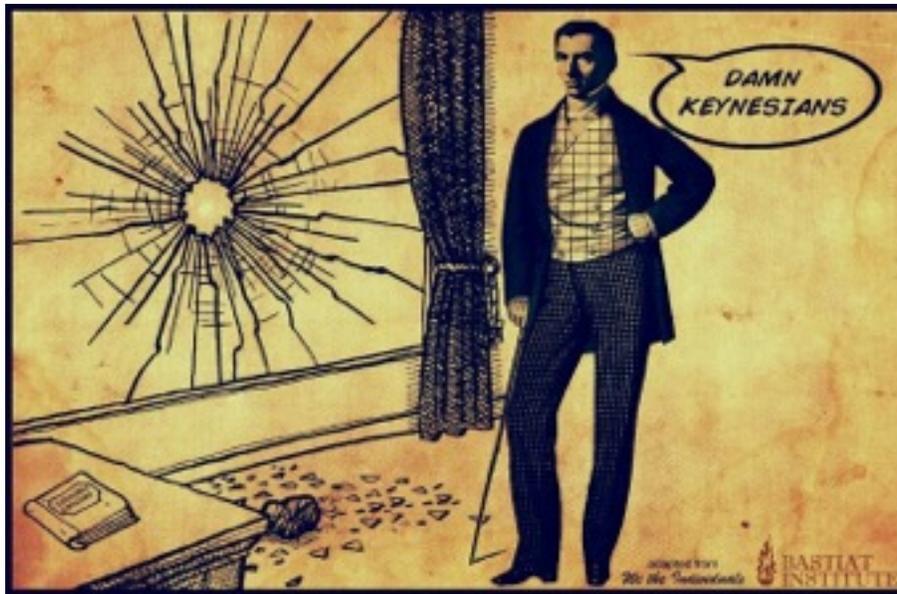


# Bastiat's Lessons for the 21st Century: The Broken Window Fallacy Revisited (again and again)

By Dr. David M. Hart, Liberty Fund, Inc.



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# Bastiat's Lessons for the 21st Century: The Broken Window Fallacy Revisited (again and again)

[word count: 2,767]

## *Introduction*

When evaluating the contribution to economics of the 19th century French political economist Frédéric Bastiat (1801-1850) it is necessary to take two matters into account,

- his contributions to economic and political theory
- and his skill as a disseminator of free market ideas

Today I wish to focus on his contributions to economic theory, in particular his idea of “the unseen” or the indirect and long term consequences of certain economic actions as presented in Chapter 1 “The Broken Window” in the booklet *What is Seen and What is not Seen* (1850). But I would also state that Bastiat’s reputation as a brilliant economic journalist, perhaps as the best economic journalist the world has ever seen, is a deserved one. What made his articles so appealing and effective were his razor sharp wit and humor, his fluid and elegant style of writing, his skill in inventing short stories and plays and satirical letters, all of which were combined with deep economic analysis to produce over 70 “economic sophisms” which appeared in the periodical press between 1845 and 1850. I have explored this side of Bastiat’s work in a paper “Opposing Economic

Fallacies, Legal Plunder, and the State: Frédéric Bastiat's Rhetoric of Liberty in the Economic Sophisms (1846-1850)" [September 2011].

Concerning Bastiat's contributions to economic and political theory I would refer you to an online discussion on this very topic at "Liberty Matters" on the Online Library of Liberty forthcoming in May 2013. In my view his theoretical contributions can be listed as:

- (1) His Methodological individualism.
- (2) A new theory of rent.
- (3) The rejection of Malthusian limits to population growth.
- (4) The quantification of the impact of economic events.
- (5) The idea of "spontaneous" or "harmonious" order.
- (6) The interconnectedness of all economic activity.
- (7) His theory of the "economic sociology" of the State.
- (8) His "Public Choice" like theory of politics.

### *The "Broken Window Fallacy" and the Persistence of Zombie Economics*

No matter how many times economists debunk the broken window fallacy it keeps reappearing like the zombie you can't kill as depicted in George A. Romero's "Night of the Living Dead" (1968). In the past couple of years with the March 11, 2011 earthquake and tsunami in Japan and tropical storm Sandy in October 29, 2012 there has been a steady stream of newspaper articles about the "silver lining" in any such disaster - that spending on the disaster will stimulate economic activity and revitalise infrastructure, that the emergency will enable politicians to introduce much needed "recession-fighting measures" (such as increased government stimulus

spending), and that this increase in spending will (eventually) result in a net benefit to the economy (old infrastructure will be replaced by newer, more modern infrastructure; and that “idle resources” will be put to work).

