Economic lunacy
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According to a couple of poorly trained economists, there’s a bright side to Hurricane Katrina’s destruction. J.P. Morgan senior economist Anthony Chan believes hurricanes tend to stimulate overall growth. As reported in “Gas Crisis Looms” (Aug. 31, 2005), written by CNN/Money staff writer Parija Bhatnagar, Mr. Chan said, “Preliminary estimates indicate 60 percent damage to downtown New Orleans. Plenty of cleanup work and rebuilding will follow in all the areas. That means over the next 12 months, there will be lots of job creation which is good for the economy.”

Professor Doug Woodward, of the business school at the University of South Carolina, has the same vision. Professor Woodward said, “On a personal level, the loss of life is tragic. But looking at the economic impact, our research shows that hurricanes tend to become god-given work projects.” Within six months, Professor Woodward “expects to see a construction boom and job creation offset the short-term negatives such as loss of business activity, loss of wealth in the form of housing, infrastructure, agriculture and tourism revenue in the Gulf Coast states.”

Let’s ask a few smell-test questions about these claims of beneficial aspects of hurricane destruction. Would there have been even greater economic growth and job creation for our nation had Hurricane Katrina not only destroyed New Orleans, Mobile and Gulfport, but other major metropolitan areas along its path, like Cincinnati and Pittsburgh, as well? Would we consider it a godsend, in terms of jobs and economic growth, if a few more category 4 hurricanes hit our shores? Only a lunatic would answer these questions in the affirmative.

Frederic Bastiat (1801-1850), a great French economist, said in his pamphlet “What is Seen and What is Not Seen”: “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.” What economists Chan and Woodward can see are the jobs and construction boom created by repairing hurricane destruction. What they can’t see, and thus ignore, is what those resources would have been used for had there not been hurricane destruction.

Bastiat wrote a parable about this which has become known as the “Broken Window Fallacy.” A shopkeeper’s window is broken by a vandal. A crowd formed sympathizing with the man. After a while, someone in the crowd suggested that 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 repairing 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 vandal’s breaking his 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. Had it not been for the vandalism, the shopkeeper would have had a window and a suit; now he has just a window.

Of course, were it the Tooth Fairy or Santa Claus providing the resources to repair the destruction of Hurricane Katrina, Mr. Chan and Professor Woodward would be correct. But what the heck, maybe we shouldn’t be so harsh on these economists in light of the fact that they didn’t receive their training at George Mason University’s Economics Department, where there are no bad economists.

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