originate in the political sphere (Giddens, 1999: 5). Consequently, politicians and administrators have a "cultural disinclination" against the exposure that comes with taking responsibility for risky decisions. Instead, governments frequently offload complex, problematic services to trustworthy third parties (Taylor & Burt, 2005: 28). States and markets both attach a 'price' to risk; but where markets sell-on risk to other parties at a profit, states shift potential blame away to third parties, who are held responsible for attendant risks of service-delivery (Taylor & Burt, 2005).

Central banks not only play an integral role in managing national economies, they also have a risk management role in global financial markets. As 'buffer' between state and markets, central banks are subject to lobbying by market interests, intent on influencing monetary policy or deterring regulation. Meanwhile, modern central banks are typically independent of political executives, able to keep governments from interfering in markets, while enabling banks and the economic system to thrive under watchful supervision. Yet central banks are also subject to political antagonism or state interference over monetary policy (Riles, 2006). Should monetary policy prove inadequate, states can shift blame onto the central bank.

The halcyon decade following the Asian Financial Crisis rendered central banks victims of their own success. By encouraging ‘light touch regulation’, central banks’ own risk management role diminished. Central bank requirements for bank capitalisation became too low, banks held too little capital during an upturn, while hoarding capital and reducing lending during a downturn (Davies, 2010; Rajan, 2005). Central banks’ tendency to carry out stress-testing exercises on *individual* banks rather than the entire financial system discounted the growing influence of non-banks on financial stability (Vestergaard, 2009). Non-banks (insurers, pension funds, hedge funds) directly competed with banks by originating and securitising risks (Rajan, 2005). Once the riskiest assets lay outside of banks, either off-balance sheet or in non-bank financial institutions, central banks had diminished capacity to check the growth of systemic risks. Thus, central banks made visible the *least* vulnerable, risk-exposed financial institutions, while enabling more substantial risks to lurk in the shadows (Vestergaard, 2009: 167).

Central banks further concealed risk by promoting homogenised data from and about economies (Vestergaard, 2009). Markets increasingly relied on this data, moving away from discretionary judgments about risk toward more quantitative, market-sensitive approaches (Vestergaard, 2009). One such quantitative approach, known as Value at Risk or VaR, became the industry standard for risk disclosure, backed by the Basel Accord for international banking supervision (Davies, 2010). Quantitative tools had clear deficiencies. Firstly, their use implied that markets had adequate self-regulation (Davies, 2010), an ill-founded assumption since quantitative tools acted as a form of trust-by-proxy between market experts, who might privately exhibit scepticism against risk management models while publicly backing their necessity (Malsch and Gendron 2009). Secondly, quantitative tools created a false sense of precision by extrapolating from historical data (Martin, 2002). VaR, in particular, created artificial precision by collapsing the results of risk modelling into a single number. Reliance on such tools encouraged markets to ignore other indicators such as data on institutional compliance with standards (Vestergaard, 2009: 154). Nor could risk models calculate risks spread out of sight and off-balance sheet (Rajan, 2005). And, since everyone used the same tools, everyone moved toward or away from the same investments based on the same risk data, thus *manufacturing* more risk (Vestergaard, 2009). Finally, central banks were blamed for allowing financial institutions to believe they had an officially-sanctioned safety net, a moral hazard that encouraged reckless behaviour (Warner, 2011).

**About the US Federal Reserve**

The US Federal Reserve System is unique among central banks, regarded as one of the most transparent in its operations. It has a presidentially-appointed Board of Governors, and a partially presidentially-appointed Federal Open Market Committee (FOMC), which sets monetary policy; together with non-presidentially appointed regional Federal Reserve Banks, privately-owned member banks and advisory councils (Woodward, 2000). Despite its democratic voting structure, the Fed is sometimes seen as a cloistered 'financial priesthood', aimed at 'propping up' investments of the rich (Woodward, 2000). These criticisms intensified post-crisis, with the Fed accused of presiding over the largest accumulation of manufactured risk, together with global risk contagion.

