BULLETIN

OF

THE UNIVERSITY OF TEXAS

No. 228

FOUR TIMES A MONTH

GENERAL SERIES 26 APRIL 22, 1912

Everyday Economic Errors

BY

LEWIS H. HANEY, Ph. D.,
Professor of Economics,
The University of Texas.

PUBLISHED BY THE UNIVERSITY OF TEXAS
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Cultivated mind is the guardian genius of democracy. . . . It is the only dictator that freemen acknowledge and the only security that freemen desire.

President Mirabeau B. Lamar.

PREFACE.

The writer would preface the following discussion by calling the reader's attention to the fact that many important matters are here dealt with in very small compass. Necessarily, then, some explanations and small qualifications are omitted. The aim is to give a concise and forceful statement of common errors, together with the gist of the criticism. If discussion is promoted and more accurate thought directed to hazy notions, the writer's object will have been attained.

EVERYDAY ECONOMIC ERRORS.

Every day, in common speech or in the newspapers, one meets with statements which to the economist seem erroneous. Now, such statements come from some selfish special "interest;" again, from some enthusiast lost in a haze of sentiment. Here a socialist of the radical and ill-balanced type speaks; there it is the narrow prejudice of ignorant conservatism. So complicated are the facts and forces of the industrial world, that few are able to see its problems from all sides or in all relationships, and consequently loose reasoning and fallacies are unusually common in economic thought. It is the irony of fate that a complicated and abstract science should have as its province the ways in which men get their daily bread, and the ordinary phenomena of the business world; and that on subjects concerning which no one hesitates to form an opinion, a high degree of scientific training or a broad and varied experience is necessary to enable one to see the truth.

Economic life moves in a sort of circle. Put in a nutshell, men consume to produce and at the same time produce to consume; sometimes it is hard to tell whether we work to eat or eat to work. By the same token, the same men are generally both producers and consumers. And so, if some politician argues that a tariff duty on raw wool is passed along by the manufacturer and merchant to the consumer, and that with an increase, he forgets, perhaps, that this consumer is also a producer—a worker as well as an eater and wearer—and that *his* product is needed by the woolen manufacturer in the latter's capacity of consumer; that the duty is handed around a circle, rarely coming to one who is a mere consumer. One can't keep piling it on the consumer indefinitely, for, worm though he is, as a producer he will turn. This case is mentioned to bring out forcibly the circular nature of economic life, and so lead up to a series of common errors, some of which get lost in the circle (perpetual motion), while others seek to move backward against the stream (put the cart before the horse).

either of prosperity or depression. The explanation is the fact that trade statistics do not tell the whole truth. A part of our imports consist of unrecorded services rendered to us by foreigners, such as ocean carriage, loans of capital, and the like. Thus, besides silk, tea, cutlery, and other goods, our import statistics should show millions of dollars worth of ocean transportation received from the merchant marine of England and the Scandinavian countries, and millions of capital invested by French, English, Dutch, and other capitalists. Adding these "invisible" imports to the visible merchandise-imports gives our true aggregate imports, and explains why we exported some specie in spite of what seemed to be a so-called favorable balance. Generally it is foolish to worry about the balance of trade or to adopt protective measures to modify it. Ultimately, goods and services exchange for goods and services, and, considering all elements—those visible in statistics and also the unrecorded ones—the balance must be equal as surely as what goes up must come down or the perpetual-motion machine is a delusion.

Now for the city. The "patronize-home-industry" cry is here the form which the fallacy takes. To fear outside purchases in general is little less foolish than the national balance-of-trade notion, and rests upon a sort of municipal protection, backed, in this case, by moral suasion. In fact, the same perpetual-motion fallacy is involved. Is it not true that the great majority of the men in any given town are producers, creating some form of utility in the shape of goods or services? How, then, do they pay for the things that they buy? Is it not with the things which they produce and sell? Surely, from their own products comes the effective demand. Then, as surely does it follow that in order to make these outside purchases which are so decried, the inhabitants of the town must have a reciprocal outside demand for their products. The importation of goods can not, in the long run, decrease the demand for home goods, for the reason that the imported goods will necessarily be paid for with the products of home industry. As with the nation, the bogy painted by some merchants, which represents a perpetual drain of money from their town to feed producers elsewhere, is without logical substance.