I would like to call this way of thinking “Zombie Keynesian Economics” [ZOKE, rhymes with “joke”] and I would like to proclaim that the Nobel Laureate and NYT columnist Paul Krugman is the High Priest of this religious cult known as ZOKE [Zombie Keynesian Economics].

On September 14, 3 days after the 9/11 attacks, Paul Krugman wrote “Reckonings; After the Horror” in the NYT in which he looked at the economic silver lining of the terrorist attacks:

... the terror attack - like the original day of infamy [Dec 7, 1941 Japanese attack on Pearl Harbor naval base], which brought an end to the Great Depression - could even do some economic good. ...

Now all of a sudden we need some new office buildings. As I’ve already indicated, the destruction isn’t big compared with the economy, but rebuilding will generate at least some increase in business spending. Second, the attack opens the door to some sensible recession-fighting measures. ...Now it seems that we will indeed get a quick burst of public spending.

On CNN in August 2011 Krugman made his notorious remarks about how a fictitious threat of an alien invasion would get the US out of its recession in 18 months. His model again was WW2. [Fareed Zakaria’s GPS program, August? 2011]:

“If we discovered that, you know, space aliens were planning to attack and we needed a massive buildup to counter the space alien threat and really inflation and budget deficits took secondary place to that, this slump would be over in 18 months,” he declared, arguing in favor of the president’s stimulus package. “And then if we discovered, oops, we made a mistake, there aren’t any aliens, we’d be better [off].”

See also Peter Morici, "The Economic Impact of Hurricane Sandy ... Not all Bad News" [Oct 29, 2013] Yahoo! Finance. Peter Morici is Professor of International Business at the R.H. Smith School of Business at the University of Maryland, College Park. He gives an even more positive endorsement of the economic benefits of destruction caused by disasters like Tropical Storm Sandy:

The Upside. Disasters can give the ailing construction sector a boost, and unleash smart reinvestment that actually improves stricken areas and the lives of those that survive intact. Ultimately, Americans, as they always seem to do, will emerge stronger in the wake of disaster and rebuild better - making a brighter future in the face of tragedy. ...

When government authorities facilitate rebuilding quickly and effectively, the process of economic renewal, in many tangible ways, can leave communities better off than before.

Factoring in the multiplier effect of \$15-20 billion spent rebuilding yields an economic benefit from reconstruction of about \$27-\$36 billion. Add to that the gains from a more modern and productive capital stock - likely in the range of \$10 billion - and consumer and business spending that is only delayed but not permanently lost, likely in the range of \$12 billion - and the total effects of natural disasters of the scale of Sandy are not as devastating two years down the road.

The number of extraordinary fallacies and false claims in these passages qualify Morici to be proclaimed one of the Elders in the religious cult of ZOKE [Zombie Keynesian Economics]. I list a few:

- that destruction of wealth and the loss of life is not a permanent loss which can never be made up
- the notion of American exceptionalism in coping with natural disasters
- that one can ignore the opportunity costs of the resources which would not have been consumed if the disaster had not occurred, and the time of the people who have to reorganize their lives and rebuild
- that the government is a better coordinator of economic activity than the free market

- that the Keynesian multiplier effect is greater than 1

Thus, it is not surprising that Walter Williams would wring his hands in despair and loudly call out for the return of the 19th century French Prophet of Free Market Economics [FREEME] Frédéric Bastiat in order to smite the Zombie economists one more time. See Walter Williams' article "Economic Lunacy" [March 22, 2011] creators.com. And for Andrew T. Young to ask "Why in the World are We all Keynesians again?" *Policy Analysis* (Cato institute), February 14, 2013.

