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The Denial Of Money

Matthew Yglesias on Aug 16, 2011 at 1:00 pm

Myths are as persistent as the idea that Keynesian and monetarist thinkers fail to appreciate Frédéric Bastiat point about broken windows. As even a cursory examination of efforts to apply Bastiat's ideas to the conditions of a depressed economy will show, the so-called "broken windows fallacy" is not a fallacy at all, just a special case. [Here's Daniel Mitchell:](#)



[Krugman] committed [the "broken-window" fallacy](#), explained more than 150 years ago by a famous French economist, Frederic Bastiat.

Breaking a window at the local bakery, Bastiat explained, might generate business for the town glazier, but only at the expense of some other merchant, like a tailor, who would have benefited if the baker didn't have to spend money on a new window.

In other words, the destruction of wealth is not good for an economy. At best, it makes us poorer and then shifts how current income is allocated.

When Bastiat wrote that, "money" meant, in France, a commodity of which there was limited supply. Specifically, the so-called "Germinal Franc" contained 290.32 mg of gold. The modern economy isn't like that. The quantity of money and credit are policy variables. If the country were afflicted with unemployed glaziers, Ben Bernanke could run around smashing bakery windows and leaving checks behind. The checks don't need to be backed by anything, and the bakers will use the checks to hire glaziers to replace the lost windows without reducing their spending on tailors. Problem solved. This would be, admittedly, a *silly* way to resolve the problem. A more reasonable approach would be to cut the checks and pay the glaziers to do something useful. But it would work. Everyone understands that we don't have a barter economy operating or a gold standard operating purely with cash-in-advance, but people often fail to see that this is important. But it makes a ton of difference. Among other things it means that if your argument about why something can't be done turns at some key point on an alleged scarcity of money that something has gone awry.