

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

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*

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[Front Page](#) :: [Authors \(by Period\)](#) :: [Frédéric Bastiat](#)

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:

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RESOURCES ON FRÉDÉRIC BASTIAT (1801-1850)

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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:

davidmhart.com/liberty/Bastiat

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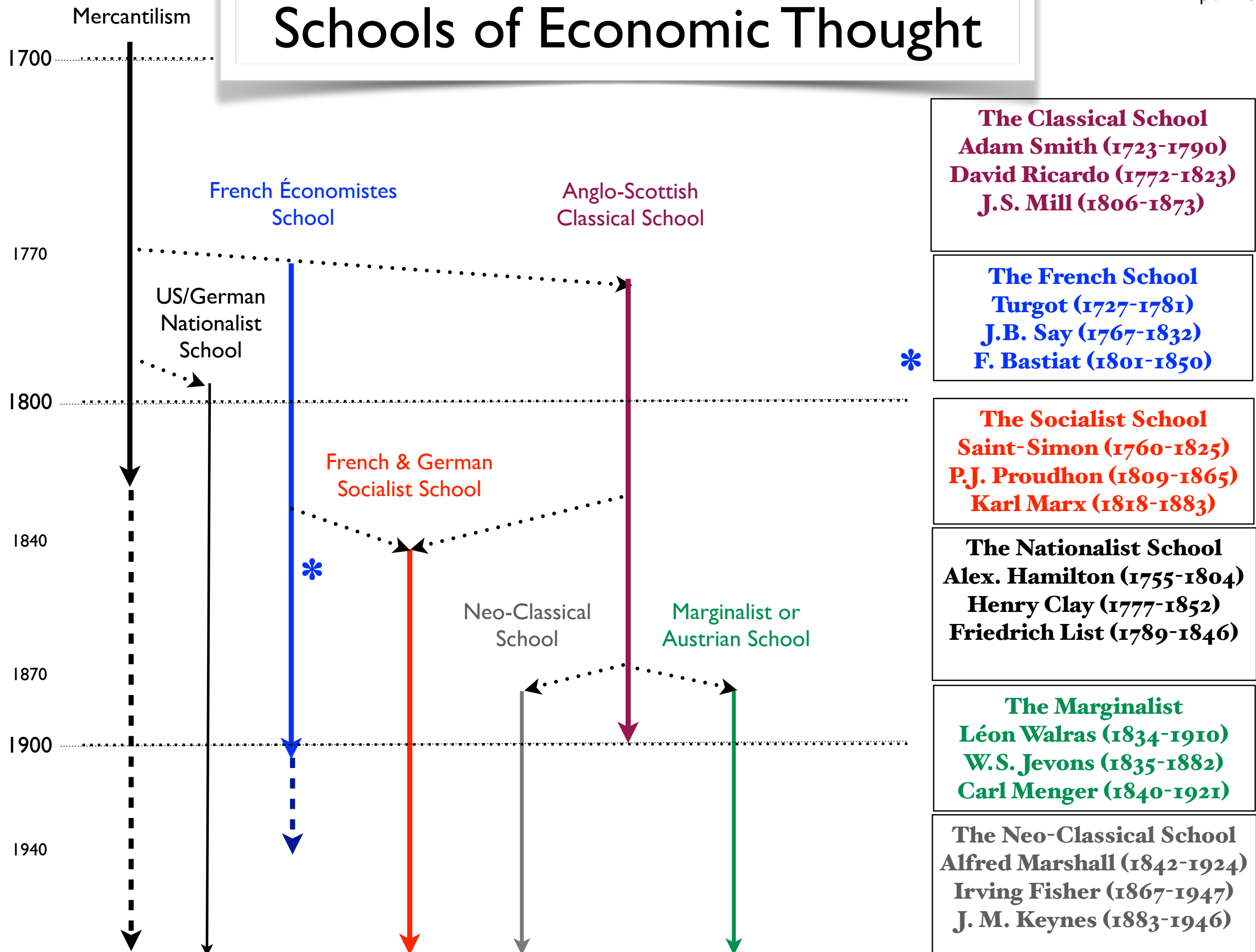
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The Importance of Frédéric Bastiat (1801-1850)

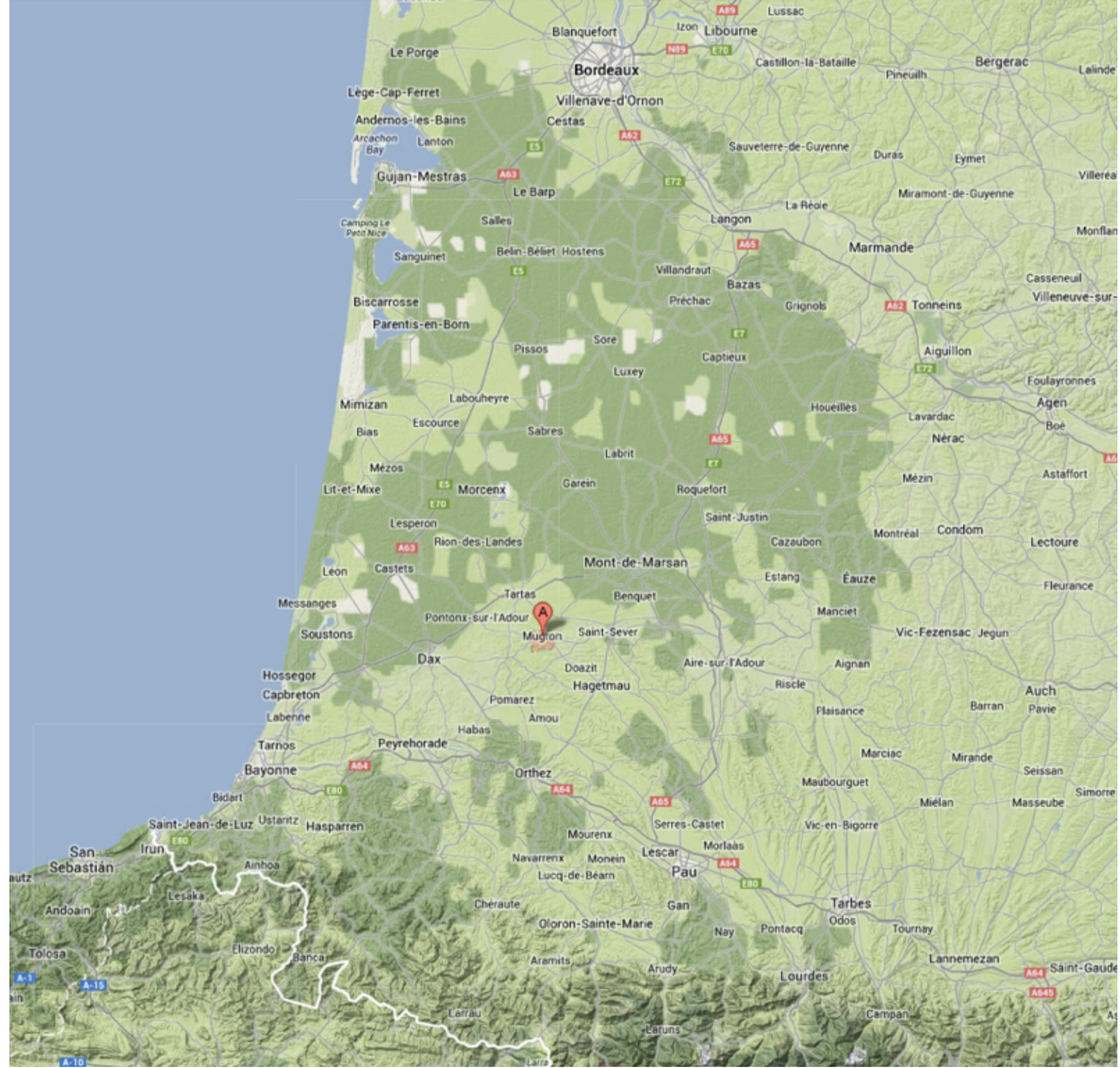


- his contributions to economic and political theory
 - his **methodological individualism** (“Crusoe economics”).
 - a new theory of rent (nothing special about land).
 - the **rejection of Malthusian limits** to population growth.
 - the idea of “**spontaneous**” or “**harmonious**” **order**.
 - the **interconnectedness** of all economic activity (“ricochet effect”).
 - his theory of the “**economic sociology**” of the **State**.
 - his “**Public Choice**” like theory of politics.
 - 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