Alan Greenspan was appointed Fed Chair in 1987, and held the post for eighteen and a half years, spanning both Republican and Democratic terms in office. He had previously worked in international banking and consultancy, and was a skilful Washington insider, cautiously negotiating his central banker's role as 'buffer' between state and markets, even when the President's office attempted to influence interest rates (Woodward, 2000). Within the Fed, Greenspan orchestrated a subtle transfer of political power to the Fed chair, often acting unilaterally on rate-setting and inflation targeting (Woodward, 2000). Externally, he understood that while a state's financial reputation does not begin with its central banking leadership, it almost certainly *ends* there. Consequently, Greenspan opted to 'open up' the Fed, with FOMC interest rate decisions becoming media events. Greenspan's congressional testimony was televised on cable channels, his statements 'combed for meaning', magnifying the importance of central bankers' decisions and focusing attention on Greenspan, who continued to testify before Congress even after the lapse of legislation requiring him to do so (Woodward, 2000). Within US borders, 'fixation' on continued economic expansion increasingly resided in monetary policy and in the central banker as economist-in-chief (Woodward, 2000). Greenspan became a means of explaining and understanding the economy; a symbol through which the US expressed confidence in itself and in its future (Woodward, 2000: 218). Beyond US shores, Greenspan breathed life into a vision of the US economy as "strong, the best, invincible" (Woodward, 2000: 228). Despite earning respect and admiration of many economists and political leaders, criticism of Greenspan amplified during the 2008 Congressional hearing.

**Congressional hearings as discursive events**

Congressional hearings are positioned here as state-produced discursive events designed to reach multiple audiences – political, business, media and other constituencies. Many hearings are held each year at substantial cost to US taxpayers. Yet congressional hearings' contribution is disputed; they do not have much effect on legislative outcomes or on changing members' positions on issues (Diermeier and Fedderson, 2000). They are seen as everything from 'fact-finding' agencies, 'legislative courts' and 'safety values' to mere 'propaganda channels' and theatrical performance (Diermeier and Fedderson, 2000; Huitt, 1954). Yet Congressional hearings present multiple opportunities for strategic behaviour by committee members and witnesses alike (Diermeier and Fedderson, 2000: 52). Groups arrive at hearings with "a ready-made frame of reference" (Huitt, 1954, 354); a list of prepared questions with expected answers resulting from extended interviews or rehearsals with witnesses, who are strategically selected to stack a hearing one way or another (Diermeier and Fedderson, 2000).

The Congressional hearing selected here interrogated *'The Financial Crisis and the Role of Federal Regulators'*. Hosted by the Committee for Oversight and Government Reform, and chaired by Democrat Henry Waxman from California, the hearing took place on 23 October 2008 and was the *fourth* hearing into the "greed and corporate excess" that triggered the global financial crisis (US Govt, 2008: 4). The first two hearings examined the collapse of Lehman Brothers and AIG, the third dissected the role of credit rating agencies. The fourth hearing completed the circle, examining the role of US regulators (US Govt, 2008: 4). Forty-one congressional representatives heard evidence from three witnesses: Alan Greenspan, former chairman of the Federal Reserve; Christopher Cox, incumbent chairman of the Securities and Exchange Commission (SEC); and John Snow, former Secretary of the Treasury. The hearing served as an important political ‘performance’, an opportunity for strategic behaviour by Congress members on the eve of the 4 November general election. Committee leaders established their economic and financial expertise in the hope that associated legislation might be referred to them (Diermeier and Fedderson, 2000). The hearing was televised live by C-Span, the public affairs network, with segments transmitted globally, enabling viewers to see demonstrable anger from political representatives as the three regulators were ‘called onto the carpet’ for their failure to detect, manage or avert risk. Each witness fielded roughly the same number of questions. However, the analysis explores Greenspan’s testimony; given the central bank’s position as ‘independent’ buffer between state and market, the intense media and public scrutiny on the Fed, and Greenspan’s symbolic role in representing the US economy (Woodward, 2000).

The hearing likewise presented an opportunity for strategic behaviour by the witnesses. Greenspan was under no obligation to appear before Congress. By 2008, he had resumed private consultancy, advising the Bank of England and institutional investors among others. He had also published a book about the years leading up to financial crisis. While the real ‘heat’ for the Fed’s failures lay with his successor, Ben Bernanke, Greenspan was undoubtedly motivated to protect his legacy. Despite the negative media scrutiny, Congressional testimony would be a ‘walk in the park’ for Greenspan, whose thoughtful, unruffled demeanour made him an evasive target. He had decades of experience facing antagonistic questioning from Congress, including his defence of the Fed’s actions in previous financial crises (Woodward, 2000).

