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Let Us Not Speak Falsely Now

by Gene Callahan and Bob Murphy

One of the most difficult issues facing those arguing for a free society is the bias built into the way we speak. When the very words people use create a prejudice in favor of government intervention, supporters of freedom must first alert their audience to this pernicious influence, and only then can the argument about the matter at hand begin.

Therefore, it is vital to be able to recognize the common ways that everyday speech distorts arguments about freedom versus intervention. To that end, we offer a list of some of the most frequent "mind-benders" we've come across.

One firm that has often been in the sights of market critics is Wal-Mart. A common complaint is that it "drives" mom-and-pop stores out of business. In fact, what happens is that Wal-Mart opens a store and consumers choose to patronize it rather than the smaller stores they had been using. Of course, the consumers do not "force" the mom-and-pop stores out of business in any meaningful sense. (Indeed, the mom-and-pop stores are perfectly free to stay in business if they want; but most choose to close after their customers have abandoned them.) However, to the extent that anyone should be "held responsible" for their demise, it is the consumers and not Wal-Mart.

The *New York Times* of August 14, 2003, reports that "community opposition to building Wal-Mart stores has been vociferous." It is no doubt true that there are many people who object to Wal-Mart's opening a store in their area. But what does it mean to call this "community opposition"? Clearly, if no one in a community wanted Wal-Mart in town, Wal-Mart would not dream of building there. That's not because of altruism on Wal-Mart's part, but because it only wants to build stores in places where they will have shoppers.

Generally speaking, many people, namely those who will shop and work there, welcome a new Wal-Mart. The opposition to new stores comes mostly from two groups: those who own stores with which Wal-Mart will compete and upper-income people who prefer fancy boutiques and quaint country stores to Wal-Mart's low prices. To call these special-interest groups "the community" severely distorts reality.

Turning our attention from Wal-Mart, we sometimes hear the claim that, while government subsidies for particular industries may be inefficient for the overall economy, at least they "protect jobs." For example, the PBS television special *The Commanding Heights* noted: "Seventy-five percent of Britain's coal mines were losing money. It took government subsidies of $3 billion a year to keep them going." But "[t]he union leaders argued that the government subsidies were money well spent if they kept

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180,000 miners at work and able to feed their families."

As radical socialist Ken Capstick said in the program, "We were faced with an enemy, and that enemy was out to destroy our livelihoods. . . . Grimethorpe [one of the mines] had considerable reserves of coal when it was closed, plenty of work for those miners to continue to do to keep their families."

Capstick is confused. It was not the mines but the subsidies that were allowing miners "to continue . . . to keep their families." The mines, without the money extracted from British taxpayers, would not have enabled anyone to support a family. Simply because there is more coal in them does not mean it makes sense to keep extracting it—the huge losses indicated that the resources necessary to do so were more useful elsewhere. The acid test is this: If the mines had simply been turned over to the miners' union, *for free*, the union itself would have had to shut them down. It would have been impossible and nonsensical for union members to subsidize their own "jobs." They were, in a sense, not workers, but welfare recipients, albeit ones who happened to have had to perform certain tasks each day to receive their welfare checks.

If one thinks of a job as a useful service performed for others in order to receive services from others in return, then subsidies don't really save jobs at all. Rather, they allow people to persist in performing actions that are now *not* worth the wages being asked, in the opinion of the rest of society. In a free market it would not be profitable for a firm to hire hundreds of people to dig up the beaches looking for loose change. If the government subsidized this industry, it could certainly "create jobs," but only in the sense that it could motivate a group of people to accept paychecks. The labor, shovels, and metal detectors used in the industry would still represent wasted resources that could have been devoted elsewhere.

Income Distribution

"Income distribution" is another fishy phrase that one often hears. It implies that there is a big pile of income sitting around somewhere awaiting someone's decision on how to hand it out. But in a market society income distribution is not a different process from income creation. If you build a piece of software for which someone pays you $1,000, the income you receive was not first created and then later distributed. No, you received the income because you created it. Although in a more complex production scheme this process is obscured, it still remains the case that each of the factors of production for a product tends to receive the portion of the proceeds from the sale of the product that it was responsible for producing.