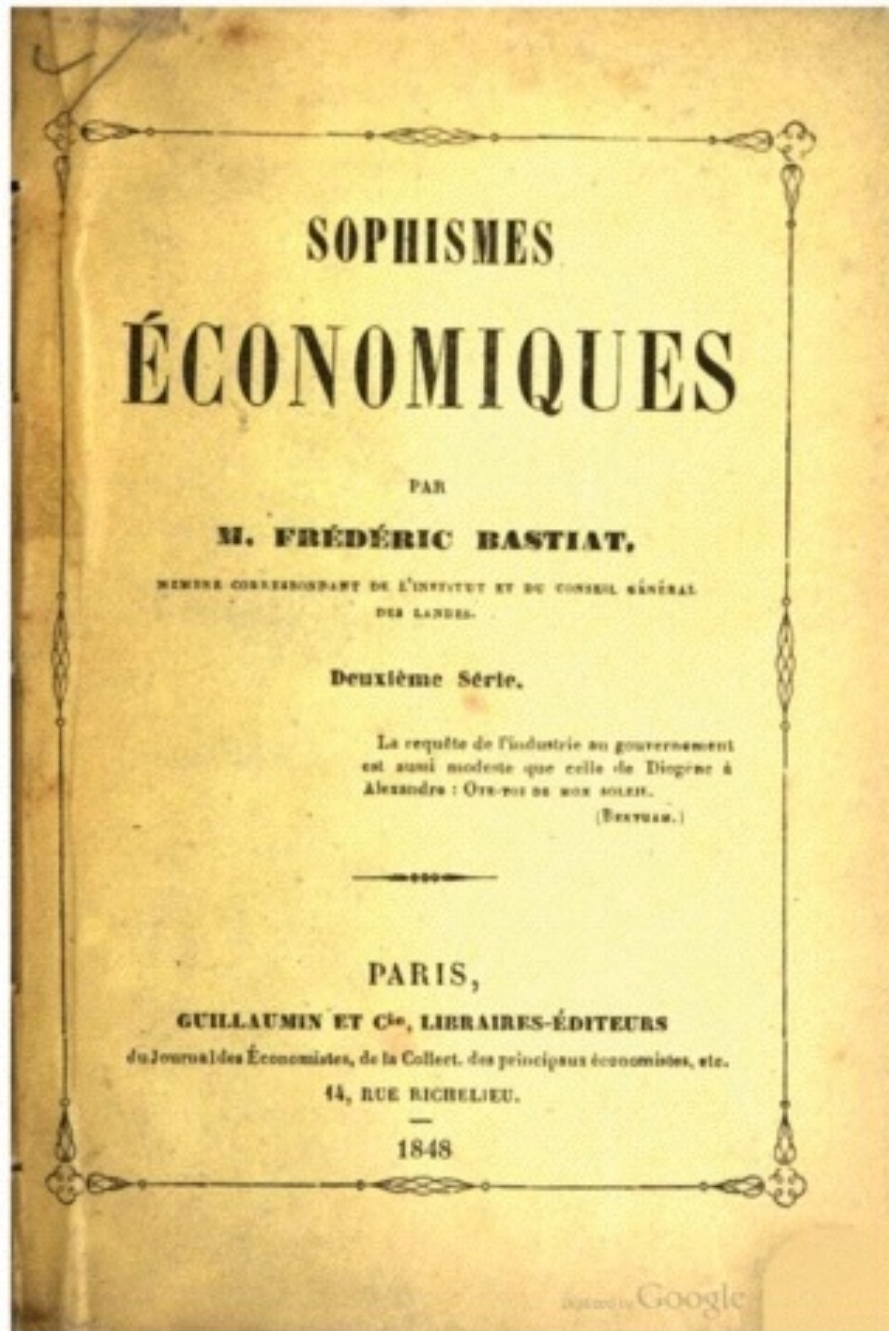
Schools of Economic Thought







A Brief Survey of Bastiat's Life & Work



- FB 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" (**Guillaumin network**)
- 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
—

, PARIS
LIBRAIRIE GUILLAUMIN ET C^{ie}
RUE RICHELIEU, 14

Debunking Two Fallacies based on the Idea of *“What is Seen and What is Not Seen”*



**Fallacy 1: Govt. Debt and Spending
stimulates Business**



**Fallacy 2: Replacing Damaged Property
stimulates Industry**

Government “Austerity” makes the Recession Worse



Paul Krugman (1953-)
Nobel Prize in Economics 2008

“The bad metaphor — which you’ve surely heard many times — equates the debt problems of a national economy with the debt problems of an individual family. A family that has run up too much debt, the story goes, must tighten its belt. So if Britain, as a whole, has run up too much debt — which it has, although it’s mostly private rather than public debt — shouldn’t it do the same? What’s wrong with this comparison?

The answer is that an economy is not like an indebted family. Our debt is mostly money we owe to each other; even more important, our income mostly comes from selling things to each other. Your spending is my income, and my spending is your income.

So what happens if everyone simultaneously slashes spending in an attempt to pay down debt? The answer is that everyone’s income falls — my income falls because you’re spending less, and your income falls because I’m spending less. And, as our incomes plunge, our debt problem gets worse, not better. “

[Paul Krugman, “The Austerity Agenda,” NYT, May 31, 2012.]

The Debate about the Effects of Govt. Spending and Taxation I



Govt. priming the Economic Pump

Paul Krugman:

- *End This Depression Now!* (W. W. Norton & Company, 2012)
- “How the Case for Austerity Has Crumbled,” *New York Review of Books*, June 6, 2013.
- “The Depressed Economy Is All About Austerity,” *NYT*, September 24, 2013
- “The Chutzpah Caucus,” *NYT*, May 5, 2013
- “Austerity, Italian Style,” *NYT*, February 24, 2013
- “The Austerity Agenda,” *NYT*, May 31, 2012.



The Debate about the Effects of Govt. Spending and Taxation II

[Catch 22: “What goes out must come in”]

Anti-Krugman:

- Christopher Chantrill, “Austerity: Krugman's False Message,” *AmericanThinker*, May 14, 2013 <http://www.americanthinker.com/2013/05/austerity_krugmans_false_message.html>
- William L. Anderson <<http://krugman-in-wonderland.blogspot.com/>>
- Mark Thornton, “Real Austerity,” *The Free Market: The Monthly Publication of the Ludwig von Mises Institute*, vol. 31, no. 2, Feb. 2013 <<http://mises.org/journals/fm/February2013.pdf>>
- Robert Higgs, “Recession and Recovery: Six Fundamental Errors of the Current Orthodoxy,” *LewRockwell.com*, March 6, 2009 <<http://archive.lewrockwell.com/higgs/higgs109.html>>.
- Don Boudreaux, “Krugman’s Austere Science,” *Cafe Hayek*, January 30, 2012 <<http://cafehayek.com/2012/01/krugmans-austere-science.html>>.
- Russ Roberts, “Post-war “austerity,” *Cafe Hayek*, February 6, 2012 <<http://cafehayek.com/2012/02/post-war-austerity.html>>.



Joseph Heller, *Catch-22* (1961)
Mike Nichols, *Catch-22* (1970)

What is Seen & What is not Seen (1850). Chapter 3: Taxes



Have you ever happened to hear the following?

“Taxes are the best investment; they are a life-giving dew. See how many families gain a livelihood from them; work out **their ricochet or trickle down effects on industry; this is beyond measure, it is life.”**

To combat this doctrine, I am obliged to repeat the preceding refutation. ...

What is Seen & What is not Seen (1850). Chapter 3: Taxes

The advantages that government employees get from **their salaries are what is seen**. The benefit that results for the businesses from whom they buy their goods and services is again what is seen. It is blindingly obvious to the eyes.

However, the **disadvantage felt by taxpayers** in trying to free themselves is what is not seen and the damage that results for **the businesses from whom they (did not) buy their goods and services is what is not seen** either, although it is blindingly obvious to the mind.

When a civil servant spends one hundred sous for his own benefit, this implies that a taxpayer does not spend one hundred sous for his own benefit. However, the expenditure of the civil servant is seen because it is carried out whereas that of the taxpayer is not seen as, alas! he is prevented from carrying it out.

