

**“BASTIAT’S LESSONS FOR THE 21ST CENTURY:  
THE BROKEN WINDOW FALLACY REVISITED (AGAIN AND AGAIN)”**

**Dr. David M. Hart**



# The Collected Works of Frédéric Bastiat, 6 vols. (Liberty Fund, 2011-)

## FRÉDÉRIC BASTIAT THE MAN AND THE STATESMAN

*The Correspondence and Articles on Politics*

THE COLLECTED WORKS OF FRÉDÉRIC BASTIAT



Jacques de Guenin, *General Editor*

- Vol. 1: *The Man and the Statesman. The Correspondence and Articles on Politics*
- Vol. 2: *"The Law," "The State," and Other Political Writings, 1843-1850*
- Vol. 3: *Economic Sophisms and "What is Seen and What is Not Seen"*
- Vol. 4: *Miscellaneous Works on Economics: From "Jacques-Bonhomme" to Le Journal des Économistes*
- Vol. 5: *Economic Harmonies*
- Vol. 6: *The Struggle Against Protectionism: The English and French Free-Trade Movements*

General Editor - Jacques de Guenin

Translation Editor: Dennis O'Keeffe

Academic Editor - Dr. David M. Hart



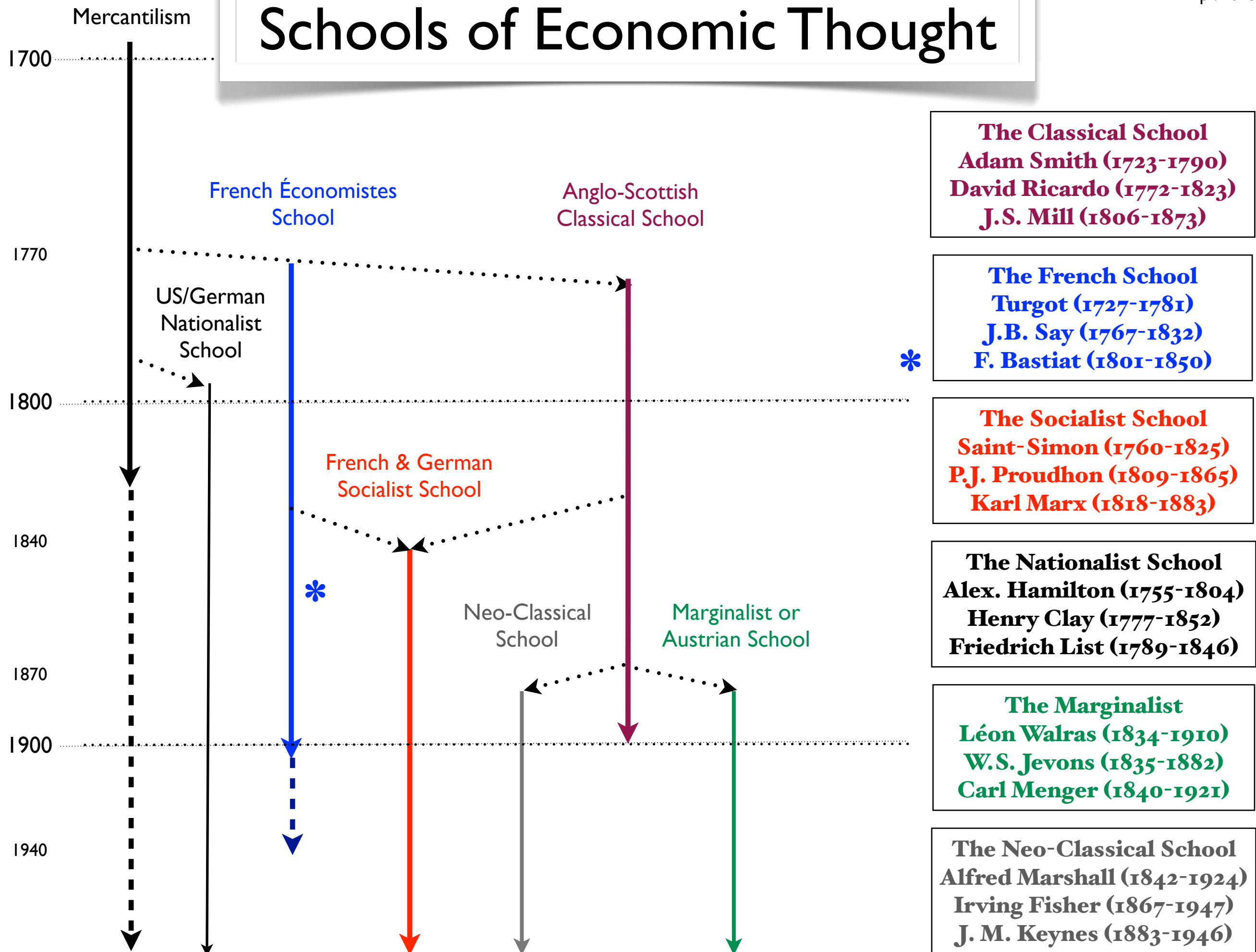
## The Importance of Frédéric Bastiat (1801-1850)



- his contributions to economic and political theory
  - his methodological individualism (“Crusoe economics”).
  - a new theory of rent (noting special about land).
  - the rejection of Malthusian limits to population growth.
  - the idea of “spontaneous” or “harmonious” order.
  - the interconnectedness of all economic activity (“ricochet effect”).
  - his theory of the “economic sociology” of the State.
  - his “Public Choice” like theory of politics.
  - the quantification of the impact of economic events (“double incidence of loss”).
- and his skill as a disseminator of free market ideas & campaigner for free trade in France in 1840s



