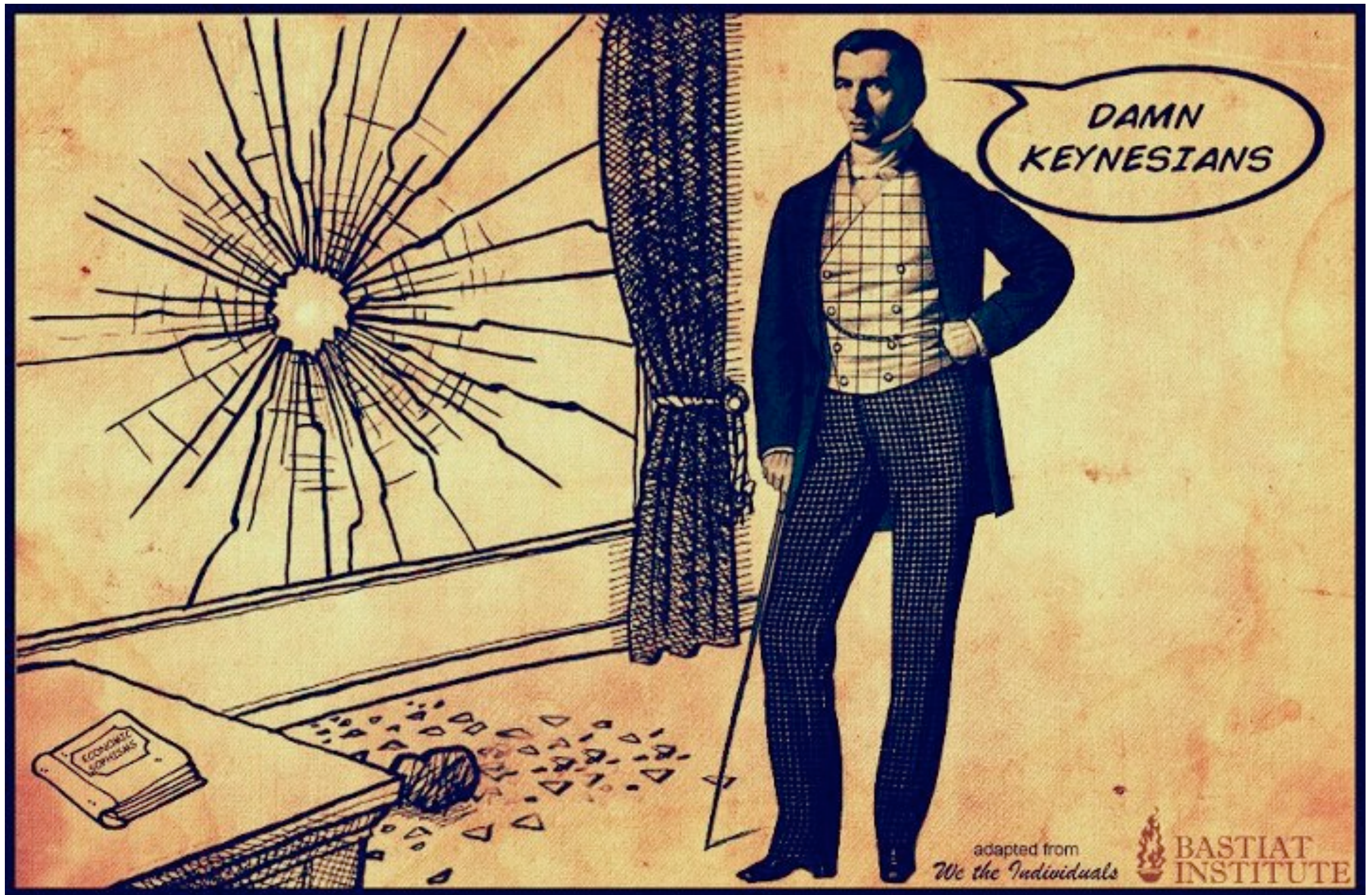




# The Bastiat Society

## Wichita





**“BASTIAT’S LESSONS FOR THE 21ST CENTURY:  
THE BROKEN WINDOW FALLACY REVISITED (AGAIN AND AGAIN)”  
Dr. David M. Hart**



# **About Liberty Fund, Inc.**



Pierre F. Goodrich  
(1894-1973)



**Liberty Fund's 50th Anniversary (1960-2010)**



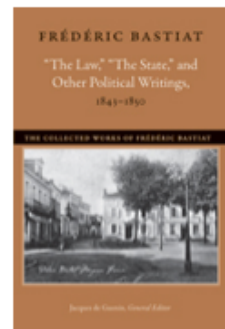


"...use this Fund to the end that some hopeful contribution may be made to the preservation, restoration, and development of individual liberty through investigation, research and educational activity."

Pierre Goodrich, Liberty Fund Founder

1 2 3 4 5 6 7 8

- » The Library of Economics and Liberty
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- » The Online Library of Liberty
- » The Library of Law and Liberty



**"The Law," "The State," and Other Political Writings, 1843-1850**

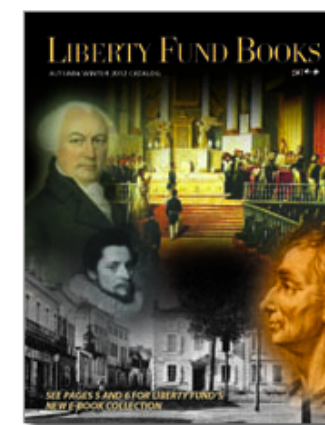
By Frédéric Bastiat  
Introduction by Pascal Salin  
Jacques de Guenin, General Editor  
Dennis O'Keeffe, Translation Editor  
David M. Hart, Academic Editor

Frédéric Bastiat was a keen observer and analyst of political and economic problems and a passionate proponent of liberal economic theory. "The Law," "The State," and Other Political Writings (1843-1850), collects nineteen of Bastiat's "pamphlets," or articles, ranging from the theory of value and rent, public choice and collective action, government intervention and regulation, the balance of trade, education, and trade unions to price controls, capital and growth, and taxation. Many of these are topics still relevant and debated today.

Bastiat's famous essay "The Law" showcases his talents as an activist for the free market. He explains that the law, far from being what it ought to be, "namely the instrument that enabled the state to protect individuals' rights and property, had become the means for what he termed 'spoliation,' or plunder." From the article "The State," in which Bastiat argues against socialism, comes perhaps his best-remembered quotation: "The state is the great fiction by which everyone endeavors to live at the expense of everyone else."

Throughout his articles, Bastiat demonstrates how the combination of careful logic, consistency of principle, and clarity of exposition is the instrument for solving most economic and social problems. Readers will find extensive introductory material, including notes on the translation and on the editions of the Oeuvres Complètes, a chronology of Bastiat's life and works, two maps of France showing the cities associated with Bastiat, annotations to the articles, and a bibliography. A special section provides little-known anecdotes about Bastiat and his contemporaries, including his editor Prosper Paillottet, who became Bastiat's friend and eventually his executor.

Liberty Fund was founded in 1960 by Pierre F. Goodrich, an Indianapolis businessman and lawyer, with the mission of encouraging a deeper understanding of the requisites for restoring and preserving the ideal of a society of free and responsible individuals.  
» more



[Click here to see Liberty Fund's latest Digital Catalog](#)

**Liberty Fund, Inc.:**  
**<http://www.libertyfund.org/>**

# **Liberty Fund's Resources on Bastiat**



# The Collected Works of Frédéric Bastiat, 6 vols. (Liberty Fund, 2011-)

## FRÉDÉRIC BASTIAT THE MAN AND THE STATESMAN

*The Correspondence and Articles on Politics*

THE COLLECTED WORKS OF FRÉDÉRIC BASTIAT



Jacques de Guenin, *General Editor*

- Vol. 1: *The Man and the Statesman. The Correspondence and Articles on Politics*
- Vol. 2: *"The Law," "The State," and Other Political Writings, 1843-1850*
- Vol. 3: *Economic Sophisms and "What is Seen and What is Not Seen"*
- Vol. 4: *Miscellaneous Works on Economics: From "Jacques-Bonhomme" to Le Journal des Économistes*
- Vol. 5: *Economic Harmonies*
- Vol. 6: *The Struggle Against Protectionism: The English and French Free-Trade Movements*

General Editor - Jacques de Guenin

Translation Editor: Dennis O'Keeffe

Academic Editor - Dr. David M. Hart

# “The Best of Bastiat” Ebook Collection

[<oll.libertyfund.org/title/2477>](http://oll.libertyfund.org/title/2477)

## THE BEST OF BASTIAT

*A Sampling of Liberty Fund's edition of The Collected Works of Frédéric Bastiat (2011-) in 6 vols.*

*“If it is a good thing to break windows, that this causes money to circulate & 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.”*



Claude Frédéric Bastiat (1801-1850)

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





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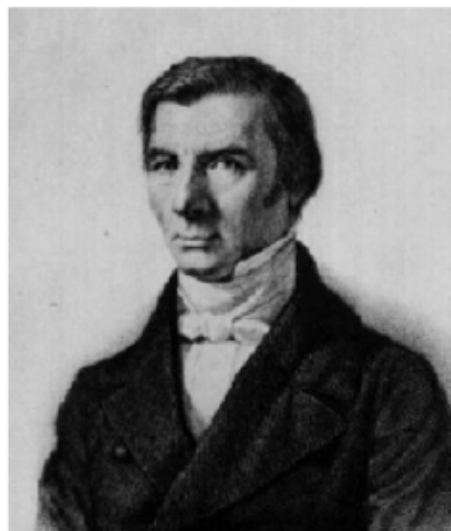
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## Frédéric Bastiat

1801 – 1850



### About the Author

Frédéric Bastiat (1801–1850) was one of the leading advocates of free markets and free trade in the mid-19 century. He was inspired by the activities of Richard Cobden and the organization of the Anti-Corn Law League in Britain in the 1840s and tried to mimic their success in France. Bastiat was an elected member of various French political bodies and opposed both protection and the rise of socialist ideas in these forums. His writings for a broader audience were very

popular and were quickly translated and republished in the U.S. and throughout Europe. His incomplete magnum opus, *Economic Harmonies*, is full of insights into the operation of the market and is still of great interest to economists. He died at a young age from cancer of the throat. [The image comes from "The Warren J. Samuels Portrait Collection at Duke University."]