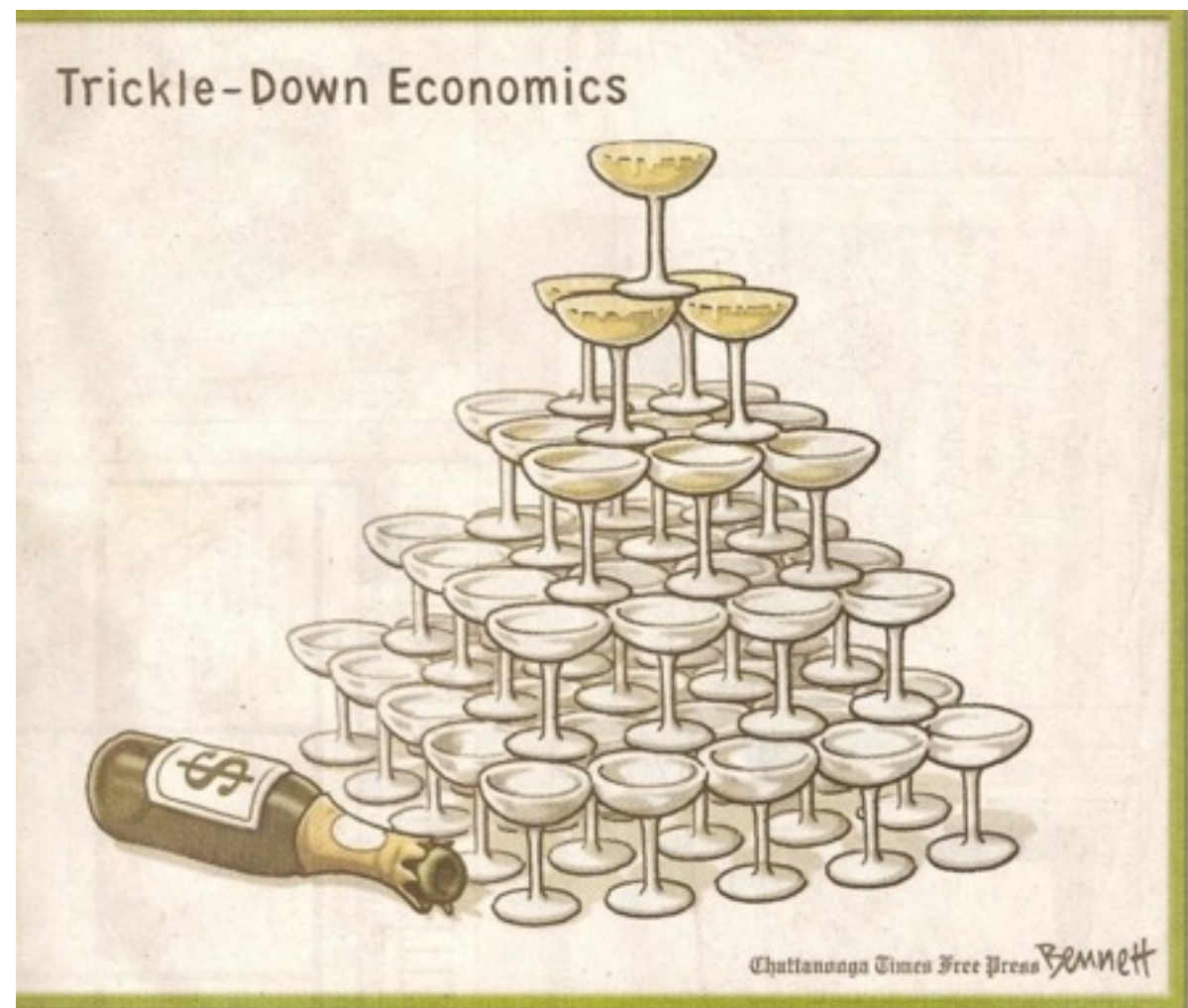
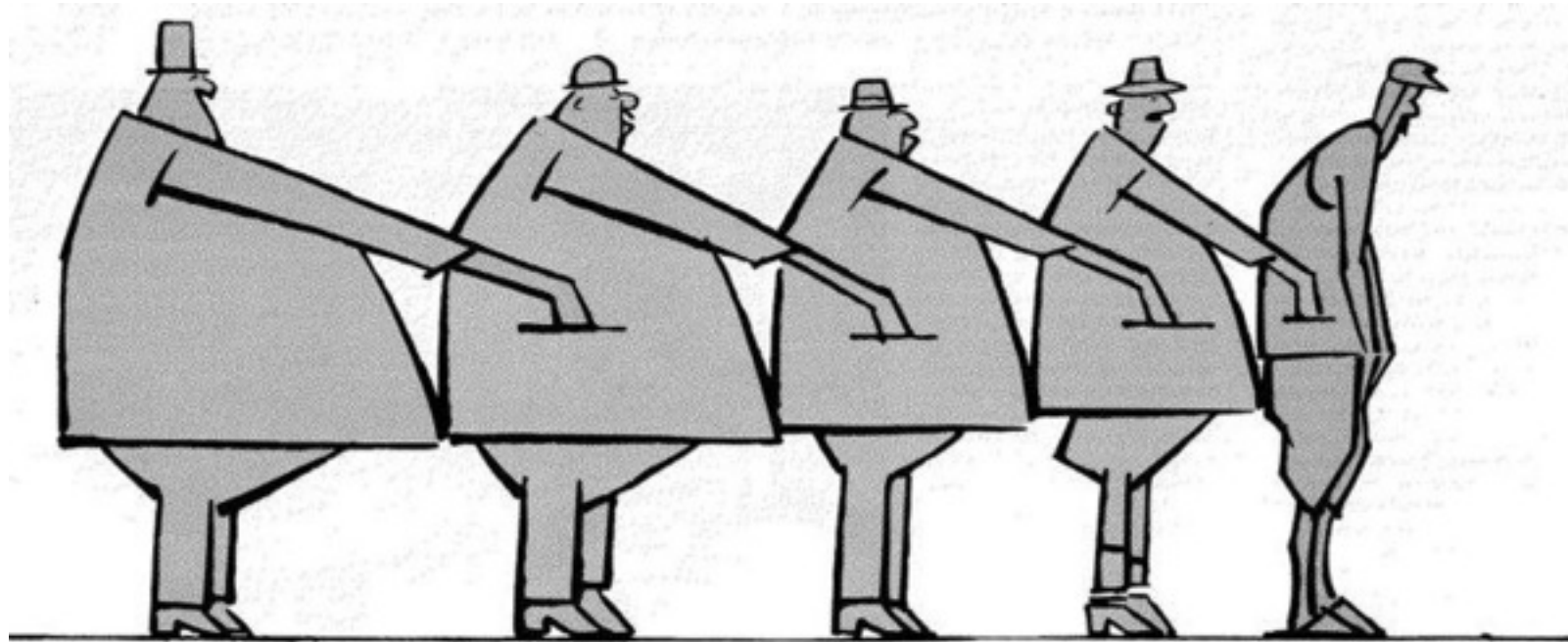
You compare the nation to an arid land and tax to bountiful rain. So be it. But you should also ask yourself **where the sources of this rain are**, and if it is not taxes themselves that absorb the humidity from the earth and dry it out.

You ought to ask yourself as well if it is possible for the earth to receive as much of this precious water through rain as it **loses through evaporation**.