The chapter's main argument however is that beyond the blame, recrimination, and individual strategic behaviour exhibited by politicians and witnesses lay a *collective* strategy by the Congressional Committee and Greenspan himself. The former Fed Chair remained an important, recognisable symbol of the US economy, and one of few influential symbols of global financial markets.  In addition, Greenspan's visible habit of showing "strain in his wrinkled forehead" as he considered Congressional questions, conveyed the image of a public representative who always appeared to be telling the truth (Woodward, 2000: 228). While he was known for opaque, convoluted language when forecasting future economic risks, on this occasion Greenspan's purpose was to account for the past and recommend solutions, an occasion when central bankers opt for simpler syntax (Holmes, 2014). It is therefore contended that, with just weeks to go before the general election, the Congressional hearing became Greenspan's centre stage. Once more, he became the 'activist' central banker (Shafik, 2013), producing a story of confidence in the US economy. Through the powerful communications medium of the US Congressional hearing, Greenspan *re-interpreted* the actions that led to the financial crisis, laying the groundwork for stability going forward. In so doing, he remained true to the primary role of central banker as risk manager, laying the groundwork for economic stability by 'making' and 'remaking' the economy.

**Analysis of findings**

The congressional hearing is analysed as both written and oral genre. The Committee chairman and all three witnesses opened by presenting written testimony, while some questions were minuted, with witnesses asked to submit a written response for the record at a later date. The three witnesses, Greenspan, Snow and Cox, fielded more than 80 questions in all; some questions were posed to all three witness, some targeted individuals. Member contributions were limited to ten minutes each. The hearing lasted for nearly four hours; from 10:00am to 1:55pm with short breaks. The entire 68-page transcript was analysed, highlighting material connected with the Federal Reserve. The material was extracted and condensed in order to explore Greenspan's attempt to 'remake' the US economy. The findings are organised and presented in four themes. The first over-arching theme examines post-2008 risk prospects for the US economy. The remaining themes explore arguments and counterarguments concerning risk management in financial markets.

### 1. *'The Global financial crisis was a once-in-a-century event'*

The hearing was opened by Committee Chairman, Henry Waxman, who excoriated all three witnesses for "the regulatory decisions they made" and "failed to make" (US Govt, 2008: 5). Waxman questioned the notion that "free, competitive markets are by far the unrivalled way to organize economies", arguing that regulators "became enablers rather than enforcers", and that the US economy had paid the price (US Govt, 2008: 18). Specifically, Chairman Waxman accused Greenspan of allowing his libertarian ideology to trump governance. Several Committee members would return to Greenspan's ideological 'flaws' throughout the proceedings. Greenspan responded in various ways, reverting to his idiosyncratic, convoluted speaking style to modify yet justify his personal beliefs:

> *Mr Greenspan*: "To exist, you need an ideology. The question is, whether it... is accurate or not... yes, I found a flaw, I don't know how significant or permanent it is, but I have been very distressed by that fact. [I] found a flaw in the model that ...defines how the world works, so to speak."
>
> *Chairman Waxman*: "In other words, you found that your view of the world, your ideology, was not right, it was not working."

> *Mr. Greenspan:* “That's precisely the reason I was shocked, because I had been going for 40 years or more with very considerable evidence that it was working exceptionally well” (US Govt, 2008, 18).

Defending his libertarian ideology, Greenspan maintained that the financial crisis “turned out to be much broader” than he imagined (US Govt, 2008: 9). He repeated his longstanding argument that as new markets developed in Asia and elsewhere, global structure had changed and with it, established economic models for defining the global economy. Changing global trends had curtailed central banks’ efforts to ‘make’ economies, resulting in a “major decline in real long-term interest rates globally” (US Govt, 2008: 64). Consequently, central banks “lost control of...the longer end of the market” (US Govt, 2008: 64). When they tried to raise interest rates (e.g. to prevent a housing bubble), long term rates did not move at all. Despite this, Greenspan insisted that the ‘credit tsunami’ which prompted the financial crisis had been “almost surely a once in a century phenomenon” (US Govt, 2008: 60). By claiming that a global crisis would not recur, Greenspan attempted to ‘remake’ the US economy and with it, global financial markets.