Like the steel manufacturer and his protection, the retailer opposes changes which will impinge upon his own interests. That is natural. But in all cases in which his goods are not as cheap as the outside competitor's, he must yield—just as the tariff on steel must be lowered. Plate glass fronts, shiny delivery wagons, and square yards of advertising are not what we, the people, want. We want the goods as cheaply as they may be bought. Nor are we logical in subsidizing men to stay and keep up these unessential things just because they pay taxes. "Furniture dealer A is an old citizen and pays taxes here; therefore I'll trade with him, even though I could do better outside," I hear grocer B say. But Mr. B is perhaps overlooking the fact that he himself, along with all other local buyers of furniture, may be virtually paying A's taxes. And he may forget the fact that his gains from A are offset by A's gains from him—more than offset in the case of Messrs. C and D, the laborer and teacher. Whole communities are taxed to support A's and B's, a considerable part of whose goods could be secured elsewhere with a net gain to the consumer.

Of course, all this presupposes (1) that, on the whole, production is directed according to individual wants, (2) that the town must, in practice, depend upon outside producers for its supply of many goods and services. Moreover, it seems reasonable to assume (3) that the merchant's function is to supply the wants of customers at the least expense compatible with a normal profit; and that if this function is not filled, the greatest good of the town demands that the merchant fail. The only rational alternative to this view is Socialism.

Another circle of error in which economic reasoners often go astray is that which leads to the conclusion that the nation is suffering from a general overproduction. Such talk we hear in times of crisis or depression. Like the preceding error, this conclusion assumes perpetual motion. Of course, it must be noted at once that there may be mistakes and overproduction in any one industry: there may be too much cotton grown, for instance. Even here, however, there is not too much produced for the world to use. The world has never had more cotton than it needed. What is meant is that more is produced than can be sold at a profit at the prevailing prices—an overproduction in *value*, not quantity. But when a man says that a general depression is due to overproduction, he means not such a limited case but that there is a *general* inequality between demand and supply. Again such a one is to be reminded that the demand for goods consists, in the last analysis, of goods produced; for is it not true that the only way to secure goods is to offer goods in exchange? The only reason why men make things is to exchange them for other things that they want. Thus, if all goods are produced in greater and greater abundance, each one will get more of everything else and no one will lose. A *general* overproduction is inconceivable. Until that almost inconceivable remote day when man has so conquered the earth as to satisfy freely all his wants and nothing has value, there will be ample and profitable application for the income of every man in production; and to reason that a nation can overproduce is to assume that what goes up will never come down.

A very old case of perpetual-motion fallacy is found in the two closely related notions that men can permanently "make work" by not working, and that luxurious expenditure can help labor by giving employment. These two ideas illustrate the *fallacy of the cast-iron cake*. It is a mistake to think that a man can eat his cake and have it too. No one has ever discovered the bottomless cake. Just so, it is an error to imagine that there is a permanent fund of work to be done and that laborers, by "going easy" can make that amount of work last longer. The only reason why men work and wages are paid is that the things workers make are wanted and have value. This being true, the only source of employment and of wages lies in products, and the demand for labor must depend upon these products. But to "go easy" and kill time means less products. Let the reader draw his own conclusion. Surely the way to make work is to make products, and laborers can't lie back and eat their cake and still keep it. Temporarily and locally they may do it; but the end comes soon.

So it is with waste and luxury. Mr. Vanderbilt has a $100,000 surplus. What shall he do with it? He can put it in a stocking and hoard it. He can invest it, either directly, or indirectly by depositing it in a bank. He can "blow it in" by giving a ball or purchasing another yacht. Now there are some people who are so foolish as to argue that the last course is a good thing because it gives employment to labor—makes work. But so does the investment. And the investment of funds means an employment that will increase wealth and consumption: it means more railways, more cloth, more flour, etc. Moreover, it means an increase in wealth which is somewhat in proportion to work done. In short, it means the creation of an enduring source of increased production in the shape of machinery, factories, etc., which will give permanent employment to the laborers and their children after them. On the other hand, the luxurious expenditure means a gratification that is not in proportion to work done. Above all, it means in itself but a temporary source of employment: it depends upon a repetition of wasteful acts which tend to dissipate the wealth of the employer in a wasteful way. To defend such a course is but one step removed from advocating fire, flood, and war, on the ground that by destroying wealth they make work. So they do. But why not work without them? Why tear the building down merely to have the work of building it over? All this is waste and is retarding that growth of industry which means the largest real progress. It is decreasing the total product of labor along with the destruction of capital, for labor and capital must work together, and to destroy capital —or retard its increase—in the long run, diminishes the demand for labor.