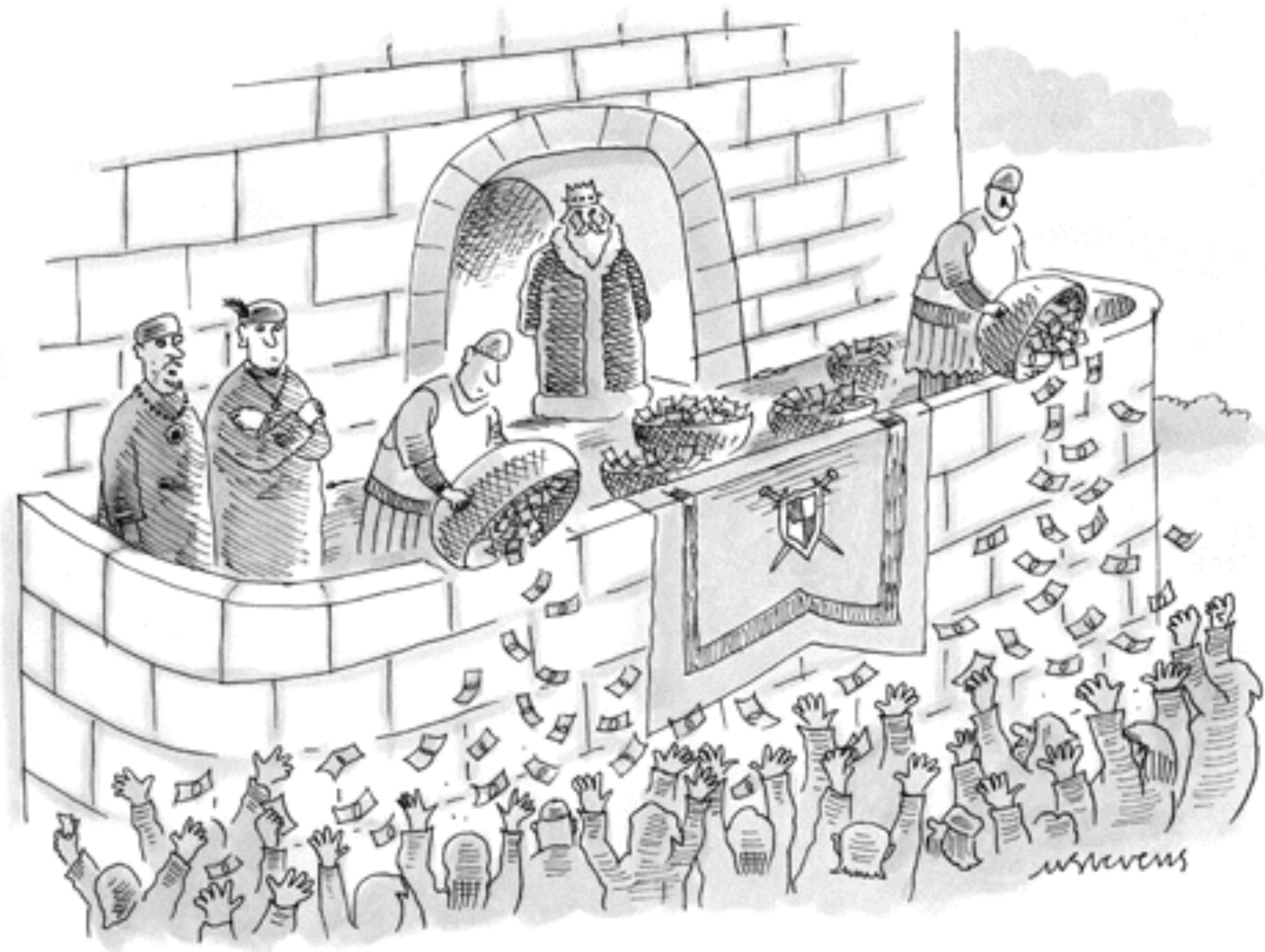
Economic Harmonies (1850-51).
Chapter 17: Public and Private Services

We have placed this observation here to ward off a widespread sophism born of **the money illusion**. You often hear it said that **the money received by government employees falls again like rain on the taxpayers**, with the inference that this alleged rain is a second benefit added to the one resulting from the services they provide. Such reasoning serves to justify **the most parasitical functions**. No notice is taken of the fact that if the public service had been left in the private sector, the **money**, instead of going to the treasury and thence to government employees, **would have gone directly to people who would have been responsible for providing the service, and would also have fallen like rain on the population**. This sophism does not stand up if we look beyond the circulation of money and see that this is basically work being exchanged for work and services for services. In the public sector, it may happen that government employees receive services in return for none. In this case taxpayers are the losers, whatever the illusion the movement of money produces in us.

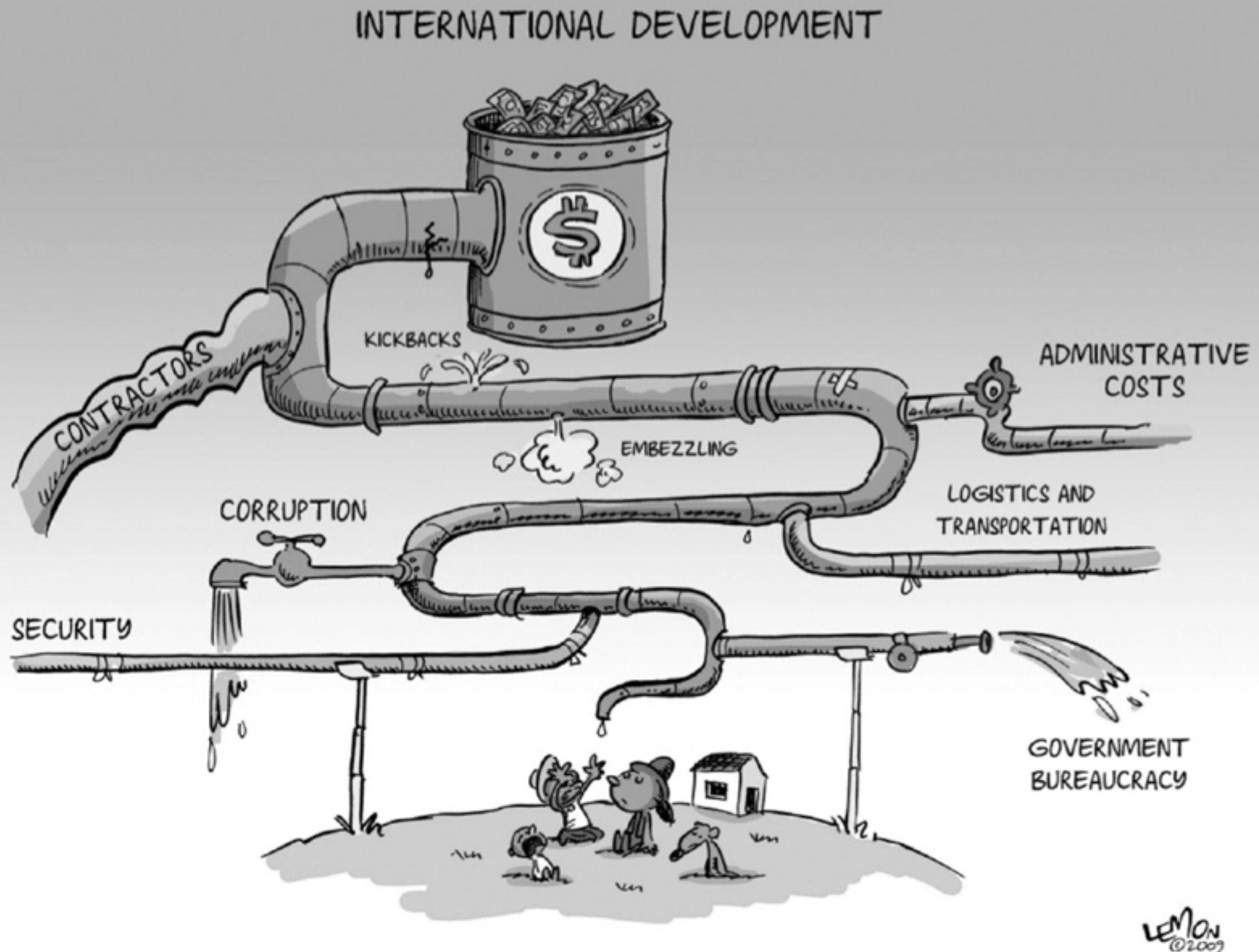
Bastiat's theory of the “Ricochet” or Trickle Down Effect I: Tariffs, Subsidies, Monopolies to Industry