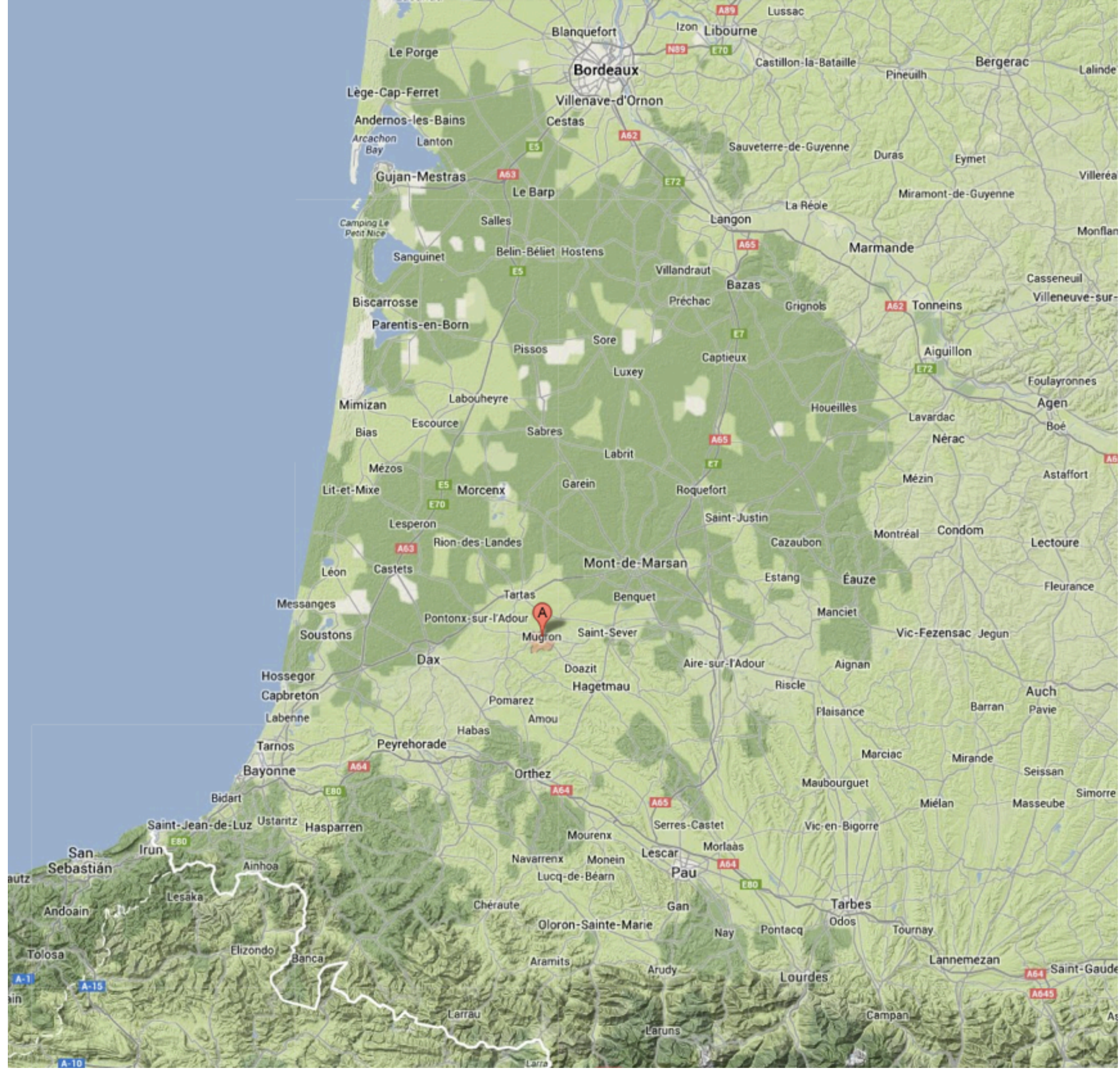
# Schools of Economic Thought





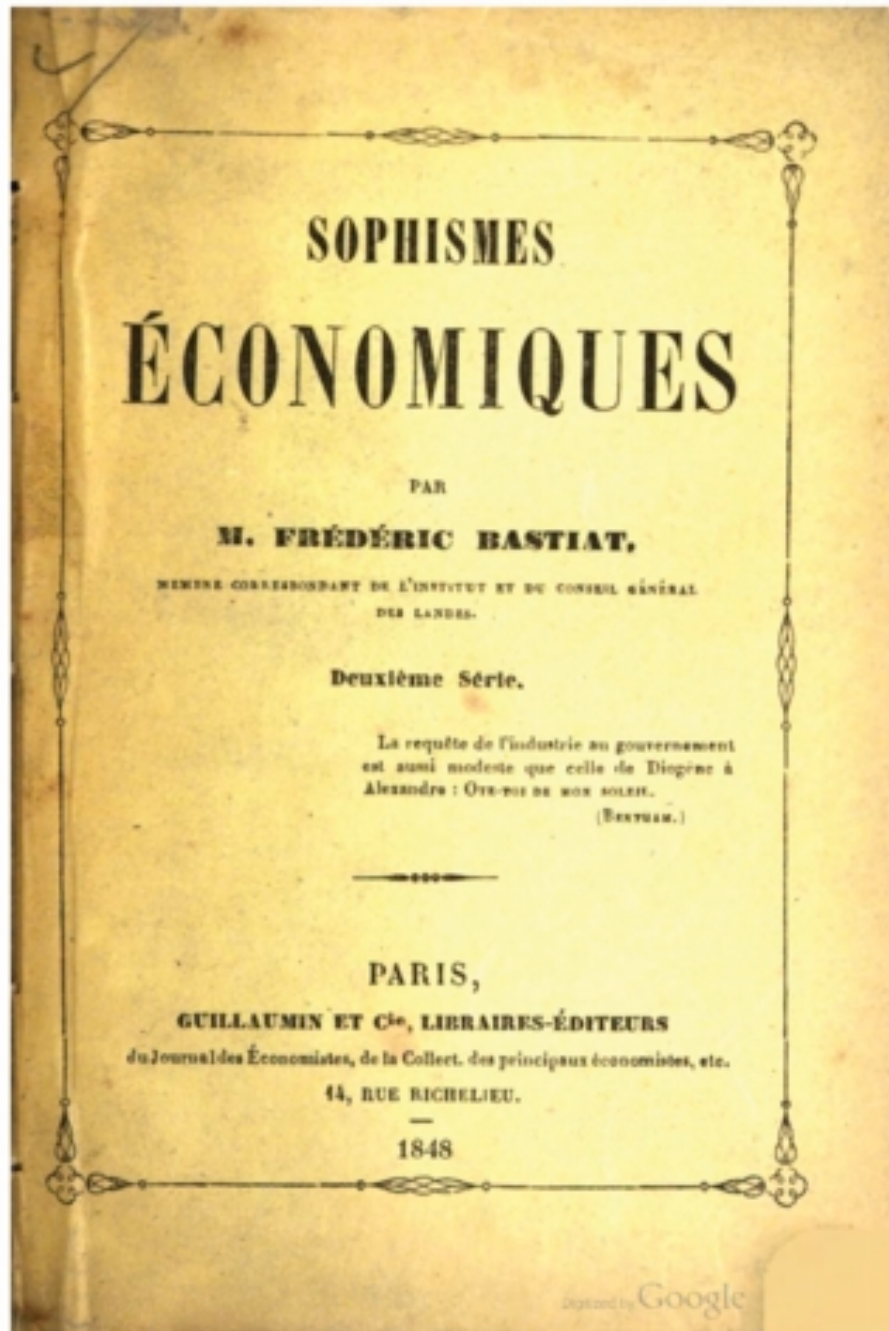








## A Brief Survey of Bastiat's Life & Work



- FB born June 30, 1801 in Bayonne, Dept. of Les Landes in SW France
- gentleman farmer and local magistrate until 1845
- discovered Cobden's Anti-Corn Law League and wanted to build French Free Trade movement
- wrote articles & books which impressed the Paris "Economists" (Guillaumin network)
- 1846-48: *Libre-Échange* magazine, *Economic Sophisms*
- 1848: involved in Feb. Revolution, street journalism, elected to Const. Assembly, VP Finance Committee
- 1848 to mid-1850: ideological and political battle against socialism, pamphlet war: *The Law, The State, Property and Plunder*, WSWNS
- unfinished treatise on economics: *Economic Harmonies* (1850)
- died 24 Dec. 1850 from throat cancer