Mr. Vanderbilt can not spend the $100,000 in riotous living and have it, too; but he can invest it in productive industry and not only replace it but add to it. There are no cast-iron cakes, either in the shape of a fixed amount of work to be done regardless of the productiveness of labor, or in the shape of an employment coming from wasteful expenditures which does not disappear unless more waste is incurred. Let the reader ask himself, "What would happen if all laborers in the world were 'go easy'? What would happen if everyone were to quit saving and investing and spend his money in wasteful extravagance?" How long could they go up without coming down?

2. *Cart-vs.-Horse fallacy.*

Getting the cart before the horse has deservedly become proverbial. Now, such inversions are often found in economic reasoning. How often have you heard your neighborhood store-keeper say, "I can make you better prices than that dealer down town, because I don't have such high rents to pay." The next time he says that just ask him *why* he doesn't have to pay such high rent. Of course he may be getting a gift from some benevolent landlord; but this is not likely to be the case. Generally it will come out that his location is not so good as that of his down-town competitor; his expenses of hauling supplies are greater; the number of possible customers who pass his door is smaller. In short, in persuading himself that because his rent is low his prices must be low, he has put the horse of his logic behind his cart. Rents do not determine prices but are determined by prices; and his rent is low because, at the prevailing price he could not afford to pay the landlord any more. If he owns the place, the case is in no wise altered, for to sell cheaper would be to forego his economic rights and interests as landlord and to distribute his rent among his customers. This is no doubt done by many storekeepers who do not keep good accounts, and so act with ignorant benevolence.

Another common case of wearing the horse as an appendix is found in the case of the wages argument for the tariff. Most emphatically, the tariff does not raise wages nor keep them up. Why is it that in free-trade England wages are higher than in protectionist Germany? Wages depend upon the demand and the supply of labor, and these rest respectively upon the utility of the products of labor and upon the quantity of available labor power. In countries where there is much land and capital relative to labor power, the application of labor power will be relatively more productive and wages correspondingly high, tariff or no tariff. Indeed, the tariff, to the extent that it keeps alive industries which are not naturally best adapted to this country, prevents the most productive use of labor and capital and so may prevent real wages from rising. Is it not clear, where an industry in which we have relatively little advantage is kept alive by a tariff which makes consumers pay higher prices, that (1) the laborer's cost of living is increased, and (2) that the labor force of the nation is misapplied so that it can not produce so much of the things which men want for consumption?

This erroneous argument as generally applied shows many inconsistencies. How about the supply of labor? Will immigration be so restricted as to maintain the higher wages which are assumed? If not, the hope is vain. Again, where is the vaunted superiority of America's high-paid labor? If it is so efficient, what is the need for protecting it from European labor? Surely in the competition its efficiency will care for it.

REASONING WITH THE "MIND'S EYE" CLOSED.

1. The ostrich fallacy.

It occurred to the writer to call certain errors "ostrich fallacies" because they arise from the fact that people often think that by burying their heads in the material they can escape the conclusion that certain immaterial factors are important. Reasoning on such a basis may be likened to the attempt to see when the mind's eye, or imagination and spiritual vision, is defective. Some have denied productivity to the professions because they do not directly result in any commodity; but we know that production consists not in creating things but in adding the quality of utility to the materials and forces of nature. The two most frequent errors along this line concern retail traders and middlemen, and speculators.