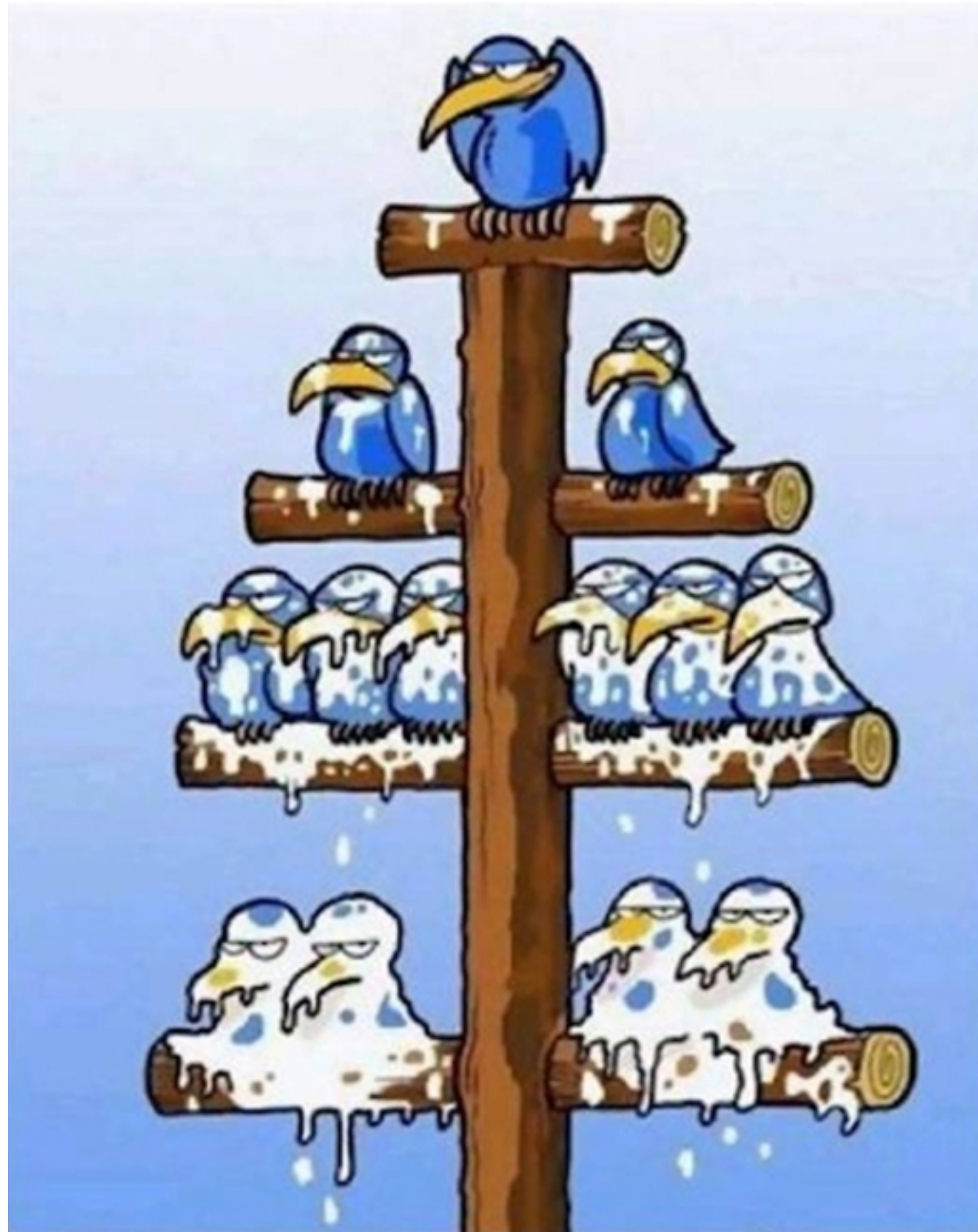
Bastiat's theory of the “Ricochet” or Trickle Down Effect II: Taxes to Support the Ruling Elite & Govt. Employees



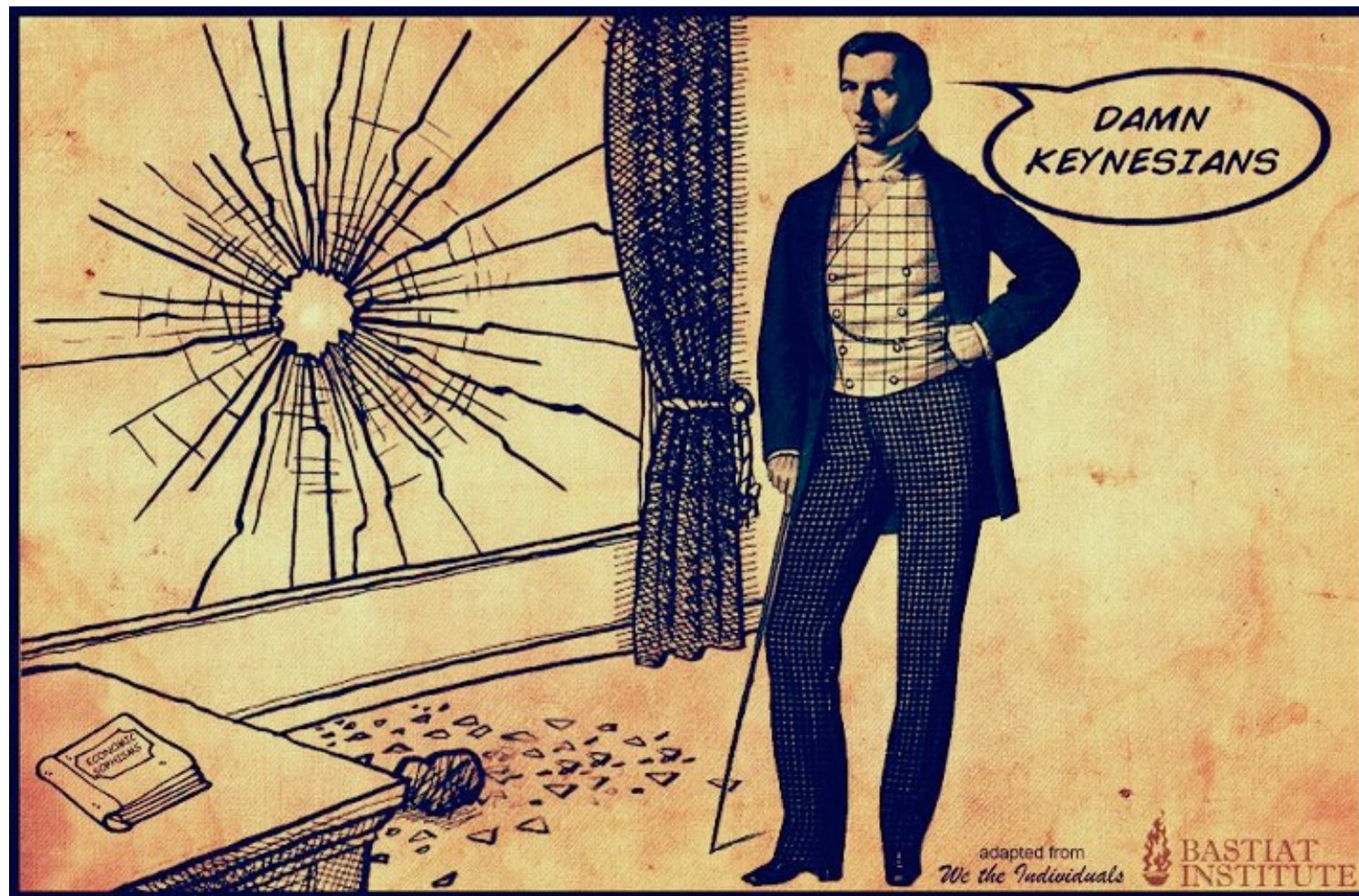
Bastiat's theory of the “Ricochet” or Trickle Down Effect II: Taxes to Support the Ruling Elite & Govt. Employees



Another Perspective



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
- arguments about the Great Fire of London 1666
- 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



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
- **Walter Williams**, "Economic Lunacy," *Creators.com*, March 22, 2011

“The Broken Window Fallacy I”



**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”



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”



**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:

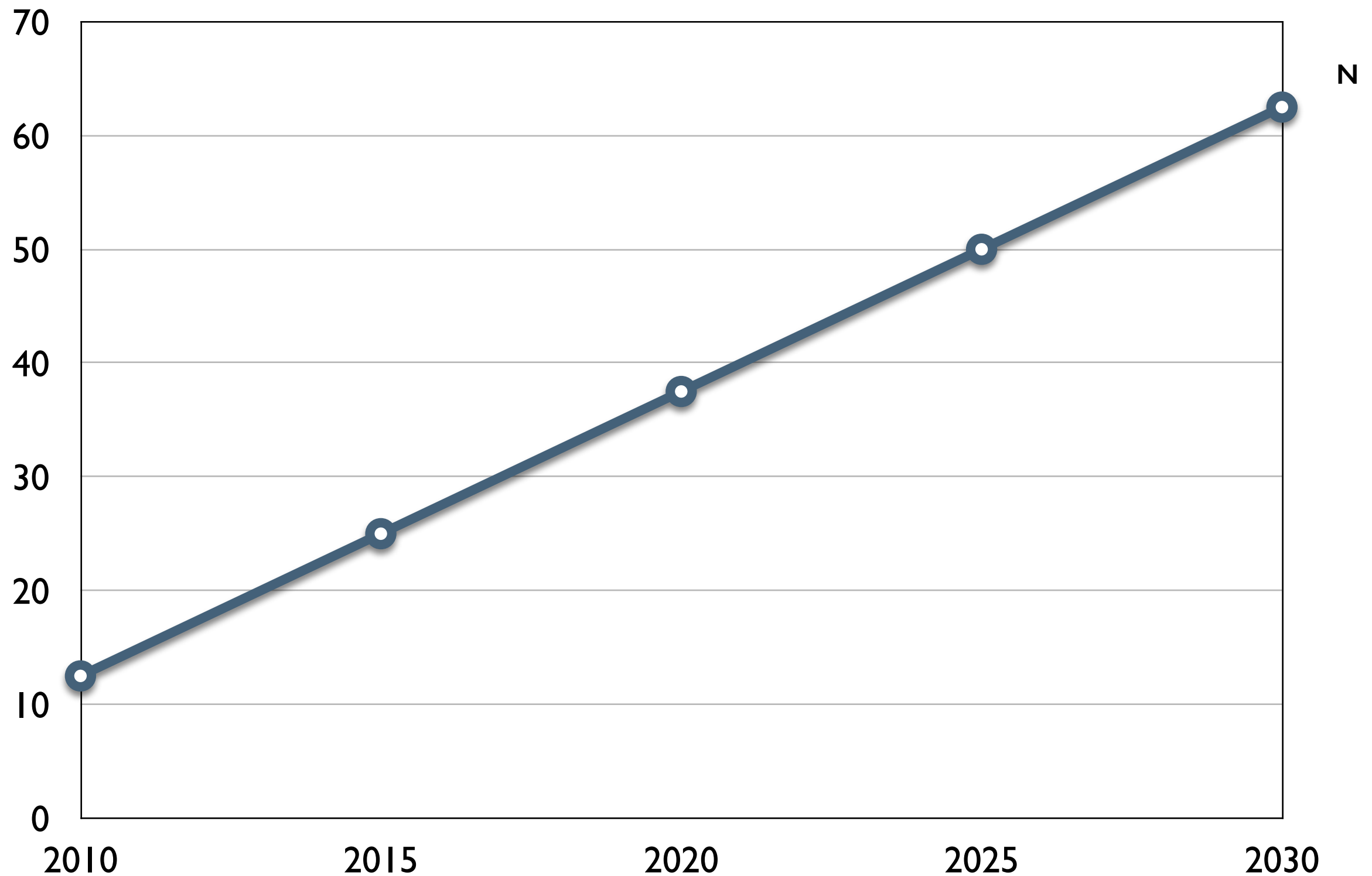
- that destruction of wealth and the loss of life is not a permanent loss which can never be made up
- that one can ignore the opportunity costs of the resources which would not have been consumed if the disaster had not occurred, and the time of the people who have to reorganize their lives and rebuild
- that the government is a better coordinator of economic activity than the free market
- that the Keynesian multiplier effect is greater than 1