*Bastiat on the the difference between a "good" and a "bad" economist: or why ZOKEs [Zombie Keynesian Economists] can't see the broken windows in front of them*

For the past couple of years I have been working on volume 3 of LF's new translation of the *Collected Works of Bastiat*, which will include all of his *Economic Sophisms* (Series I and II which have been published and translated before along with a Series III which have never been translated before) and "What is Seen and What is Not Seen". As part of our educational program I have also developed a series of electronic books called "The Best of Bastiat" [BOB] to make some of the most important works by Bastiat accessible to more people. They are made available in PDF, ePub, and Kindle formats and can be downloaded from the OLL website. See Frédéric Bastiat, *The Best of Bastiat* (Indianapolis: Liberty Fund, 2013). <<http://oll.libertyfund.org/title/2477>>

There are 9 to date and include:

1. The Best of Bastiat #1.1 “A Life in Letters” (1819-1850) <<http://oll.libertyfund.org/title/2478>>
2. The Best of Bastiat #1.2 “Bastiat the Revolutionary: Part 1” (Feb.-March 1848) <<http://oll.libertyfund.org/title/2501>>
3. The Best of Bastiat #1.3 “Bastiat the Revolutionary: Part 2” (June 1848) <<http://oll.libertyfund.org/title/2502>>
4. The Best of Bastiat #2.1 “The State” (September 1848) <<http://oll.libertyfund.org/title/2479>>
5. The Best of Bastiat #2.2 “Property and Plunder: Fifth Letter” (July 1848) <http://oll.libertyfund.org/title/2480><http://oll.libertyfund.org/title/2480>>
6. The Best of Bastiat #2.3 “The Law” (June 1848) <<http://oll.libertyfund.org/title/2481>>
7. The Best of Bastiat #3.1 “The Petition of the Manufacturers of Candles” (October 1845) <<http://oll.libertyfund.org/title/2482>>
8. The Best of Bastiat #3.2 “The Broken Window” (July 1850) <<http://oll.libertyfund.org/title/2483>>
9. The Best of Bastiat #3.3 “The Utopian” (17 Jan. 1847) <<http://oll.libertyfund.org/title/2484>>

I would like to direct your attention to no. 8 *The Best of Bastiat* #3.2 “The Broken Window” (July 1850) and some of the ideas FB develops in this short essay. FB also had to fight against zombie economics in the late 1840s, only his weren’t ZOKEs [Zombie Keynesian Economics] but ZOPEs [Zombie Protectionist Economists] and SOCEs [Socialist Economists - pronounced “sokes”] against whom the *Economic Sophisms* were directed. But here he is confronted by an early ancestor of the ZOKEs (perhaps a pre-dead Zombie?) which makes his response even more interesting to us today.

Here are some of the key arguments and ideas in Bastiat’s essay:

- the passage [Intro para §. 1 and 2]: “economics is an action, a series of effects” - FB develops idea of “the seen” (short term, immediate effects) and “the unseen” (delayed, indirect effects). “Good” economists take note of the latter; “bad” economists only the former:
  - “In the sphere of economics an action, a habit, an institution or a law engenders not just one effect but a series of effects. Of these effects only the first is immediate; it is revealed simultaneously with its cause, it is seen. The others merely occur successively, they are not seen; we are lucky if we foresee them. The entire difference between a bad and a good Economist is apparent here. A bad one relies on the visible effect while the good one takes account both of the effect one can see and of those one must foresee.” ...
  - [§. 3] “a bad Economist will pursue a small current benefit that is followed by a large disadvantage in the future, while a true Economist will pursue a large benefit in the future at the risk of suffering a small disadvantage immediately.”
- that the destruction of wealth and the loss of life is a permanent loss which can never be made up
  - [§. 14] “we reach the unexpected conclusion: “Society loses the value of objects destroyed to no purpose”, and the aphorism that will raise the hackles of protectionists: “Breaking, shattering and dissipating does not stimulate the national employment”, or more succinctly: “Destruction is not profitable”.”
- that destruction does not create (on net) a stimulus to industry (historical example discussed in FB’s time was the Great Fire of London in 1666 - see note 13) (this is where FB seems to be channelling Keynes and Krugman)
  - [§. 4] “But if, by way of deduction, as is often the case, the conclusion is reached that it is a good thing to break windows, that this causes money to circulate and therefore industry in general is stimulated, I am obliged to cry: “Stop!” Your theory has stopped at what is *seen* and takes no account of *what is not seen*.”
  - [§. 9] “And if we took into consideration what is not seen, because it is a negative fact, as well as what is seen, because it is a positive fact, we would understand that it makes no difference to national output and employment, taken as a whole, whether window panes are broken or not.”
- the importance of the opportunity costs of the resources which would not have been consumed if the disaster had not occurred