For additional information about Frédéric Bastiat see the following:

- in the Forum: [Essays on Bastiat](#)
- at our sister website [Econlib](#): the *Concise Encyclopedia of Economics* entry on [Bastiat](#)

For tables of contents of Bastiat's Works:

- [table of contents](#) of the Guillaumin edition of the Works (in French)
- [table of contents](#) of LF's translation (in English)
- [table of contents](#) of LF's translation (in French)
- [chronological list](#) of Bastiat's works

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**Bastiat Page on the OLL:**  
**<<http://oll.libertyfund.org/person/25>>**

# **Other Resources**



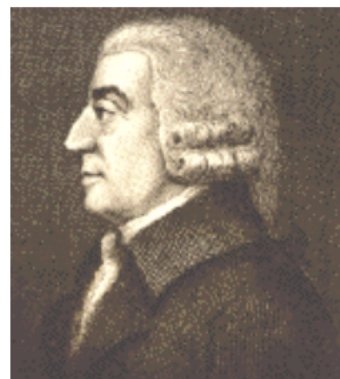
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- **EconTalk** - Russell Robert's podcast interviews  
<<http://www.econtalk.org>>
- **EconLog** - moderated blog by Bryan Caplan, and David Henderson <<http://econlog.econlib.org>>
- **Concise Encyclopedia of Economics**

# OLLSUBJECTGUIDES



**Adam Smith (1723-1790)**



**Frédéric Bastiat (1801-1850)**



**John S. Mill (1806-1873)**



**L. von Mises (1881-1973)**



**Milton Friedman (1912-2007)**



**J. M. Buchanan (1919-2013)**

The Online Library of  
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**Economics:**  
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# THE BEST OF THE OLL: A READER ON INDIVIDUAL, ECONOMIC, AND POLITICAL LIBERTY.

<[oll.libertyfund.org/title/2465](http://oll.libertyfund.org/title/2465)>

*“The distinctive principle of Western social philosophy is individualism. It aims at the creation of a sphere in which the individual is free to think, to choose, and to act without being restrained by the interference of the social apparatus of coercion and oppression, the State.”*

*[Ludwig von Mises, “Liberty and Property” (1958)]*



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## RESOURCES ON FRÉDÉRIC BASTIAT (1801-1850)

[davidmhart.com/liberty/Bastiat](http://davidmhart.com/liberty/Bastiat)

[Created: 5 June, 2012]

[Updated: 14 January, 2013]

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

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Personal: [dmhart@mac.com](mailto:dmhart@mac.com) [www.davidmhart.com/liberty](http://www.davidmhart.com/liberty)



**Claude Frédéric Bastiat (1801-1850)**

My dear Frédéric [FB writing to himself],

Like you I love all forms of freedom; and among these, the one that is the most universally useful to mankind, the one you enjoy at each moment of the day and in all of life's circumstances, is the freedom to work and to trade. I know that making things one's own is the fulcrum of society and even of human life. I know that trade is intrinsic to property and that to restrict the one is to shake the foundations of the other. I approve of your devoting yourself to the defense of this freedom whose triumph will inevitably usher in the reign of international justice and consequently the extinction of hatred, prejudices between one people and another, and the wars that come in their wake...

**My Bastiat Page:**

**<http://davidmhart.com/liberty/Bastiat>**



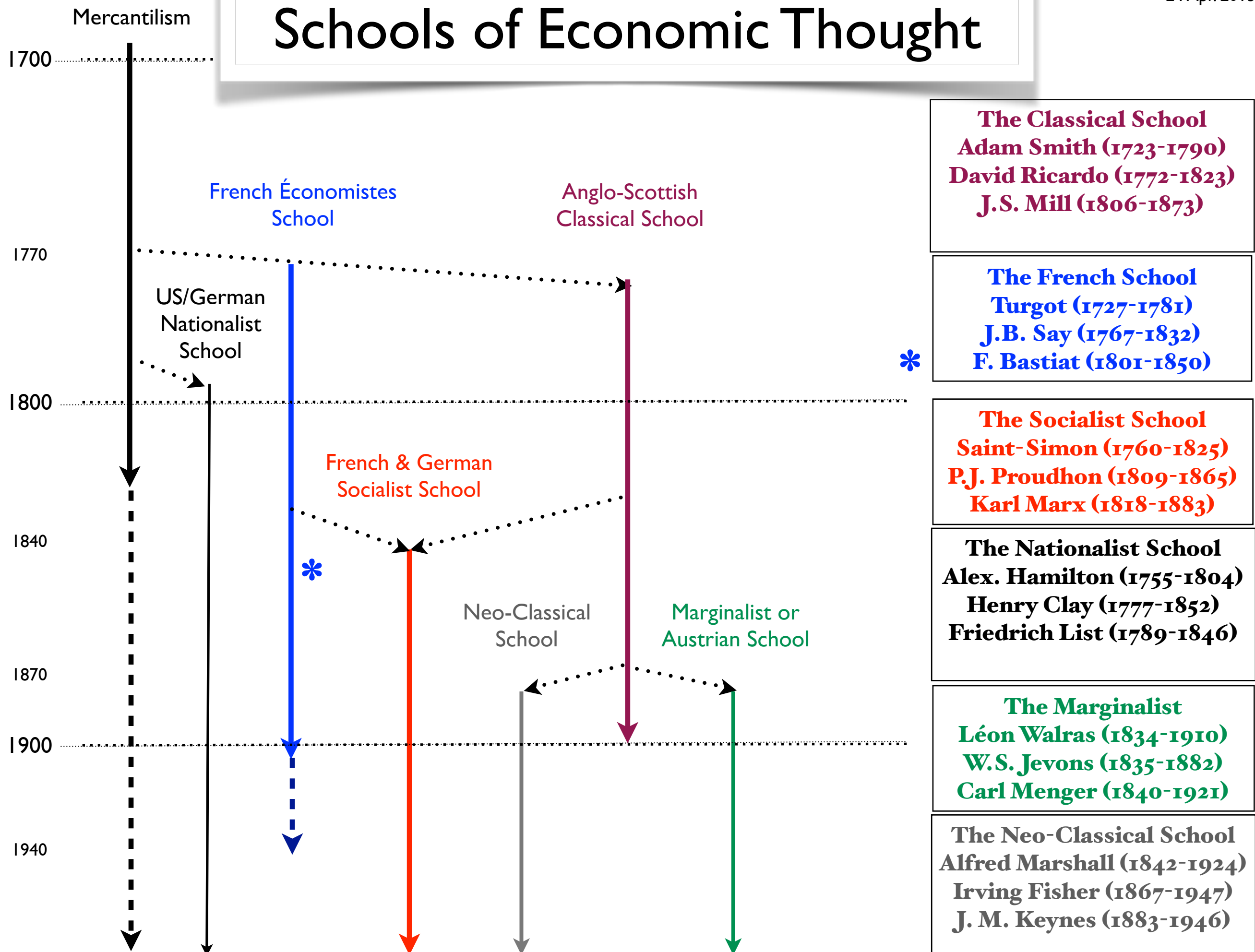


## The Importance of Frédéric Bastiat (1801-1850)



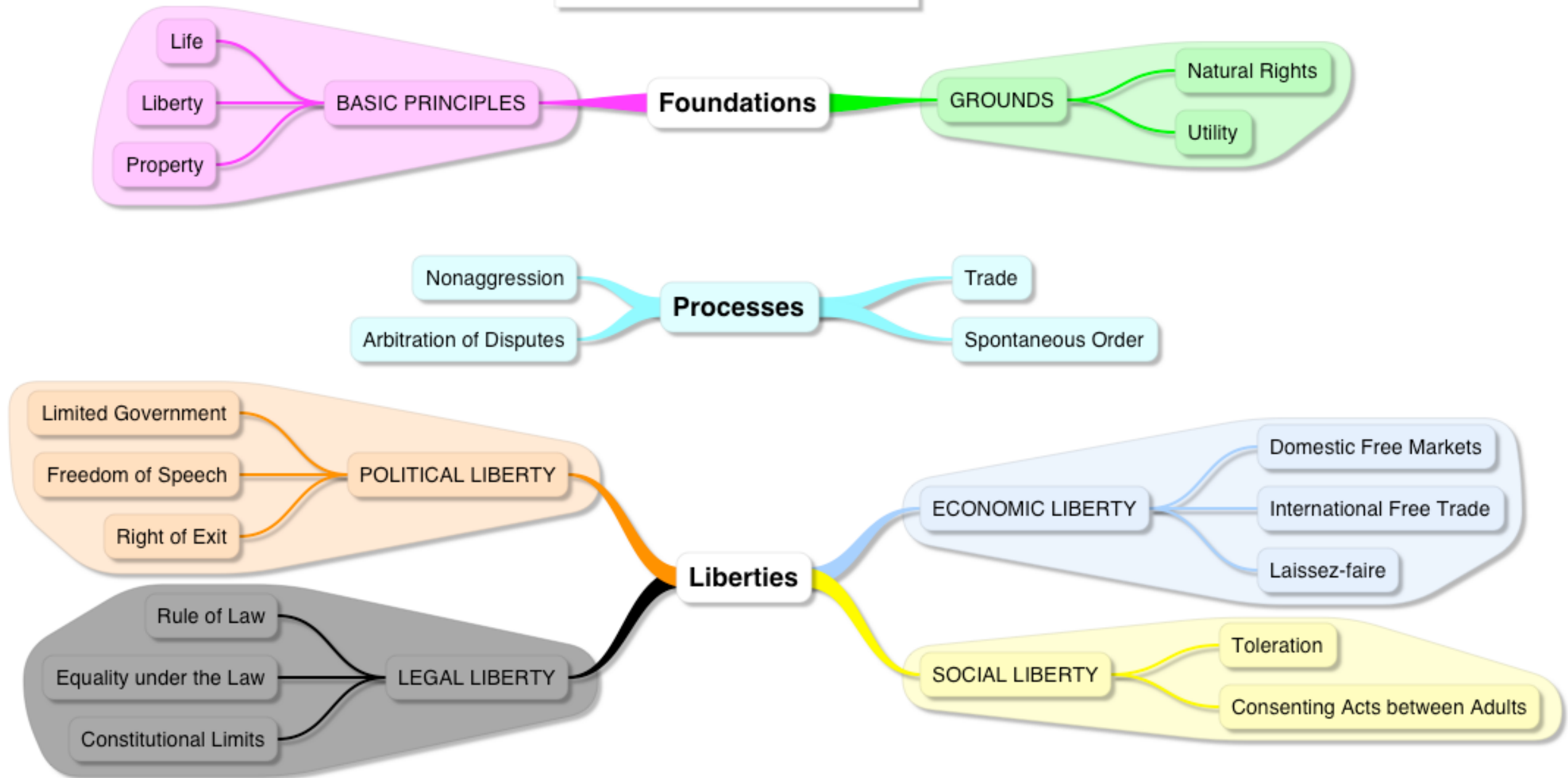
- his contributions to economic and political theory
  - his methodological individualism (“Crusoe economics”).
  - the idea of “spontaneous” or “harmonious” order of the market (in absence of coercion).
  - the interconnectedness of all economic activity (“ricochet effect”).
  - a new theory of rent (nothing special about land).
  - the rejection of Malthusian limits to population growth.
  - his theory of the “economic sociology” of the State (disturbing factors, plunder, war).
  - his “Public Choice” like theory of politics (politicians and bureaucrats have interests).
  - the quantification of the impact of economic events (“double incidence of loss”).
- and his skill as a disseminator of free market ideas & campaigner for free trade in France in 1840s

