



Generic Fallacies That Are Common in Economic Writing

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Article citation:

[Gaffney, Mason]. "Generic Fallacies That Are Common in Economic Writing." N.d. Study guide.

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Generic Fallacies that are Common in Economic Writing

G-1. Fallacy of Inverting Cause and Effect.

- a. Fallacy that trade deficits result in capital inflows.
- b. Fallacy that high rents result from high land prices.

G-2. Fallacy of Identification (identifying idea A with idea B, when they are different).

The Fallacy entails confusing the incidental with the essential; connotation with denotation; myth with reality; etc. It entails the stereotype or Gestalt or paranoid-"pattern" view of life, an enemy of analysis and clear thought. The Fallacy of Identification really means misidentification, or confusion. Block phrases often contain or foster this Fallacy.

a. Example: identifying dissipation of rent (owing to open access to lands, fisheries, etc.) with dissipation of monopoly profit (owing to open access to markets).

b. Example: a tax that looks regressive at the national level, because it is a local tax, becomes a block phrase, "the-regressive-property-tax." In result, policies are proposed that do not serve the ostensible end: in this case, shifting to the sales tax, a very strange way to help poor people in poor regions.

c. Fallacy of identifying (confusing) discontinuity with indivisibility.

d. Fallacy of identifying (confusing) Long-run Marginal Product (LMP) with Marginal Net Product (MNP).

e. Fallacy of Identifying Scale with Efficiency, using the block phrase "Large-efficient-firms."

f. Fallacy of identifying (confusing) "economic man" with "pecuniary man." An economic man often sacrifices money for other values, e.g. leisure, the desire to leave an intellectual legacy, welfare of grandchildren, honor and glory, etc. Rationality is just a means to gratify desires that may be sentimental.

g. Arizona Prop. 300, November, 1994, would direct state agencies to analyze how new regs would affect value of private

property, and "determine how much citizens should be compensated for their losses. ... Private property rights has become a rallying cry for citizen backlash ... "

Fallacy here is to identify property owner with citizen. Many owners are not citizens; many citizens are not owners.

G-3. Fallacy of Straining at Gnats while Swallowing Camels.

Example: saying the main cause of waste in government is the high salaries of elected officials, including those who fight waste. This kind of thing gets self-righteous and mean-spirited, but it misses the main point that the salaries of elected officials are trivial compared with the money they spend or save (as the case may be).

G-4. Fallacy of False Parallels, irrelevant analogies ("pigs is pigs," even though one of them is a guinea pig).

Example: fallacy that labor income is the same as land income, just because each is called "income."

Rather, labor income is gross of costs of birthing, rearing, medical care, education, care of the aged, and depreciation of and interest on these if they are capitalized.

G-5. Fallacy of Absurd Overinterpretation,

Example: talk about conserving energy, or capital, and you hear this: "You want us all to go back to the spinning wheel with Ned Ludd and Mahatma Ghandhi?"

G-6. Fallacy of Not Specifying Denominators (Ignoring the Base of Ratios)

a. Nation B is twice as urbanized as nation A; therefore A is twice as rural as B. (False because B is only 2% urbanized.)

b. A bought half of B's remaining land; therefore A doubled his acreage.

c. I can do 105 pushups; (I start counting at 100).

d. Rates on unstated bases: "the rate fallacy."

Example: GM's profits are 20% (of what? Sales, net worth, value of shares, historical cost, etc.) Here, the Fallacy is compounded, usually, by fuzzy definitions of "profit."

e. The "-ity" fallacy: vague use of productivity; parity; profitability; intensity; rentability; durability; salability; usability; etc. Add "-ity" intimidates the reader without adding weight to the root word.

f. "Efficiency" (output/input) w/o specifying input.

g. Treating a closed system like an open one. Examples follow.

i. People entered a night club at a constant rate per minute. As the room became more crowded, the fire marshal became less concerned because the % rate of growth of the crowd inside kept falling.

ii. As Elmer approached 95, his life insurance premiums fell because each year he added a lesser % to his life.

iii. After the home team gained 97 yards from its goal line, each additional yard meant less because it was a lower % of the base.

(Obviously, in all three examples, one should relate changes to the low base of what remains, rather than the high base of what went before.)

h. The Base Year Fallacy. Measuring fractional changes from a base year that is chosen to strengthen your case.

Example. Farm "parity" prices (terms of trade, actually) are those that obtained in the most favorable years in history, 1910-14.

Example. Your salary has risen 30% while mine rose only 20%. (But who says they were correct to begin with?)