- [§. 5] “*What is not seen* is that since our bourgeois has spent six francs on one thing, he can no longer spend them on another. *What is not seen* is that if he had not had a window to replace, he might have replaced his down-at-heel shoes or added a book to his library. In short, he would have used his six francs for a purpose that he will no longer be able to.”
- FB’s precocious but crude attempt to quantify net losses and gains and formulate his own theory of the “multiplier effect” (or rather a “divider effect” as it is negative, or the opposite).
  - [§. 17] “The Seen”: loss to Jacques Bonhomme, gain to glazier
  - “The Unseen”: loss to Shoemaker who fails to make a sale to Jacques because he spends his money on a new window not a pair of shoes
  - FB concludes that we must take into account (literally) the gains and losses of three parties. Concludes there is a “double incidence of loss” (based on theory of Thomas Perronet Thompson - see note 10) - two losses of Fr. 6 (Fr. 12), one gain of Fr 6 for a net loss of Fr 6.
  - I would correct FB’s formulation by adding another loss to make it a “triple incidence of loss” in this simple example. Jacques actually suffers two losses not one when his window is broken: he loses the capital value of the window and then the value of his time in making temporary repairs and arranging for the window to be replaced, and then the out of pocket cost of buying the new window. Since the average wage of a semi-skilled labourer was Fr 2-3 per day a broken window could be worth 2-3 days work.
- FB realised the inadequacy of this attempt to quantify his “divider effect” (or “negative multiplier effect”) and was working on a more elaborate theory before he died. He called it “the ricochet effect” where the impact of an economic action spread out from its source and “flowed on,” or ricocheted, like concentric circles in a pond after a stone has been thrown into it, to many, possibly millions, of individuals. He lacked the mathematics (calculus) to do the calculations himself (summing to “n” all the diminishing gains and losses to all the parties over time “T”) and appealed to a leading astronomer and mathematician François Arago to help him (see note 10). Arago’s reply is not known and FB died before he could develop his ideas any further.

Bastiat concludes his “little drama” about Jacques Bonhomme, his hooligan son, the Glazier, and the Shoemaker with the following passage:

[§. 17] The reader must take care to note clearly that there are not just two characters, but three, in the little drama that I have put before him. One, Jacques Bonhomme, represents the Consumer, reduced by the breakage to enjoy one good instead of two. The second is the Glazier, who shows us the Producer whose activity is stimulated by the accident. The third is the Shoemaker (or any other producer) whose output is reduced to the same extent for the same reason. It is this third character that is always kept in the background and who, by personifying *what is not seen*, is an essential element of the problem. He is the one who makes us understand how absurd it is to see profit in destruction. He is the one who will be teaching us shortly that it is no less absurd to see profit in a policy of trade restriction, which is after all, nothing other than partial destruction. Therefore, go into the detail of all the arguments brought out to support it and you will merely find a paraphrase of that common saying: “*What would happen to glaziers if window were never broken?*”

### *Conclusion*

Given the persistence of ZOKE economics and the seemingly perennial invocation of the Broken Window Fallacy even among professional economists, let alone the economic press, the value of Frédéric Bastiat remains high in the 21st century. His theory is still pertinent, his argumentation sound (perhaps even a bit ahead of his time), and his ability to express himself remains unsurpassed. If only there were another like him today taking the ZOKEs head on. Perhaps their collective and permanent death the third or fourth time around will be what it takes to lay this Fallacy so beloved of the ZOKEs and SOCEs to rest for good.

# Notes and Bibliography

## *Notes*

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Walter E. Williams, “Disaster Ignorance” [November 26, 2012]

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Andrew T. Young, “Why in the World are We all Keynesians again? The Flimsy Case for Stimulus Spending, *Policy Analysis* (Cato institute), February 14, 2013.

## *Unpublished Papers by David M. Hart*

“Opposing Economic Fallacies, Legal Plunder, and the State: Frédéric Bastiat’s Rhetoric of Liberty in the Economic Sophisms (1846-1850)” [September 2011]

“Frédéric Bastiat’s Distinction between Legal and Illegal Plunder [April 2012]

On Ricochets, Hidden Channels, and Negative Multipliers: Bastiat on Calculating the Economic Costs of “The Unseen.”” [January 2013]

“Bastiat's Republicanism and Revolutionary Journalism (February and June 1848)” [April 2013]