# Schools of Economic Thought



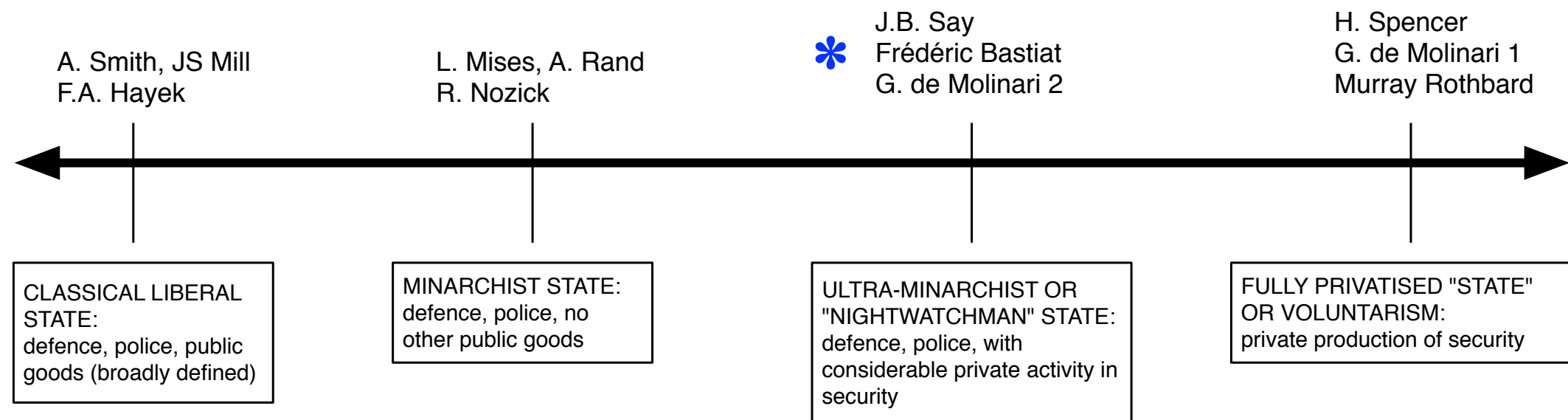


# THE CLASSICAL LIBERAL TRADITION



**"I am throwing myself into public debate; I am trying to get through to the crowd to preach all the freedoms, the total of which make up liberty."  
["Freedom," *Jacques Bonhomme*, 11-15 June 1848.]**

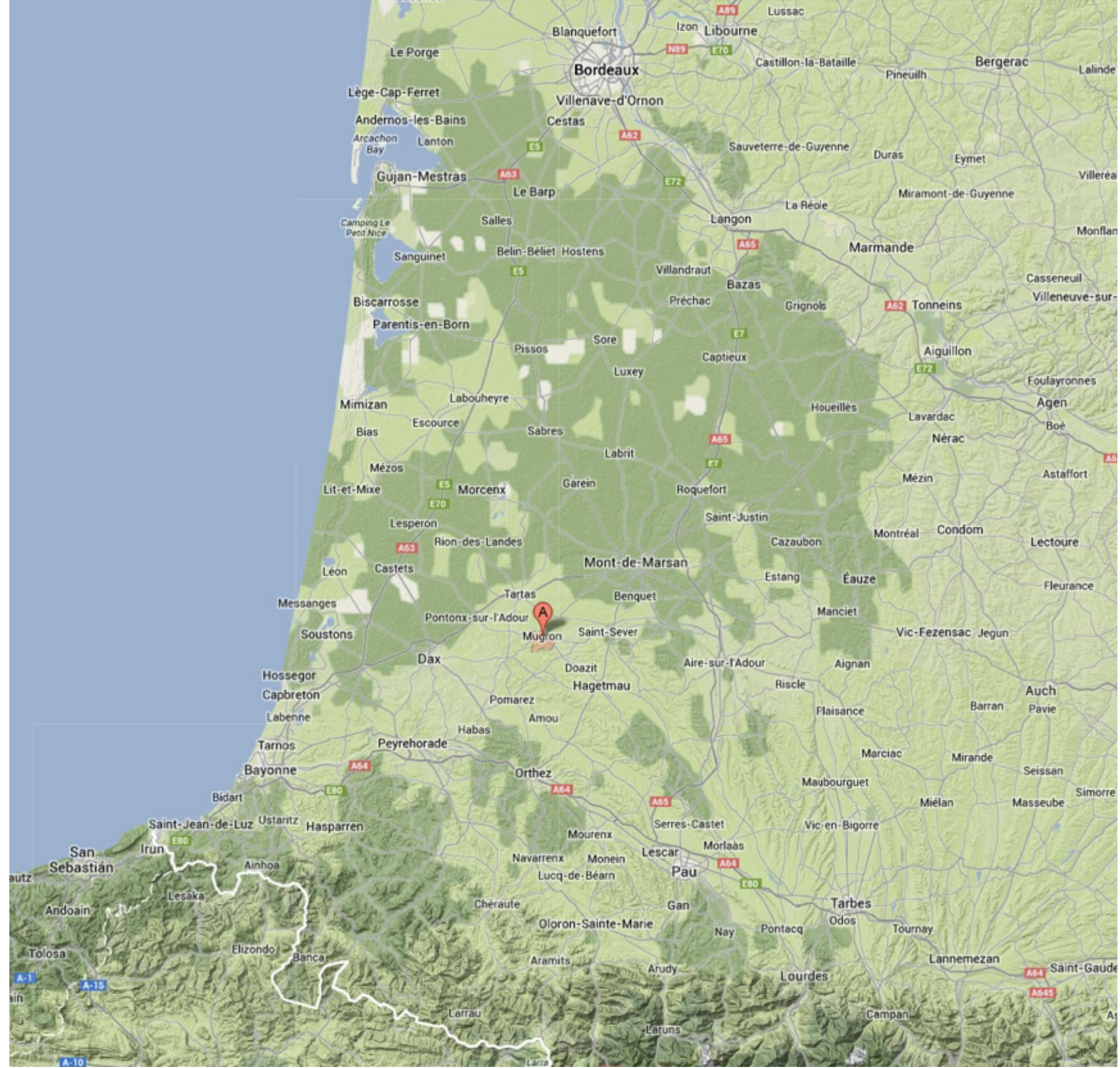
## FUNCTIONS OF THE CLASSICAL LIBERAL STATE





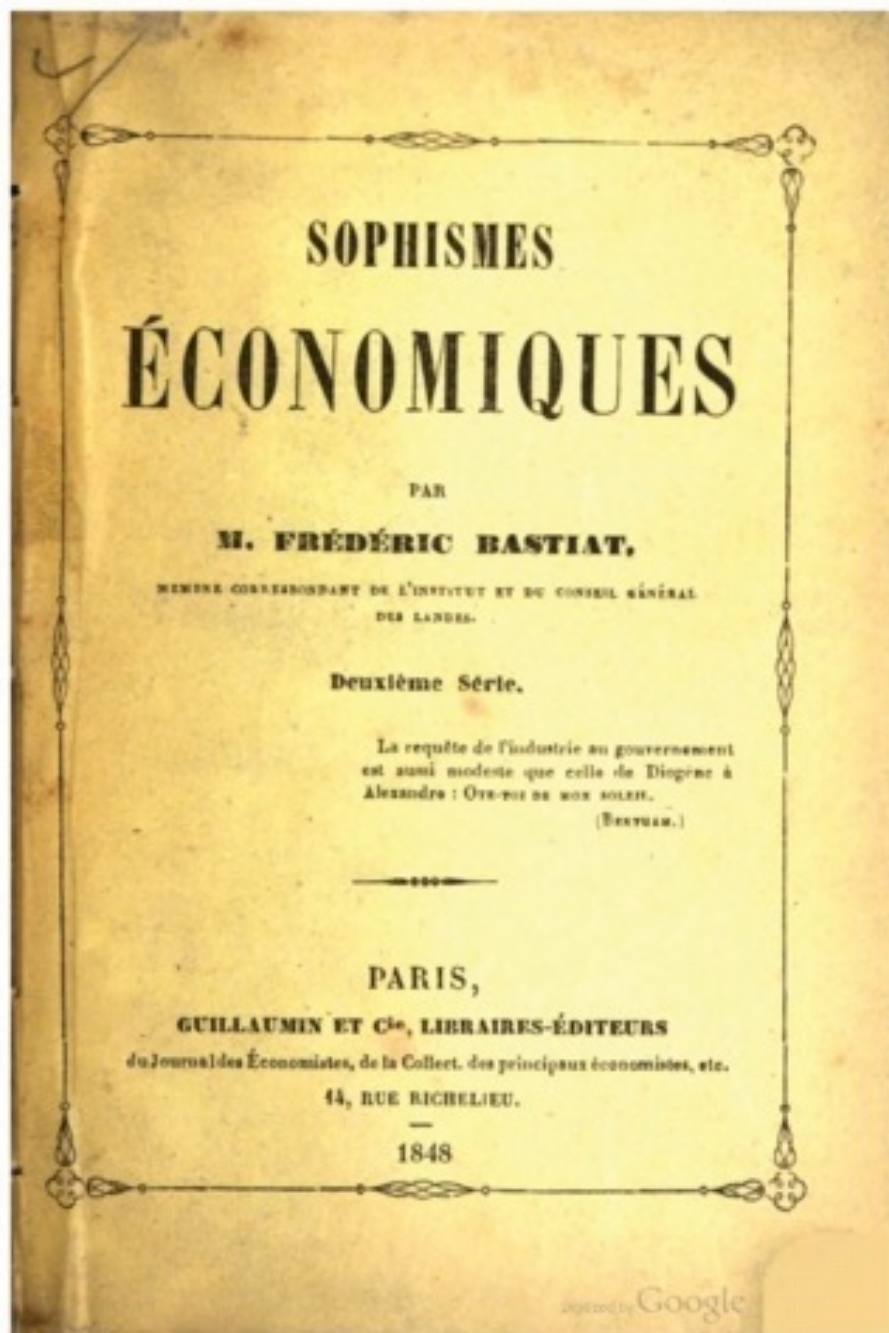








## A Brief Survey of Bastiat's Life & Work



- born June 30, 1801 in Bayonne, Dept. of Les Landes in SW France
- gentleman farmer and local magistrate until 1845
- discovered Cobden's Anti-Corn Law League and wanted to build French Free Trade movement
- wrote articles & books which impressed the Paris "Economists" (the "Guillaumin network" - Political Economy Society)
- 1846-48: *Libre-Échange* magazine, *Economic Sophisms*
- 1848: involved in Feb. Revolution, street journalism, elected to Const. Assembly, VP Finance Committee
- 1848 to mid-1850: ideological and political battle against socialism, pamphlet war: *The Law, The State, Property and Plunder*, WSWNS
- unfinished treatise on economics: *Economic Harmonies* (1850)
- died 24 Dec. 1850 from throat cancer

