
LYING UNDERMINES A MARKET ECONOMY

Edward J. O'Boyle, Ph.D.
Mayo Research Institute

Lying undermines a market economy primarily because it makes buyers and sellers suspicious of the commitments necessary for exchange to take place. To execute a transaction successfully both parties have to expect and experience getting back more than they are giving up. For a market economy to function effectively the experience in the overwhelming number of routine, daily transactions must match the expectation. Lying is an attempt to get more from an exchange by deceiving the other party as to what that person will get from the transaction. Lying sets up conditions that make transactions much more difficult than they are when the parties are telling the truth. The often-repeated "buyer beware" admonition reinforces suspicion rather than trust. Take away trust and exchange collapses.

That's why we condemn insider trading where the trader with confidential information games other traders who do not have access to that information and who either undervalue their shares or overvalue them. That's why we admire whistle-blowers who are willing to expose misconduct in order to alert innocent buyers/sellers of certain deceptive practices.

That's why we condemn salesmen who knowingly and deliberately misrepresent the products they are selling. That's why the honest merchant has a money-back guarantee to correct any problem that deprives buyers of what they reasonably expected when they executed the transaction.

That's why we condemn persons in business who "cooks the books" in order to cover up a failing business. That's why we honor persons who have found something of value and instead of engaging in the self-deception of "finder's keepers" return it to its rightful owner.

In the early 1960s the Central Intelligence Agency coined the expression "plausible deniability" in order to allow government officials to mislead the public by having their subordinates erect a wall of separation between the truth and the whole truth, between what those officials know and what they should have known. When bosses have been separated from the whole truth, they can claim that they didn't know what their

subordinates were up to, as in "it was just two rogue IRS staffers in Cincinnati" who were doing all the targeting of conservative groups seeking tax-exempt status.

Lying today is so common among public officials that American citizens cynically expect them to lie. And it is not just low-level Washington officials who lie. Recall Republican Richard Nixon's "I am not a crook" as he tried to dodge responsibility for Watergate. And Democrat Bill Clinton's "I did not have sex with that woman" in the Lewinsky affair. Even Republican Ronald Reagan was caught in a lie when he denied any knowledge of the Iran-Contra deal.

There is no wall of separation between what happens on Main Street and in Washington. Public officials who lie, either directly or by withholding some of the truth out of contrived ignorance, poison the environment beyond the Capitol beltway.

By making lying commonplace in political affairs, high-level public officials set the stage for chaos not only in the political order but also in the economic order through the rationalization that if it's ok for public officials to lie on public matters what possibly could be wrong with lying on the part of buyers and sellers in private matters? This rationalization requires both public officials and economic agents to do the following: tell their conscience to lie down in the corner like a sleeping dog. Doing that, as we have seen in the public sector, is not all that difficult when the stakes are high, when what is gotten back is so much greater than what is given up.

The salesperson who does not tell the buyer that the driver's seat heater doesn't work is misrepresenting what that buyer will get and is being just as deceptive as if he/she were actually telling a lie. Similarly, with the horse trader who does not tell the buyer that the horse is foundered. A half-truth can be as deceptive as a lie and for that reason the oath taken by a witness is "to tell the truth, the WHOLE truth, and nothing but the truth."

Lying is especially destructive because it is doubly deceptive. Lying is used (1) to cover up (2) some prior misconduct or mistake for which the liar bears some responsibility. Whether the liar is a public official or private citizen, lying often is used to protect one's job, fortune, or good name. Liars, particularly those who lie routinely, cannot be trusted to faithfully carry out their duties whether on Main Street or in Washington.

Notice the massive deception that resulted in the Great Recession – loans made to prospective homeowners who the lender knew had no real ability to repay them but was willing to mislead them because their loans were guaranteed ultimately by the federal government. Credit default swaps that were sold to persons who did know what they were buying and whether or not the seller had sufficient cash reserves to cover a massive wave of defaults.

The bubble mentality in the private sector originates in the self-deception that the asset held will only increase in value over time. It is the equivalent of self-deception in the public sector such as referring to public expenditures as investments that benefit everyone and

calling income that is not taxed because it is privately spent on certain publicly desirable purposes a tax subsidy or tax expenditure.

We are recovering slowly from the Great Recession but it likely would not have taken so long if we had not used self-deception for personal advantage. Recovery depends on restoring trust.

In economic and political affairs the remedy is the same: do not lie, do not withhold pertinent information especially when the payoff for lying is quite small because a person who is willing to lie when the reward is small is likely to lie when the payoff is much greater. A change in the law or procedures will not put an end to the lying. What are needed are persons who can be trusted because they do not lie even when the personal payoff and political pressure are greatest.

The present crisis in Washington is not the last time we are likely to be deceived by public officials. As Thomas Jefferson warned us years ago: "*eternal* vigilance is the price of liberty." Persons who have been deprived of their liberty in political affairs are not truly free to engage in economic affairs. They become prey for the liars and victims of their own self-deception.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute

Offices in New Orleans, Lake Charles, and West Monroe

www.mayoresearch.org 318-396-5779 edoboyle737@gmail.com