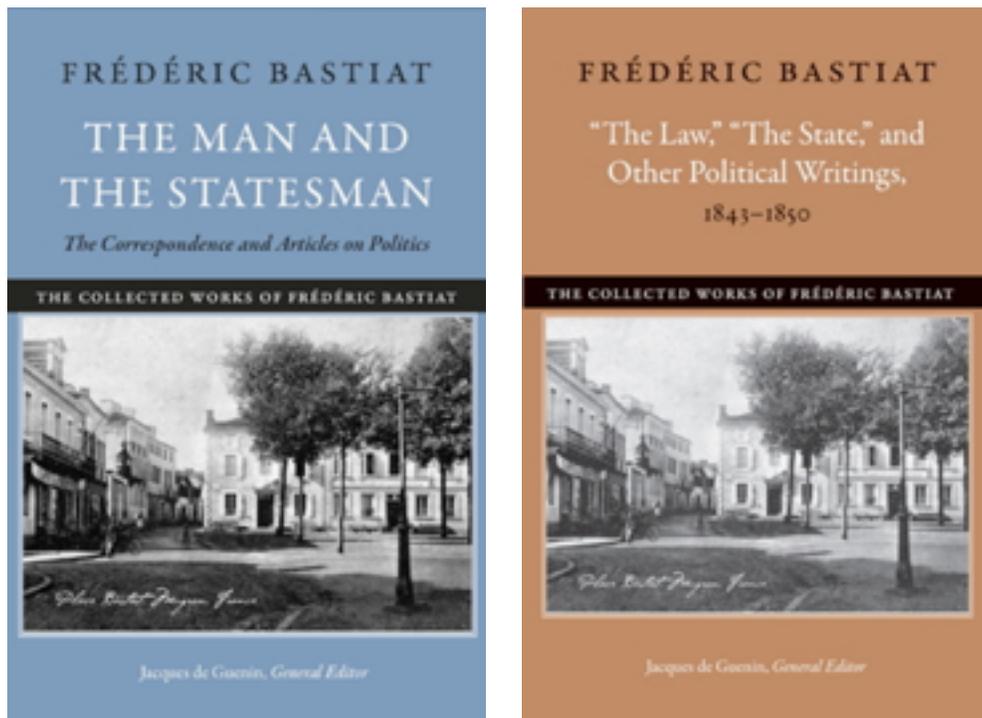
“The Sophism Bastiat never wrote: the Sophism of the Ricochet Effect” [April 2013]

## *General Bastiat Resources*

See the bibliography and other Bastiat resources at my personal website <<http://davidmhart.com/FrenchClassicalLiberals/Bastiat/index.html>>.

The main Bastiat page at the Online Library of Liberty <<http://oll.libertyfund.org/person/25>>.

### *Works by Bastiat*



*The Collected Works of Frédéric Bastiat* (Indianapolis: Liberty Fund, 2011 -2015), General Editor Jacques de Guenin. Academic Editor Dr. David M. Hart. <[oll.libertyfund.org/title/2451](http://oll.libertyfund.org/title/2451)>

- Vol. 1: *The Man and the Statesman. The Correspondence and Articles on Politics* (March 2011) <[oll.libertyfund.org/title/2393](http://oll.libertyfund.org/title/2393)>
- Vol. 2: *"The Law," "The State," and Other Political Writings, 1843-1850* (June 2012) <[oll.libertyfund.org/title/2450](http://oll.libertyfund.org/title/2450)>

- Vol. 3: Economic Sophisms and "What is Seen and What is Not Seen" (forthcoming)
- Vol. 4: Miscellaneous Works on Economics: From Jacques-Bonhomme to Le Journal des Économistes (forthcoming)
- Vol. 5: Economic Harmonies (forthcoming)
- Vol. 6: The Struggle Against Protectionism: The English and French Free-Trade Movements (forthcoming)

[Order from LF's online catalog <<http://www.libertyfund.org/books.aspx>>.]

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### *Online resources*

At Liberty Fund's Online Library of Liberty website:

- the Bastiat bio page at the Online Library of Liberty <<http://oll.libertyfund.org/person/25>>
- LF's edition of the Collected Works of Bastiat <<http://oll.libertyfund.org/title/2393>>
- Selected Quotations from Bastiat's Collected Works, vol. 1: The Man and the Statesman: The Correspondence and Articles on Politics (2011)

[http://oll.libertyfund.org/index.php?option=com\\_content&task=view&id=1613&Itemid=366](http://oll.libertyfund.org/index.php?option=com_content&task=view&id=1613&Itemid=366)