***What is Seen and What is Not Seen: Or Economics in One Lesson (1850)***

CE QU'ON VOIT  
ET  
CE QU'ON NE VOIT PAS

OU  
L'ÉCONOMIE POLITIQUE EN UNE LEÇON

PAR  
F. BASTIAT

---

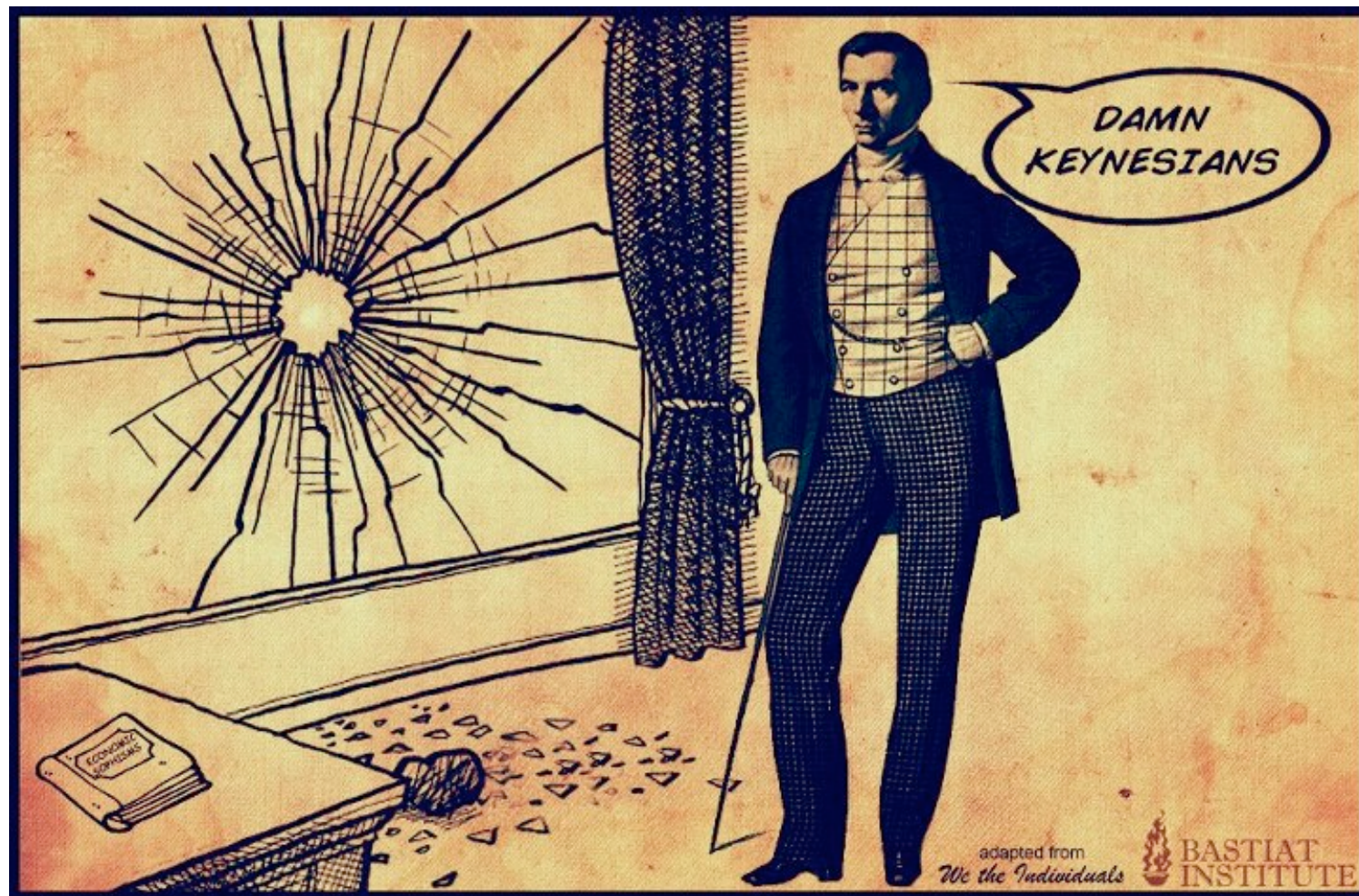
CINQUIÈME ÉDITION

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PARIS  
LIBRAIRIE GUILLAUMIN ET C<sup>ie</sup>  
RUE RICHELIEU, 14



# The “Broken Window Fallacy”: or the Myth that Economic Destruction has a “Silver Lining”



In Frédéric Bastiat's day:

- arguments for national economic stimulus & support for industry [competition from Great Britain]
- arguments about the Great Fire of London 1666 led to rebuilding of London “better than before”
- FB's counter-example of the “Broken Window fallacy”



# The “Broken Window Fallacy”: or the Myth that Economic Destruction has a “Silver Lining”



In our day:

- the Japanese earthquake & tsunami, 11 March, 2011
- tropical storm Sandy, 29 October 2012

## **The “Broken Window Fallacy”: or the Myth that Economic Destruction has a “Silver Lining”**

Interpretations:

- **Paul Krugman**, "Reckonings; After the Horror", *New York Times*, September 14, 2001
- Paul Krugman on Fareed Zakaria's GPS program, *CNN*, August 11, 2011 - "attack of the space aliens"
- Paul Krugman, interviewed by Paul Solman on *PBS NewsHour* June 18, 2012
- **Peter Morici**, "The Economic Impact of Hurricane Sandy ... Not all Bad News", *Yahoo! Finance*, Monday, Oct. 29, 2012



## **“The Broken Window Fallacy I: Krugman”**



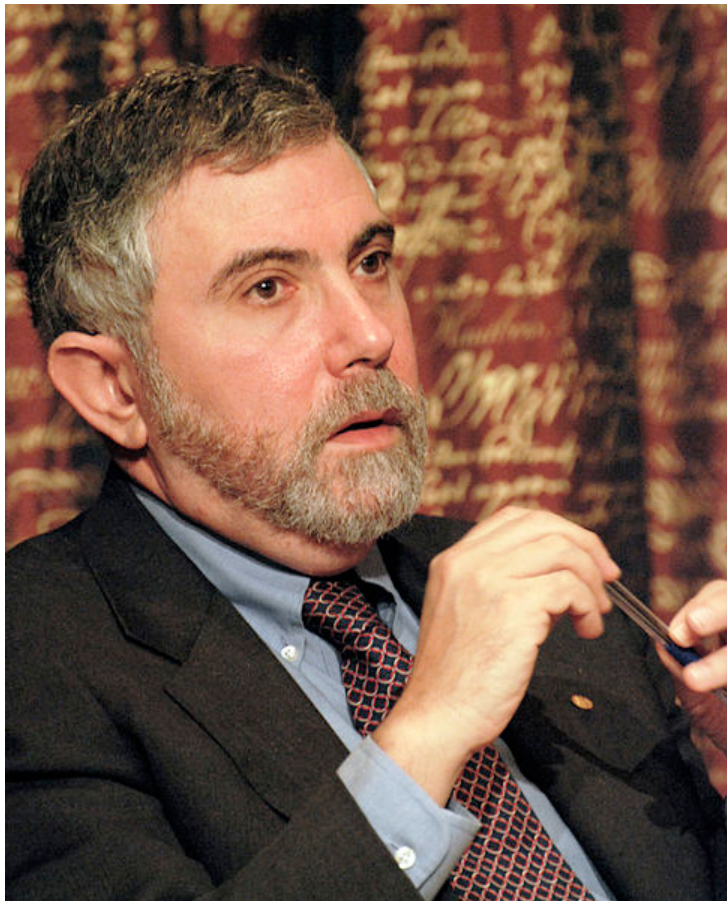
**Paul Krugman (1953-)  
Nobel Prize in Economics 2008**

... 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.

[Paul Krugman, “Reckonings; After the Horror” NYT, September 14]

## “The Broken Window Fallacy II: Krugman”



**Paul Krugman (1953-)**  
**Nobel Prize in Economics 2008**

“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].”

[Paul Krugman on Fareed Zakaria’s *GPS program*, CNN, August? 2011]



## “The Broken Window Fallacy III: Morici”



**Damage from Hurricane Sandy  
to house in Brooklyn, NY  
(30 October 2012)**

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.

[Peter Morici, "The Economic Impact of Hurricane Sandy ... Not all Bad News" (Oct 29, 2013) *Yahoo! Finance*.]



## Critics of the “Broken Window Fallacy”

- **Walter Williams**’ “Economic Lunacy,” March 22, 2011, *creators.com*
- **Andrew T. Young**, “Why in the World are We all Keynesians again?” *Policy Analysis* (Cato institute), February 14, 2013
- Frédéric Bastiat, *Economic Sophisms* (1846, 1848)

## Some Fallacies

- 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



## THE BEST OF BASTIAT #3.2

*“The Broken Window” (July 1850)*  
*<oll.libertyfund.org/title/2483>*

*“If it is a good thing to break windows, that this  
causes money to circulate & 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.”*



**Claude Frédéric Bastiat (1801-1850)**

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*The Best of Bastiat <oll.libertyfund.org/title/2477>*  
*[April 24, 2013]*