First, as to the retail trade. The economist does full justice to the storekeeper. He recognizes the fact that it is a valuable social service to secure the various commodities wanted by various people in various amounts at various times and make them available at the place and time desired It is the creation of place and time utilities. The retailer takes the risk of keeping quantities of perishable goods on hand, goods which may spoil or go out of style. He keeps a supply on hand from which we may draw at any moment as household exigencies arise; and his stock often includes bulky commodities on which as individual purchasers we could not profitably pay transportation. Moreover through his agency, we get the privilege of selection from an assortment, and of careful inspection. He frequently extends credit to his customers. He is a necessary link between the consumer and the manufacturing producer, and one is blind who calls him a parasite. This does not mean that there may not be waste in retailing. The most useful functions may be abused and here, as elsewhere, a golden mean exists. We may have too many retailers for economy; and we all know towns in which far more drug stores and clothing stores exist than the needs of citizens require, the result being a wasteful duplication of plant and services and a bill for purely acquisitive advertising which the consumer must pay. Such a condition, however, merely illustrates the usefulness of the function.

It follows from the fact of the necessary function filled by the retailer that he need not fear annihilation by the mail-order house. In some fields, perhaps, the latter has an advantage, and here the interest of the consumer demands that the retailer give up. But ample territory is left for the home merchant and outside that territory his appeals to local patriotism are selfish, illogical, and will prove futile.

So it is with speculation. Here again we find a most useful function which has sometimes been abused. In spite of rabid attacks which maintain that the speculator is a gambler, that he is nominally buying and selling what he does not own, thereby gaining a parasitic living and making prices higher and more unstable, it remains true that with our present industrial organization we could not get along without him. Is speculation gambling? Let us see. Speculation might be defined as intelligent risk-taking, while gambling is unintelligent risk-taking. The ignorant "lamb" taking his flyer in Wall Street is a gambler as truly as the visitor to Monte Carlo. In all pure gambling deals three facts are very clear: (1) the risk is an artificial one of pure chance; (2) it is not necessary; (3) one of the parties must lose. Now none of these statements is true of speculation. Here (1) the risk is one of price changes which are in the last analysis, ruled by external economic forces which may be judged successfully by experience and skill. (2) It is inherent in conditions of production and the markets. (3) Both parties *may* gain: broker A having bought, sells to broker B on a rise; broker B holds for a while and sells on a further rise to broker C; broker C sells to an investor or consumer. All have gained. Ask yourself, "Do prices fluctuate because men speculate or do men speculate because prices fluctuate?" You must see that the latter is the fundamental fact. Would speculation be done away with if we abolished exchanges? Of course not! It would only be more local, more full of risk and violent fluctuation, and more secret. Think of the valuable services which our stock and produce exchanges render to society. Without them no continuous and responsive market would be ready to evaluate and receive your products; you would be subject to the whims of the local situation. As a result there would be much wider average fluctuations in prices. Without them the shifting of investments which moves the labor and capital of the nation from the less productive to the more productive industries would take place in a very halting fashion, if at all. Now, when the shares of corporations (say Amalgamated Copper) are sold, following a decrease in net income, and others (say U. S. Steel) are bought for the opposite reason, the result is an automatic transfer of capital to the more productive field. In this transfer, too, society gets the judgment of skilled financiers. Let us as intelligent citizens, not keep our minds' eyes closed to the more intangible services which speculative institutions afford.

There is nothing mysterious or sinister about buying and selling on a margin. Simply you deposit 10 per cent of the price with your broker to insure him against loss and he borrows funds to make up the balance. You have made a part payment, just as you would in buying a lot, with the idea that an anticipated rise in the value of real estate would enable you to sell, if desired, with a profit. The chief evil associated with margin dealing is that it makes gambling by "lambs" easier, as a man can take a "flyer" at less expense. But, in the same way, easy credit may lead the incompetent into unprofitable business in any industry.

In this connection a word should be added concerning bucket shops. We have "anti-bucket shop laws" in Texas and other States which do not sufficiently distinguish between the service of the exchange and the evil of the bucket shop. A bucket shop is primarily a gambling joint in which men bet on a chance event. Prices are made as a result of sales and purchases on the exchanges, which prices are taken as impersonal chance data by the shop. You bet with the shop keeper with no intention of delivery, and one of you must lose. In dealing with a reputable stock broker your interests are identical with his, but you are pitted against the bucket-shop keeper. In the one case, you place an order to sell or buy, paying your broker a standard commission, and your act enters into the complex of the market forces. In the other, you bet the keeper of a gaming table that a certain stock will go up; if it doesn't, you lose, and vice versa. And you are no part of the market. Bucket shops fatten on the optimistic tendency of the public to bet that prices will go up, reaping their big harvest in periods of falling prices.