*What is Seen and What is Not Seen: Or Economics in One Lesson (1850)*

CE QU'ON VOIT  
ET  
CE QU'ON NE VOIT PAS

OU  
L'ÉCONOMIE POLITIQUE EN UNE LEÇON

PAR  
F. BASTIAT

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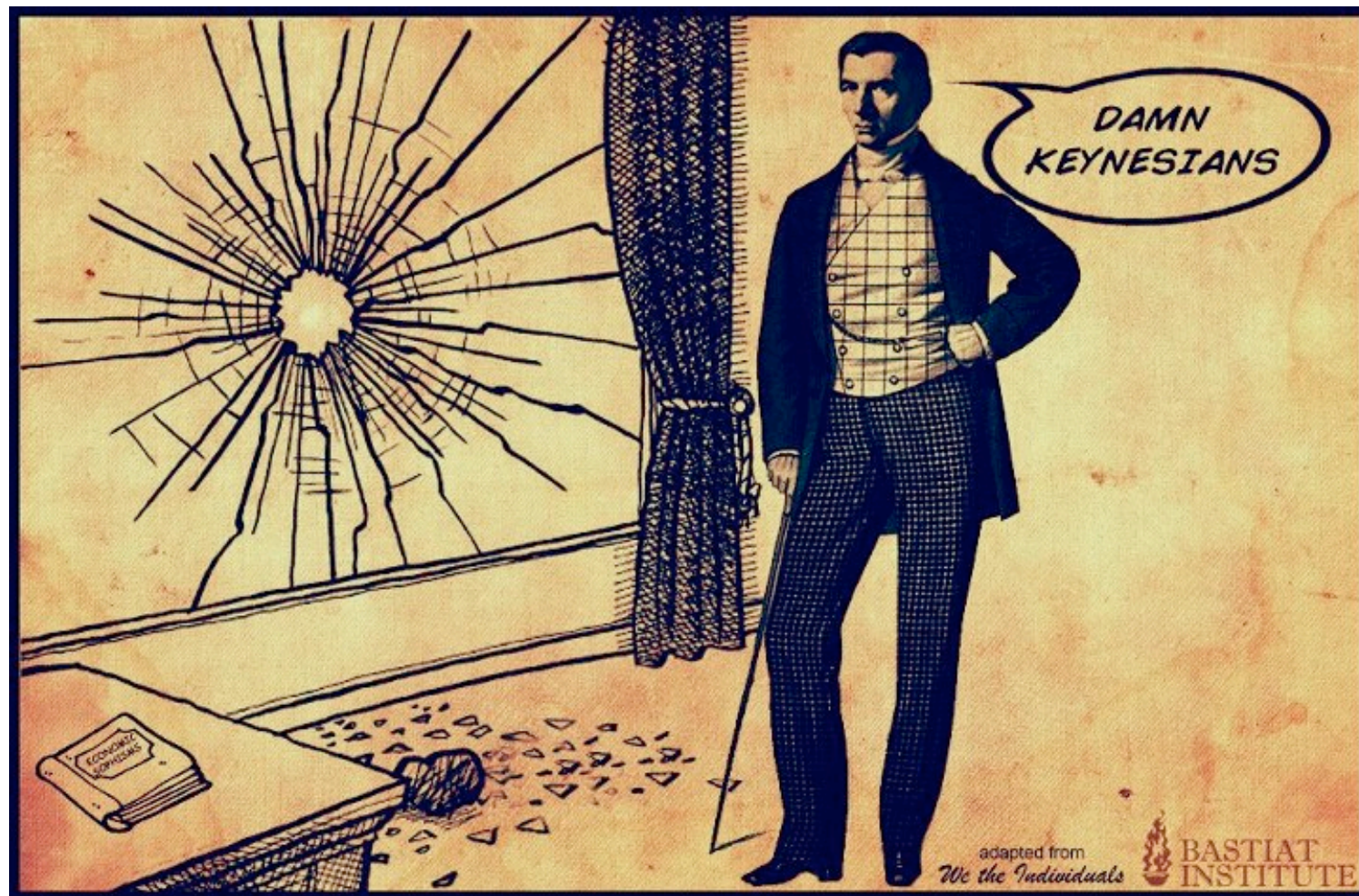
CINQUIÈME ÉDITION

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PARIS  
LIBRAIRIE GUILLAUMIN ET C<sup>ie</sup>  
RUE RICHELIEU, 14



# The “Broken Window Fallacy”: or the Myth that Economic Destruction has a “Silver Lining”



In Frédéric Bastiat's day:

- arguments for national economic stimulus & support for industry
- arguments about the Great Fire of London 1666
- FB's counter-example of the Broken Window fallacy



# The “Broken Window Fallacy”: or the Myth that Economic Destruction has a “Silver Lining”

In our day:

- the Japanese earthquake & tsunami, 11 March, 2011
- tropical storm Sandy, 29 October 2012



Interpretations:

- **Paul Krugman**, "Reckonings; After the Horror", *New York Times*, September 14, 2001
- Paul Krugman on Fareed Zakaria's GPS program, *CNN*, August 11, 2011 - "attack of the space aliens"
- Paul Krugman, interviewed by Paul Solman on *PBS NewsHour* June 18, 2012
- **Peter Morici**, "The Economic Impact of Hurricane Sandy ... Not all Bad News, *Yahoo! Finance*, Monday, Oct. 29, 2012
- **Walter Williams**, "Economic Lunacy," *Creators.com*, March 22, 2011



## **“The Broken Window Fallacy I”**



**Paul Krugman (1953-)  
Nobel Prize in Economics 2008**

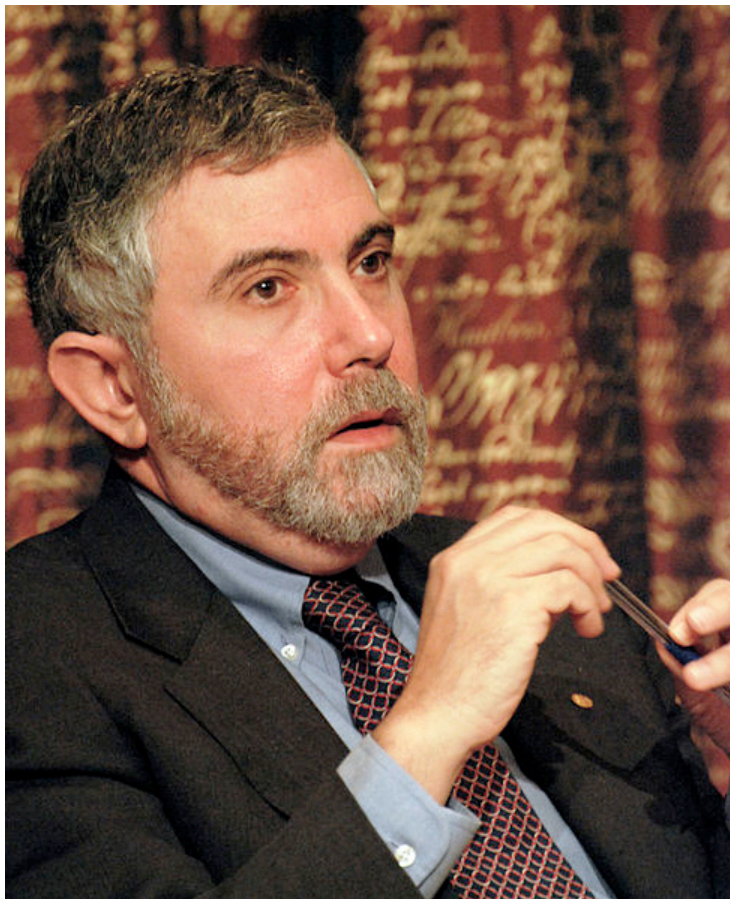
... the terror attack - like the original day of infamy [Dec 7, 1941 Japanese attack on Pearl Harbor naval base], which brought an end to the Great Depression - could even do some economic good. ...

