

From the GEORGE notebook

(These notes on random topics are not definitive and certainly are not offered as the last word on the subject. Instead they are intended to be sometimes informative and always provocative. EDITOR)

Was Carlyle irremediably correct? Is it in the nature of men that when they talk about how they make a living, they use fuzzy words and thus make economics irredeemably dismal?

No matter how often the observation is repeated that *Not only is it requisite in economic reasoning to give such words as 'wealth,' 'capital,' 'rent,' 'wages,' and the like, a much more definite sense than they bear in common discourse, but, unfortunately, even in political economy there is, as to some of these terms, no certain meaning assigned by common consent . . .*, each man goes on using words with the meaning he alone ascribes to them.

Recently the chairman of a "Fortune 500" company complained about uninformed critics who have so perverted the meaning of the word "profits" in the public mind that it has come to mean something like "undeserved income" or the "exploiter's unjust reward."

He went on to talk about jettisoning the offending term, despite the long tradition in accounting for its use. Moreover,

he had interesting justification for ignoring accounting practice. "Almost half of what are called profits are really the government's take from the operation of a business, the corporation's income tax. The part paid out in dividends is really 'interest on equity,' a fee paid for the use of savings, essentially no different from interest paid on loans. And the remainder—the profits reinvested in the business—are just as well called 'business savings' or reinvested earnings.

This executive, it would be invidious to name him for we are interested in a concept and not in indicting an individual, went on to step into the same trap he was describing. "The advantage of calling these costs of operation by their right name," he said, "is that people understand such things as taxes, interest, earnings and savings, because they are all part of the family budget. But nobody in the family thinks in terms of profits. They are considered something alien, received only by the undeserving businessman."

The semantics involved here are both interesting and informative. This businessman would seem to have a well-supported complaint about the abuse of language. He may be on to something when he wants to turn his back on accounting practices as a medium for economic analysis. It may well be that much of the

confusion and ineptitude exhibited by today's economists lies in their reliance on accounting terminology and data derived from accounting reports. Accounting practices and terminology have grown out of business managers' and owners' needs to evaluate their conduct and to know the state of their affairs. More recently they have developed to abet business in its continuing contest with the tax collector. How can terminology and data so derived serve economic analysis? The excuse, "that's all we have," cannot suffice.

But if accounting terms are misleading, the family budget apparently isn't much help either as a source of language. At least in the suggestions quoted above, the executive's self-interest has betrayed him into regarding "interest on equity" the same way he looks at "interest paid on loans." To managers of a large corporation with a long history of dividend payments and continually rolled-over debt, these two categories of payment might have the same appearance, just cost items. They are, in fact, quite different as are what he calls "business savings." The political economist, however, might willingly lump all three as the return earned by the capital invested—provided the businessman and the politician were willing to separate out from this aggregate what is rightly the return to the site.