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Economic Lunacy

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Economic lunacy abounds, and often the most learned, including Nobel Laureates, are its primary victims. The most recent example of economic lunacy is found in a Huffington Post article titled "The Silver Lining of Japan's Quake" written by Nathan Gardels, editor of New Perspectives Quarterly, who has also written articles for The Wall Street Journal, Los Angeles Times, New York Times and Washington Post.

Mr. Gardels says, "No one — least of all someone like myself who has experienced the existential terror of California's regular tremors and knows the big one is coming here next — would minimize the grief, suffering and disruption caused by Japan's massive earthquake and tsunami. But if one can look past the devastation, there is a silver lining. The need to rebuild a large swath of Japan will create huge opportunities for domestic economic growth, particularly in energy-efficient technologies, while also stimulating global demand and hastening the integration of East Asia. ... By taking Japan's mature economy down a notch, Mother Nature has accomplished what fiscal policy and the central bank could not."

Gardels is not alone in seeing silver linings in disasters. Harvard University's Professor Larry Summers, former Obama economic adviser and Treasury secretary, said the disaster "may lead to some temporary increments, ironically, to GDP as a process of rebuilding takes place. In the wake of the earlier Kobe earthquake, Japan actually gained some economic strength."

It's not just disasters in Japan. After Florida's devastating 2004 hurricane, newspapers carried headlines such as "Storms create lucrative times." and "Economic growth from hurricanes could outweigh costs." Economist Steve Cochrane added, "It's a perverse thing ... there's real pain, but from an economic point of view, it is a plus."

Why might Japan's and Florida's devastation be seen as "pluses"? French economist Frederic Bastiat (1801-1850) explained it in his pamphlet "What is Seen and What is Not Seen," saying, "There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen."



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Bastiat elaborated further in his "Brok

A crowd forms, sympathizing with the shopkeeper. Soon, someone in the crowd suggests that instead of a tragedy, there might be a silver lining. Instead of the boy being a vandal, he was a public benefactor, creating economic benefits for everyone in town. Fixing the broken window creates employment for the glazier, who will then buy bread and benefit the baker, who will then buy shoes and benefit the cobbler and so forth.



Bastiat says that's what's seen. What is not seen is what the shopkeeper would have done with the money had his window not been smashed. He might have purchased a suit from the tailor. Therefore, an act that created a job for the glazier destroyed a job for the tailor. On top of that, had the property destruction not occurred, the shopkeeper would have had a suit and a window. Now he has just a window and as a result, he is poorer.

After the 2001 terrorist attack, economist and Nobel Laureate Paul Krugman wrote in his New York Times column "After the Horror," "Ghastly as it may seem to say this, the terror attack — like the original day of infamy, which brought an end to the Great Depression — could do some economic good." He explained that rebuilding the destruction would stimulate the economy through business investment and

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job creation.

Do a simple smell test on these examples of economic lunacy. Would the Japanese economy face even greater opportunities for economic growth had the earthquake and tsunami also struck Tokyo, Hiroshima, Yokohama and other major cities? Would the 9-11 terrorists have done us an even bigger economic favor had they destroyed buildings in other cities? The belief that society benefits from destruction is lunacy.

Walter E. Williams is a professor of economics at George Mason University. To find out more about Walter E. Williams and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate Web page at www.creators.com.

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