Now all of a sudden we need some new office buildings. As I've already indicated, the destruction isn't big compared with the economy, but rebuilding will generate at least some increase in business spending. Second, the attack opens the door to some sensible recession-fighting measures. ... Now it seems that we will indeed get a quick burst of public spending.

[Paul Krugman, “Reckonings; After the Horror” NYT, September 14]



## **“The Broken Window Fallacy II”**



**Paul Krugman (1953-)  
Nobel Prize in Economics 2008**

“If we discovered that, you know, space aliens were planning to attack and we needed a massive buildup to counter the space alien threat and really inflation and budget deficits took secondary place to that, this slump would be over in 18 months,” he declared, arguing in favor of the president’s stimulus package. “And then if we discovered, oops, we made a mistake, there aren’t any aliens, we’d be better [off].”

[Paul Krugman on Fareed Zakaria’s GPS program, CNN, August? 2011]



## **“The Broken Window Fallacy III”**



**Damage from Hurricane Sandy  
to house in Brooklyn, NY  
(30 October 2012)**

The Upside. Disasters can give the ailing construction sector a boost, and unleash smart reinvestment that actually improves stricken areas and the lives of those that survive intact. Ultimately, Americans, as they always seem to do, will emerge stronger in the wake of disaster and rebuild better - making a brighter future in the face of tragedy. ...

When government authorities facilitate rebuilding quickly and effectively, the process of economic renewal, in many tangible ways, can leave communities better off than before.

Factoring in the multiplier effect of \$15-20 billion spent rebuilding yields an economic benefit from reconstruction of about \$27-\$36 billion. Add to that the gains from a more modern and productive capital stock - likely in the range of \$10 billion - and consumer and business spending that is only delayed but not permanently lost, likely in the range of \$12 billion - and the total effects of natural disasters of the scale of Sandy are not as devastating two years down the road.

[Peter Morici, "The Economic Impact of Hurricane Sandy ... Not all Bad News" (Oct 29, 2013) Yahoo! Finance.]



## Critics of the “Broken Window Fallacy”

- Walter Williams’ “Economic Lunacy,” March 22, 2011, *creators.com*
- Andrew T. Young, “Why in the World are We all Keynesians again?” *Policy Analysis* (Cato institute), February 14, 2013
- Frédéric Bastiat, *Economic Sophisms* (1846, 1848)

### Some Fallacies:

- that destruction of wealth and the loss of life is not a permanent loss which can never be made up
- the notion of American exceptionalism in coping with natural disasters
- that one can ignore the opportunity costs of the resources which would not have been consumed if the disaster had not occurred, and the time of the people who have to reorganize their lives and rebuild
- that the government is a better coordinator of economic activity than the free market
- that the Keynesian multiplier effect is greater than 1



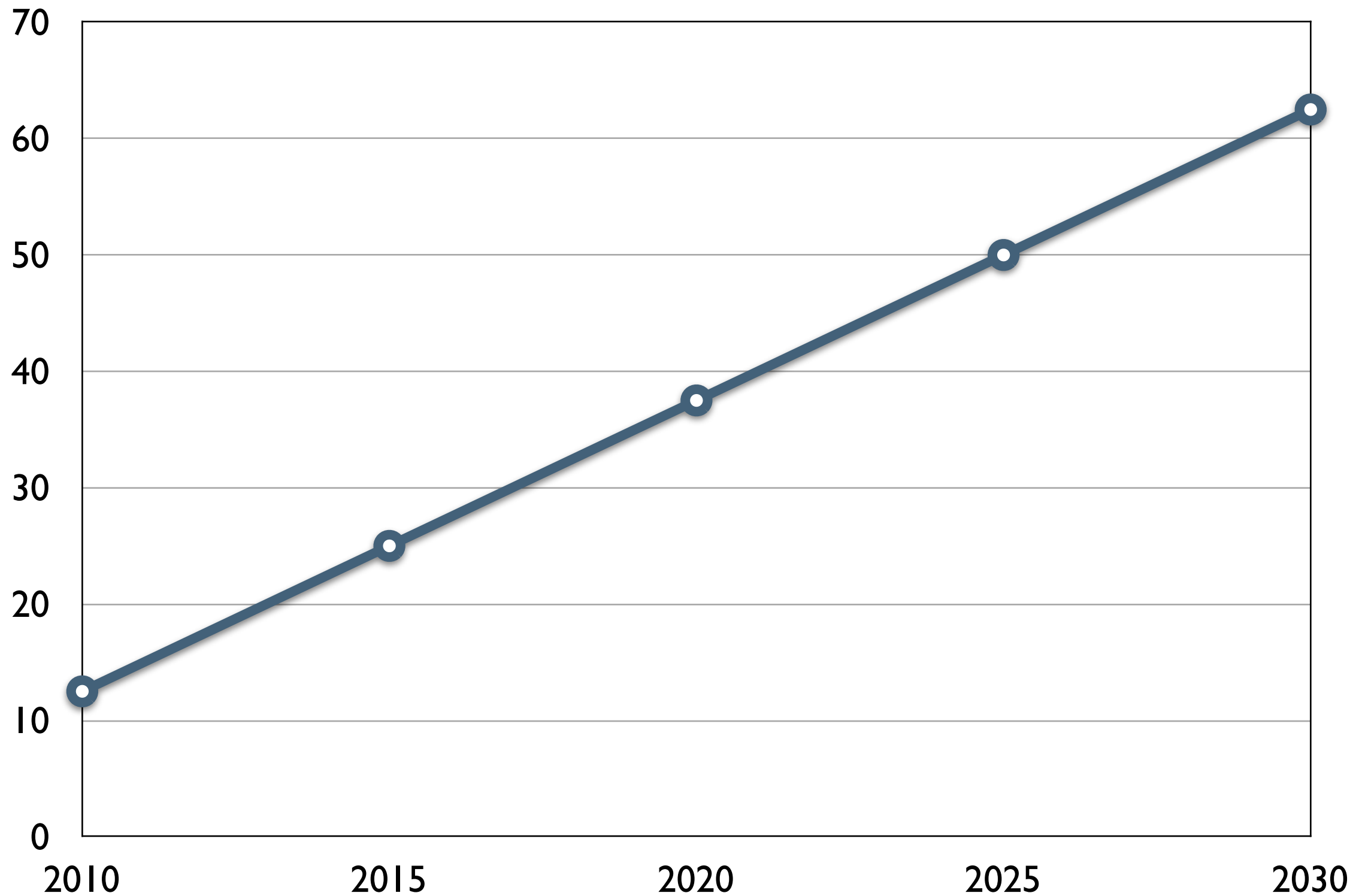
## ***What is Seen & What is not Seen (1850). Chapter 1: The Broken Window.***

But if, by way of deduction, as is often the case, the conclusion is reached that **it is a good thing to break windows**, that this causes money to circulate and therefore industry in general is stimulated, I am obliged to cry: **“Stop!” Your theory has stopped at what is seen and takes no account of what is not seen.** What is not seen is that since our bourgeois has spent six francs on one thing, he can no longer spend them on another. What is not seen is that if he had not had a windowpane to replace, he might have replaced his down-at-heel shoes or added a book to his library. In short, he would have used his six francs for a purpose that he will no longer be able to....