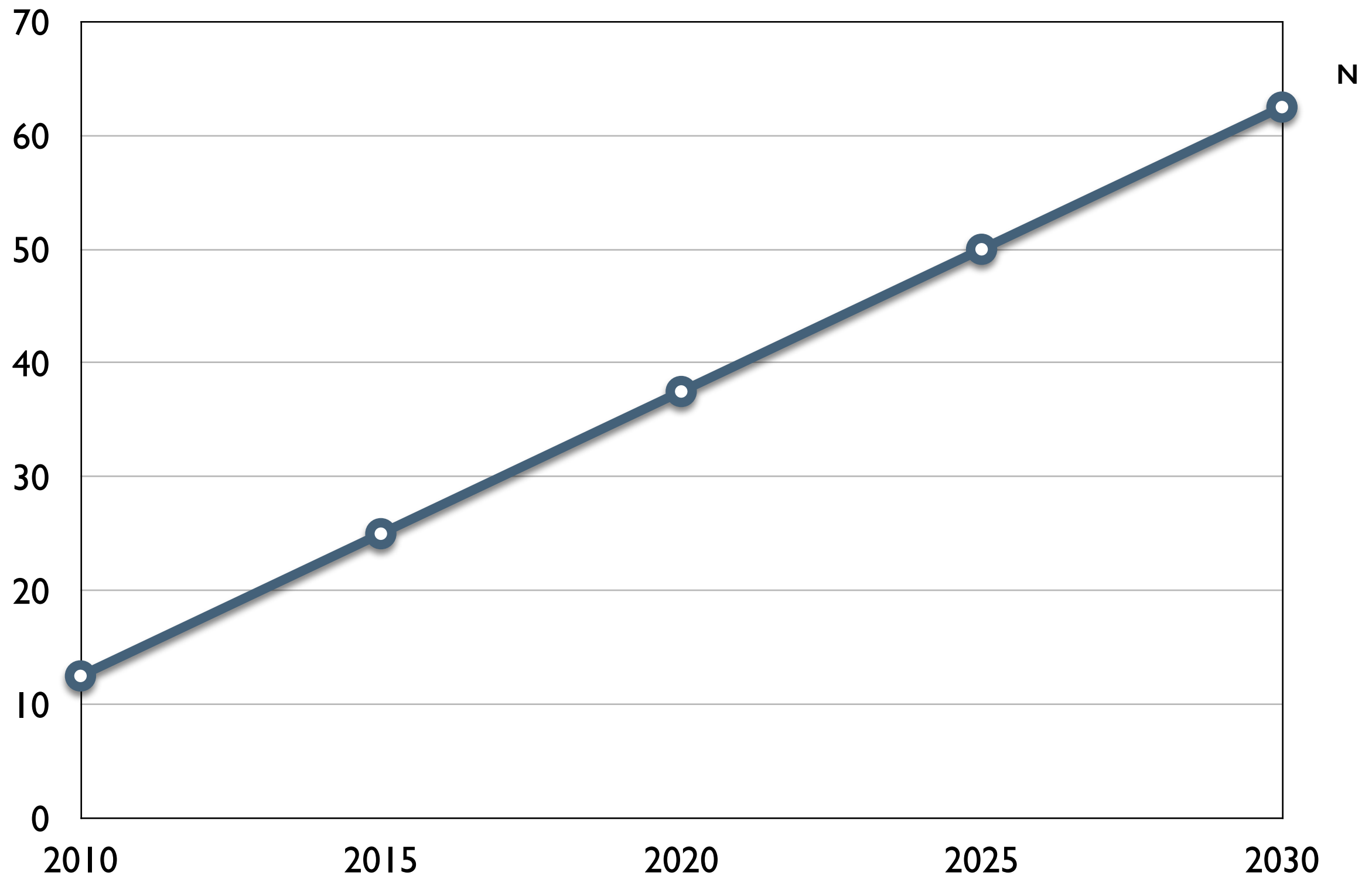
## *What is Seen & What is not Seen (1850). Chapter 1: The Broken Window.*

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.** 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 windowpane 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....



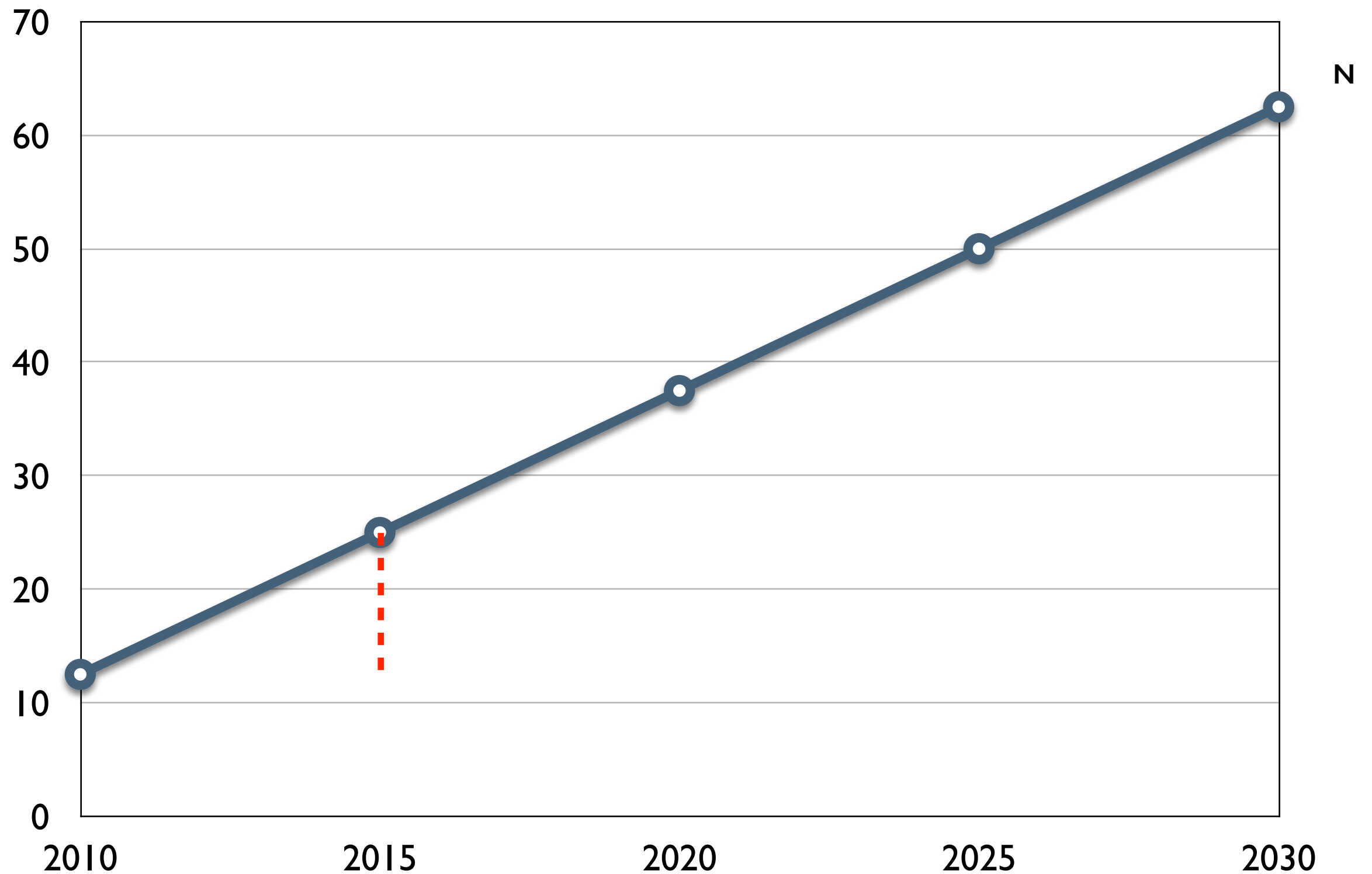
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## Normal Growth under Liberty



