The essence of "bad economics" can be distilled into the following fallacies.

When this was written in 1981, Mr. Reed was Assistant Professor of Economics at Northwood Institute in Midland, Michigan and Director of the college's summer Freedom Seminars. Today he is the president of the Foundation for Economic Education

A news commentator once observed that "any half-dozen economists will normally come up with about six different policy descriptions."

It certainly does seem that way! If economics is a "science," then why does it defy the precision, the certainty, and the relative unanimity of opinion which characterize so many other sciences—physics, chemistry, and mathematics, for instance?

If laws of economics and human action exist and are immutable, why do we find economists all over the board on matters of critical importance? Economist A champions a tax cut while Economist B favors a tax increase. Economist C argues for tariff protection but Economist D calls for free trade. Another economist proposes socialization and is opposed by yet another who advances the market economy. Indeed, if there is anything which all economists can agree on, it is that, well, they disagree.

Perhaps the cynic will glance at this economic Tower of Babel and condemn the study of anything economic. But that would be unfair to the many eternal truths which do exist in the field of human interaction in the marketplace. Such a view, moreover, is what some would call a "cop- out." It offers no plausible explanation for the confusion and no guides for sorting out what is correct from what is incorrect.

Yes, there are methods to the "madness" of economists. The fact that they do not all think alike is capable of explanation. Where might we start?

First, economics is simply not physics, chemistry, or mathematics. It is the study of human action, and humans are not programmed robots. Yes, certain immutable laws of nature do indeed exist, but one of them is that humans are—each and every one of them inner-motivated, creative, self-interested organisms. They range from docile to irascible, meek to daring, complacent to ambitious, smart to not-so-smart. As Adam Smith pointed out more than two hundred years ago, "In the great chessboard of human society, every piece has a principle of motion of its own, altogether different from that which the legislature might choose to impose upon it."

This inherent variability can easily give rise to dissent among those observing it and it can just as easily confound the predictions of those bold enough to place a mathematical handle on it.

Being individuals themselves, economists will differ in their value and ethical judgments. One who is a socialist will differ on a policy matter with one who is a libertarian. They may even agree on the outcome of that policy while disagreeing on whether that outcome is "good" or "bad." People who are well-intentioned and truth-seeking yet operating from divergent ethical premises frequently arrive at divergent conclusions.

In addition, economists may dis-agree because they have different data or insufficient data or no reliable data at all.

These are some, and I am sure not all, of the reasons why good economists may clash. The purpose of this essay, however, is to look for reasons for economic confusion in another direction. In brief, economists clash because, as Henry Hazlitt has so succinctly put it, "Economics is haunted by more fallacies than any other study known to man" (emphasis mine).

Is there such a thing as "bad economics?" You bet there is, just as surely as there is good plumbing and bad plumbing. If one means by "bad economics" the promotion of false reasoning, mistaken assumptions, and shoddy intellectual merchandise, then Hazlitt's comment ought to be enshrined as a law!

It may be an oversimplification, but I believe that the essence of"bad economics" can be distilled into the following fallacies. Each of them is a pitfall which the good economist will faithfully bypass.

A fallacy is an invalid conclusion drawn from observation or facts. Fallacies derive from faulty logic/reason. Be prepared to use and to recognize throughout the rest of the year.

A. Money is Wealth Fallacy

The invalid conclusion based on the assumption that money has internisic value. Promoters of this fallacy believe that all one needs to do is print more money to boost standards of living. This assumption ignores the fact that the only true wealth creators are those who produce goods and services that improve standards of living.

B. Production for the sake of Production Fallacy

The invalid conclusion based on the assumption that if we produce more goods and services standards of living will increase. The realtity is we need to produce goods and services that others value and want to consume.

C. The Broken Window Fallacy

The invalid conclusion based on the assumption that government spending, war, and disasters grow the economy. The fallacy originates from those who only focus on the seen (observable outcomes) and not the unseen (opportunity costs) of a decision.

D. The Free Lunch Fallacy

The invalid conclusion based on the assumption that goods and services can be provided without a cost. This fallacy is often applied to government programs that offer something "free" to the public.

E. The Fallacy of Composition

The invalid conclusion based on the assumption that what is true of a part must be true of the whole.

F. The Fallacy of Decomposition

The invalid conclusion based on the assumption that what is true of the whole must be true of its parts.

G. The zero sum (fixed pie fallacy)

The invalid conclusion based on the assumption that one person's gain must entail another person's loss. This in turn leads to the invalid conclusion that there is a fixed amount of wealth and that it cannot grow it can only be redistributed.

H. The Post-Hoc Fallacy

Post-Hoc is the invalid conclusion based on the assumption that since "A" occurs before "B", "A" caused "B". In other words, Post-Hoc is an invalid cause-effect argument based on correlation and not causation.

I. The Chess piece Fallacy

The invalid conclusion that some authority can achieve desired results as though he were moving chessmen on a board, ignoring people's desires and incentives.

As Adam Smith pointed out more than two hundred years ago, "In the great chessboard of human society, every piece has a principle of motion of its own, altogether different from that which the legislature might choose to impose upon it."

J. The open-ended Fallacy

The invalid conclusion that derives from the advocacy of desirable things without the regard for the fact that, at any given time, resources are limited, and that there are always tradeoffs to be made between desirable alternatives. Safety is great, for instance, but safety at all costs would make air travel (and car travel, for that matter) grind to a halt.

K. **The Fallacy of collective terms.**

The invalid conclusions based on the assumption that using abstract, collective, non-living terms can provide an accurate protrayal of a social issue.