○ N

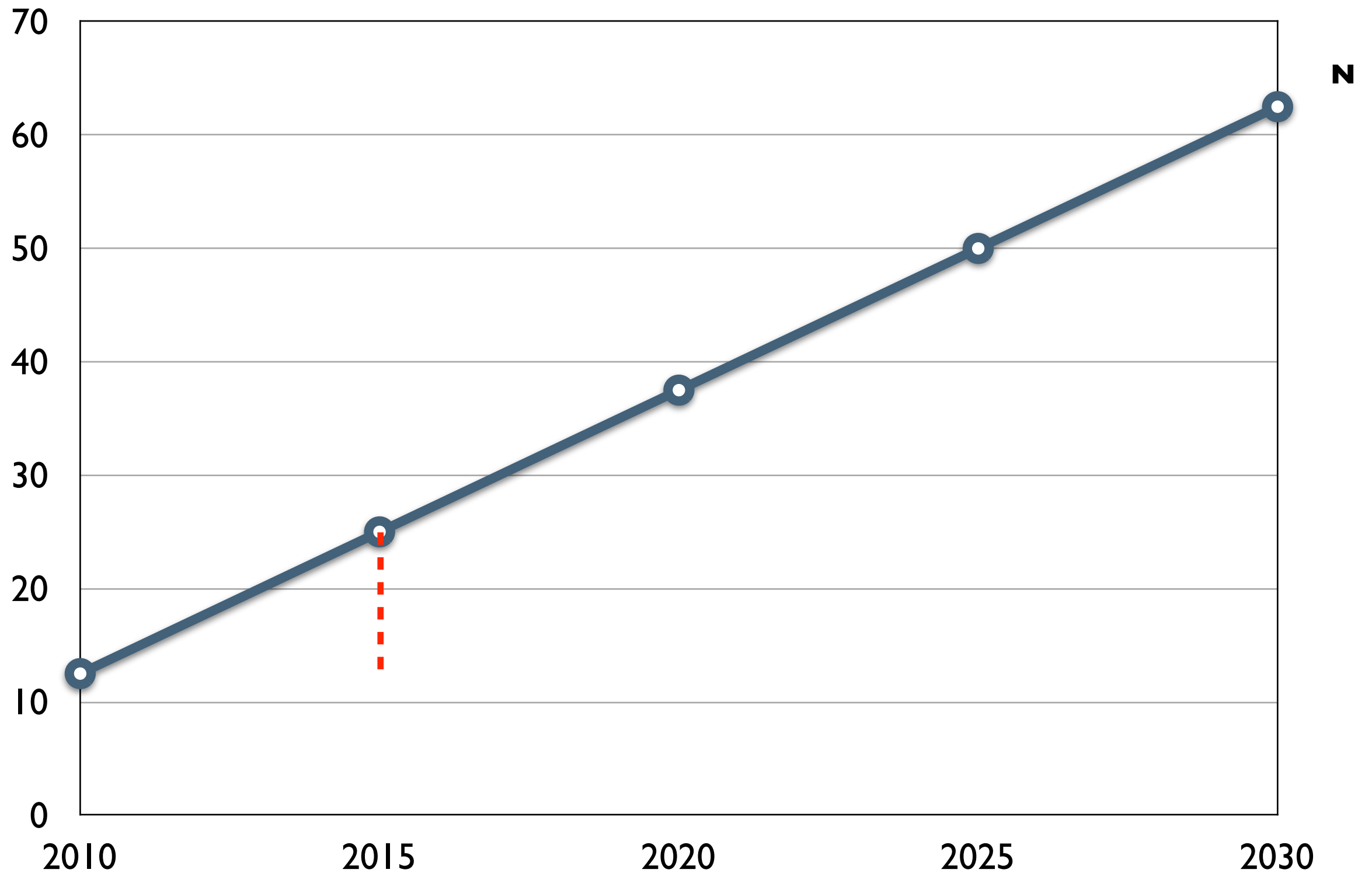
## Normal Growth under Liberty



The Economic Impact of a Natural Disaster I



## A Disaster strikes

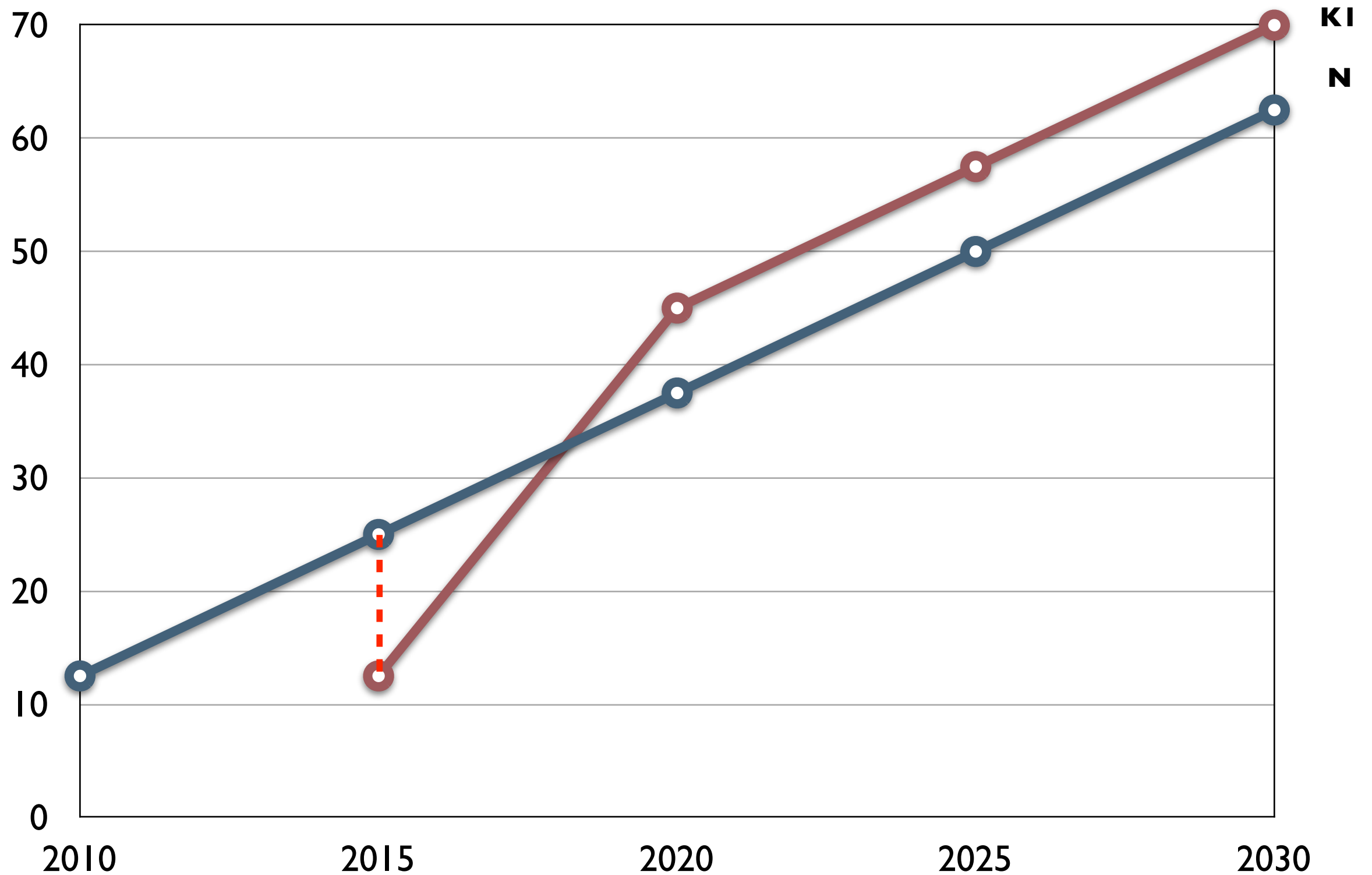


The Economic Impact of a Natural Disaster 2