REASONING WITHOUT THE BOOKS.

1. *Ignorant Saintliness.*

One of the highest qualities attainable by man is that of forgetting self, or unselfishness. This quality raises one near to saintliness. But that there are different ways and ends in self-forgetting soon becomes apparent when the general virtue is applied in the economic field; for there we find a capital error arises out of an ignorant overlooking of ones self. For example, here is a thrifty, hard-working farmer blessed with an equally thrifty and hard-working wife and a Rooseveltian family. He owns his land and improvements. At the end of the season he figures as follows: "So much from the sale of my crops; I subtract so much for wages of my farm-hands, so much for seed and fertilizer; so much for freight, etc.; the snug little balance is my profit on this season's farming. Good. The farm is the place for me." But wait. Has our friend reckoned his expense account fairly? What about his own months of toil? Surely the laborer is worthy of his hire. And the wife and boys—what of their services? Have they made as much as they would have earned if working for wages? Did ever one see such self abnegation! It might well be that a proper deduction of wages for self and family would leave a negative balance, and the logical conclusion follow that he had better sell out and work for hire.

Furthermore, what about his buildings and machinery? His Is he "charging off for depreciation?" There are certainly some farmers whose accounts would show a loss and many whose mirage-like net gains would disappear at such tests. Nor is farming alone in this.

2. Undigested Land.

But this is not the only error which our self-sacrificing farmer may be committing. We hear much of undigested securities in connection with crises in Wall Street, but less often direct our attention to the rural digestive tract. Now in order to get the largest net return or rent from a given area of land, it is necessary to push its cultivation on past the point when returns begin to diminish relatively to expenses of cultivation, up to the point where the last bit of expenditure in labor and capital just pays for itself. As long as a man can clear anything by tilling his land more intensively he is failing to get the maximum return. Suppose, now, that our friend has 160 acres of land, but only enough capital to work eighty acres intensively, that is, he has only enough farm animals, plows, buildings, and working capital to cultivate eighty acres with such care that they are made to yield the maximum return. But in the pride of ownership he holds his 160 acres and spreads his labor and capital out over them as well as he can, farming very "extensively." Once more he stands convicted of error; undoubtedly his most profitable course, considering the present, would be to sell say forty or fifty acres and invest the proceeds in tilling the remainder intensively or to sell eighty acres and put the proceeds out at interest. Thus he would get the maximum return from the labor, land, and capital in his possession.

Of course, we note that where land values are rising the extra eighty acres may be held as a speculation with the expectation that the increased capital value will offset the failure to farm most economically. Nevertheless it is the fact that many American farmers are suffering from undigested land. We have inherited the idea of large farms and extensive cultivation from a day when land was cheap and labor and capital relatively abundant. Now, with rising land values the day of intensive cultivation is at hand, and land must be more and more carefully tilled in order to secure its maximum value product. The large farm will soon be not one of many acres but one of much capital.

We conclude, then, that here are two cases in which men every day fall into economic error through failing to reason with the books. There are many others.

There is a third class of errors which arises from the existence of classes and special interests. These put beams and motes of bias in many eyes.

REASONING WITH CLASS BIAS.

The history of economic thought has been marred and economics perverted by the baneful influence of class interest. There have been economic doctrines for capitalists and opposing gospels of labor. Landlords have stood arrayed against manufacturers and made tariff sparks fly. On all sides today we find errors of intellectual astigmatism which proceed from class bias, and it is important to present one or two of the most common.

1. First, there is the *none-of-your-business fallacy.* This is the contention of the employer that the business in which he is engaged is "*his.*" Perhaps no delusion has worked such strife and suffering during the course of the nineteenth century.

This contention comes to a head in the use of the injunction, for here we find the employer coming before the courts seeking to have the law extend its arm against strikes and boycotts on the ground that laborers are interfering with his business. And not infrequently the courts so respond as to give him a property right to the business. Now what is a "business" and to whom does it belong? A business is a going combination of land, labor, capital, and enterpriser's responsibility, in which these various elements co-operate to produce. And it may safely be submitted that in this co-operation no one element is so dominant that it has a right to dictate conditions to the other without regard to that other's wishes and welfare. Take a business in which 50 per cent or more of the cost of the output is labor, and is it not astounding that here the employer should deny the right of the laborers to an ample voice in deciding upon conditions of employment? The time may conceivable come when laborers will furnish the enterpriser's responsibility from their own ranks and hire capital and management to work with their labor. Then we would look back at the present claims of employers as little better than preposterous. The interests of the employers and of the capitalist class have no worse enemy than the man who refuses to recognize the union, and, when a grievance committee or board of conciliation waits upon him, says, "there is nothing to arbitrate."