The Economic Impact of a Natural Disaster I

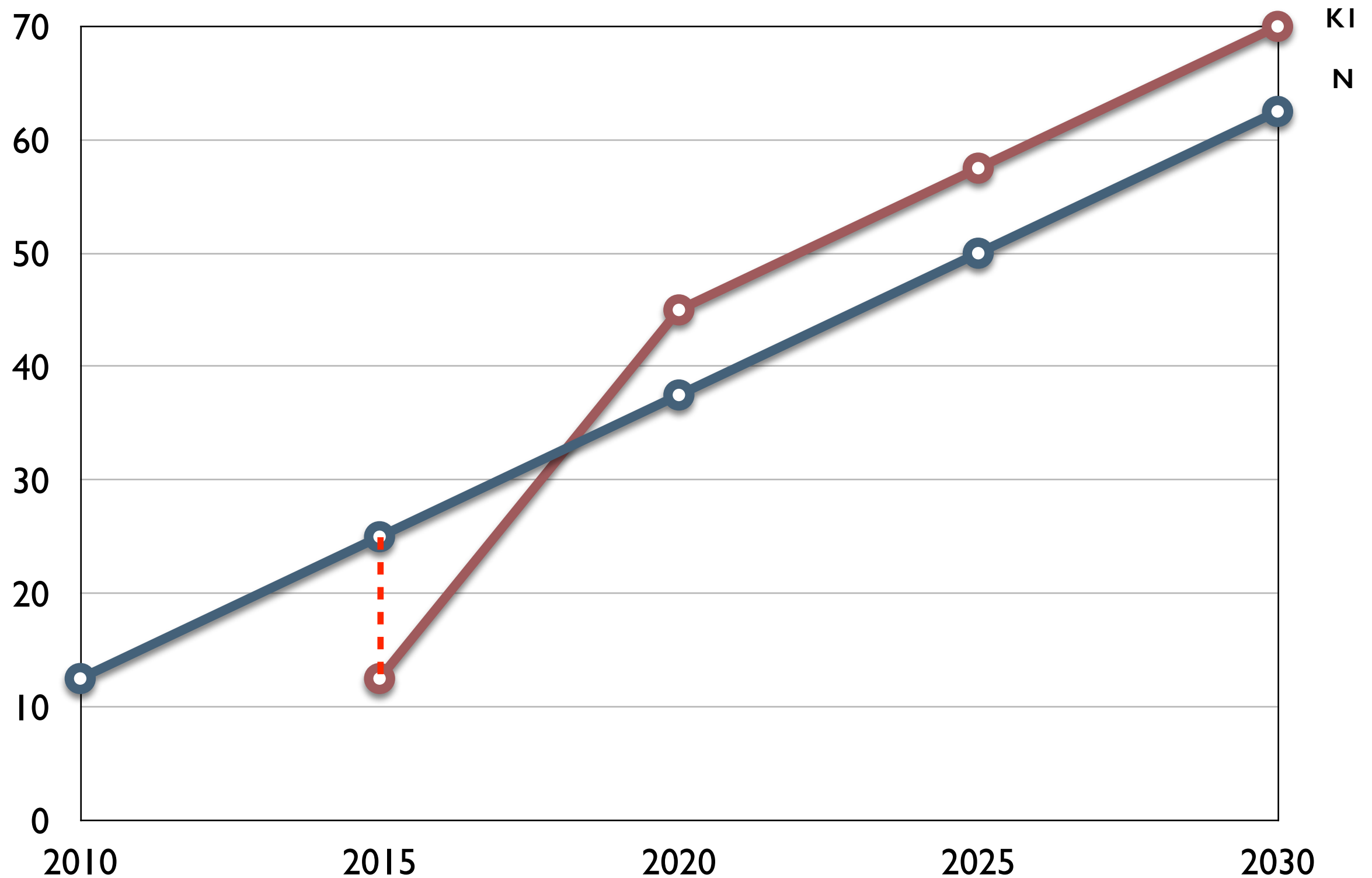
## A Disaster strikes



The Economic Impact of a Natural Disaster 2



# KI Optimistic Keynesians - Better than Ever!



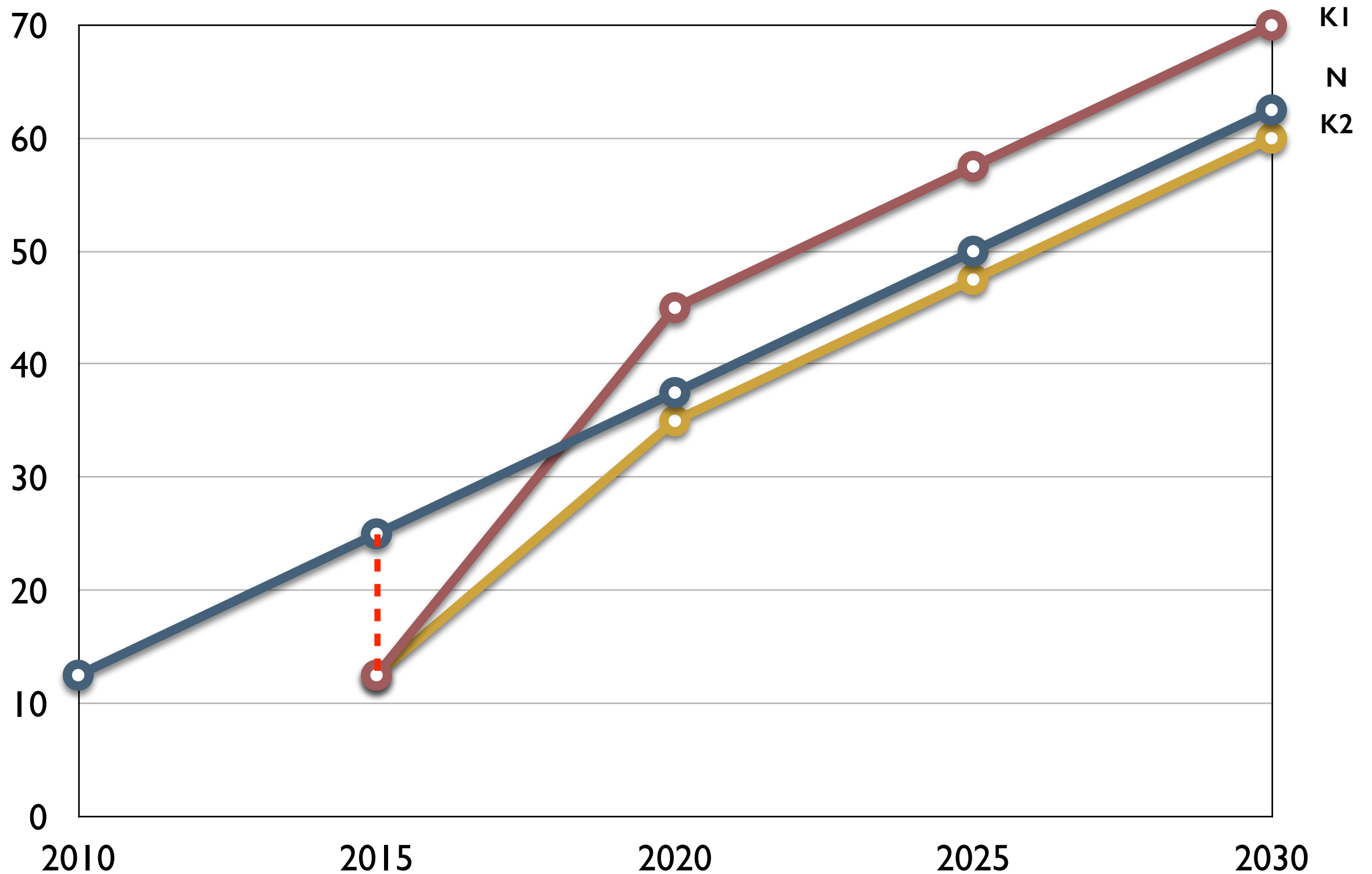
The Economic Impact of a Natural Disaster 3

N

KI

K2

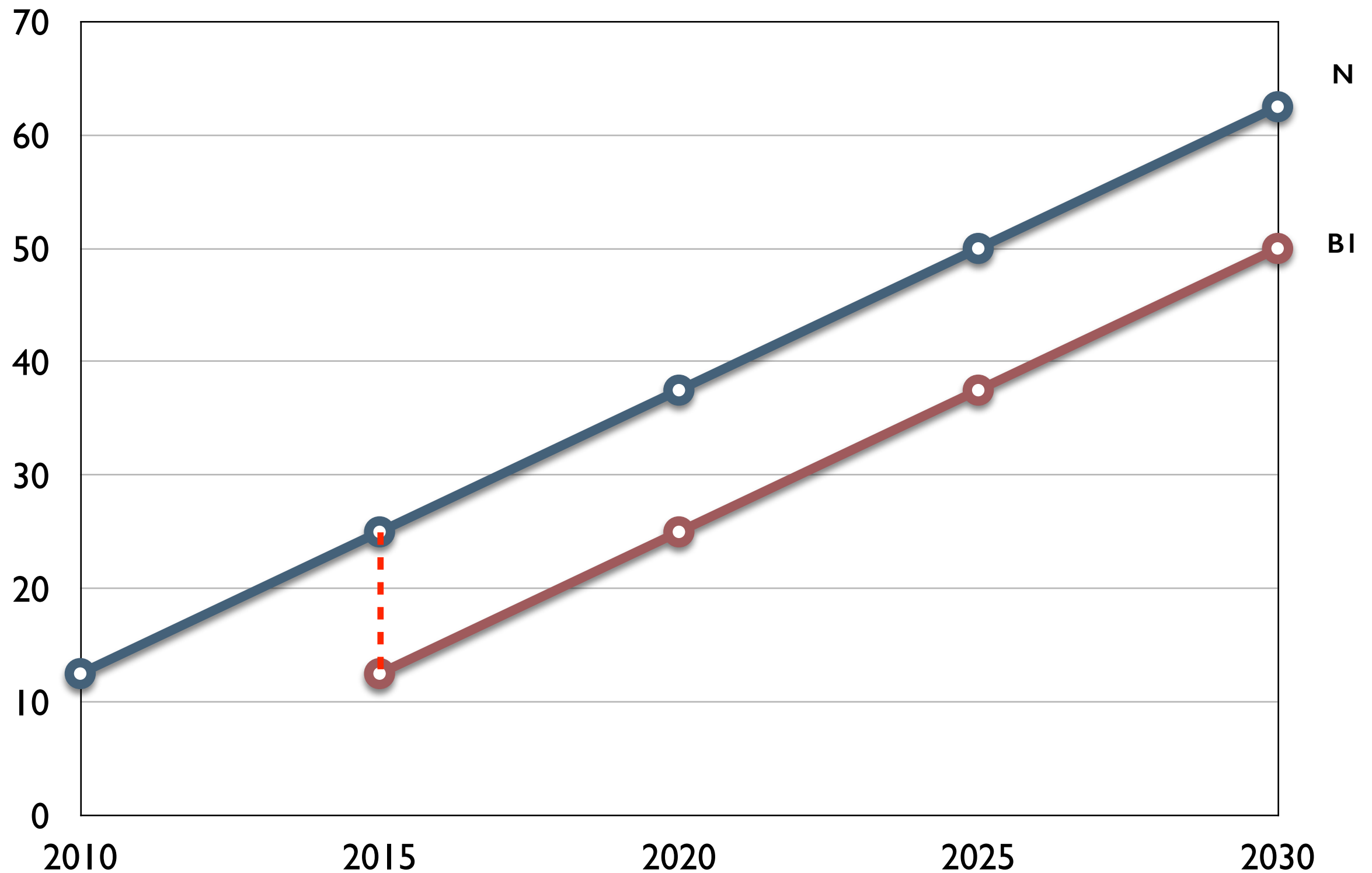
K2 Realistic Keynesians - almost as good as new!



