Studies in Communication Sciences 15 (2015) 83–92

Contents lists available at ScienceDirect

Studies in Communication Sciences

journal homepage: www.elsevier.com/locate/scoms

Hedging in the discourse of central banks

Catherine Resche[a,b,*]

[a] Université Panthéon-Assas Paris 2, 92 rue d'Assas, 75006 Paris, France
[b] Centre de Linguistique en Sorbonne (CeLiSo), Paris 4 Sorbonne, France

ARTICLE INFO

Article history:
Received 7 August 2014
Accepted 22 December 2014

Keywords:
Central bank
Discourse
Hedging
Communication
Openness
Crisis

ABSTRACT

This paper examines the role and place of hedging in central bank discourse in order to determine to what extent a focus on classical hedges can yield an adequate analysis of the phenomenon. The research hypothesis is that, given the multiple risks at stake, a broader, more inclusive approach to hedging is called for than that adopted by many scholars. The paper brings evidence that beyond the quantitative aspects—between 4.7% and 5.8% of the words in the corpus are classical hedging devices—it is important to consider the qualitative and discursive dimension of hedging.

1. Introduction

Central bankers, whose decisions can affect millions of people, know that they are accountable for their actions and decisions, and that their speeches will be carefully analysed by specialists and the media, and made available to a very large public. They have no choice but hedge against the risk of miscommunication: the potential negative impact on the success of their policy measures should not be overlooked.

The question of hedging has received a great deal of attention in the fields of conversation analysis, and in academic discourse analysis (Hyland, 1994, 1996, 1998; Markkanen & Schröder, 1997; Myers, 1989; Pindi & Bloor, 1987; Rounds, 1982; Salager-Meyer, 1995), in which the widespread use of modal verbs and imprecise numerical lexical units or phrases has been underlined. It has also been studied in other types of corpora dealing with economic forecasting (Pindi & Bloor, 1987), economic crises (Milanović & Milanović, 2010), economic discourse (Channell, 1990; Resche, 2010, 2013). In many cases, it has been restricted to easily identifiable words or phrases and attempts at drawing lists of hedges have been made.

Such an approach, however, may seem too restrictive to provide an accurate picture of all the hedging techniques that seem to characterise central bank discourse. This paper seeks to determine to what extent a focus on classical hedges can yield an adequate analysis of the phenomenon. The research hypothesis is that, given the multiple risks at stake, a broader, more inclusive approach to hedging is called for than that adopted by many scholars. Hedging as a phenomenon should therefore be approached as a response to the risks linked with the responsibilities of the author/speaker, the context, the stakes, the audience's expectations and should be considered *in situ* and *in vivo*. Accordingly, the umbrella term "hedging" was preferred to "hedges" in the title of this paper: it suggests the need to investigate further into what makes central bank speeches so characteristic in terms of hedged discourse.

Part one offers a reminder of the changes that have taken place in central bank communication over the last century, in an evolution towards more openness. Part two introduces the corpus and the method used for analysing discourse from a quantitative point of view. Part three provides the first results yielded by an approach to classical hedges and discusses them and their limits. Part four offers a plea for a broader, more qualitative approach to hedged discourse, having to do with the genre, its constraints and the stakes, and calls for adopting a rhetorical perspective to assess the full scope of hedging.

2. Central Bank Communication: past and present

In the past, central banks were very secretive places and policy moves were supposed to surprise the markets. Montagu Norman, governor of the Bank of England in the early 20th century, was known to live by the motto "never explain, never excuse". Before 1994, the US Federal Reserve did not even announce the target for the US Fed funds rate. Central bank communication was then limited to an "insiders' community" consisting of financial markets,

* Correspondence to: Université Panthéon-Assas Paris 2, 92 rue d'Assas, 75006 Paris, France. Tel.: +33 476850812.
E-mail address: catherineresche@club-internet.fr

http://dx.doi.org/10.1016/j.scoms.2014.12.008
1424-4896/

academics interested in the field, and journalists specialised in finance. All these people were expected to understand the expert language. Yet, it was not always easy to decipher the message. Fed chairmen Arthur Burns and Paul Volcker were both known for blowing smoke when appearing before Congress. But it was Alan Greenspan, the longest-serving chairman who held his position from 1987 to 2006, who was credited with turning Fedspeak into an art form as evidenced below in one of his most famous quotes:

> "Since becoming a central banker, I have learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said." (*The Wall Street Journal*, 22 September 1987)

In his book *The Age of Turbulence* (2007), he admitted that his vague, wordy and ambiguous statements were deliberately used to make his language confusing and cryptic so that people would conclude that economics and finance should be left to experts and could not be understood by the lay person. Understandably, he preferred blurring rather than clarifying an answer that could get him—or the US economy—in trouble.