- Essays on and by Bastiat in The Forum <[http://oll.libertyfund.org/index.php?option=com\\_content&task=blogcategory&id=78&Itemid=281](http://oll.libertyfund.org/index.php?option=com_content&task=blogcategory&id=78&Itemid=281)>
- A Chronological Listing of Bastiat's writings <[http://oll.libertyfund.org/index.php?option=com\\_content&task=view&id=1562&Itemid=281](http://oll.libertyfund.org/index.php?option=com_content&task=view&id=1562&Itemid=281)>
- Images of Liberty: Monuments to Two 19th Century Free Traders: Frédéric Bastiat (1801-1850) & Richard Cobden (1804-1865) <[http://oll.libertyfund.org/index.php?option=com\\_content&task=view&id=1568&Itemid=263](http://oll.libertyfund.org/index.php?option=com_content&task=view&id=1568&Itemid=263)>

At my personal website:

- the main Bastiat page at my website with many of his works (in French) <<http://davidmhart.com/FrenchClassicalLiberals/Bastiat/index.html>>
- a research paper on Bastiat's Economic Sophisms: "Opposing Economic Fallacies, Legal Plunder, and the State: Frédéric Bastiat's Rhetoric of Liberty in the Economic Sophisms (1846-1850)" <<http://davidmhart.com/Papers/Bastiat/index.html>>
- lectures I have given about Bastiat <<http://davidmhart.com/Teaching/BastiatTalks.html>>
- A Chronology of his Life and Work <<http://davidmhart.com/FrenchClassicalLiberals/Bastiat/Lecture/Chronology.html>>
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- The World of French Political Economy in which Bastiat moved in the 1830s and 1840s <<http://davidmhart.com/FrenchClassicalLiberals/Bastiat/Glossary.html>>

- songs and limericks about Bastiat <<http://davidmhart.com/SongsLimericks/index.html>>

# About Dr. David M. Hart

Degrees: PhD (Cantab), MA (Stanford), BA (Hons) Macquarie, Sydney.

Currently occupation: Director of the Online Library of Liberty and Academic Editor of the *Collected Works of Frédéric Bastiat*.

Contact information:

- Email: <[dmhart@mac.com](mailto:dmhart@mac.com)>
- Website: <<http://davidmhart.com>>
- Blog: <<http://davidmhart.com/blog/>>

## *Bio*

David Hart was born and raised in Sydney, Australia. He did his undergraduate work at Macquarie University, Sydney, writing a thesis on the radical anti-statist thought of the Belgian/French political economist Gustave de Molinari. After spending a year in Germany studying German Imperialism and the origins of the First World War at the University of Mainz, he completed an M.A. in history at Stanford University writing papers on the 18th century French Physiocrats. While at Stanford he worked on student programs for the Institute for Humane Studies (when it was located at Menlo Park, California) where he was founding editor of the *Humane Studies Review: A Research and Study Guide*.

He received a Ph.D. in history from King's College, Cambridge on the work of two leading French classical liberals of the early 19th century, Charles Comte and Charles Dunoyer who pioneered a liberal class theory of history. He then taught for 15 years in the Department of History at the University of Adelaide in South Australia where he was awarded the University teaching prize.

Since 2001 he has been the Director of the Online Library of Liberty Project at Liberty Fund in Indianapolis <<http://oll.libertyfund.org>>. The OLL has won

several awards including a "Best of the Humanities on the Web" Award from the National Endowment for the Humanities in 2006. His research interests include the history of classical liberal thought, war and culture, and film and history.

He is currently the Academic Editor of Liberty Fund's translation project of the *Collected Works of Frédéric Bastiat* (in 6 vols.) the first volume of which came out in March 2011 (The Correspondence) and volume 2 (Political Essays) in June 2012. He is also editing for Liberty Fund a translation of Molinari's *Conversations on Saint Lazarus Street: Discussions on Economic Laws and the Defence of Property* (1849).

David is also the co-editor of two collections of 19th century French classical liberal thought (with Robert Leroux of the University of Ottawa), one in English published by Routledge: *French Liberalism in the 19th Century: An Anthology* (Routledge studies in the history of economics, May 2012), and another in French called *The Golden Age of French Liberalism* (forthcoming late 2012).

On his personal website <<http://davidmhart.com>> David has his lectures and a considerable number of resources on 19th century classical liberal thought, including a large section on Molinari, Bastiat, and other French classical liberal political economists (mostly in French).