The Economic Impact of a Natural Disaster 4

N BI

## BI optimistic Bastiat - we go on

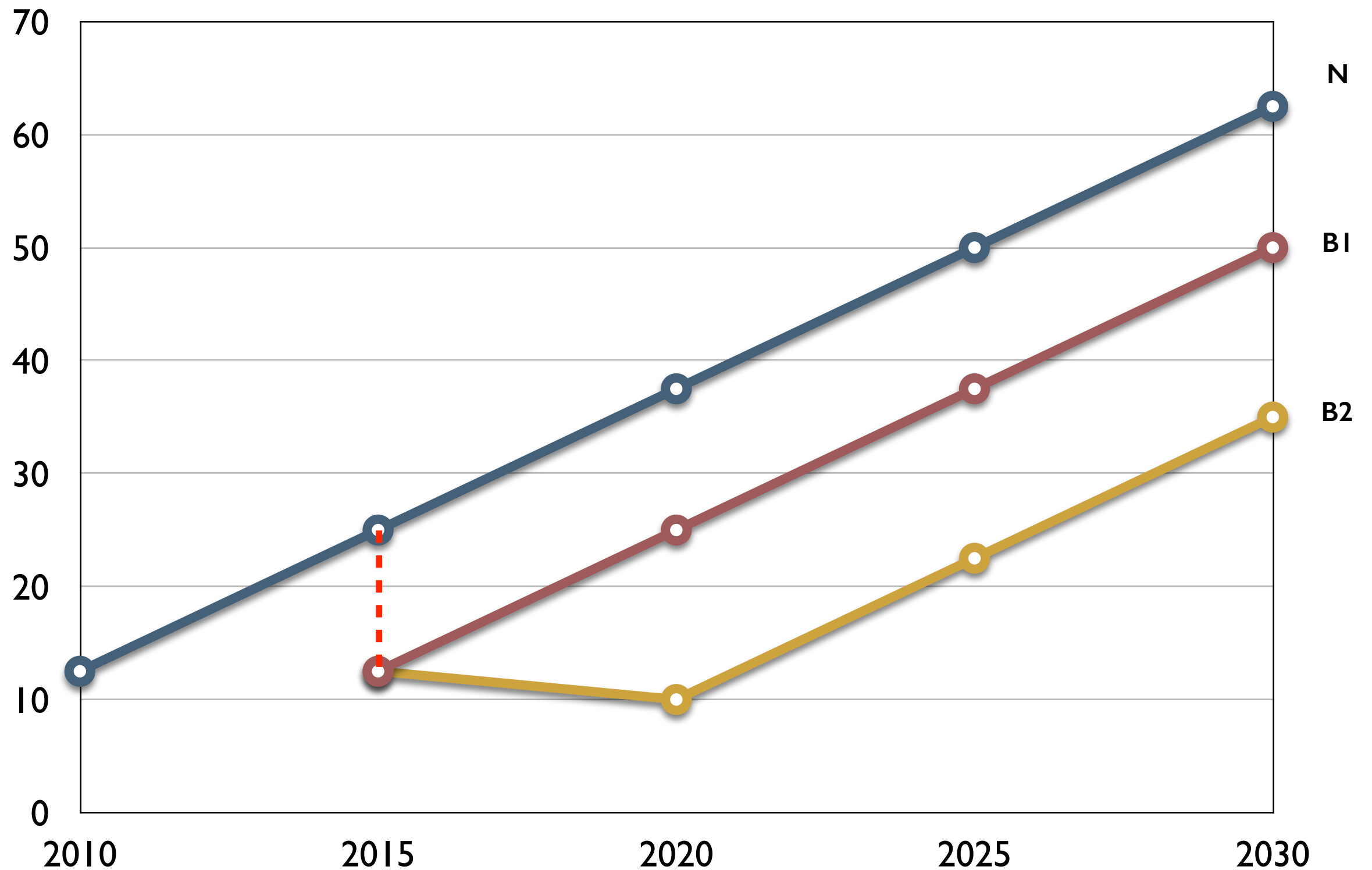


The Economic Impact of a Natural Disaster 5



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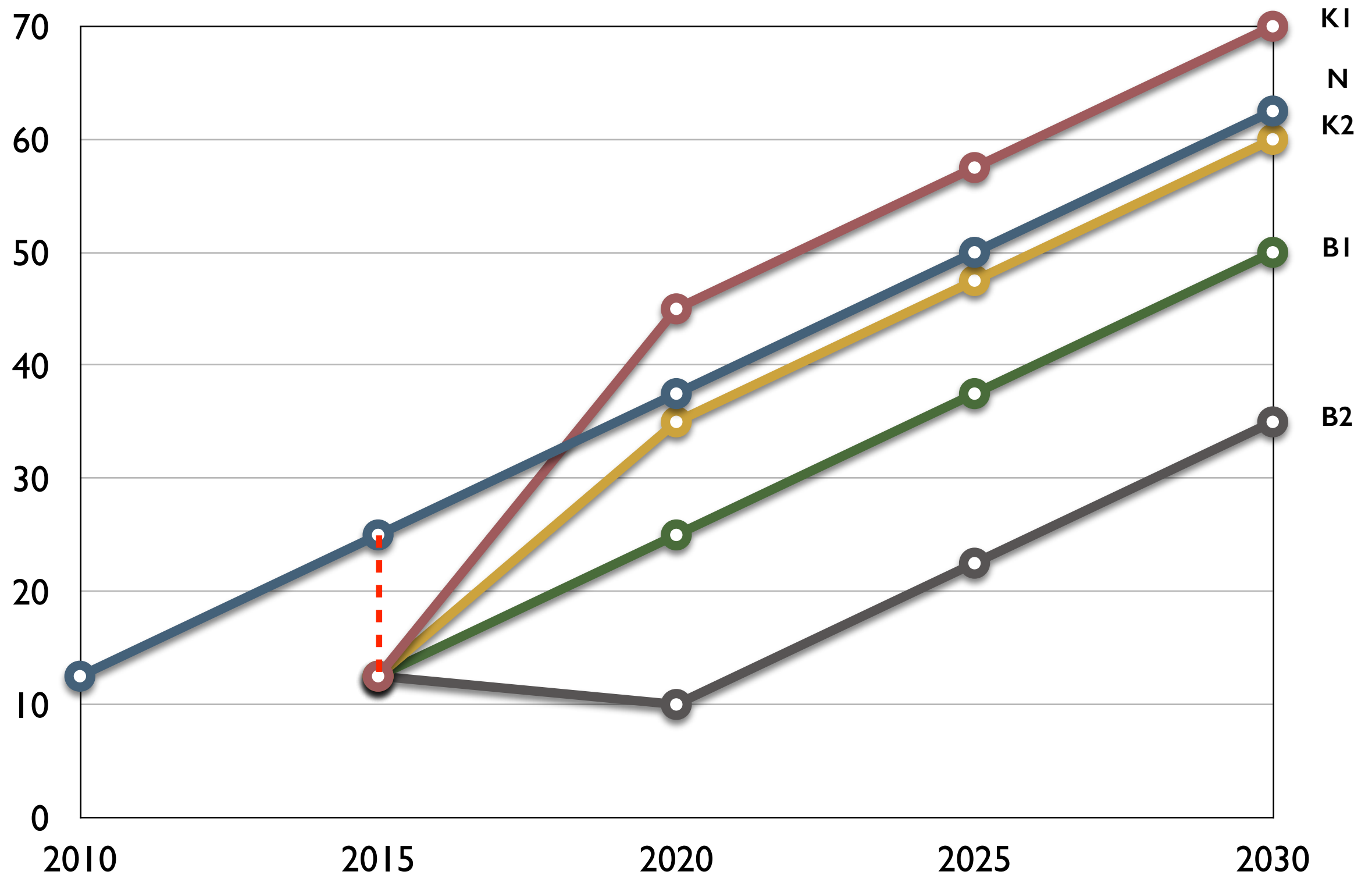
## B2 pessimistic Bastiat - things could be worse



The Economic Impact of a Natural Disaster 6

N KI K2 BI B2

## The Options for Growth and Prosperity



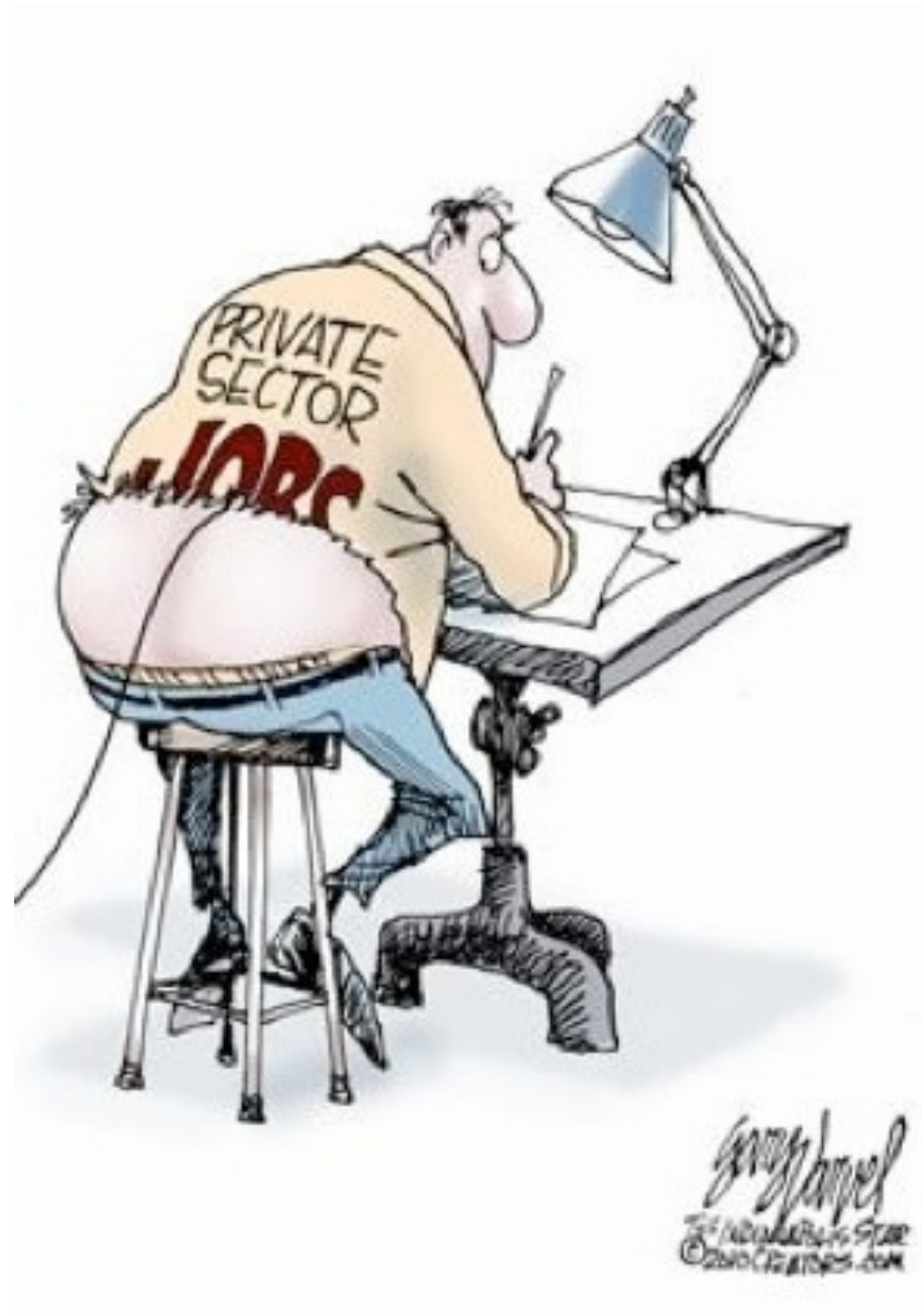
The Economic Impact of a Natural Disaster 7

**“The Seen and the Unseen” in Obama’s America:**  
**What is “Seen”: The Obama Administration “creating” New Jobs**  
**by Government Expenditure**