Yet, after a while, he seemed to adopt a different stance: he felt that the time was ripe for the central bank to switch from deliberate obscurity to greater openness. Thus, in December 1999, the Federal Open Market Committee (FOMC) began to issue a statement after every meeting, whether policy was changed or not, and to include a "balance of risks" assessment. In October 2001, Alan Greenspan declared:

> "Openness is more than just useful in shaping better economic performance. Openness is an obligation of a central bank in a free and democratic society. Transparency makes ourselves accountable to our fellow citizens to aid them in judging whether we are worthy of that task." (*Transparency in monetary policy*, 11 October 2011[1])

Since August 2003, more explicit statements about the likely future path of interest rates have been included in the FOMC's post-meeting statements, and financial markets and the financial press usually pay considerable attention to this part of the statements (Woodford, 2005). The FOMC has also made the minutes of its deliberations available to the public before its next meeting, which has made it easier for the public to understand current policy.

According to Subbarao (2011), Governor of the Reserve Bank of India, the reason for this change can be found in a shift in the theories that influenced monetary policy. Central banks first favoured obscurity over clarity, taking into consideration Nobel Laureate Robert Lucas's statement that monetary policy affects real variables such as growth only if the policy changes were unanticipated. Then, economists Finn Kydland and Ed Prescott—two other Nobel winners—countered that fully transparent rules were more efficient and credible than discretionary policy changes, which ushered in a shift towards greater central bank transparency. Today, for example, it has become standard practice for central banks to announce their target rates, but also to indicate the rationale behind their decisions, to communicate on the expected outcomes and to provide forward guidance on future policy actions.

The shift that has taken place can be understood as a shift in the metaphorical conception of the economy: people used to think of the economy and the financial system as a machine and they logically pictured central bankers as engineers, captains or pilots, reading dials, trying to keep the engine going, to fine-tune the economy, to steer the ship towards a safe haven in rough seas, or to fly the plane and avoid a crash or a harsh landing. But economies are not machines: they are also living bodies likely to experience mood swings so that market sentiment cannot be ignored. Beyond numerical data, central bankers have to feel the pulse of the public and get feedback on its reactions, fears and expectations. Most importantly, people's collective decisions, which can greatly impact economic outcomes, are based on "what they *think* the future will be, not necessarily what the future will *actually* be" (Boivin, 2011). As Keynes (1936) underlined when coining the term "animal spirits", our decision-making is influenced by our perceptions and emotions, and is not purely logical.

Central bankers are now aware of their role and responsibilities in shaping and anchoring expectations and they weigh every word they utter. As Lucas Papademos, Vice President of the ECB, declared in 2008, what is required is "consistency between words and deeds, and a track record of policy decisions that will ensure the predictability, credibility and effectiveness of monetary policy".

Janet Yellen (2013), the current Fed Chair, pointed out that when the FOMC started issuing regular statements on August 12th, 2003, it started "using communication—mere words—as its primary monetary policy tool". And she added: "Until then, it was probably common to think of communication about future policy as something that supplemented the setting of the federal funds rate. [But now] communication is an independent and effective tool for influencing the economy". It seems, then, that explanation has become the policy.

Even in times of crisis or stress, it is still better for central bankers to communicate. Educating, informing and reassuring the public if need be may actually reduce rather than exacerbate anxiety. More importantly, it can help avoid panic. Of course, the challenge is to communicate with the public in such a way as to "establish credibility and prestige in a framework of greater transparency that facilitates the process of accountability" (CEMLA, 2004, 3–4). But the degree of openness may vary, and greater transparency may still be fuzzy transparency. For strategic reasons, central bankers may be led to withhold information, as pointed out by Scott G. Alvarez (2009): "our goal is to be as transparent as possible about our policies and operations without undermining our ability to effectively fulfil our monetary policy and other responsibilities". Under such circumstances, silences are almost words: they are as strategic as the information that is provided (Noordegaaf-Eelens, 2010).

Thus, whenever they express themselves, central bankers are faced with the dilemma of providing enough information so that people can make informed choices in their lives, while avoiding white noise that might cause their message to be blurred or misunderstood. Although greater openness might suggest a lower need for hedging, many instances of hedging are still to be found in the corpus of central bank discourse that serves as a basis for this paper.

3. Corpus and method

Unlike previous research focused essentially on the Fed's discourse and aspects of Alan Greenspan's and Ben Bernanke's speeches (Resche, 2004, 2006, 2009), this paper is based on a broader corpus; the speeches of three other central bankers (the ECB's, the Bank of Canada's and the Bank of England's) have been added to help determine whether hedges were used more often in some places or circumstances than in others. The period concerned spans 5 years and a half (from January 2008 to July 2013), which corresponds to a very hectic period for central banks—that of the global financial crisis and its aftermath, coupled with the European debt crisis. The period under review was felt to offer an opportunity to check how the global financial crisis or the European debt crisis impacted the use of hedging devices and whether central bank

[1] < http://www.federalreserve.gov/boarddocs/speeches/2001/20011011/default.htm.