Examples of collective terms are "society," "community," "nation," "class," "families," "households," "percentiles" and "us." The important thing to remember is that they are abstractions, figments of the imagination, not living, breathing, thinking, and acting entities. The fallacy involved here is presuming that a collective is, in fact, a living, breathing, thinking, and acting entity and all variables are the same.

Core 1

Fallacy	Obamacare Fix	Earthquake	Typhoon	Grants	govt cellphone	Money	Vets	new insurance plan	stimulus jobs	top 1%	tax cuts
$ is Wealth											
Production for Production Sake											
Broken Window											
The Free Lunch											
Composition											
Decomposition											
Zero sum Fixed Pie											
Post-Hoc											
The Chess Piece											
Open-ended											
Collective terms											

The Obamacare 'fix' is in: Now, where do we go from here?

Maggie Fox , NBC News

Just one week after apologizing to Americans whose health insurance got canceled as a result of the new health-insurance law, the president is asking that insurance companies renew policies for a year even if they aren't compliant with the law. That is something, however, that Obama doesn't have the authority to enforce. NBC's Chuck Todd reports.

Fallacy ______________________________

Explain:

Quake, Tsunami Slam Japan

Death Toll in the Hundreds; Government Orders Mass Evacuation Near Damaged Nuclear Plants

Updated March 12, 2011 12:01 a.m. ET

Tens of thousands of Self-Defense Forces searched desperately for survivors in earthquake-ravaged northern Japan on Saturday as rescue and relief efforts went into full force, even as concerns rose that a radiation leak may have occurred at a nuclear-power facility in the country. . .

Some economists have argued that a quake could actually lift the economy in the long run, by requiring a surge in rebuilding spending. . .

Fallacy ______________________________

Explain:

Typhoon Worse for Philippines Economy Than Sandy for U.S.

By Noah Buhayar - Nov 11, 2013 5:51 PM ET

Economies can often get a lift after disasters. Following Sandy, contractors hired workers to meet demand. Individuals, businesses and governments also spent to help rebuild and fortify buildings and infrastructure.

Fallacy ___________________________________

Explain:

Federal Government Grants Lead the Charge Toward Enlightenment

People are constantly asking, wondering, dreaming about whether or not the rumor of federal government grants is a reality. Is it a fallacious mockery of those who seek to fulfill their goals with the help of the federal government? Or, is it a truthful pot of gold at the end of the rainbow known as the federal government. The latter, of course, is the true statement.

There are billions of dollars out there for the American public. You just have to know how to reach out and grab them. No one is going to do it for you. Free federal government grants are being funded by the U.S. Government and Private Foundations every day. How are they funded? Well, partly through your tax dollars. Private foundations use the grants as a tax write-off. Kramer and Seinfeld may not know what it means to write something off, but these private foundations do, and that's why they're the ones writing off their contributions.

Fallacy ___________________________________

Explain:

Do you qualify for a free government cell phone?

The government's Lifeline Assistance Program gives out free cell phones and monthly service to Americans in need of financial help.

Fallacy ___________________________________

Explain:

What Billionaire Ray Dalio Gets Wrong About Money

By Peter CoyNovember 12, 2013 Bloombergbusinessweek

Dalio says central banks such as the Federal Reserve can lift an economy out of a rut by printing money. In a 210-page document (PDF) on the Bridgewater website that's a kind of companion to the video, he writes: "This 'printing' of money takes the form of central bank purchases of government securities and non-government assets such as corporate securities, equities and other assets." In other words, quantitative easing.

Dalio isn't going out on a limb here, to be sure. This is a widely held view that has been expressed by such luminary economists of the right and left as Martin Feldstein of Harvard University, John Taylor of the Hoover Institution, Allan Meltzer of Carnegie-Mellon University, and Alan Blinder of Princeton.

Fallacy ___________________________________

Explain:

Veterans Still Struggling to Find Jobs

Written by Lindsey Watson

Last updated on November 11, 2013 @ 7:10PM

Created on November 11, 2013 @ 6:28PM

Fallacy ________________________________

Explain:

Las Vegas Review

November 3, 2013 - 12:31am **Updated** November 3, 2013 - 9:22am

That new insurance plan will cover a lot of things you may never need

Fallacy ________________________________

Explain:

Stimulus Jobs

*www.**stimulusjobs**.net/*

The American **Job** Recovery Act has created millions of new **jobs** for Americans to help stimulate economic growth. We help you find the **job** that's right for you!

Fallacy ________________________________

Explain:

The International Business Times

By Moran Zhang

on September 11 2013 1:48 PM

US Income Inequality At Record High: Top 1% Earned A Fifth Of Total Income In 2012

The U.S. has long been viewed as the "land of opportunity," where those who work hard get ahead. But the ever-widening wealth gap is putting the American dream out of reach for many. The gulf between the top 1 percent earner and the rest of the country grew to its widest level in history last year.

The top 1 percent earned one-fifth of the country's household income last year – breaking the previous record set in 1928, the year before the historic stock market crash, according to an analysis by UC Berkeley's Emmanuel Saez and the Paris School of Economics' Thomas Piketty. The top 1 percent is defined as households with incomes above $394,000 in 2012.

Fallacy ______________________________

Explain:

Blame the Tax Cuts on the Rich

The Recession occurred after George W. Bush signed a bill to cut taxes

Fallacy ______________________________

Explain:

Are there any fallacies associated with your core topic?

Explain: