From the Editorial Director

One, Two, Many Broken Windows

by Ivan G. Osorio

Albert Einstein is often attributed with defining insanity as doing the same thing over and over, hoping to achieve a different result. Another possible definition is seeing one thing and describing it as its exact opposite—with the corollary that to call something its opposite repeatedly makes one certifiable. Yet this describes much of the economic reporting on disasters—both man-made and natural.

Recently, Agence France Presse (AFP) reported that the December 26 tsunami disaster is turning out to be a "blessing in disguise" for Sri Lanka's economy. The broken window fallacy—thoroughly refuted by the 19th-century French economic journalist Frédéric Bastiat—continues to thrive, writ large and ugly.

"The Indian Ocean tsunami killed 31,000 people in Sri Lanka and caused unprecedented damage," reports AFP. It "destroyed three-quarters of the country's coastline, wrecked the road and railway network, and initially left a million people homeless." This is a good thing?

Yes, suggests the AFP report, because thanks to "an aid windfall from abroad" and an "avalanche of assistance from global lenders" to aid reconstruction, Sri Lanka's economy will surge ahead with a high rate of growth. Insanity is not too strong a word to describe such an assessment, considering both the magnitude of the disaster and that, like the proverbial madman repeating the same futile action, the view of disasters as economic boons persists beyond all explanation.

Indeed, of Bastiat's many great insights, the broken window is among the most clearly intuitive: A boy who breaks a shop window stimulates economic activity by forcing the shopkeeper to pay a glazier for a new pane of glass. However, Bastiat notes, the boy has not created a net increase in wealth, but merely redirected it to the glazier away from where the shopkeeper would have otherwise have spent the money—perhaps on a new pair of shoes—or saved and invested it.

AFP is not the only news organization to ignore Bastiat's lessons. We heard this same kind of reporting after the series of hurricanes that wreaked havoc in Florida last year and even about the 9/11 terrorist attacks. And "World War II got us out of the depression" is an oft-repeated mantra.

Why does the fallacy persist? The likeliest reason, as Bastiat notes, is its very nature.

> "The reader must apply himself to observe that there are not only two people, but three, in the little drama that I have presented. The one, James Goodfellow [the shopkeeper], represents the consumer, reduced by destruction to one enjoyment instead of two. The other, under the figure of the glazier, shows us the producer whose industry the accident encourages. The third is the shoemaker (or any other manufacturer) whose industry is correspondingly discouraged by the same cause. It is this third person who is always in the shadow, and who, personifying *what is not seen*, is an essential element of the problem. It is he who makes us understand how absurd it is to see a profit in destruction." ("What is Seen and What is Not Seen")

This "need to apply oneself" to see the economic damage of disasters and state intervention is one of the biggest challenges facing supporters of free markets. And once misconceptions become widely accepted, they are very hard to dislodge from the zeitgeist.

Indeed, another lesson from the broken window fallacy is that it will never be easy to make the case that state economic intervention, like disasters, cannot produce a net gain in wealth. Lest we get discouraged, it's something we should always keep in mind.

The challenge advocates of free markets face is enormous. It is not journalists' role to report on what could have been or what is no more. But the challenge isn't hopeless. By making a concise case that disasters—and state intervention—do not produce anything, we might not see the fallacy fatally vanquished, but we may see less reporting, like the AFP story, of what just isn't so.

A version of this article appeared in Tech Central Station.

MONTHLY PLANET

Publisher:
Fred L. Smith, Jr.

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Assistant Editor:
Elizabeth Jones

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CEI's **Monthly Planet** is produced 10 times a year by the Competitive Enterprise Institute, a pro-market public interest group dedicated to free enterprise and limited government.

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ISSN# 1086-3036