



Some Common Fallacies, Evasions, and Ambiguities in Micro-Economics

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Some common fallacies, evasions, and ambiguities in micro-economics.

- ✓ 1. Non-specification of denominators. "Rates" on undefined bases. Vague use of "profitability."
- Eff — 2. Proportioning. (*rest under eff., week 2*)
3. Arrogation. Taking the average product of an input as "productivity."
4. Partial maximization. Engineering "efficiency."
5. Partial constraint. E.g. cheap money lets you use land more intensively.
- ✓ 6. Composition. E.g. farm landlords perform the economic function of bearing the interest burden of holding title to land.
7. Identifying tenure with monopoly, and open access with competition.
- Welf. Ec. — 8. Identifying redistributive with net social gains and losses. E.g. the Ellis-Pollner travesty of external economics: tariff arguments; agricultural policy economics; blindness to marginal cost pricing.
9. Average-cost pricing.
- 10. Historical-cost pricing.
- ✓ 11. Expensing durable investments
 - a. Failing to annualize, thereby overstating LMC.
 - b. Claiming as current cost, thereby understating, income.
12. Abstracting from space. E.g. the usual theories of utility rate-making; the usual theories of economics of scale.
13. Abstracting from time. E.g. all non-Austrian or anti-Austrian capital theory, as in Knight, Rolph, Joan Robinson, J. B. Clark, Cassel, etc. Confusing supply curves and historical records of supply response. Equating excise and income taxes.
- ✓ 14. Pricing by industry average costs. E.g. natural gas rate making.
- ✓ 15. Letting rentable resources carry submarginal or deficit one, in theory or policy. *Fallacy of consolidation.*
- 16. Sacrificing allocative efficiency to gain distributive equity when:
 - a) Distributive equity is badly defined, e.g. parity for agriculture.
 - b) The policy does not serve the alleged end, e.g. shift to state sales tax to help people in poverty-stricken areas.
 - c) There are means to gain both equity and efficiency jointly.

Regression Fallacy

Fallacy of identification

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✓ 17. Allocating resources by rights of use. Principle of comparative disadvantage.

18. Maximizing return on sales; or benefit:cost ratio; or minimizing I.Q.

19. The Onelette School position.

✓ 20. Identification of size, wealth, profitability, and respectability with economic efficiency.

21. Cobb-Douglas functions that average out the effects of increasing scale over the whole range of firm sizes.

✓ 22. Analyzing economic concentration in terms of averages.

23. Assuming implicit costs equal zero. E.g. students' attitudes toward parking space.

✓ 24. Lumping of overlapping terms or ideas. E.g. LSP and RMP. E.g. consumer sovereignty is impossible under Socialism. E.g. MC pricing goes with public ownership and AC pricing with private ownership. The Gestalt or stereotype or paranoid-pattern approach, the enemy of analysis and clear thought. *Fallacy of identification - confusing incidental & essential.*

25. Magnified feedback.

26. *Regression Fallacy*

27.

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1. Price theory applies only to the firm (try the state and nation).
2. Price controls always distort the allocation of resources.
3. The man who takes customers from his neighbor is selfish and anti-social.
4. "Dumping" is exactly contrary to the interests of a nation exploiting its monopoly potential, and therefore cannot occur.
5. A monopoly or cartelized industry can gain nothing from holding actions, because they must pay the piper tomorrow.
6. There is no net gain from increasing imports, or applying new inventions. What one gains, another loses.
7. The whole trouble with water economics is underpricing.
8. Nations always encourage exports and discourage imports.
9. Durable resources are not consumed. The supply is not used up when people use them.
10. The fallacy of equating "economic" and pecuniary". An economic man is a materialist and a cheapskate, and values money above everything.

The person who sticks with a low-paying job because he likes it is not behaving economically. An economist would call him irrational. The economist would sacrifice human values for the Almighty Buck.

You can't measure the worth of a golden sunset in dollars; above all, you can't put a value on a human life. To measure a tree, one of God's noblest works, in the balance with something as profane as money, is to sacrifice the Conservation Ethic to the money-changers, to sell out The Almighty for the Almighty Dollar.

Economic analysis fails to account for people who care more for basic values than money, and whose motives are therefore non-economic.

11. The income effect of taxation means that income taxes make you work harder.
12. Lower interest rates make you save more because everyone has a target income from interest that he insists on getting regardless of the difficulty.
13. There is a natural equilibrium reached in street congestion where congestion cures itself because drivers avoid congested areas. This is a natural free ecological equilibrating device and therefore optimal. Drivers pursuing their own self-interest without bureaucrats trying to run their lives will naturally do what is right. This is an example of the free market in action at its libertarian best.

14. The man who writes off property too fast and so lowers his income tax today is only hurting himself in the long run because he must pay more in the future to make up for it, by which time he'll be spoiled and find it harder to pay. Better to pay it now and get it behind you--face the future with a clean slate and improved character.

