

# The power of leading subtly: Alan Greenspan, rhetorical leadership, and monetary policy <sup>☆</sup>

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## Abstract

Alan Greenspan's tenure as Federal Reserve Board Chairman has been highlighted by his highly publicized leadership. One important and readily visible manifestation of his leadership has been his communication style. While research concerning the communication component of leadership has primarily analyzed CEO and presidential communications, this paper utilizes content analysis to provide a descriptive analysis of Chairman Greenspan's communications and his responsiveness to changes in the economic environment. We find that during down periods in the economy, the Chairman communicates that the situation is less certain with reduced amount of activity and an emphasis on present tense language that indicates that current concerns are paramount. In contrast, during buoyant periods of economic activity, the Chairman's language indicates a stronger sense of certainty. Such language patterns help the public place their economic circumstances in context, and may contribute to perceptions of Greenspan's effectiveness as a leader.

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“Economic policy is to some extent a con game: If people believe that the Fed can manage effectively, they are less likely to panic when the markets are weak or to raise prices when the economy is strong. Hence, confidence in Mr. Greenspan's leadership has probably contributed to both financial market and price stability.” — [Ethan Harris \(2005\)](#), Economist

“Chairman Greenspan has guided the Federal Reserve with a rare combination of technical expertise, sophisticated analysis, and old-fashioned common sense. His wise and steady leadership has inspired confidence, not only here in America, but all around the world.” — [President George W. Bush \(2000\)](#)

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As he nears the end of his final term and long tenure as Federal Reserve Chairman, Alan Greenspan has been widely hailed as one of the most effective economic leaders of modern times. According to Alan Blinger, a former Fed vice chairman, Greenspan “has a legitimate claim to being the greatest central banker who ever lived” (Blinder & Reis, 2005). By most accounts, the implementation of monetary policy has made tremendous strides during Greenspan’s tenure, and much of this success has been attributed to his leadership approach. Indeed, Chairman Greenspan has been credited with implementing a low inflation monetary policy that has been largely successful in fostering a series of long economic expansions in the U.S., and the communication of this monetary policy strategy has been cited as a hallmark of his tenure. In particular, the relatively novel emphasis on transparency and communication during his chairmanship is intimately intertwined in his monetary policy legacy (Meyer, 2004).

Historically, however, monetary policy has not been associated with terms like “transparency” and “communication.” In fact, little attention has been paid to how economic leaders react to economic and environmental events and subsequently communicate changes or consistencies in monetary policy. Although leadership scholars have long recognized that language is an essential aspect of the leadership process (e.g., Bligh, Kohles, & Meindl, 2004a,b; Conger, 1991; Conger & Toegel, 2002; Insch, Moore, & Murphy, 1997; Thayer, 1988), there has been little attention to the language and communication aspects of leadership outside of the realm of business and politics. Given Chairman Greenspan’s influence on financial markets worldwide, it is important to understand his leadership rhetoric and specifically *how* Greenspan utilizes rhetorical themes to create and implement monetary policy.

Smircich & Morgan (1982) define leadership as a process through which certain individuals attempt to frame and define the circumstances of other individuals. Much of this framing can be traced through verbal and written language, providing excellent opportunities for researchers to study leadership throughout the social sciences in contextually based, unobtrusive ways. The purpose of this research is to utilize the relatively disparate tools of monetary theory and leadership theory to analyze the extent to which Alan Greenspan’s “open-mouth” operations have complemented his “open-market” operations. Using a broad interdisciplinary focus, we explore the hypothesis that Alan Greenspan’s and the Federal Open Market Committee’s (FOMC’s) statements, speeches, and testimonies are substantial factors whereby his leadership in implementing monetary policy complements his economic policy actions — precisely because he uses language to subtly guide the public’s and financial market’s understanding of the macroeconomic environment.

In summary, we provide an analysis of the potential relationship between: (1) events, policy decisions and economic forecasts, and (2) linguistic characteristics of Chairman Greenspan’s communications. The remainder of the paper is as follows: in the next section, we review literature concerning the role that language plays in the leadership phenomenon, and how language might potentially facilitate the implementation of monetary policy. We subsequently provide a detailed description of our data set as well as our analysis strategy. Finally, we give an overview of our results, and provide a discussion of the implications, limitations, and directions for future research and theory based on our findings.

## 1. Language, leadership and monetary policy

A number of researchers have put forth the idea that the leadership relationship is fundamentally grounded in language and rooted in communication processes (Conger, 1991; Conger & Kanungo, 1998; Fiol, Harris, & House, 1999; Gardner & Avolio, 1998; House & Shamir, 1993; House, Spangler, & Woycke, 1991; Willner, 1984). According to Fairhurst & Sarr (1996, xi), “leadership is a language game, one that many do not know they are playing.” While precise estimates vary, a variety of studies over the last fifty years consistently suggest that leaders spend anywhere from 70% to 90% of their time on communication activities (Carlson, 1951; Fairhurst & Sarr, 1996; Lawler, Porter, & Tannenbaum, 1968; Mintzberg, 1973; Stewart, 1967, 1976; Zelko & Dance, 1965). According to Bass (1990: 340), “communications distinguish leaders who are successful and effective from those who are not.”

Although scholars have long acknowledged the role of language in leadership, the majority of theoretical and empirical work in this area has focused on charismatic leaders and the role of communication in the development and articulation of vision (e.g., Conger, 1991; Conger & Kanungo, 1998; Den Hartog & Verbarg, 1997; Gardner & Avolio, 1998; Shamir, Arthur, & House, 1994; Willner, 1984). For example, Yukl (2002) suggests that a key aspect of a charismatic leader’s appeal is the public articulation and expression of sentiments that followers feel privately but are unable or unwilling to express themselves. Willner (1984) similarly examined the verbal communication style of charismatic leaders, identifying a number of underlying elements of charismatic speech, including: the ability to tailor speech to different audiences, rhetorical devices such as alliteration and repetition, and the use of figurative language

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