2. On the other hand, class bias may appear on the laborer's side. A deep-rooted notion that one often finds, both now and in the literature of the past, is to the effect that laborers as a whole produce more than they receive in wages. Sometimes this notion appears in the socialistic doctrine of surplus value and "exploitation" of labor by capital, sometimes in a tirade against the wrongs committed by employers, sometimes in a vague wonder at the almost endless toil undergone by laborers barely to eat their bread in the sweat of their faces. Born of this notion, several particular fallacies have sprung up and gained credence.

First, there is the *fallacy of the dosing-method surplus.*

There are some people, generally socialists, who believe that labor now produces a surplus of value above what it gets in wages because labor used to produce more and get more real wages than it does now. Such people imagine labor as divided up into a great number of equal units or "doses," and capital likewise. These "doses" of labor and capital are thought of as applied or invested on land in a long series. Of course the first doses, as everyone knows, unless there are improved methods, generally yield a larger return than the last ones. This is generally true because the best lands will ordinarily be used first and the earlier doses of labor and capital can be more profitably combined with the land. With a growth of population more doses of labor have to be invested, and these later ones often yield a diminished return. Then when one looks back at the earlier doses with their larger return, one wonders what has become of it. Does it not continue to exist as surplus over the later returns? Some socialists say that it does, and that the capitalist employer keeps it and so the laborer is exploited. But a little further thought leads to the question, does the larger return to the earlier doses really continue to exist? Is there any such surplus? Certainly, time was when labor produced more per unit—and got more real wages per unit, perhaps—than it now does; but conditions are changed. Returns *are* diminshed, whatever the past. Each laborer, assuming diminished returns, now produces less. If, under the later conditions, the average laborer actually produces less, should he then receive more than he produces?

The fallacy comes through keeping the eyes fixed on the old condition with its smaller amount of labor and its larger return to each labor dose, without seeing that when more labor doses are added, the whole condition is changed. The error arises from imagining that the various doses of the series (perhaps covering considerable time) remain distinct and unrelated, whereas the fact is that they are fused and each addition means a new and, after a time, a less productive organization *of the whole*. Then, all laborers of the same grade receiving the same wage, the *average* productivity is decreased.

Again, there is the *organization-surplus fallacy*. It is reasoned that ten men can do more when working together than the same ten could do as isolated laborers; the product is increased to more than ten times one. This "more" should go to the laborer, is the plea. But should it? Obviously the increase is due to the element of organization which functions in the labor of the combined ten. Some one must organize, plan, and direct the work of the gang, and the larger the gang the more the need for this element. This is what the captain of industry or "entrepreneur"—or his salaried foreman—now contributes; and it would have to be done by one of the laborers at a suitable compensation in any case.

In general, it may be said that it is a sort of blindness in the mind's eye which allows these errors to persist; for they are largely due to a failure to see that mere effort or labor-pain can't make products in any economic sense. By products, we mean things which have value, i. e., wealth, and to have value things must not only cost labor, but they must also be wanted by men. One could chop firewood till doomsday on the Equator and it would probably have no value. No amount of groaning and sweating can make products unless they are desired. No torrent of eloquent barking up the wrong tree will fetch down the coon. Thus it is that, hard as it may seem, the most severe labor is often the poorest paid. But if such labor is little wanted, can any one say that this is unjust? How else can society insure itself against the wasteful application of its forces? It is only by making things that men want that labor becomes more than physical exertion—becomes, in short, productive.

To be sure, it is true that thousands of laborers are underpaid in one sense or another. In some cases they are inefficient producers, and then they must be educated and aided by the State; in other cases they are in unprofitable industries, when they may be helped by trade schools, employment agencies, etc.; in still other cases they are overreached in bargaining by their employers, and then they must organize and bargain collectively. But sound economic analysis shows that there is no general surplus produced by labor off the exploitation of which capital fattens.

