



Hurricanes won't make economy better

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Do we really need to say it? Hurricanes are bad.

The pictures of the devastation wrought by Hurricane Harvey and Irma have barely faded from our television screens, but already we are seeing stories about the economic boost we can expect from rebuilding Houston.

In addition, of course, to the human suffering, the destruction in Houston represents an enormous loss of national wealth, by some estimates more than \$20 billion. The technical vagaries of GDP calculation mean that rebuilding Houston may indeed result in a temporary uptick in the statistical growth rate. But that is not the same thing as real improvement.

It seems that the “broken window fallacy” simply will not die. In 1850, French economist Frédéric Bastiat first tackled this economic myth. In Bastiat’s parable, a shopkeeper’s careless son breaks a pane of glass in his father’s store. According to the economic theory popular at the time, the broken window was actually a good thing, because it meant that the shopkeeper would have to pay the glazier to repair it. The glazier then would use his new income to buy a pair of shoes, and the shoemaker would spend the money, etc. The cycle continues, and the economy is stimulated. As Bastiat noted, “You come to the conclusion, as is too often the case, that it is a good thing to break windows, that it causes money to circulate, and that the encouragement of industry, in general, will be the result of it.”

Nevertheless, as Bastiat pointed out, that leaves out a crucial calculation: what the shopkeeper would have done with the money if he had not been obliged to buy a new window.

What the broken-window advocates miss is the elements that are not seen: “It is not seen that as our shopkeeper has spent six francs upon one thing, he cannot spend them upon another,” The accident only means that the shopkeeper has spent six francs to bring himself back to the

economic state he was in before the window was broken; he is no richer for it, but six francs poorer.

Similarly, rebuilding Houston will not create any new wealth; it will merely restore some of what was lost. Moreover, we can never know what might have been accomplished with the money spent in Houston if we didn't need to rebuild Houston.

This is not really about Houston, of course. We can and should do what is necessary to help the suffering people of that city restart their lives.

Rather, this is about a mindset prominent among some liberals that government spending is essentially cost-free.

After all, it wasn't so long ago that Paul Krugman was musing about a hypothetical economic boost we could get from an alien space invasion. And, of course, John Maynard Keynes famously suggested that the economy would benefit if the government hired workers to dig holes and other workers to fill them in.

Whether we are talking infrastructure, social-welfare spending, or any other government project, too many fail to understand that very little of such spending produces new wealth.

When the government takes money from the shopkeeper and gives it to the glazier, it is merely moving money around. Sometimes that may be necessary. But it is not a recipe for economic prosperity.

Perhaps that makes two things that are so obvious we shouldn't have to say them: "Hurricanes are bad," and "there's no such thing as a free lunch."

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