15. Americans should be ashamed of the way we waste natural resources. The Germans and Japanese and Dutch conserve their resources much better than we: see how much more they get from an acre of land.

16. There is only a limited amount of Class I soil in the country and the world. Cities do not need good soil, but they gobble it up at an alarming rate. Obviously it should be zoned for exclusive agricultural use.

(It is also a crime to see the very best wheat land converted to growing corn.)

17. Sustained yield is obviously the only acceptable principle of forest management in the long run. The maximum growth per year is the level at which yield should be sustained.

18. If oil is worth \$3/bbl. at the well-head, obviously every barrel I pump from any well lowers the value of my oil deposit by \$3, (and the IRS should let me write off \$3 from taxable income.)

There are 10 billion bbls. of oil in the shale of Dry Gulch Twp. in Purple Sage County. It is worth \$30 billions.

19. Risky enterprises are avoided by investors; obviously therefore special subsidies and tax concessions are desirable to induce investors to undertake these enterprises. Oil exploration is very risky.

20. The Federal Communications Commission (FCC), which allocates telecasting licenses, should never permit any trafficking or commerce in licenses. That would be profiteering. Ditto for the Bureau of Land Management (BLM) and its Taylor Grazing Act licenses to ranchers on Federal lands; for the California Water Rights Board and its licenses to divert water; the New York City Transit Authority and its licenses to operate taxis.

21. The role of foresters is to determine what is good forestry, following sound accepted scientific principles taught in authoritative professional schools. The role of economists is to find the money to assure that sound forestry practices may be carried out. Ditto for engineers and physicians and hard scientists of all kinds. These qualified experts are the ones who understand what is really needed; money should not be allowed to stand in the way. Meddlesome budget-cutting Pecksniffian accountants, remote from the firing line, without practical experience or human understanding, should not presume to judge the professions, each of which has a highly developed code of ethics in the public interest.

22. Interest charges bear severely on forestry and civil engineering because of the long waiting period between investment and payout. This is obviously unfair and counter to the public interest because it actually threatens the very basis of conservation and land reclamation and development, basic

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building blocks of the American way and creed. In the public interest therefore we must make cheaper credit available to these worthy industries.

23. Every time we extract minerals or let a mote of soil wash down the river we are destroying irreplaceable national assets which the passage of time and growth of population can only make more scarce. It is vain to point to our growing capital in buildings and machines and knowledge. Of what avail are all of these without resources? The gain of one does not offset the loss of the other.

24. If oil production is to be prorated, deeper deposits should be allowed to produce more days a month than shallow ones because of the higher cost of reaching them.

25. Marginal producers should charge higher prices than others, because their costs are higher.

26. The concept of consumer surplus has been destroyed by the discovery of the income effect.

27. Any resource should be used as soon as it becomes supramarginal.

28. Marginal-cost pricing for utilities need rarely occasion any deficit because they are really in increasing costs. To serve more customers you have to extend the lines further.

29. Utilities are monopolies and should be punished by heavy taxation. It doesn't matter how they pay, but how much.

30. Access to the streets and roadways of this country is a basic natural human right that must never be abridged by the imposition of any charge or toll.

31. The income tax is neutral in all respects because it takes a percentage of net income. So, for example, the investment that yields the highest return before taxes still yields the highest after taxes.

32. Any economist will tell you in a trice, the time to cut a tree is when the percentage rate of growth falls to the interest rate or below.

33. ~~Rent is an income.~~ There is no rent from mineral extraction because the substance of the asset is impaired by use.

34. Faustmann's formula is only applicable when one has decided to maximize site value, and take the interest rate as given.

35. It is a senseless waste to see a perfectly good house torn down while it still has many years of useful life remaining.

36. If the capitalization rate is ⁵5%, an ad valorem land tax rate of the same per cent would soak up the entire land rent and reduce the landowner's equity to zero.

37. The property tax is unfair to landowners with appreciating land in fringe areas because it makes them pay a higher percentage of their income in taxes than other landowners do.

1. "Comparative statics," or assuming away journeys between equilibria. (It is often better to travel hopefully than to arrive . . . a truth.)
2. Firms tend to locate at the least cost point, as shown by classical location theory.
3. The difference between "agricultural location theory" and "urban location theory" is that one concerns agriculture and the other concerns cities. *Not a fallacy, but misleading*
4. Income distribution and optimal resource allocation are two separate questions.
5. The distribution of income and the distribution of purchasing power are the same thing.
6. Re taxes, all the businessman or homeowner cares about is how much he has to pay--he doesn't care what reason the government gives for taking his money.
7. Since purchasing power is wrongly distributed, what we call efficiency is really inefficiency, and human welfare cannot be increased by promoting what looks like efficiency in particular local situations. Therefore we should do nothing unless we can reform everything in the whole world at once. Since that is obviously hopeless, we should do nothing except for one mission always uppermost, that is to criticize and undercut whoever does try to push some attainable reform or program, for he lowers our welfare by arousing latent guilt feelings.
8. Since there are too few resources in monopolized industries, and too many in competitive ones, the economics of general equilibrium and welfare teaches us to tax competitive industries and subsidize monopolies, in order to redress the balance.