Other common cases of class bias are found in the attitude of manufacturers toward the tariff, of farmers toward corporations, and of wage-earners toward industrial education. To recount all would be an unending task.

NO REASON.

1. *The Falacy of "Natural Price."*

Some common notions have so little ground in reason that we can hardly honor them with any epithet. Therefore, they will be briefly pointed out under the head of "no reason." First must be mentioned the fallacy of "natural price."

Frequently one meets in the press and on the platform such statements as the following: "The low prices were occasioned by artificial causes having no bearing on actual values"; "cotton growers seem pretty well agreed on the opinion that present prices do not express the real value of cotton"; "The natural value of cotton is over 9 cents," etc. Such statements have been unusually common in Texas lately, owing to the low prices which recently prevailed in the cotton market. They indicate a fundamentally wrong idea of the nature of value and price. What is a "natural" or "true" or "intrinsic" value? Did anyone ever see one? Is there any way of knowing value or price but by going to the market and seeing what the forces of demand and supply will register there? Can a producer sit down in the southwest corner and decide that eleven cents is the "natural" price and on that basis insist that, however much of his product he puts on the market, it "ought" to command that price? No. No such thing as a "natural" price exists. Price depends on demand and supply conditions and varies with their variations. Now it is 15 cents; now, 5 cents. Either is equally "natural." The trouble comes in the producer's failure to foresee the necessary results of larger and smaller outputs, and it must be as futile as foolish to kick against the market results. We now know that the recent low prices for cotton resulted from a 16,000,000-bale crop, and those prices are as "natural" as the higher ones which preceded them.

There is no remedy in the cry of natural or real price. The producer's recourse lies in a better adaptation of his production to the demand, and in some precautions by way of insurance. He must use more judgment in regulating his output, and insure himself by varying his product. Here would be the place to preach the gospel of diversification to the farmer. He is a wise man, who, instead of putting all his eggs in one basket, sees to it that he has some other resource than cotton (or whatever the specialized product may be) to fall back upon.

And here is the place to point out that the "law of supply and demand" is too often appealed to in an erroneous way. That law does not guarantee any "natural" scale of prices. Nor does it insure that as the product increases there will be a nice, regular, gradual movement of prices. In other words, it does not follow because 10,000,000 bales sell at 15 cents that 20,000,000 bales will sell at one-half of 15 cents or 7 1-2 cents. As supply increases, the more intense part of the demand is met, and part of the supply, if it is to sell at all, must be sold to meet less intense demands. Thus a time comes sooner or later when the price must fall very rapidly if the crop is to be disposed of, and doubling the crop may cause the price to drop much more than 50 per cent. It might even cause the price to drop to nearly 0. In a word, there is no "natural" proportion between the amount of change in supply and the amount of change in demand. Consequently, also, there is no "natural" relation between the amount of increase in supply and the amount of decrease in price. The law of supply and demand merely states that other things being equal an increase in supply will cause *some* decrease in price. Obviously, if supply were to increase continuously, there would come a time when cotton would be worth nothing and would be as free as air or good advice. It is just as "natural" then that with an increase in supply prices should first drop a little and then fall very rapidly (i. e., faster than the supply increases), as it would be for prices to vary in exact proportion to supply.

2. *Declaration-of-Independence Fallacy.*

The Declaration of Independence was a very estimable pronunciamento. So were the Magna Charta and other venerable documents. But all are now largely out of date. Few now believe that all men are created equal. And the "inalienable" rights to life, liberty, and pursuit of happiness have gone the way of predestination and witches. Still, the old belief that, regardless of reason and changing conditions, certain acts are "natural," persists. Thus there is the widespread notion that "competition is the life of trade" and competition is the "natural" condition of successful industry. On the contrary, it has become more and more apparent to economists that competition may often be the death of trade. We must associate with "free competition" woman and child labor, long hours, unsanitary conditions, wasteful reduplication of plant, favoritism, manipulation, adulterated food products, exploitation of natural resources, and a host of ill favored attendants. These things sap the vitality of the people and retard the progress of civilization, keeping it to a certain brute level far below the ideal. Therefore such restrictions on competition as factory acts, railway regulation, pure food laws, and conservation of natural resources have become accepted policies. Yet we still cling to the crumbling doctrine and oppose other restrictions upon competition which are just as beneficial.