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....

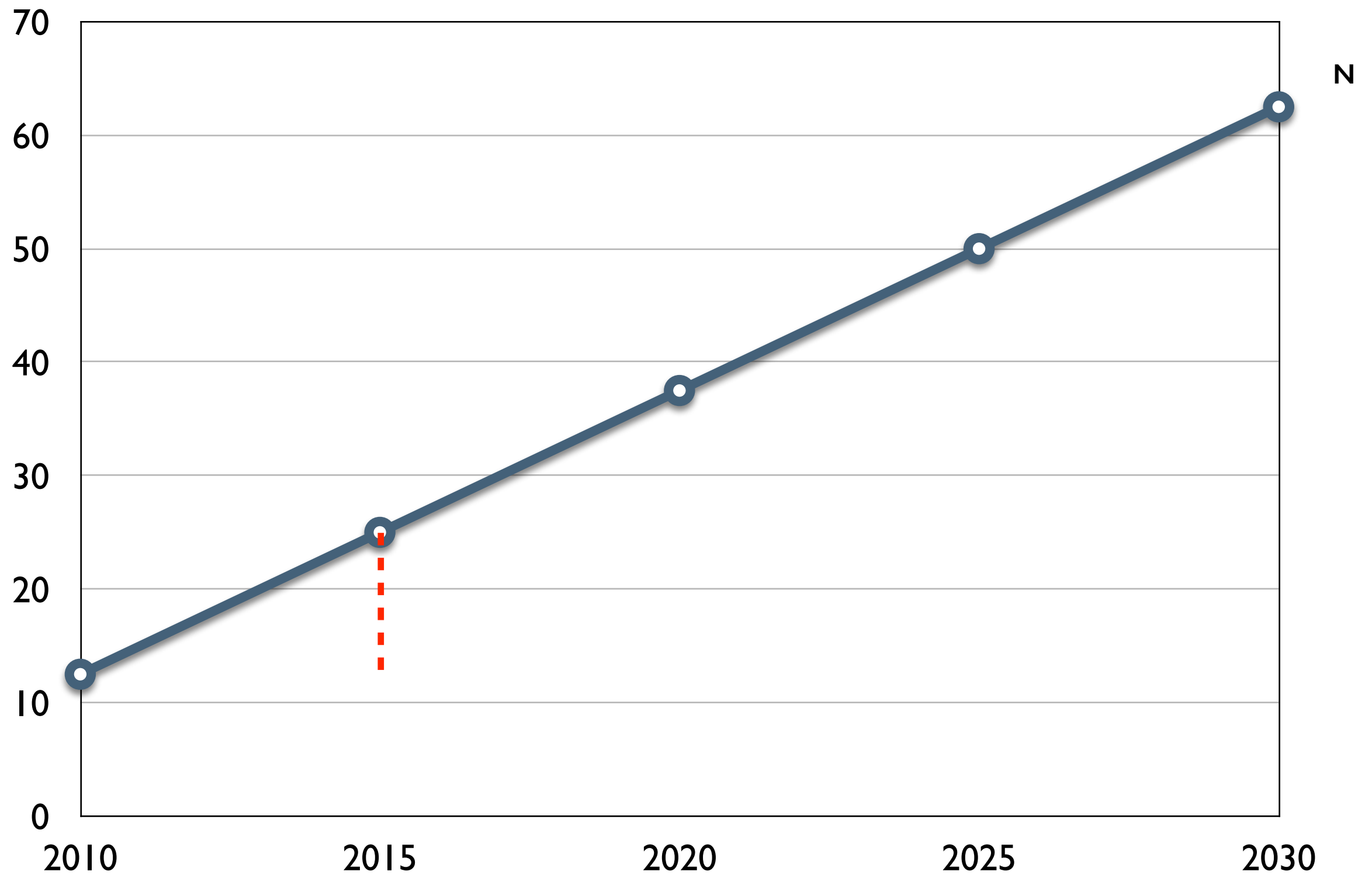
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Normal Growth under Liberty



The Economic Impact of a Natural Disaster I

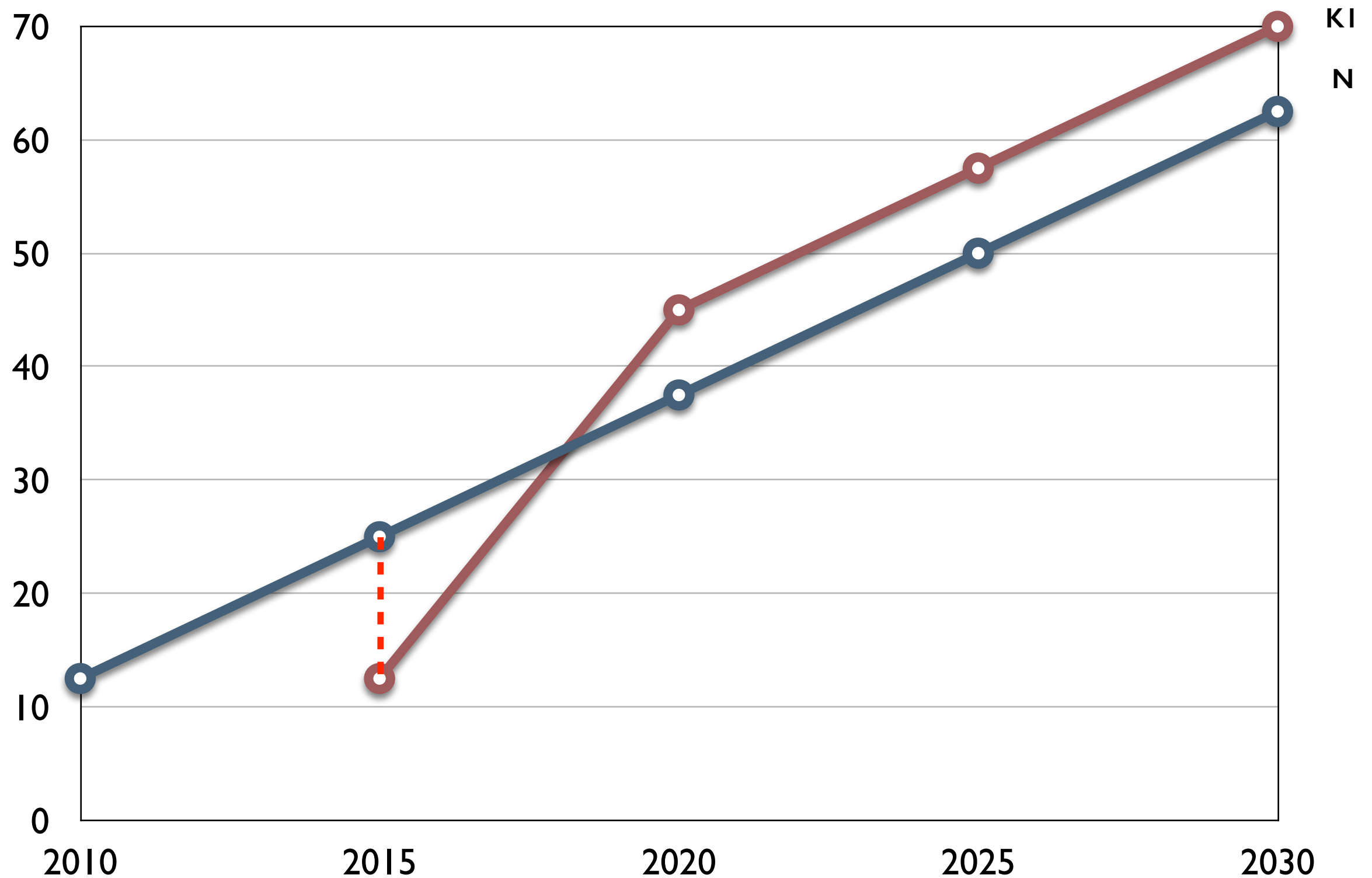
A Disaster strikes



The Economic Impact of a Natural Disaster 2

N KI

KI Optimistic Keynesians - Better than Ever!