Another way to enhance human welfare is to monopolize the competitive sector of the economy. This is just as good as trust-busting in the monopolized sector. This is known as the doctrine of countervailing power, and works much better than anti-trust.
9. The best economic use of a resource is that which yields the owner the highest return after taxes.
10. The reason for large firms is that large machines are more efficient than small ones.
11. The only way to be sure that a new policy is good is if it benefits someone without hurting anyone else. Otherwise it is better to do nothing. (That is also much easier on you.) So our old policy is a good policy.

12. It is not important for welfare judgements by what means we get material goods, but only how much we get. Thus larceny does not reduce total welfare, but merely redistributes it. Interpersonal comparisons being impossible, there is no way to know the effect on welfare, but it is probably positive since the poor steal from the rich. Therefore we should legalize larceny and at least save the money now wasted on padlocks and police.

13. Every transaction or action involves externalities. No resource should be allowed to leave an area without the owner's compensating all those who are deprived of ancient externalities in which they have a vested interest; nor to enter a new area without compensating those on whom he might impose negative externalities.

14. Marginal cost pricing is impossible because there is no way for decreasing cost operation to survive, except by subsidy, and then there would be no possible test of the overall viability of the operation.

15. A slow buck is more moral and socially desirable than a fast buck.

16. The income tax favors shorter investments because the write-off comes sooner and has a higher present value.

17. Decreasing cost industries should not be subsidized because that only imposes taxes on other industries and regions.

18. A pecuniary external diseconomy is the rise in price of hired inputs as an industry expands. It is purely redistributive and not a net social cost at all.

A pecuniary external economy is the fall in product price as an industry expands, or the rise in income of inputs used by the industry or by service industries. All this, too, is purely redistributive. In the big picture, it all washes out--gains cancel losses.

19. Sandy Koufax' income, as well as John Wayne's, and above all Jayne Mansfield's, is mostly economic rent. Jealousy and moral outrage play no part in this judgement--it is purely objective.

20. A street lamp is a pure public good.

21. Consumer surplus could only be measured by psychoanalyzing all consumers, or driving "all-or-nothing" bargains, or other impractical means.

22. We would all place an infinite value on the first drop of water, and so consumer surplus is an unrealistic concept when applied to something real like a waterworks project.

23. A theoretically ideal tax would be a lump sum, leaving marginal costs unaffected. But there is no base in reality on which such a tax could be levied.

24. Reclamation creates new land just as ^{procreation} ~~breeding~~ creates new labor.

25. Rates of interest might very possibly fall to zero. Indeed, the greatest of all economists forecast the "euthanasia of the renter" by this very process.

26. Price discrimination is exemplified by the following:

- a. Peak-hour premium prices.
- b. Surcharges for service to remote areas.
- c. Changing rates over the years as demand rises.

27. Ton-miles is the standard and correct unit for measure of transportation costs.

28. If an industry is kept far from the ideal equation of MC and P, there is not much to be gained by small movements in the right direction. Only if you can get most of the way to the correct price and output is there much to be gained by any change of policy.

29. If price or average revenue measures social gain from expanding output, then average cost measures the social cost.

30. If I array farms in order according to size of labor input, and find that the larger farms use more labor per acre than the smaller, it follows that farms of many acres also use more labor per acre than farms of few acres.

31. Prices are determined by cost of production.

32. Taxes & wage increases and efficiency changes are always passed on to the consumer.

33. Efficiency & productivity have to be measured in terms of ~~land inputs~~ labor only, because you cannot measure land.
(Is labor more homogeneous?)

breaks into a motor.
 Fallacy of converting cause effect & its in-ter-^{compensating} effect into primary cause & primary effect.
 of letting ^{equilibrating feedback} effect ^{outweighing} ~~overriding~~ its own cause. "Fallacy of countervailing feedback".

E.g.

1. In tax cap. formula, the tax lowers tax base, thus lowers tax, thus Δ s base, so higher tax $\rightarrow$ higher base
2. Higher demand for slaves lowered gains from slavery, thus proved system was dying.
3. ^{S. McDonald} ~~Cong. Brown~~: inc. tax favors longer terms, thus inventors push up price, ~~thus~~ of longer terms, thus ration out regul. buyers. Thus inc. tax discourages investment in longer terms
4. Hi central b.s. drive out business
5. Tax on gross inc. reduces output, raises price, thus Δ s output.
 Tax shifting IX -- fallacy wd. be to conclude that departure of regul. firms wd. result in higher price to firms after taxes & bring in more firms