In fact, the idea that monopoly is abnormal is quite unfounded, though it is a most common error. Economics recognizes a class of "Natural Monopolies" which embraces those industries in which competition can not normally exist. Here fall the municipal monopolies of water, gas, and street railways; the steam railways; and such limited natural resources as the anthracite coal fields. The economist does not mean that here competition is physically impossible; for clearly two street railways can be built, and two steam roads may be stretched between the same termini. The point is that such construction is economically impossible. The cut-throat nature that competition inevitably assumes in such cases together with the lure of great economies in combination, soon bring monopoly. Where will you find competition persisting in such industries?

It is scarcely necessary to draw the further conclusion that in such cases governmental regulation or management is the natural remedy, not individual initiative.

Perhaps no better illustration of this fallacy could be found than that furnished by certain critics of the majority opinion in the recent Standard Oil decision. They look with real or feigned horror upon the toleration of any "restraint of trade" or monopoly. As for the economist, aside from the question of judicial encroachment upon the legislative field, he hails as a triumph of reason this logical attempt to distinguish between reasonable and unreasonable, between natural and non-natural monopoly. To enforce the old construction of the Anti-trust Law would either hamper industry or result in the saddest of all dead ones, a dead law.

A good illustration of the Declaration-of-Independence-fallacy is found in that provision of the Texas constitution which requires that all taxes shall be levied in an "equal and uniform" manner. This looks harmless and sounds fair. But what does it mean in practice? It has been found to work great inequality, and for this reason: some kinds of property are better able to bear taxes than others. True justice can only be gained by adjusting burdens to ability. It is the height of logical inequality to treat equally people or things that are unequal. Uniformity may be deadening. Every thinking Texan should agitate for the repeal of this foolish provision, and so help strike off the fetters which now hinder our tax officials, both state and local, in their efforts to adjust taxes wisely.

Another phase of Declaration-of-Independence fallacy is what may be called the *lion-and-the-lamb-error*. It is common in the mouths of all optimistic persons who have little acquaintance with industrial life. In brief, it is the notion that the interests of labor and capital are the same, or that there is an "innate harmony of interest" between them. Of course, capital and labor must work together—so must the members of clubs, faculties, and partnerships. But does this mean identity of interests or harmony? Far from it! It is true that the larger the joint product of the two, the more each may get; but the amount of the "more" is at issue and each is interested in the question of how much more. There is always a part of the joint product of industry which so far as the impersonal forces of demand and supply are concerned might go either to capital or to labor. It depends which is the strong holder in bargaining. We know that the unions sometimes force raises in the wages and improvements in conditions by strikes, etc. It follows that in the nature of the case the two factors stand in the relation of rivals and that the solution of the labor problem is not to be found in a foolish dream of harmony of interest—of lions and lambs lying down together.

It might be argued that laborers will in the long run get what they produce, employers likewise, and so the problem will solve itself and the total product be divided without friction. But this suggestion assumes perfect competition. No one believes that competition is perfect in fact, nor that each one gets *exactly* what he produces. Moreover the long run is not apt to appeal very forcefully to a starving man. Above all, the question remains, just what do they produce? how much? That will partly depend, in the laborer's case, upon the kind of a living he gets—which involves the whole point at issue. To assume a fixed product would beg the question.

We do not mean to argue that employer and employe are inevitably and always enemies. By conciliation and joint conference—or by arbitration, if needs be—their interests may be adjusted. But that this end is not to be gained by a shallow optimism is the point.

But if one were to attempt to state all the errors that arise from a lack of reasoning, one would never stop. Besides, it is a task which encourages pessimism; whereas the truth is that the average man is thinking much straighter on economic topics than ever before. It is not in vain that, as recent statistics show, the number of students who each year take an elementary college course in Economics exceeds 18,400. And the moral is that the time has passed when we merely shudder at the words "monopoly" and "regulation," when demagogues can persuade us that stock and produce exchanges are unmitigated evils, when a single-taxer can convince us that by making people pay taxes on land instead of rent we may somehow have freer farms, when selfish woolen interests can pull the wool of a tariff over our eyes. Every day, economic errors decrease.