G-7. Fallacy of Composition (non-system thinking)

Example: "What's good for General Motors is good for the country" - (Charles Wilson, ca. 1956). See also D-7, about advocacy of farm price supports.

Second Example. In planting an acre with orange trees, add a 40th stem. The resulting tree will bear 50# of fruit. Fallacy is to say the marginal product of the stem is 50# (you have to subtract the reduced production, due to crowding, from the first 49 stems). This is also the fallacy that the marginal product equals the average product.

Third Example: a 57th fishing boat joins the fleet and catches 350 tons. This is its marginal product. This fallacy equates MP with AP; overlooks "tragedy of commons," etc.

G-8. Fallacy of Partial (usually Selective) Constraint.

Example: fallacy that cheap money causes people to build on land more intensively. Rather, they buy more land, lowering intensity. Cheap money also helps one build, but its comparative advantage is in buying land, whose carrying cost is mainly interest (no depreciation).

Example: fallacy of stressing that "capital gains" during inflation are phantom income that should not be taxed, while ignoring other kinds of phantom income (like interest on savings accounts). It is worse when the advocate also ignores real, but untaxed income that results from fall in the real value of debt, and of deferred taxes (notably, taxes on capital gains themselves).

Example: fallacy that property tax should be abated to spare rich widows, on welfare grounds, ignoring poor widows who rent and need welfare from property taxes on rich widows, and others.

Example: fallacy that wealthy people use less energy because they have the capital to insulate houses. Rather, they buy bigger houses. Also, similarly, to stress that cheap credit lets one conserve energy by insulating a 5-rm house, ignoring that it also lets one move to a 7-rm house and use more energy.

Analogy: selective, partial Bible fundamentalism, in which a "Christian" is one, and only one, who would punish homosexuality and abortion. At the same time, another person who cites Bible passages urging forgiveness of sins, redistribution of wealth, forgiveness of debts, the evils of avarice and "laying field to

field," the unlikelihood of rich people getting to heaven, driving money-changers from the temple, etc., is an atheist and communist.

G-9. Fallacy of "Ahistorical" Theorizing, and other theorizing that runs contrary to observable facts.

This is "Economics without Man" (Horace Gray). It deludes you into thinking people behave like pieces on a chess board, following arbitrary, simple rules that may be assumed before the analysis begins, and seem to give determinate answers to indeterminate problems.

Example: equating opportunity cost and cash cost as economizing incentives. This is perhaps an improvement over the reverse fallacy, that is treating o.c. as = 0, but in their false pride, preening themselves on refuting the first fallacy, micro theorists fail to observe how humans actually behave, how credit rationing works, and how cash drains lower the liquidity, income, and wealth of the payor.

This error is especially misleading w.r.t. land, whose hoped-for price increments offset opportunity cost of holding.

G-10. Fallacy of Counterfeit Wisdom through Hedging (Cf. 11, Fallacy of Reifying Metaphors.)

Many grant-needing institutions, dominated by nervous treasurers, develop a recognizable style of hedging, perfected through lifelong habituation to bureaucratic gobbledygook. They want to show they have covered all the bases, see the merits and demerits of every proposal, and are committed to none. Combine this hedging (aka ass-covering) with reifying metaphors, mixing metaphors, backing and filling, larding with incontrovertible bromides and tautologies, reliance on empty words and repetition, avoidance of offending anyone or specifying anything, and you get the following mush, cited from an actual Report of a well-known Institute.

..."demand for real estate products ... snowballed into a wave of speculative overbuilding ... (Later,) the speculation-fueled binge gave way to stagnant markets and soaring vacancy rates. ... with effects on the fabric of society itself.

Economic analysts differ on the relative importance of the real estate cycle to the economic performance of metro regions. A convincing case can be made, however, that the boom-bust cycle may make some places overpriced in relation to other, less expensive places. This in turn affects others.

The boom created massive numbers of jobs, income, and great wealth It also destroyed the cost structure, and later was responsible for the loss of thousands of jobs ... Other jobs depended on those; these jobs, too, vanished as the bust wiped out these largely ephemeral gains.

Many believe that the rationale for public attempts to regulate the boom-bust dynamics of land and real estate markets is fairly straightforward. Others are reluctant to see government intervene in the market. Either way, regulatory activities have important effects ...

Unstable revenue flows make budget planning difficult. ... Yet a variety of techniques ... all hold some promise of dampening (*sic*)¹ boom-bust cycles within existing frameworks of governance.

... the more information that elected officials, planners, developers, and citizens have about market conditions and growth trends, the more likely it is that policies can be developed to accommodate growth without a speculative boom ...