### 2. *‘The markets are chastened, risky products have disappeared never to return’*

From the start of the hearing, Greenspan quickly dispatched blame for the financial crisis to “securitizers, banks, credit rating agencies and risk management models” (US Govt, 2008: 30). The committee’s response to this was mixed. Some found Greenspan disingenuous for ignoring the Fed’s role in promoting “adjustable rate mortgages that fuelled the subprime market” and the explosion in public and private debt (US Govt, 2008: 31), crystallised in an observation by the Committee Chair:

> *Chairman Waxman*: "...you said in your statement that...the whole intellectual edifice of modern risk management collapsed... Now that sounds to me like you are saying that those who trusted the market to regulate itself... made a serious mistake."
>
> *Mr. Greenspan:* "Well, I think that's true of some products, but not all..."
>
> *Chairman Waxman.* "Well, where did you make a mistake then?"
>
> *Mr. Greenspan*: "...in presuming that the self-interest of organizations, specifically banks and others [meant] they were best capable of protecting their own shareholders..." (US Govt, 2008: 17).

Greenspan launched a four-point defence of the Fed's role vis-à-vis market abuse. First, he declared that the crisis had been precipitated by "a failure to properly price such risky assets", compounded by the fact that even "the most sophisticated investors" in the world had "wrongly viewed" subprime mortgages "as a steal" (US Govt, 2008: 10). Greenspan further insisted that he *had* provided advance warning of "dire consequences" of "underpricing of risk" as early as 2005 (US Govt, 2008: 9). Defending his 'light touch' regulatory approach, Greenspan asserted that many risky products had disappeared, never to return; that the markets had punished their own and would be 'chastened' in future. He conceded one change: that securitisers be required to have 'skin in the game' henceforth, retaining "a meaningful part of the securities they issue" (US Govt, 2008: 11). But he emphasised that the global crisis would pass, and America would "reemerge with a far sounder financial system" (US Govt, 2008: 11).

However, the Committee disputed the notion that markets were either chastened or sufficiently punished. Democratic Congressman Kucinich of Ohio argued that it was the American people not the markets who were "getting punished", with millions of Americans losing their homes (US Govt, 2008: 30). Republican Congressman Mica of Florida protested that markets had been inadequately disciplined, that taxpayers wanted "someone held accountable" and for "people to go to jail" (US Govt, 2008: 35). Democratic Congressman

Cummings of Maryland lamented that constituents were “losing their jobs”, “losing their investments”, “unable to get student loans”, while businesses were going under (US Govt, 2008: 27). Democratic Congressman Sarbanes of Maryland chastised Greenspan for failing to acknowledge the true flaw in his libertarian ideology; that while markets might claim to punish their own, the financial crisis had instead injured many “innocent bystanders” (US Govt, 2008: 59).

### 3. *‘Light-touch regulation is determined by Congress not the central bank’*

The Committee repeatedly interrogated Greenspan and his co-witnesses about the need to strengthen financial regulation. Unlike his counterparts, Greenspan argued that the regulation required to prevent a once-in-a-century phenomenon would be so onerous as to “suppress the growth rate in the economy” (US Govt, 2008: 60). Greenspan also maintained that politicians, not central bankers, dictated the nature of central banking regulation; arguing that as a public servant he had been appointed by the executive, who in turn devised the rules governing the US economy:

> *Mr Greenspan*: “I took an oath of office when I became Federal Reserve chairman...to uphold the laws of the land passed by the Congress, not my own predilections.
>
> I think you will find that my history is that I voted for virtually every regulatory action that the Federal Reserve board moved forward on...because I perceived that was the will of the Congress” (US Govt, 2008: 18).

Democratic Congressman Tierney of Massachusetts challenged Greenspan on his attempt to shift accountability to the political executive, arguing that the Homeownership Equity Protection of 1994 gave the Fed a “clear directive” to “prohibit acts or practices in connection with refinancing of mortgage loans" found to be associated with abusive lending practices..." (US Govt, 2008: 37). In addition to grilling Greenspan on the Fed's poor governance, both Republicans and Democrats Committee members descended into political rivalry, each blaming the other for watering down existing regulation or failing to introduce appropriate new regulation (US Govt, 2008).