N KI

# KI Optimistic Keynesians - Better than Ever!



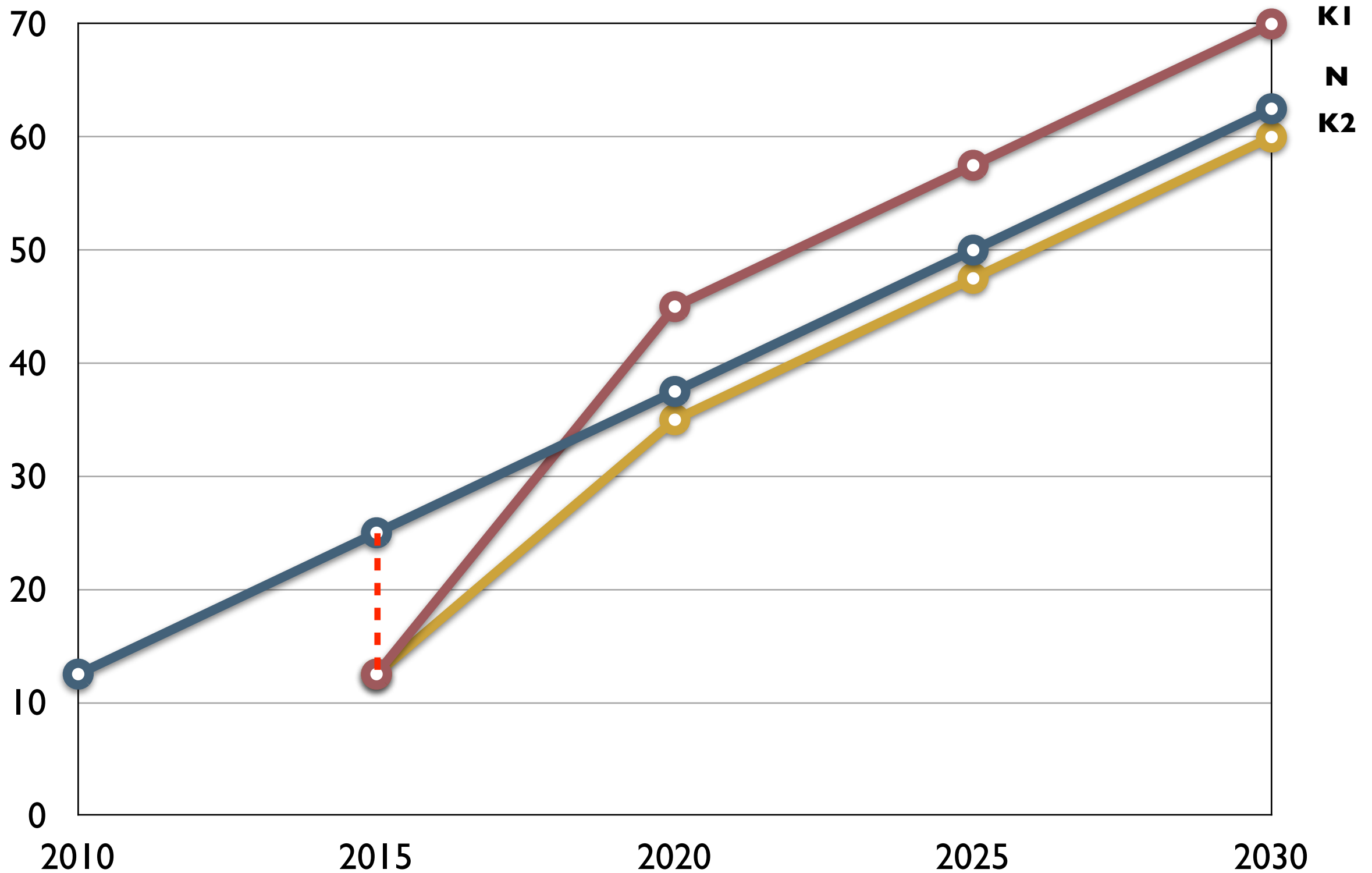
The Economic Impact of a Natural Disaster 3

N

KI

K2

K2 Realistic Keynesians - almost as good as new!