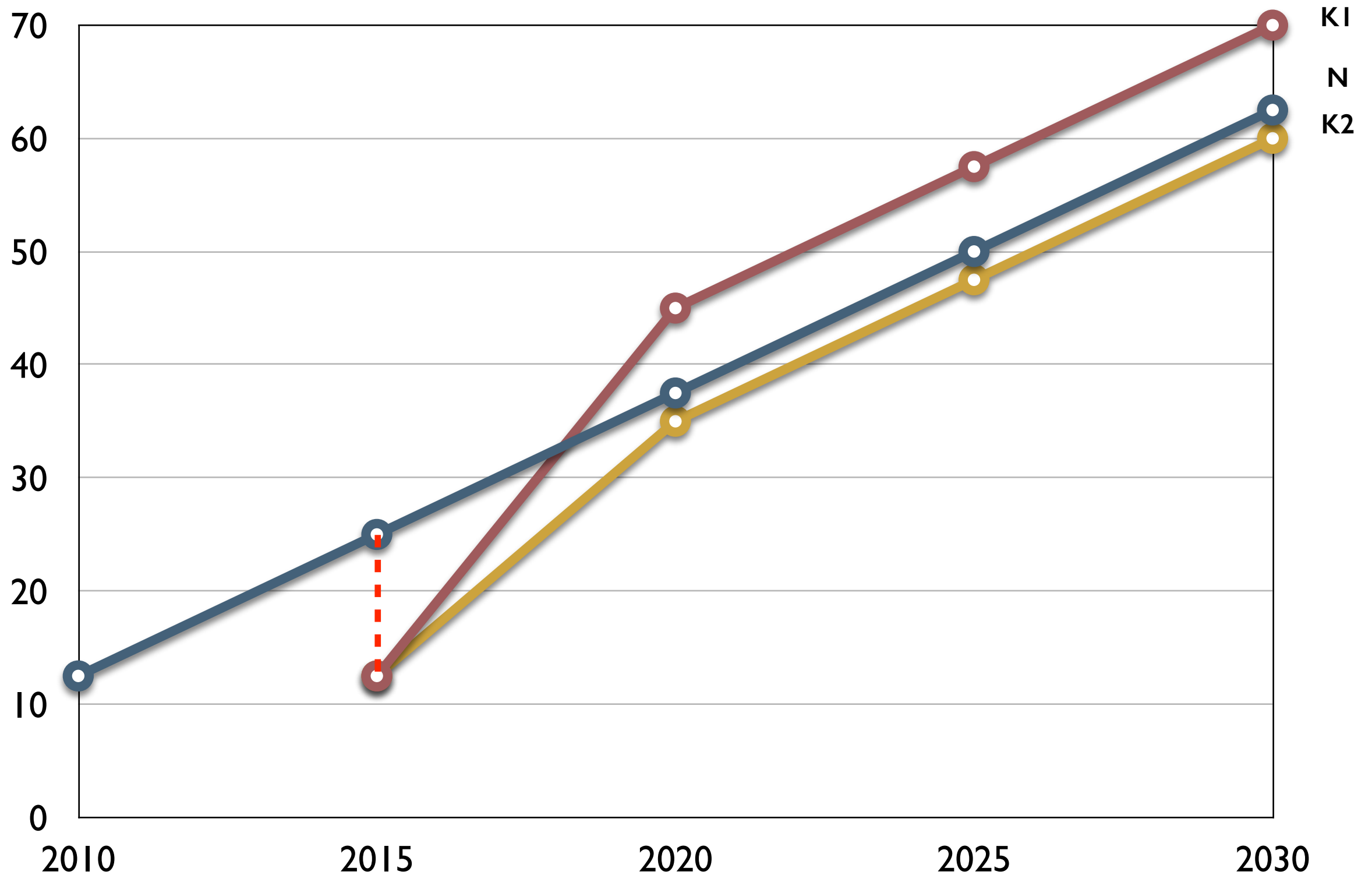
The Economic Impact of a Natural Disaster 3

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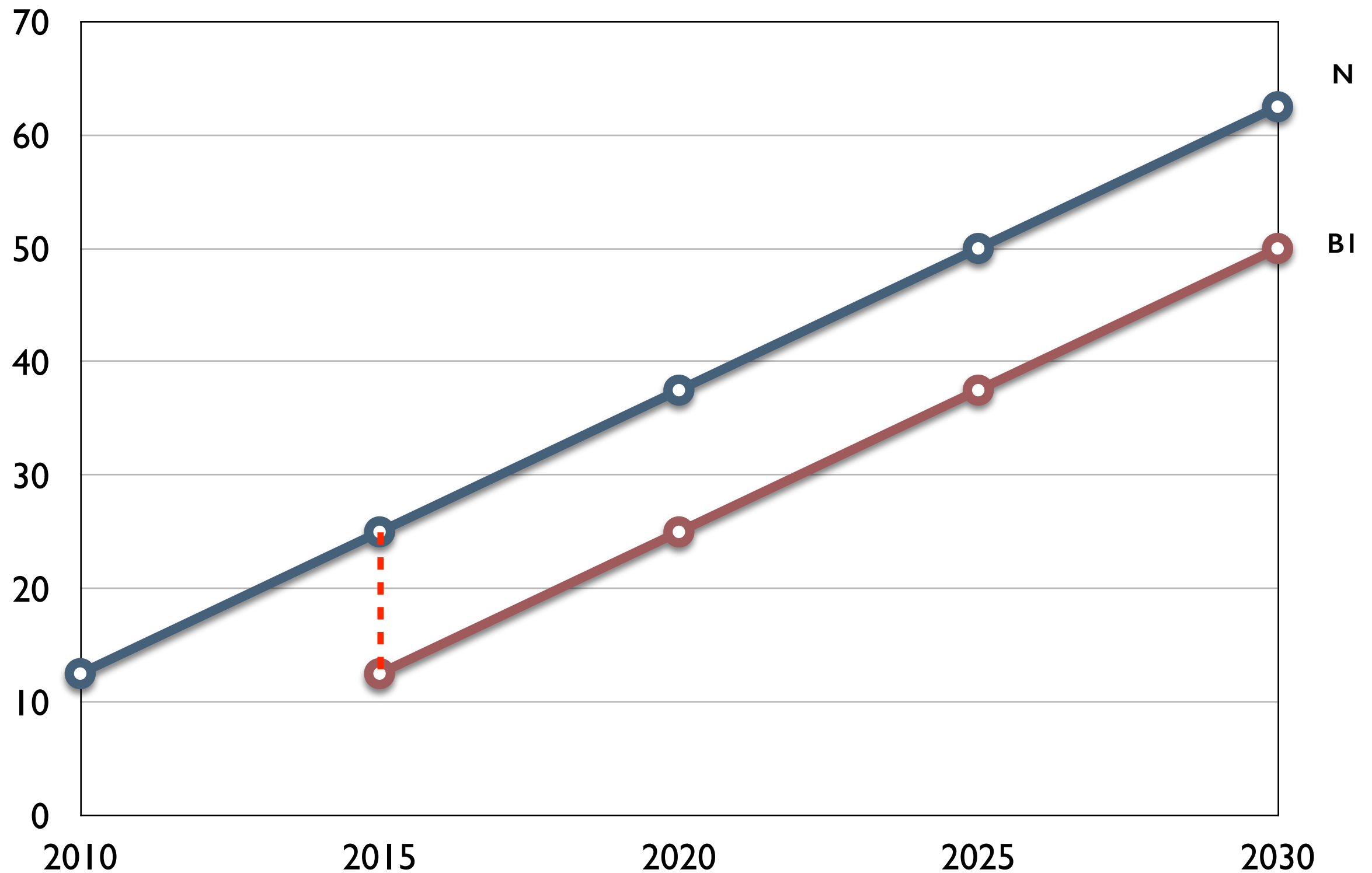
K2 Realistic Keynesians - almost as good as new!