### 4. *'It remains impossible for regulators to see all future risks'*

A major point of interest for committee members was how to address weaknesses in the regulatory framework so as to make risks more 'visible' in future. Unlike his co-witnesses, Greenspan continually deflected these questions. He protested that the "extraordinarily complex global economy" was "very difficult to forecast in any considerable detail", and that even the Fed's unrivalled cadre of economists could not "see events that far in advance" (US Govt, 2008: 43).

> *Mr Greenspan:* "If we are right 60 percent of the time in forecasting, we're doing exceptionally well...
>
> We at the Federal Reserve had a much better record forecasting than the private sector, but we were wrong quite a good deal of the time... forecasting...never gets to the point where it's 100 percent accurate" (US Govt, 2008: 34).

Greenspan argued that weak regulation was often based on forecasting whether products might go bad or whether the market cycle would turn. He declared that no one should "expect perfection in any area where forecasting is required" (US Govt, 2008: 43), and that regulation based on forecasting could never be sound. Yet the Committee was adamant on the need to strengthen risk management tools, as articulated by Republican Congressman Issa of California:

> *Mr Issa:* "...the doomsday scenario we now live with undoubtedly could have been modeled but wasn't...by any of the agencies of government and delivered to Congress...If that modeling is available today, please tell me. Otherwise tell me, do you think we should be investing in that?" (US Govt, 2008: 50).

Greenspan responded that the "vast risk management and pricing system" governing global markets had collapsed because of a fatal flaw (US Govt, 2008: 10). The risk pricing system only modelled two stages of the economic cycle – the "euphoria stage" and the "fear stage" (US Govt, 2008: 10) but failed to construct a third model to identify which of the other two were about to happen. Greenspan argued that even if such a risk management system could be devised it could never prevent a financial crisis since financial crises must, of necessity, be unanticipated. If they were anticipated, they would only "be arbitraged away" (US Govt, 2008: 51).

**Discussion and conclusion: 'Re-setting'...not remaking the economy**

The 2008 US Congressional hearing into the global financial crisis demonstrates the concerns of the contemporary 'risk society', in which political and market interests collide, entangling discourses of trust with discourses of risk. The hearing further highlights the integral role played by states at the highest levels of global financial markets. Despite the opprobrium levelled at central banks for contributing to financial risk contagion, in a post-crisis world, state priorities were economic stability and recovery as a means of managing *political* risk. Accordingly, through the Congressional hearings, multiple political voices – in government and opposition – managed political risk by shifting blame everywhere and yet nowhere; from guilty financial institutions to regulators who were 'asleep at the wheel'. Beyond the need to shift blame away from politicians, for Congress, the greatest risk posed by the crisis was to the US itself, as the preeminent global economy. To this end, Congress briefly restored Alan Greenspan's role as central banker, 'symbol' of the US economy and chief activist for economic recovery. Using the Congressional hearing as platform, Greenspan affirmed a 'financial stability story'. His testimony gained intense global media coverage, as central bank watchers searched for meaning in his words, treating Greenspan once again as the 'tuning fork' of the US economy (Woodward, 2000).

It has been argued that central banks play a distinctive role in institutionalising patterns of risk in national economies by guaranteeing overall trust in and sustaining the stability of a nation's financial system. Congressional hearings are just one discursive event through which US central bankers make, unmake or remake an economy (Holmes, 2014). The 2008 Congressional hearing provided a powerful communications tool through which Greenspan could fashion a 'financial stability story' for the US economy in the wake of the global financial crisis. Symbolically acting as central bank 'buffer' between state and markets, Greenspan used the Congressional hearing to diverge from the tougher stance adopted by the Treasury and the SEC. Whereas these agencies were keen on increasing regulation, Greenspan made the case for inertia rather than action; contending that markets would be motivated to price risk properly in future before spreading it more widely. Yet, while insisting that good regulation could be based on forecasting, Greenspan failed to say what 'good' regulation might look like.

