The Insider's Economic Dictionary: The Antidote to Euphemism

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The fallacies that lurk in words are the quicksands of theory; and as the conduct of nations is built on theory, the correction of word-fallacies is the never-ending labor of Science. … the party in this country, one of whose great aims was, at one time, the perpetuation of slavery, owed much of its popular vote to the name Democracy. – S. Dana Horton, Silver and Gold (1895)

Now, it is clear that the decline of a language must ultimately have political and economic causes . . . It becomes ugly and inaccurate because our thoughts are foolish, but the slovenliness of our language makes it easier for us to have foolish thoughts. The point is that the process is reversible. . . . If one gets rid of these habits one can think more clearly, and to think clearly is a necessary first step toward political regeneration. – George Orwell, "Politics and the English Language" (1946)

You can fool some of the people all of the time. Those are the ones you should concentrate on. – George W. Bush, talking about The People.

Unlike psychological terminology, which consists mainly of terms of invective (try to think of a desirable personality complex), today's economic vocabulary is euphemistic. One rarely hears the terms rentier or usury that played so central a role in the debates of past centuries.

Classical economists defined rent as unearned income, a property claim that did not reflect a corresponding expenditure of labor, which was the sole source of value. But as our postindustrial society has evolved into a "service economy," the national income and product accounts count interest and rent as a product – an output of services. Landlords thus are depicted as providing a useful service, not merely charging access fees for sites created by nature and given value by the community's overall prosperity. The classical value judgment that deemed some business activities unproductive – or even "sterile," as France's Physiocrats put it – has been rejected by today's value-free economics.

As advertisers well know, naming a product shapes how it is perceived. And as Voltaire noted in Candide, optimism "is the mania of insisting that all is well when one is in a terrible state." Nowhere is this more a political act than in the realm of selling economic policy. What Orwell wrote about the ideological coloration of language in his day applies especially to the vocabulary with which economics students are indoctrinated and formal reports written. Instead of reflecting reality, their jargon often dulls the mind's critical faculties by diverting attention away from the actual dynamics at work. Depicting debt as wealth, today's doublethink calls higher access prices for homebuyers "wealth creation." The economy's lapse into a rent-and-usury system is welcomed as progress into a post-industrial service society.

Just as history is written by the victors, so politicians, journalists and academic ideologues coin the economic vocabulary with an eye to molding popular opinion on behalf of their constituencies. Thirteenth-century Churchmen replaced the unpleasant word "usury" by "interest," a term bearing less negative connotations. More recently, predatory policies have been called "reforms" and regressive tax policies called progressive even when their objective is to reverse centuries of true reform.

Denis Diderot (1713-1784), a member of the French Enlightenment, organized the writing of the Encyclopédie as a revolutionary project. It contained a map of human knowledge and included an entry defining the Enlightenment's political program: "The good of the people must be the great purpose of government. By the laws of nature and of reason, the governors are invested with power to that end. And the greatest good of the people is liberty. It is to the state what health is to the individual."

But what is "liberty"? America's Liberty Bell is inscribed with a verse from Leviticus 25: "Proclaim liberty throughout all the land, and to the inhabitants thereof." The biblical Hebrew term was d'r'r (deror), cognate to Babylonian andurarum used by rulers to annul the population's personal and agrarian debts, liberate bond-servants and restore self-support lands to citizens who had forfeited them to foreclosing creditors or sold them under distress conditions. These royal Babylonian proclamations evolved into the Jubilee Year that Judaism placed at the center of its religion in an epoch when rulers had come to protect rather than check the power of creditors and absentee landlords.

Liberty in today's world has come to connote freedom for predators to exploit the economy at large, in contrast to the Enlightenment's idea of freedom from the rentiers. A free market is said to be one in which government regulation is dismantled, "free" of public protection of consumers. Such protection has been re-christened "interference" and characterized as the Road to Serfdom. Diderot's "greatest good of the people" has come to be defined as wealth and output that accrues mainly to the rentiers whom France's Physiocrats and fellow reformers set out to tax. Today, the taxation of landed property and finance is deemed an encroachment on the liberty of wealth.

The Enlightenment and classical political economy advocated freedom from taxation by debt-burdened governments, and sought to protect populations from having to pay prices that included a non-labor rent element. The vested interests railed against public regulation along these lines, and against public ownership of natural monopolies and banking systems.

Confucius wrote that social disorder begins with the failure to call things by their appropriate names. The first step to reform a world that had become malstructured hence was "rectification of the names." To Confucius, this meant restoring the original meaning of words and concepts. Today, a similar restoration hardly could do better than reviving the vocabulary of classical political economy, because our economic terminology is in obvious need of such renovation. Its vocabulary has diverged from reality in proportion to the extent to which the phenomena being described affect special interests. The term "free trade," for instance, was countered by "protectionism" and more recently by "fair trade." The upshot is that a different language exists between critics and defenders of wealth, imperialism and finance.

Realizing that naming a phenomenon tends to define it in the public mind, rhetoricians and demagogues seek to co-opt the vocabulary on behalf of their constituencies. The result is that economic terminology consists largely of the residuum of euphemisms generated during the course of economic debates of which most of today's students are only taught one side. The vocabulary of rentiers depicts them as productive and useful rather than dispensable, and their income – in fact, all income indiscriminately – as reflecting, by definition, the value of the property and credit services they provide. By contrast, John Stuart Mill defined economic rent as the "unearned income" that property owners are able to make "in their sleep." Depicting this revenue as "service income" implies that it reflects real output which society needs rather than being an economically unnecessary cost.

