Economic lunacy

Walter E. Williams

November 17, 2004

Here are a couple of newspaper headlines following Florida's bout with hurricane disasters: "Storms create lucrative times," St. Petersburg Times (Sept. 30, 2004), and "Economic growth from hurricanes could outweigh costs," USA Today (Sept. 27, 2004). The writers, Joni James and Barbara Hagenbaugh, might have been listening to economists like Steve Cochrane, director of regional economics at Economy.com, a consulting firm in West Chester, Pa., who told USA Today, "It's a perverse thing ... there's real pain, but from an economic point of view, it is a plus."

Why are Florida's hurricanes a "plus"? It's simple. According to St. Petersburg Times reporter Joni James, "Construction creates thousands of jobs, insurance provides for billions in consumer purchases, and new facilities built to higher standards might help offset future storm-related losses."

This kind of reasoning, often put forth by poorly trained economists, doesn't even pass a simple smell test. Think about it this way. Using Cochrane's statement, if "from an economic point of view, it (hurricanes) is a plus," would the country have been even better off if the entire East Coast shared Florida's damage and destruction? If it would have been a plus for the East Coast, what about hurricane destruction for the entire nation east of the Mississippi? Almost anyone with a speck of brains would recognize that equating economic growth with destruction is lunacy.

French economist Frederic Bastiat (1801-1850) wrote a pamphlet "What Is Seen and What Is Not Seen," in which he says, "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." In the case of Florida's hurricane disaster, what is seen is the employment associated with rebuilding. What is unseen is what Floridians would have spent the money on and the benefits therefrom had there not been hurricane destruction.
Bastiat wrote a parable about this that has become known as the "Broken Window Fallacy." A shopkeeper's window is broken by a vandal. A crowd forms, sympathizing with the man, but pretty soon, the people start to suggest the boy wasn't guilty of vandalism; instead, he was a public benefactor, creating economic benefits for everyone in town. After all, 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.

Those are the seen effects of the broken window. What's unseen is what the shopkeeper would have done with the money had the vandal not broken his window. He might have employed the tailor by purchasing a suit. The broken window produced at least two unseen effects. First, it shifted unemployment from the glazier, who now has a job, to the tailor, who doesn't. Second, it reduced the shopkeeper's wealth. Explicitly, had it not been for the vandalism, the shopkeeper would have had a window and a suit; now, he has just a window.

The broken-window fallacy was seen in a column written by Princeton University professor Paul Krugman after the terrorist attack on the World Trade Center, "After the Horror" New York Times (Sept. 14, 2001). He wrote, "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 went on to point out how rebuilding the destruction would stimulate the economy through business investment and job creation. Again, do the smell test. If Krugman is right, wouldn't the terrorists have done us a bigger economic favor if they had destroyed buildings in other cities?

Maybe we shouldn't be so harsh on these reporters and economists in light of the fact that they didn't receive training at George Mason University's Economics Department, where there are no bad economists.