The chapter concludes by acknowledging a singular, damaging contribution financial markets now make to the risk society. Financial risk-spreading is a consequence of a 'steady diet of distrust' by professional risk-takers (Keegan, 2007) who increasingly sidestep traditional trust mechanisms, substituting risk management tools as trust-by-proxy. Central banks operate at the intersection of trust and risk discourses in financial markets, becoming increasingly conflicted in their support for professional risk-spreading. This conflict highlights shifting power relations in financial markets, as the interests of short-term financial speculators diverge from those of long-term investors and governments. Whereas states seek economic stability in order to facilitate growth, and long-term investors seek similar stability in order to protect wealth, economic stability is of little interest to powerful speculators (hedge funds, high frequency traders etc) who increasingly dominate global markets. Speculators seek volatility, and indeed actively seek out 'crisis' to gain profit at the expense of citizens who must live with the havoc wrought by such volatility. Greenspan publicly distanced himself from the rise of such harmful risk practices, despite overseeing their expansion during 18-plus years at the helm of the world's most powerful central bank. While Greenspan's public testimony on 23 October 2008 may have restored some confidence in the US economy and in the US Federal Reserve, it soon became clear that financial markets were anything but chastened. On 24 October 2008, a whistleblower called the New York Fed to report widespread manipulation of Libor, the interest-rate setting mechanism...

00—00—00

**References**

Beck, U. (1992 ). *Risk society*. Sage Publications.

Diermeier, D. and Fedderson, T.J. (2000). Information and congressional hearings. *American Journal of Political Science*, 44 (1) 51-65.

Davies, H. (2010). *The financial crisis: Who is to blame?* London: Polity Press.

FCIC (2010). Evidence from Alan Greenspan. Financial crisis inquiry commission. 7 April. Retrieved from: http://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-04-07%20Alan%20Greenspan%20Written%20Testimony.pdf.

Giddens, A. (1999). Risk and responsibility. *The Modern Law Review*, 62 (1), 1-10.

Holmes, D.R. (2014). *Economy of words: Communicative imperatives in central banks.* University of Chicago Press.

Horlicks-Jones, T. (2004). 'Experts in risk?...do they exist?' *Health, Risk & Society*, 6 (2) 107-114.

Irwin, N. (2013). *The alchemists: Inside the secret world of central bankers*. London: Headline Publishing.

Keegan, W. (2007). The terrible consequences of the financial world's diet of distrust. *The Observer*, 16 December, p.8.

Kirsner, D. (2012). Trust and the global financial crisis. In S. Long & B. Sievers (Eds). *Towards a socioanalysis of money, finance and capitalism*, pp. 278-291. Abingdon: Routledge.

Krugman, P. (1999). *The liquidity trap*. Retrieved from: http://web.mit.edu/krugman/www/trioshrt.html.

Martin, R. (2002). *Financialization of daily life*, Temple University Press.

Rajan, R.G. (2005). *Has financial development made the world riskier?* Economic Policy Symposium, Jackson Hole, Federal Reserve Bank of Kansas City, August, 313-369.

Resche, C. (2004). Investigating 'Greenspanese'. *Discourse & Society*, 15 (6), 723-744.

Riles, A. (2006). Real time: Unwinding technocratic and anthropological knowledge. In M.S. Fisher & G. Downey (Eds), *Frontiers of capital*, pp. 86-107. Duke University Press.

Schwartz, H.S. (2012). Anti-oedipal dynamics in the sub-prime loan debacle. In S. Long & B. Sievers (Eds), pp. 321-334. *Towards a socioanalysis of money, finance and capitalism*, Abingdon: Routledge.

Shafik, N. (2013). Communication, engagement and effective economic reform: The IMF experience. *CIPR Annual Maggie Nally Lecture*, Houses of Parliament, 30 July.

Taylor, J. & Burt, E. (2005). Managing trust, generating risk. *Information Policy*, 10, 25-35.

US Govt (2008). The financial crisis and the role of federal regulators. *Hearing before the committee on oversight and government reform.* House of Representatives, 110th Congress, 2nd session, 23 October, US Govt Printing Office, Serial No. 110-209.

Warner, J. (2011). The governor – ready to rule the economy? *Sunday Telegraph*, 29 May, p.6.

Woodward, B. (2000). *Maestro: Greenspan's Fed and the American boom*. New York: Simon & Schuster.