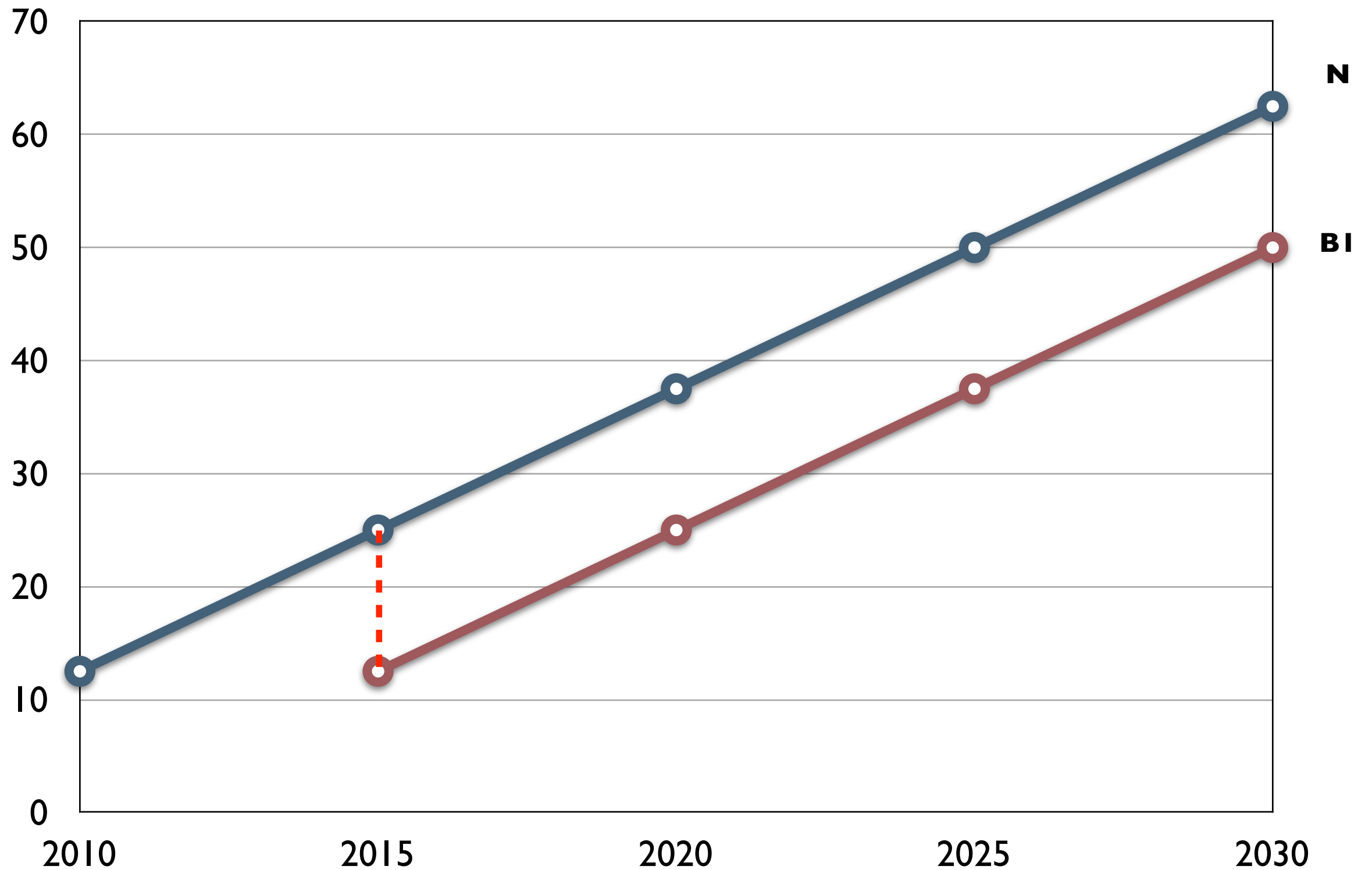


The Economic Impact of a Natural Disaster 4



N BI

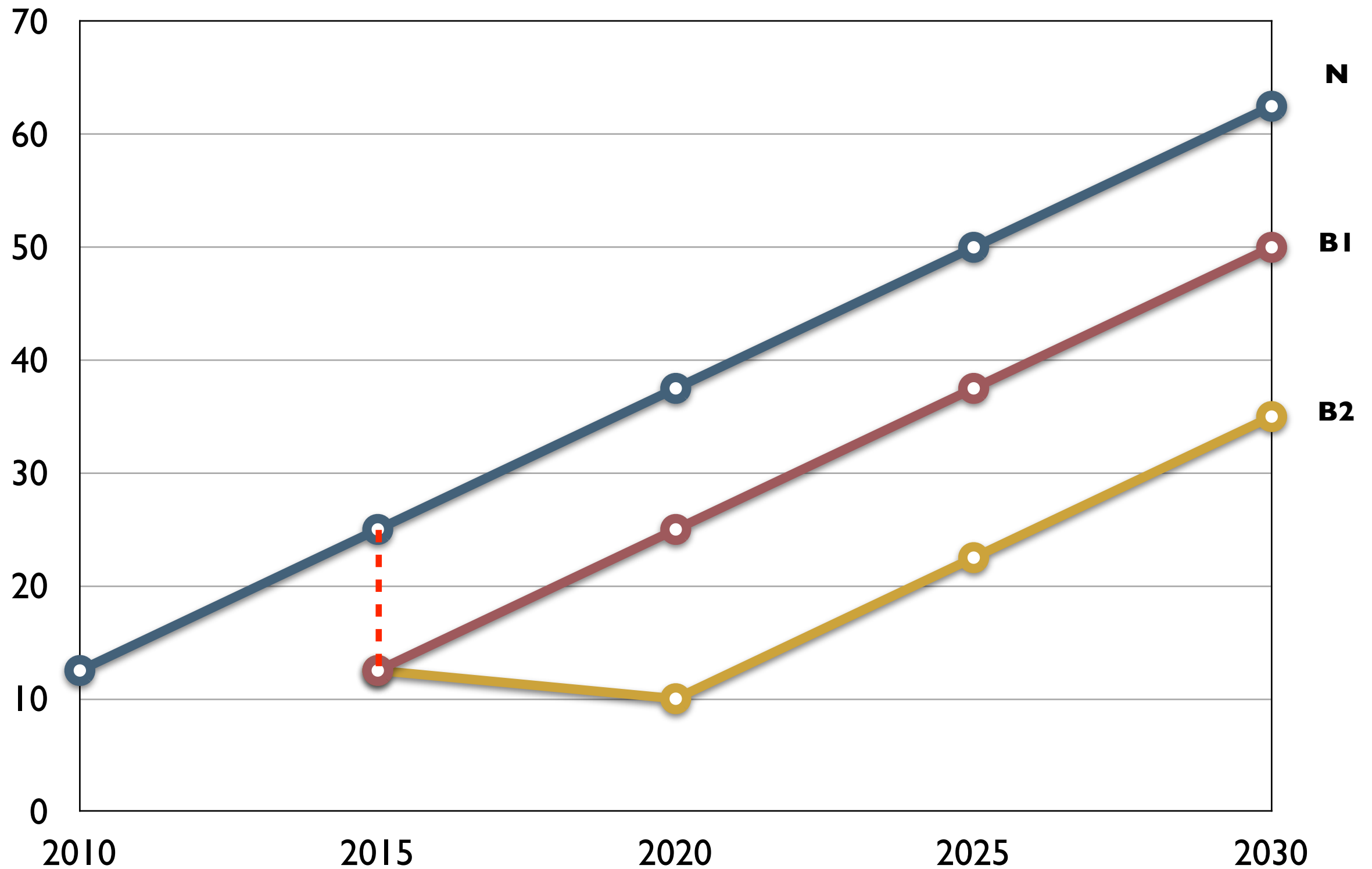
## BI optimistic Bastiat - we go on



The Economic Impact of a Natural Disaster 5

N BI B2

B2 pessimistic Bastiat - things could be worse

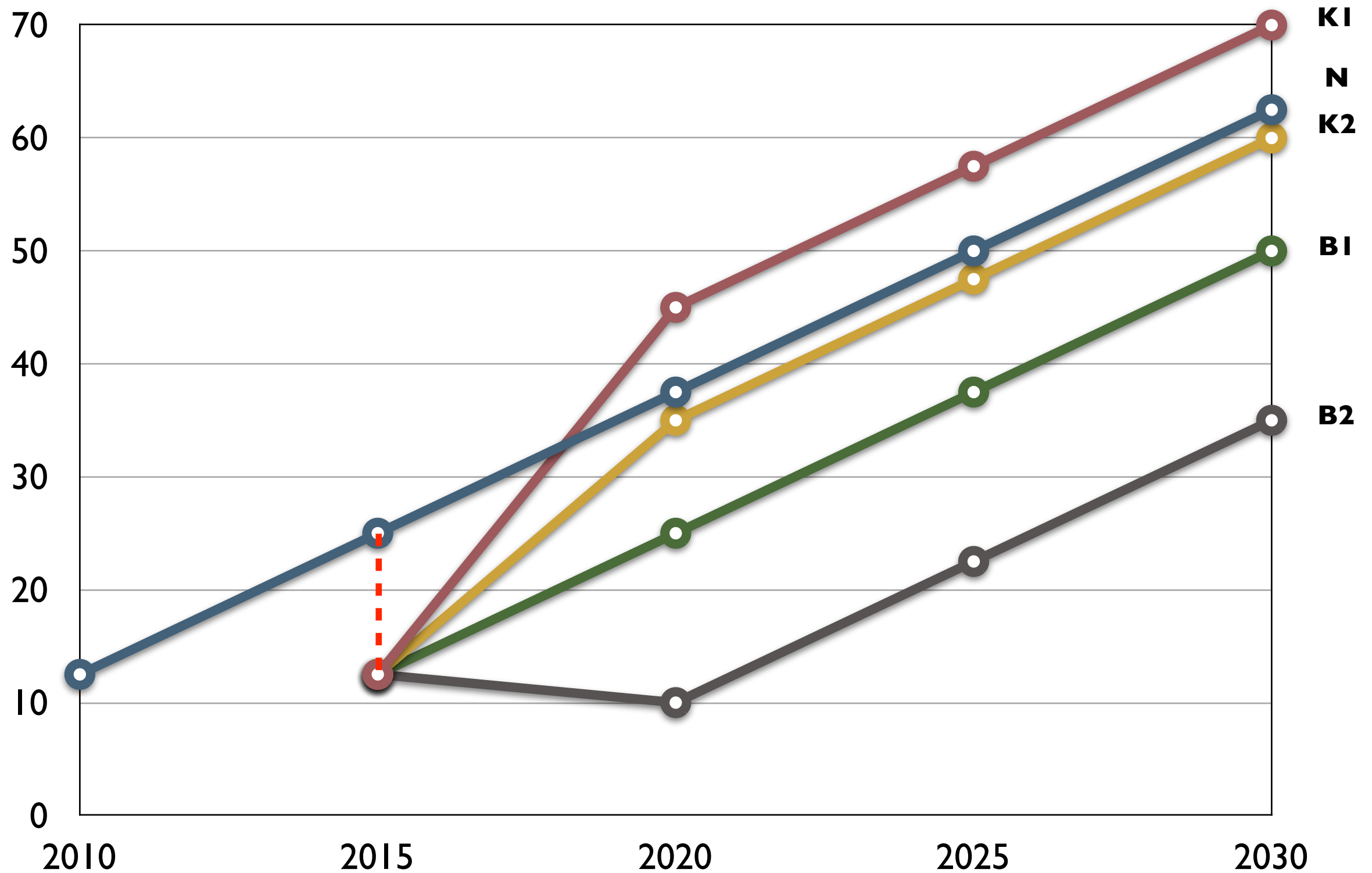


The Economic Impact of a Natural Disaster 6



N    KI    K2    BI    B2

## The Options for Growth and Prosperity



The Economic Impact of a Natural Disaster 7

**“The Seen and the Unseen” in Obama’s America:**  
**What is “Seen”: The Obama Administration “creating” New Jobs**  
**by Government Expenditure**





**“The Seen and the Unseen” in Obama’s America:**  
**What is “Unseen”: The Obama Administration “creating” New**  
**Jobs by Government Expenditure**



## The Seen and the Unseen: The Obama Administration “creating” New Jobs

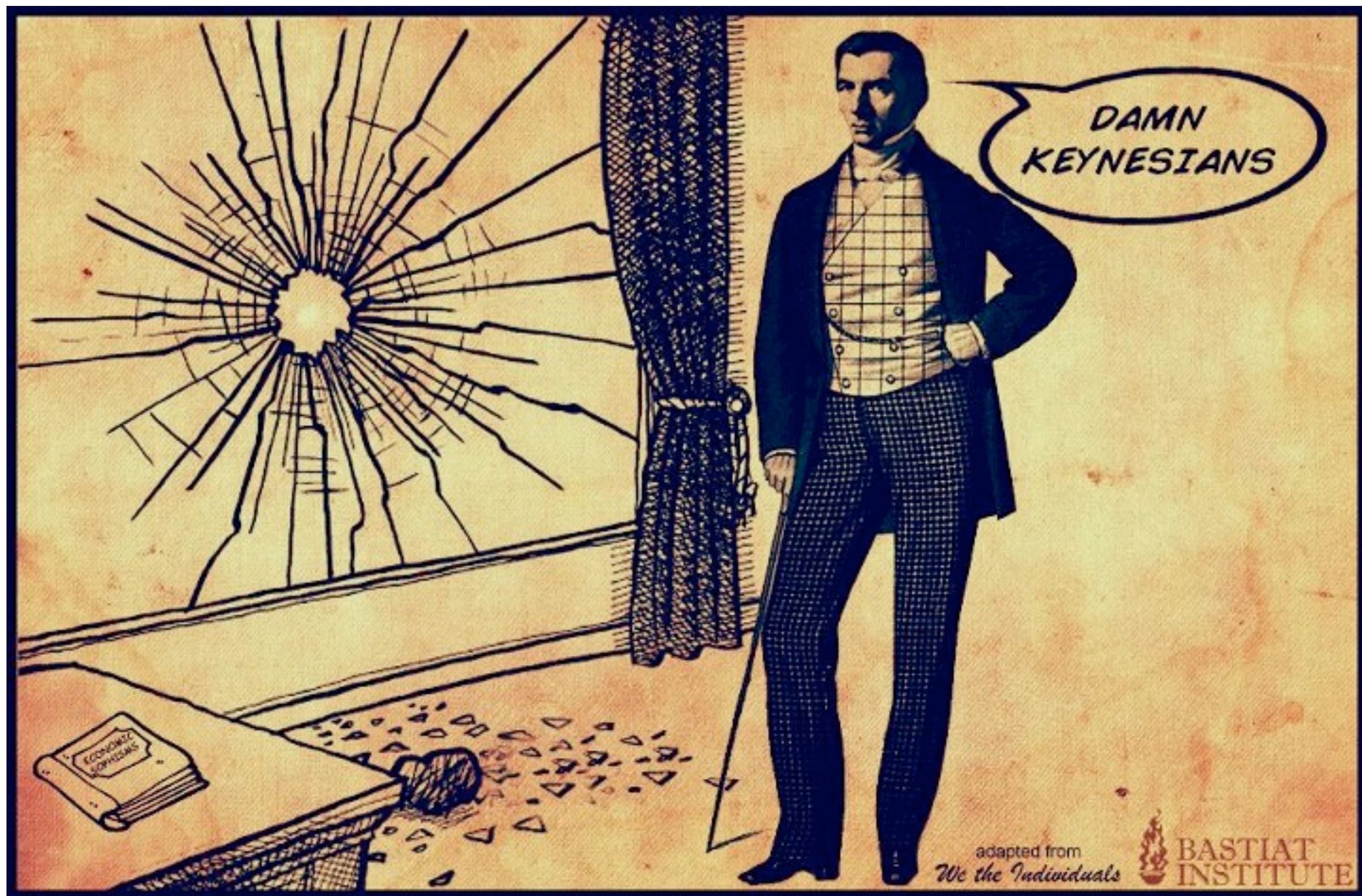






**{Bastiat vs Keynesian “Crusoe Economics”}**





DAMN  
KEYNESIANS

adapted from  
*We the Individuals*



BASTIAT  
INSTITUTE



**MERRIE MELODIES**  
REG. U.S. PAT. OFF.

*"That's all folks!"*

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