To think that income arises on its own, with no one in particular regarding it as *his* income, and then sits waiting for someone to distribute it, is to completely misconstrue the market process. To see this most clearly, suppose the government imposed a policy of complete egalitarianism, and "redistributed" income so that everyone enjoyed the same level of consumption, regardless of his or her contribution to production. It is obvious that in this scenario—where brain surgeons had the same standard of living as grocery cashiers—fewer people would endure the rigors of medical school. The "total income" to be "redistributed" would shrink to virtually zero.

On the topic of income, a curious word frequently bandied about is "deprived." For instance, the poor are described as "our most deprived." But when we consult our *Oxford American Dictionary*, it defines "deprive" as meaning "to take a thing away from, to prevent from using or enjoying." So who, exactly, has been taking things away from the poor? Who has been preventing them from using or enjoying things, except in the same way everyone else is enjoined from using things that are not theirs without asking the owner first? It is true that the poor have fewer things than others, but who has been depriving them—other than the government, which takes away 15 percent of their earnings for Social Security and Medicare, and prevents them from taking jobs paying below the minimum wage?

Bogus Deregulation

Yet another weasel word making the rounds is "deregulation." In the majority of cases, whether it's in banking, electricity, or telecommunications, what really occurs is not deregulation at all. Instead, a *new* regulatory regime is substituted for an existing one. Rather than calling it *de*regulation, therefore, it would be more appropriate to call it *re*-regulation.

It is somewhat tragic that the case for free markets is often weakened by "free marketers" who get behind one of these re-regulation schemes. The new regulations inevitably produce unintended consequences, which are used by interventionists to discredit "market fundamentalism." For example, when California electricity markets were re-regulated, allowing the wholesale price of electricity to vary while the retail price was still controlled, the result was, quite logically, a series of shortages resulting in blackouts. To someone who understands the market process, it was clear that the shortages were due to a *failure* to truly deregulate the electricity market. But because the re-regulation was sold as deregulation, interventionists could claim that a free market for electricity had been tried and clearly failed.

While we're at it, may we question the accuracy of the word "regulation" itself? If the issue is phrased in this way, people naturally will favor regulation. After all, who wants an "unregulated," out-of-control electricity industry? (One imagines thousands of megawatt hours being shipped to a spinster's home, while the lights go out in a hospital.) Of course, what the advocate of "regulation" really means is that the *government* should impose its own set of directives to counteract private regulation through the market.

We should also keep in mind that the only way government regulation is achieved is through the threat of violence; that is, if the power producers fail to heed the commands of government regulators, then armed men will literally come to their houses and put them in a dungeon (or "prison" as we prefer to call it). Looking at things this way, it would be perfectly accurate to say that anyone who proposes to "regulate" the electricity market is proposing to threaten producers. But politicians would have a harder time passing "Threat Bills" or "The Electricity Violence Act" than a "regulation" proposal.

In discussions of international trade, we frequently encounter the loaded phrases "export jobs," "fair trade," and "dumping." The first term, on the face of it, is simply nonsensical: *Goods* are exported between countries, not jobs. Even in the ostensibly worst-case scenario, where the same firm cuts manufacturing jobs in the United States and "ships" them to Mexico, what is really happening is that the firm has decided to reduce its purchases of American labor and increase its purchases of Mexican labor. If a consumer who habitually buys California wine decides to switch to French wine, he has not "exported" or "shipped" his business from the United States to France. On the contrary, we would say that he is now *importing wine* (not "his business") from France.

The second term, "fair trade," is at least coherent. However, this phrase too is a poor one, for the simple reason that the person who says *fair trade* really means *unfair* trade. President Bush recently said that he was committed to free trade, but at the same time he was committed to "fair trade."

What does Bush mean by this? He means that, in contrast to true free trade, the United States will *not* eliminate all tariffs on imported goods. Instead, Bush, the so-called free trader, will maintain taxes on foreign goods that enter this country, in order to promote the competitiveness of domestic goods. Thus if a foreign firm has lower costs and can thereby make a car for less than an American firm, the federal government will step in and make the foreign car artificially more expensive. (It may also give subsidies to the American firm, which means that it forces taxpayers to give more money to the firm than they would give voluntarily.) *This* is what President Bush means by "fair trade": Favored industries get subsidies while their competitors are given an artificial handicap. In the context of a baseball game, "fairness" in this sense would mean giving the home team an extra five runs and allowing the visitors only two strikes before an out.