As Ivan Illich wryly observed, "School is the advertising agency which makes you believe that you need the society as it is." H. G. Wells voiced much a similar idea in quipping that "Human history becomes more and more a race between education and catastrophe." Universities have followed "free-market" economists in taking refuge in a mathematical mode of expression, aping the natural sciences' use of higher calculus as a means to conceal the over-simplifications of their assumptions. One might say that the more complex the math, the more simplistic and banal the relationships being drawn tend to be. The aim is to imbue mathematical symbolism with the sanctifying role that Orwell observed was once afforded by Latin. The economic curriculum effectively has been turned into an advertisement for the rentier claims – the economic overhead of rent and interest payments – almost as a "law of nature" as Diderot and his contemporaries had put it. The law of nature thus turns out to be as prone to economic self-interest as are the laws of modern courts and similar forums.

If your aim is to exploit the working class, it is smart public relations to call your program "labor capitalism" as General Pinochet did in Chile, or "popular capitalism" as Margaret Thatcher did in Britain to describe their policies of breaking labor unions, withholding wages and turning them over to the financial grupos (in Chile) or money managers (in Britain) to use for financial speculation rather than new investment. The euphemistic terminology used to popularize these policies helped buy time by confusing and co-opting some of the injured parties.

The economic vocabulary shapes the semantics of how reality is perceived, and conversely, as Orwell noted, "the decline of a language must ultimately have political and economic causes." "Protecting savings" and "making savers whole" have become euphemisms for downsizing the economy and sacrificing new direct investment in order to preserve the fortunes of rentiers. While psychologists speak of well-adjusted individuals, economists may ask whether the economy's debts should be adjusted to the ability to pay, or whether growth and living standards should be "adjusted" (that is, sacrificed) to preserve the value of creditor claims. One may ask similar questions regarding the terms "democracy," "value," and "efficiency," and reality itself.

Ultimately at issue is whether what economic jargon calls the "real" economy of production and consumption more real than the claims of finance and property. How a society defines economic terms and relationships will determine who controls it. Terminology serves to "frame" the way in which people perceive economic relationships. What is unsaid or intellectually bypassed therefore is often as important as what is said. Economic theories that focus only on the exchange of goods and services already produced, without discussing the distribution and control over wealth and its income independently of production, will be diverted from examining what really is most important in determining the economic present and future.

Adam Smith (1723-90): Campaigner against public debts and the wars that gave birth to the taxes to carry their interest charges. In a typical if bitter irony of history, Smith's opposition to war taxes has led neoliberal economists to appropriate him as the patron saint of free markets. Yet he accused landlords of reaping where they had not sown, and business men of forming predatory schemes wherever they were able. The moral is that if one is to select a patron saint, it is wise to co-opt a well-known icon so as to forestall opponents from citing his authority. (He criticized Dutch finance and applied the term Invisible Hand to the workings of laissez faire.)

Addictive demand: Neoclassical price theory is based on the assumption of diminishing marginal utility: The more food, clothes or other consumption goods one has, the less pleasure each additional unit gives. But as the ancients knew, this principle is not true of wealth, especially of money. The more property one has, the more one wants. Wealth is addictive, sucking its possessors into a compulsive drive to accumulate. (See Hubris.)

Agio: Medieval Europe banned usury, but legalistic-minded Churchmen rationalized the practice of charging it in the form of a foreign-exchange fee. Money was borrowed in one country or currency, to be paid back in another at an exchange-rate which incorporated the usury charge in the guise of a money-changing fee (agio). The most egregious example was the "dry" exchange in which no goods actually were imported or exported. This agio loophole helped channel European banking along the lines of short-term trade financing and discounting bills of exchange.

Asset-price inflation: A policy in which the banking system recycles savings and extends new credit to finance the purchase of real estate, stocks and bonds so as to create windfall gains (euphemized as capital gains). The financial boom that resulted from steering pension-plan reserves into the stock market has inspired proposals to privatize Social Security's wage withholding in a similar way (see Forced Saving, Labor Capitalism and Pension-Fund Capitalism). Meanwhile, property prices are inflated by steering mortgage credit into real estate, lowering interest rates so that higher mortgage debts can be carried, and loosening the terms of mortgage lending, reducing the down payments needed yet minimizing the repayment of principle by stretching out the loan maturity. Fiscal policy contributes to this phenomenon by shifting taxes off of finance and property onto labor (see Tax Shift).

Higher asset prices often are welcomed as increasing net worth (and hence the balance sheet of wealth), as long as the rise in market prices outpaces the growth of debt. But rising property prices increase living costs by panicking home buyers to buy now in order to avoid seeing the rise in property prices outstrip wage gains.

Asset-price inflation goes hand in hand with debt deflation and aggravates polarization as higher prices for homes oblige families to go further into debt. This diverts more income to the financial sector to channel into real estate, as well as into the stock and bond markets.

An inner contradiction of this process occurs as higher price/earnings ratios reduce the income yields on financial securities, while higher price/rent ratios for real estate reduces the ability of rental income to carry the interest and related financial charges. This leads to pressure to reduce property taxes in order to alleviate the financial squeeze.

Asset stripping: Corporate raiders take over companies, cut back research and development spending and other lines of business that do not produce short-term returns, and downsize their labor force in order to make the remaining employees work harder to pick up the slack. This practice is euphemized as wealth creation when its effect is to improve reported earnings. This raises stock prices over the short term, but undercuts long-term growth in production and competitiveness. (See Free Market.)

International asset stripping occurs as the IMF and World Bank oblige governments to sell off the "crown jewels" of the public domain – mineral rights, public land and buildings, and enterprises long held in the public sector as natural monopolies – as a precondition for obtaining the credit needed to service their foreign debts and avoid currency destabilization. (See Conditionalities, Privatization and Washington Consensus.)

Upcoming – 'B' is for Bailout

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