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If the NBA (pro basketball) season is canceled, will you miss it?

Next week’s question: When traveling by air, what do your fellow passengers do that annoys you most?

Go to http://triadbjournals.com and click on Business Pulse Survey to participate.

**Based on 486 responses. Numbers may not total 100 due to rounding.**

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**OPINION**

**VIEWPOINT**

Andrew Brod

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**Duke’s rate request reveals ‘fallacy’**

Duke Energy’s rate-hike request has been big news, and for good reason. The utility is asking the N.C. Utilities Commission to approve an aver-

age increase of 17 percent for residential customers and 14 percent for industrial and commercial users. The NCUC is expected to decide on the request in January. If approved, the increase will take effect on Feb. 1.

Duke says the increase is necessary to keep its construction programs on track. And far enough. The state’s population is expected to grow during the next few decades, and those ad-

ditional people will need electricity.

But one of Duke’s other reasons caught my eye. The company said the increase is needed in part because its revenues have dropped sharply. Thanks to the weak economy, consumers are using less electricity.

Well, that’s ironic. For years, Duke and other utilities have urged us to conserve electricity, to buy more effi-

cient appliances, to use compact fluorescent light bulbs, etc. Now that the weak economy has accomplished what years of nagging could not, suddenly conservation is bad thing?

This is an example of the “fallacy of composition.” The fallacy occurs when it is incorrect to infer that what is true or good for the parts must also be true or good for the whole. Many examples of the fallacy are obvious. Of course it’s wrong to claim that because human cells are invisible to the naked eye, so are humans.

For Duke Energy, the fallacy arose because it wanted some fraction of its customers to conserve electricity, but now that practically everyone’s done it, the utility has a revenue problem.

Republican presidential candidate Mitt Romney commited the fallacy this year when he defended his claim that corporations are people (i.e., they have the same rights as people). Romney later said he was right because corporations are made up of people.

Often when the fallacy of composition arises, it’s be-

cause some systems simply aren’t designed to operate effectively when everyone does the same thing at the same time.

You may recall news stories warning people to stagger their trips to the bathroom during the Super Bowl halftime, because everyone flushing at once would cause problems for municipal wa-

ter systems. My understanding is that this isn’t really a problem, because not enough people ever actually flush at the same time, even during the Super Bowl.

A more serious example comes from the world of banking. Because of fractional reserves, de-

positor can’t zero out their accounts at the same time. It’s fine for a few people to withdraw their money, but when everyone does it, the result is a bank run. What’s good for an individual is very bad for the community.

These days, the most important occurrence of the fallacy of composition involves what economists call the Paradox of Thrift.

When people feel insecure about their jobs or their savings, they naturally cut back on spending. But while increased thrift makes sense for a household, it’s deadly when everyone in the economy does it. Aggre-

gate spending is choked off and businesses don’t hire, which of course just adds to economic insecurity. A vi-

cious circle commences.

Economy policy often resolves the fallacy of composi-

tion. Bank runs can be averted by deposit insurance and bank regulation. The Paradox of Thrift can be offset by federal deficit spending. In contrast, state regulators may not be so eager to grant Duke Energy’s request to raise rates to energy-conserving consumers.

Andrew Brod is a senior research fellow in UNC-Greensboro’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at (336) 707-6439 or AndrewBrod@uncg.edu. An archive of his columns is available at http://chowanng.edu.

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