What Gets Dumped?

"Dumping" raises the specter of other nations getting rid of a bunch of unwanted things by shipping them to the United States. South Korea, let's say, has a few thousand broken-down refrigerators rusting in fields, so it ships them over to here to get rid of them. Now, what are we going to do with this junk?

Of course, "dumping" is nothing like this. It simply means that some foreign firm is selling goods "too cheaply" in someone else's view. (That "someone else" is almost always a domestic competitor.) Often, the charge is backed by evidence that the foreign firm is selling "below cost." But that is a legitimate business practice. For example, if a firm overestimated demand and produced too much of a good, selling below cost may be the best way for it to limit its losses. In any event, the term "dumping" is misleading, inasmuch as the dumpees happily purchase the inexpensive goods that the dumpers are selling. If no one wants the dumped goods, the dumping country can't force American consumers to accept them (nor can they deposit them in someone's back yard in the middle of the night).

When it comes to the profit-hungry capitalist pig, there is perhaps no easier target than the "corporate raider" whose livelihood consists of seeking out firms that are vulnerable to "hostile takeovers." These are firms where the market value of the company on Wall Street (the stock price times the number of shares) is lower than the market value of the net assets of the company, at least as estimated by the raider. In this situation the heartless corporate raider (epitomized by Danny DeVito in *Other People's Money* and Michael Douglas in *Wall Street*) executes his hostile takeover, in which he buys enough shares to gain full control of the company, then fires everybody and sells off the physical assets to the highest bidders. Often the family that founded the company and whose members put 20 years of their lives into it are left with nothing but memories and a town full of unemployed workers.

But is this description really accurate? First let's deal with the term "corporate raider." In what sense is the fictitious Gordon Gekko a "raider"? He is not attacking the company; he is attempting to purchase it. Can he seize the shares and hence voting rights of the previous owners? No, he has to pay them enough so that they voluntarily sell their shares.

This leads to the next term: In what sense is Gekko's purchase of a company a "hostile takeover"? The shareholders themselves are certainly happy about the deal: That's why they agree to it! What a "hostile takeover" really means is that the *management* of the company and perhaps some of the minority shareholders *disagree* with the decisions made, not simply by Gekko, but by *the rest of the shareholders*. After all, if at least 51 percent of the shareholders disagree with the schemes of the so-called corporate raider, then he is utterly powerless to "break up the company." It is only because of the (relative) mismanagement of the company in the first place that its assets can be more profitably transferred to *other* companies (with better management). The corporate raider is indeed performing a useful service: He liquidates companies that are wasting scarce resources (relative to the uses other firms are making of such resources) when the existing management either will not or cannot see that this is the most profitable decision.

Other classic examples of loaded language are the terms "underpaid" and "overworked." We read countless stories of underpaid workers, or young mothers in the labor force who are overworked. What exactly does this mean? Are these people being forced into slave labor camps? No, they willingly sell their labor in exchange for wages. Did the overworked employees sign contracts agreeing to a certain number of hours per week and then suddenly the employer changed the rules? No, this isn't usually the issue, because then the workers would have a breached contract and could sue. Perhaps the workers are "underpaid" because employers don't pay them the full value of their product? Again, no, this can't be true in general, because in a competitive industry, employers will have to pay wages roughly equal to the marginal product of labor, or else lose their employees to other, higher-paying firms.

All the critic means with such terms is that he or she believes it would be a better world if hard-working people had more money, or if they could get paid the same amount while working less. Yes, we agree: It would be a better world if labor were more productive. (This is why we are in favor of capital accumulation.) We also agree that it would be better if a given batch of consumption goods could be produced with less labor. Unfortunately, our wishes don't translate into technological reality. In a competitive market (one free of government and violent union distortion), workers are paid in accordance with their marginal productivity (at least as far as entrepreneurs can correctly estimate it). Rather than call someone "underpaid" we could just as easily label him "underproducing."

We could go on citing more examples, but you get the idea. All too often a bias toward state intervention in the economy has been embedded in the way we talk. Unless we can clear away the fog of faulty language, those we are trying to convince will never see the true nature of interventionism. □