Some believe ...; others, less optimistic, believe ... There are drawbacks and limitations, however, ... In contrast with the argument that land-use regulation is a panacea for problems rooted in the boom-bust cycle, X suggested that controls are not directly useful for regulating real estate market cycles. At best, these tools have little or no effect; ... Ultimately, the choice is a political one ...

It has been argued that impact fees increase the "economic efficiency" of each development decision ... Yet, imposing such fees may or can increase housing costs. "A" asked ... ? In contrast, "B" maintains ... It is generally agreed that land use planning for urban service areas will stabilize real estate markets if It can be a daunting task, however, ...

¹You "damp" a cycle; you dampen clothes before ironing.

A provision of this sort would benefit local governments but might anger taxpayers. Another possibility would be ... However, the results have been mixed ...

The most important step is to avoid raising the tax in booms ... but the effect may be marginal ... would have a limited effect ... It remains unclear, moreover, how such a tax can be structured to do its regulatory work while also being politically acceptable. In Z's opinion, (this tax) set high enough to influence behavior would probably be unpopular with voters. ... it ignores several problems. ... downturns are precisely the wrong time ... to impose tax burdens any higher than necessary.

Clearly, it is desirable ... to avoid ... taxes that respond to construction and new development activities. ... development exactions can be an integral part of such a long-range approach to finance.

One factor that can trigger a speculative boom is overstimulating development ... Such conditions can create problems ... The development industry may act as a flywheel ... such a spiral ... may lead to a collapse. Growth coalitions orchestrate the scope and pace of development ... This raises questions ...

The ebb and flow of the cycle ... prices increase steeply and quickly then crash dramatically ... in areas with rapid growth. ... these growth pressures then interact with constraints on land supply, and with psychological dynamics to produce the boom-bust profile. The dynamics of the boom-bust market can become a major factor in driving regional economies both upward and downward, ... and can undermine fiscal health.

Conclusion: Ultimately, metro form is the result of complex interactions of an ever-changing economy , ... We must envision new relationships among these elements and make new choices."

[Does that make it all perfectly clear? Have you learned anything at all from all that? Have you any idea what these experts recommend? Not surprisingly, the author hides behind the Institute and does not identify himself. Why should he? He has not specified anything else.

G-11. Fallacy of Reifying Empty Metaphors.

What follows is taken from two actual articles. Economic writing is full of this stuff, as reporters try to sound worldly-wise about matters neither they, nor their interviewees, understand. When their readers are done, they will not understand, either.

a. "Tough fiscal measures; favorable balance of trade; bite the bullet; the economy would climb out of the recession to a growth rate that would get industry moving; the upturn has been sluggish; global recession threatens to undermine our economic take-off by hitting exports and keeping prices subdued, dampening (sic) activity and boosting unemployment; markets are skittish; jittery markets want to see action; high demand sucked in imports and caused a blowout, so the government had to drive interest rates through the ceiling to dampen (sic) demand; ditching the cuts would throw a wrench into relations with unions; we must implement tougher arrangements; government may pull a rabbit from the hat, sending a signal to markets; government has yet to cut spending to the bone - it needs to set out a plan with flesh about the bones."

b. "The economy is on a roll; how to rein it in before prices spiral out of control; having unleashed many of the nation's communist fetters, Chinese leadership now must tame its firebreathing, unruly dragon of an economy without putting it back in chains; cool inflation by clamping down on credit; controls were eased to funnel money to state-owned firms that were drowning in red ink; the situation is by no means encouraging; chaos has appeared; banning profiteering; they are only a temporary salve for the economic woes; the rusting state sector is hemorrhaging red ink; inefficient enterprises are due to be bailed out or allowed to go bankrupt; the solution to the dilemma is macroeconomic fine tuning; the government needs macroeconomic tools."

If you use metaphors, stick with one or two. A metaphor is effective when it calls up a physical image that can serve as a reasonable analogue to what you are really talking about. When you mix them, it shows they are just empty words you picked up from someone else. Try to create your own, from your own experience and observation: then they'll be original, and have impact, just as the tired clichés did when they were new.

G-12. Fallacy of Compartment-mindedness.

Toleration of contradictions by assigning them to different compartments (e.g., Micro and Macro). Holding two contrary views at the same time. Failing to seek consistency in one's beliefs, to reconcile and compose contradictions. (Orwell called this "double-think.")

Example from capital theory. Many will say that the PIPO model, as used by Böhm-Bawerk and Wicksell (the "grape juice model" of a macro-economy) only applies to grape juice, and things like it. With other capital, other principles apply. This leads to fallacy that the period of production, or of investment, is indefinable, unmeasurable, and/or meaningless. Worse, leads to the fallacy of the disappearing inventory (F-6), where "normalizing" or staggering investment cycles makes input and output simultaneous.

G-13. Fallacy of the Unrecognized Self-necessitating Policy or Action (Treadmill Effect). Some examples follow.

a. Condemning land for a rail station, using a price that is inflated by the prospect of the station's being built. (You think I'm making this up? This is exactly how S.P. squeezed \$84.7M out of Southern California Rapid Transit District for the Union Station in L.A., in 1984.)²

b. One absentee landowner performs the service of bearing the financial burden of ownership for the tenant. However, absentee owners collectively provide extra investment demand that pushes up the price of land out of reach of tenants, which keeps them tenants. Such a "service" vouches for itself; it creates the very need that it meets.

A single landlord may serve the economic function of bearing the interest burden of holding title to land. As a social and public policy matter, this overlooks that absentee landlords, considered collectively, simply bid up the price of land so the tenants cannot buy it. Thus, this "function" is one

²This was the largest condemnation award since eminent domain was established in 1250 A.D.! One wonders if the RTD might be in less soup today if they had spent that money on better construction in the tunnels.

of those things that necessitates itself, or makes itself necessary.

c. Another example. It is a common administrative ploy to underfund a department, then use its poor performance to justify funding it less. This is kin to "blaming the victim."

d. A probable example (after some extended pursuit of cause and effect, which some might consider tortured) is the idea that taxes can come out of wages. Why can't they? Some workers at the bottom barely survive, cannot be taxed. Progressive income tax rates are an attempt to tax workers who get above the survival level. However, these skilled workers have invested effort and capital to raise themselves. Market forces would have them invest just that extra effort and waiting needed to get them to their desired level. If we tax away the premium earnings, the same forces will make them demand - successfully - that much more before taxes to return their after-tax incomes to their relative standing absent taxes. That is, if one believes in market forces.

That is why celebrities, lawyers, MDs, psychiatrists, top execs., etc., command such premia. Then, the skewed salary structure that results from high progressive tax rates is used to rationalize the very rates that cause it!

e. "We cannot lower the speed limit on your street because we have clocked speeds there, and the average motorist already drives at or above the speed limit."

This one is actually in the State Motor Vehicle Code!

f. "Government should hold down interest rates, and subsidize cheap mortgage money, so people can buy land." That reasoning overlooks the nature of land values, which makes it circular. The main effect of long term loans has been to inflate land prices, **creating the very problem it offsets**. It is a treadmill effect, like keeping up with the Jones's.

g. "Government should bring water to arid lands to overcome the overdraft of local landowners." This has been California State water policy, notoriously so in Kern County. The result, of course, is to encourage expansion of farming there, and continually rising overdrafts: a "Treadmill Effect."

Rather, TITSATAAFL (There Is Too Such a Thing As A Free Lunch). Examples follow.

a. Improved allocation is free lunch. The "win-win" deal, if real, is a free lunch.

b. Putting idle workers in good jobs is a free lunch. So is using idle land, if the use is environmentally benign, and pays net rent.

c. Many positive feedback loops are free lunches. Examples: thawing a frozen market; pooling risks; pooling supply and demand; creating confidence.

d. Synergy. Spillovers, or "external economies" (which Ellis-Fellner, Mieszkowski, et al. would like to define away).

e. Removing barriers to better allocation of resources.

f. Doubling the welfare of A by dropping B by 1%, etc. In individual cases, this could be wrong, but on the average it is bound to be right much more than wrong.

g. Sharing public goods is a free lunch. ("Public goods" are goods whose use by more persons does not interfere with use by present users, or others. Thus, they are supplies whose Marginal Cost (MC) = 0.)

h. Land rent and gains are a free lunch. The question is, who gets them?

i. Moving toward more equal % shares is likely to improve allocation, e.g. reducing farm water 5% to increase industrial water 100%.

j. Any policy that breaks an impasse is a free lunch. Especially policies that compose two problems into one solution. Example: the fear of overproduction should allay the fear of inflation, result is to level supply and demand upwards.

G-15. Fallacy of Incommensurability

Example: The wealthiest Americans, those with \$250,000 or more in personal income, have XX% of the income.

[Income is not a measure of wealth. Income is a flow over time; wealth is a balance sheet measure at a point of time. Some with high measured income have little or no wealth; some with high wealth have little measured income, e.g. if they are "land-poor."]

Example: Sales of GM > Switerland's NNP. (NNP measures value-added; GM sales are gross of purchased components, materials, etc.)

G-16. Regression Fallacy

This is when you rank people by one measure, then judge or measure what they have of another.

Example: the shortest 10% of the people had only 4% of the total height in 1980, but by 1990 had grown to have 7.5% of the total height. Therefore, heights are getting more even.

Example: the smartest 1% of the population in 1880 (say, those with i.q.s over 150) had a generation of children, most of whom had i.q.s under 150. Therefore, the smartest few are becoming more like the average person. (This is called "regression towards the mean," and is the origin of the "regression" in regression fallacy.)

G-17. Fallacy of Infallibility of Authorities

"After you've won your first Nobel prize, perhaps you may disagree with Galbraith or Stigler."

"How dare you set yourself up as God by upholding an opinion against the leading sages and scholars resident in the leading privately endowed universities and research institutions?"

"Scientists agree that ... "; "Science says ... ";
"Science has proved ... "

"Economists take their production functions from engineers ... "

"Good forestry cannot pay interest at going rates. Therefore, interest rates have no place in calculating good forest practice." (I am not making this up - see any forestry textbook.)

"Professional Foresters determine what is good forestry; engineers determine proper standards for structures and equipment; medical doctors determine what is sound medical practice; etc. Meddlesome accountants must not interfere with these professional judgments, based on professional codes of ethics framed to protect the public interest."

Another view: "An engineer is a person trained to tell you the very best way to do something that should not be done at all." - Kenneth Boulding, evaluating the California Water Plan.

G-18. Fallacy of Analogical Argument (inferring a further degree of resemblance from an observed degree; two things are the same in all respects because they are alike in one respect).

Example: red flannel underwear keeps you warmer because red is the color of fire.

Example: wage income is unearned, just like land rent, because it is higher than opportunity cost; or because "it is a differential"; etc.

Example: man-made capital is just like land in all respects because both have a present value derived by discounting future cash flows.

G-19. Fallacy of Tautology: making a definitional statement seem like a causative one.

Example: "Soaring yields send bond market into a sharp decline."

G-20. Fallacy of Absurd Oxymoron

Example: "This recession ended in 1991. The unemployment rate and the poverty rate kept rising after the recession ended."

Example: "Jobless prosperity."

G-21. Fallacy of *post hoc ergo propter hoc*.

Example: "Jimmy Carter pushed through a Windfall Profits Tax (WPT) on oil and gas producers, and lost the following election."

Therefore, Clinton's proposed BTU tax was quietly dropped, knowing it would kill him politically." (Hyman Minsky?)

Example: "California raised its gasoline tax in 1990. That is why State employment dropped after peaking in 1990." - Arthur Laffer and Joel Fox

G-22. Fallacy of Assumed Agenda.

Example: Only half the private dwelling units had been replaced, because of gaps and delays in government programs.

Example: People are starving, because the government is not feeding them.

G-23. Fallacy of argumentativeness

A writer recommends his own version of Christianity because "'only such a faith can outlast the death of old cultures and the birth of new civilisations.' You see the little rift? 'Believe this, not because it is true, but for some other reason.' That's the game." - C.S. Lewis, *The Screwtape Letters*, p.120.

G-24. Fallacy of chic

The desire for novelty makes Fashions or Vogues. Fashion in thought usually distracts from real dangers. Each generation cries out against those vices of which it is least in danger, and approves the vices that are the rage. It is fashionable to expose the dangers of enthusiasm when people are becoming worldly and lukewarm; later, when people are Byronic and drunk with emotion, the fashionable outcry is against "mere understanding." Cruel ages are on guard against sentimentality, feckless and idle ones against respectability, lecherous ones against Puritanism. Whenever all are hastening to be slaves or tyrants, Liberalism is the bogey.

Voguishness recoils from asking is it true? is it just? is it prudent? is it possible? Rather it asks, "Is it in step with the movement of our time? Is it Progressive or Reactionary? Is this the way History is going?" The questions are unanswerable because what the future will be depends on those choices that they invoke the future to help them make.

Voguishness would cut every generation off from all others. Learning makes a free commerce between the ages, so the characteristic errors of one may be corrected by the characteristic truths of another.

G-25. Fallacy of Causation through Nonfeasance

E.g., "People are hungry because the government is not feeding them."

"People are homeless because the rich are not giving to charity."

G-25. Fallacy of Attribution to Universal Causes

E.g., "The depression occurred because people are too greedy."

"Building in Pittsburgh outperformed other cities in the period because of changes in Federal tax policy."

G-26.