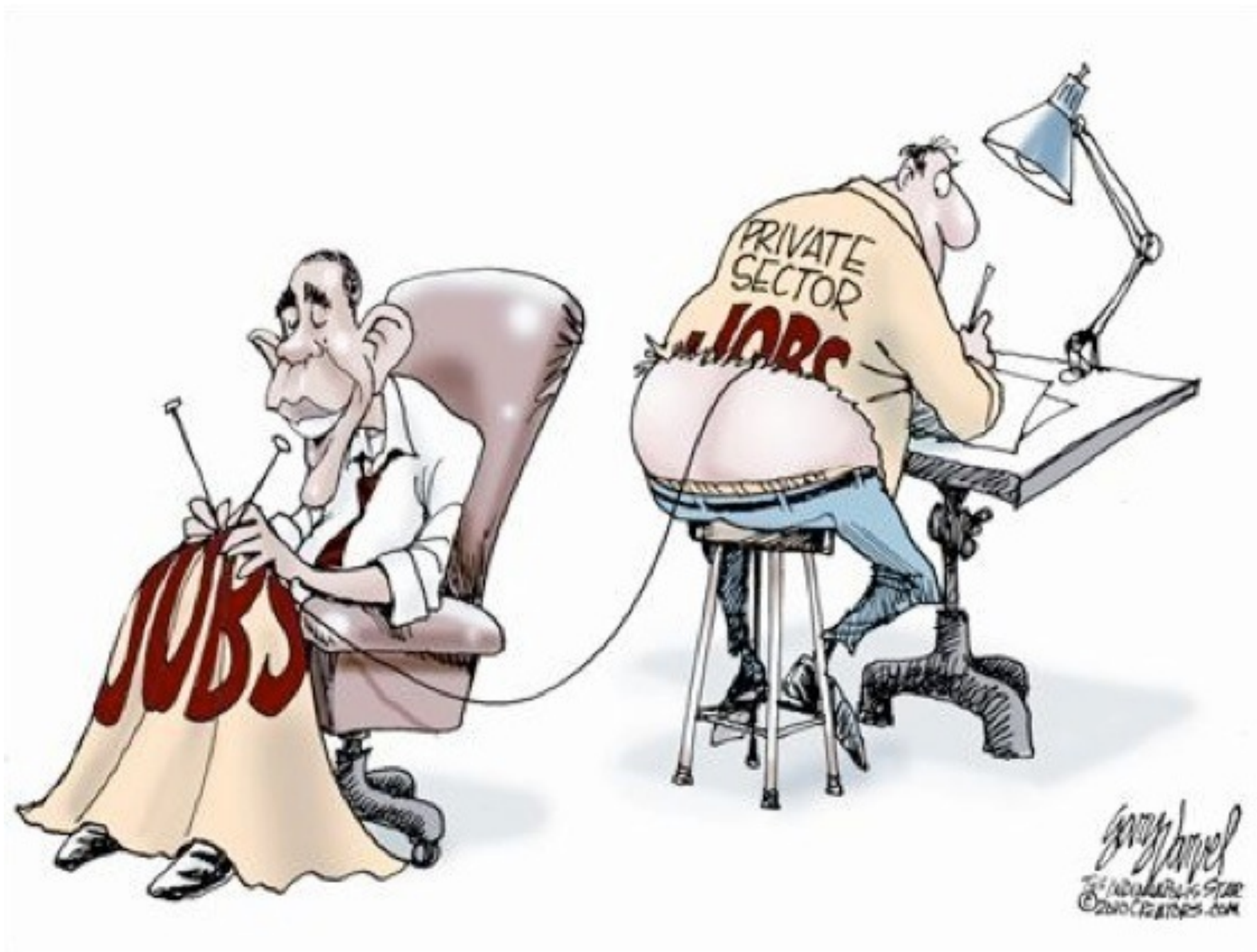




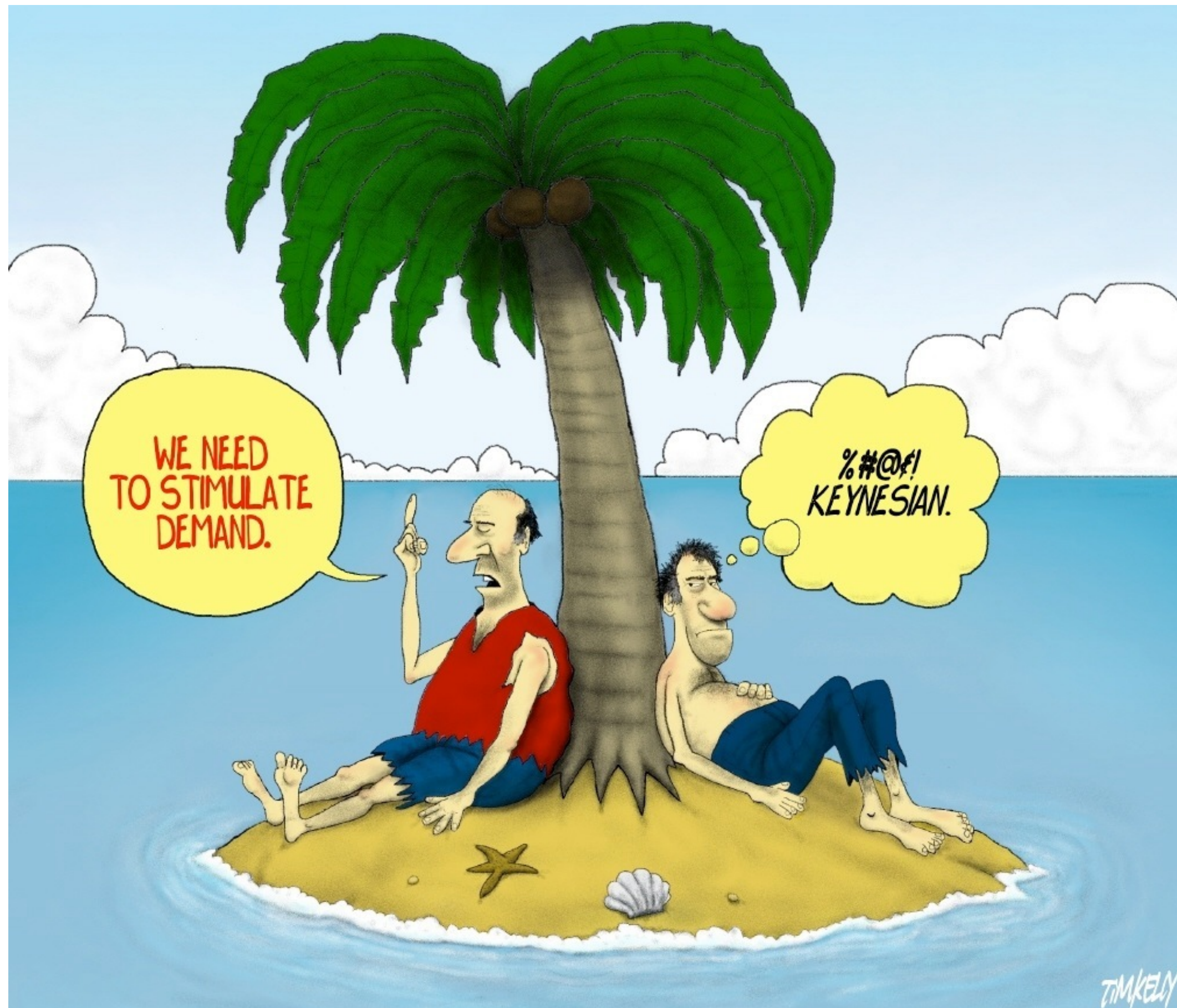
**“The Seen and the Unseen” in Obama’s America:  
What is “Unseen”: The Obama Administration “creating” New  
Jobs by Government Expenditure**



## The Seen and the Unseen: The Obama Administration “creating” New Jobs







**{Bastiat vs Keynesian “Crusoe Economics”}**



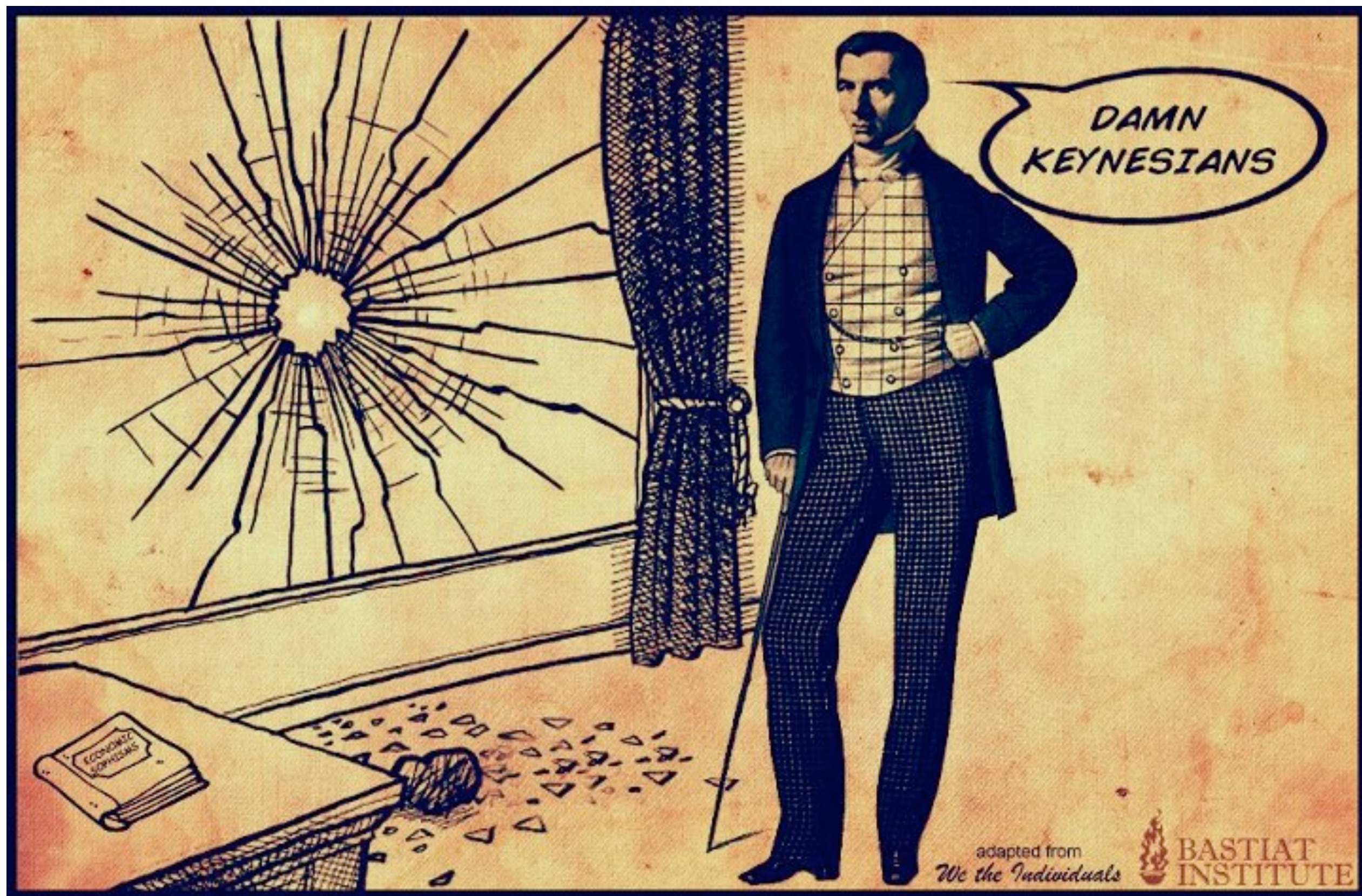
## KEYNESIAN ECONOMICS



In case of nothing  
to do, break glass and then  
sweep up broken glass.

**[In case of nothing to do, break glass  
and sweep up broken glass]**





adapted from  
*We the Individuals*



BASTIAT  
INSTITUTE



**MERRIE MELODIES**  
REG. U.S. PAT. OFF.

*"That's all folks!"*

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