The Economic Impact of a Natural Disaster 4

N BI

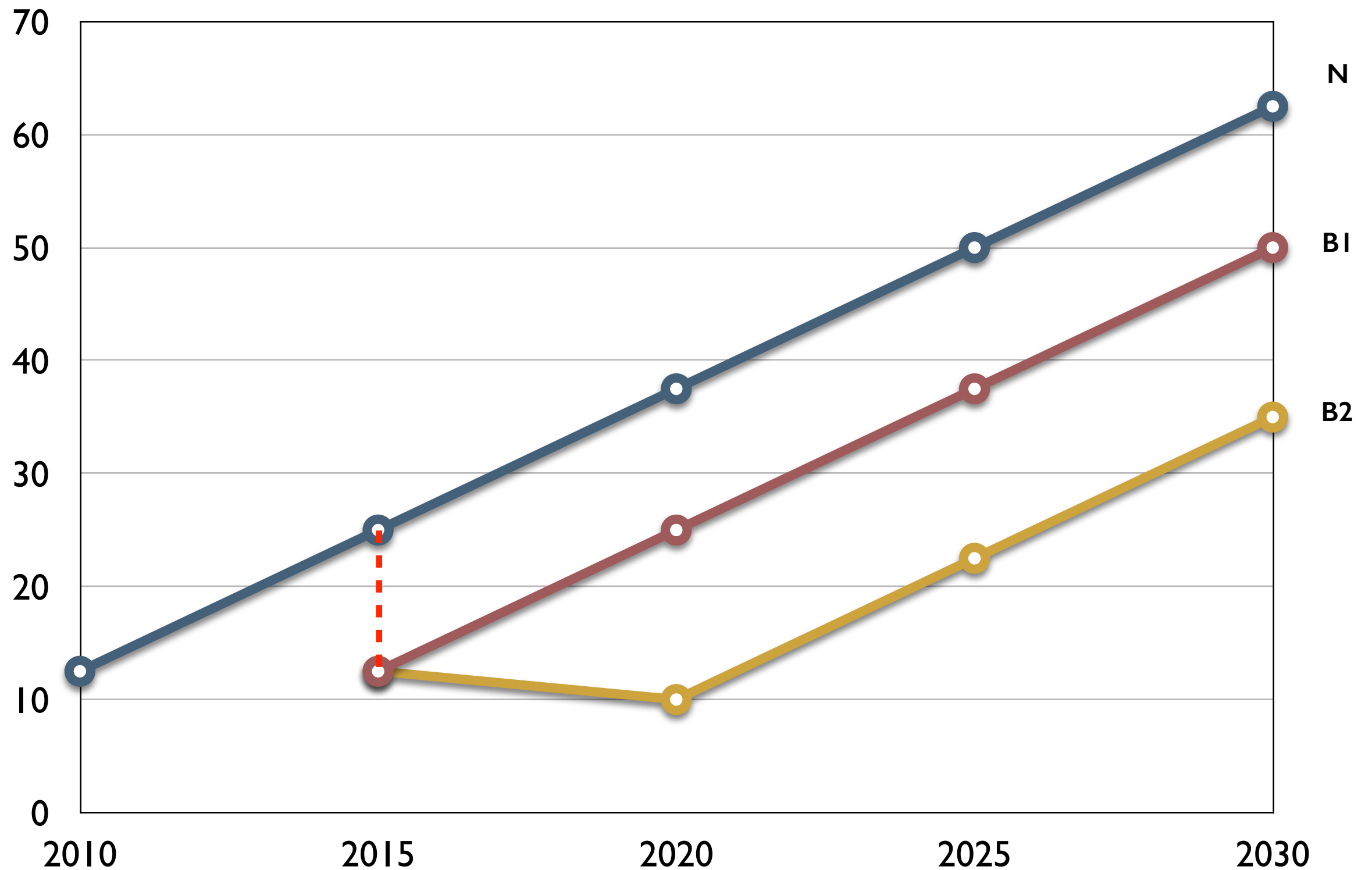
BI optimistic Bastiat - we go on



The Economic Impact of a Natural Disaster 5

N BI B2

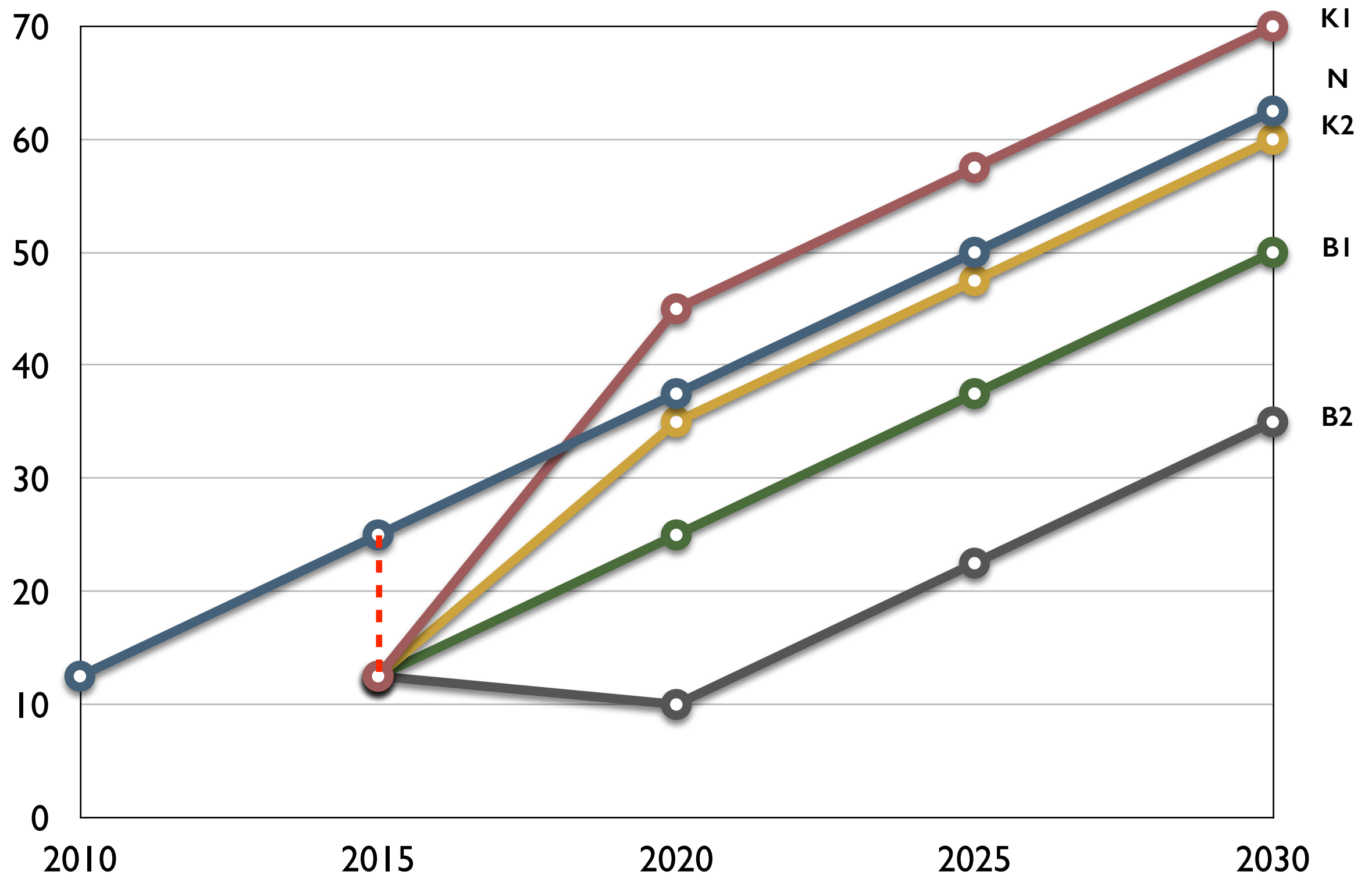
B2 pessimistic Bastiat - things could be worse



The Economic Impact of a Natural Disaster 6

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The Options for Growth and Prosperity



The Economic Impact of a Natural Disaster 7

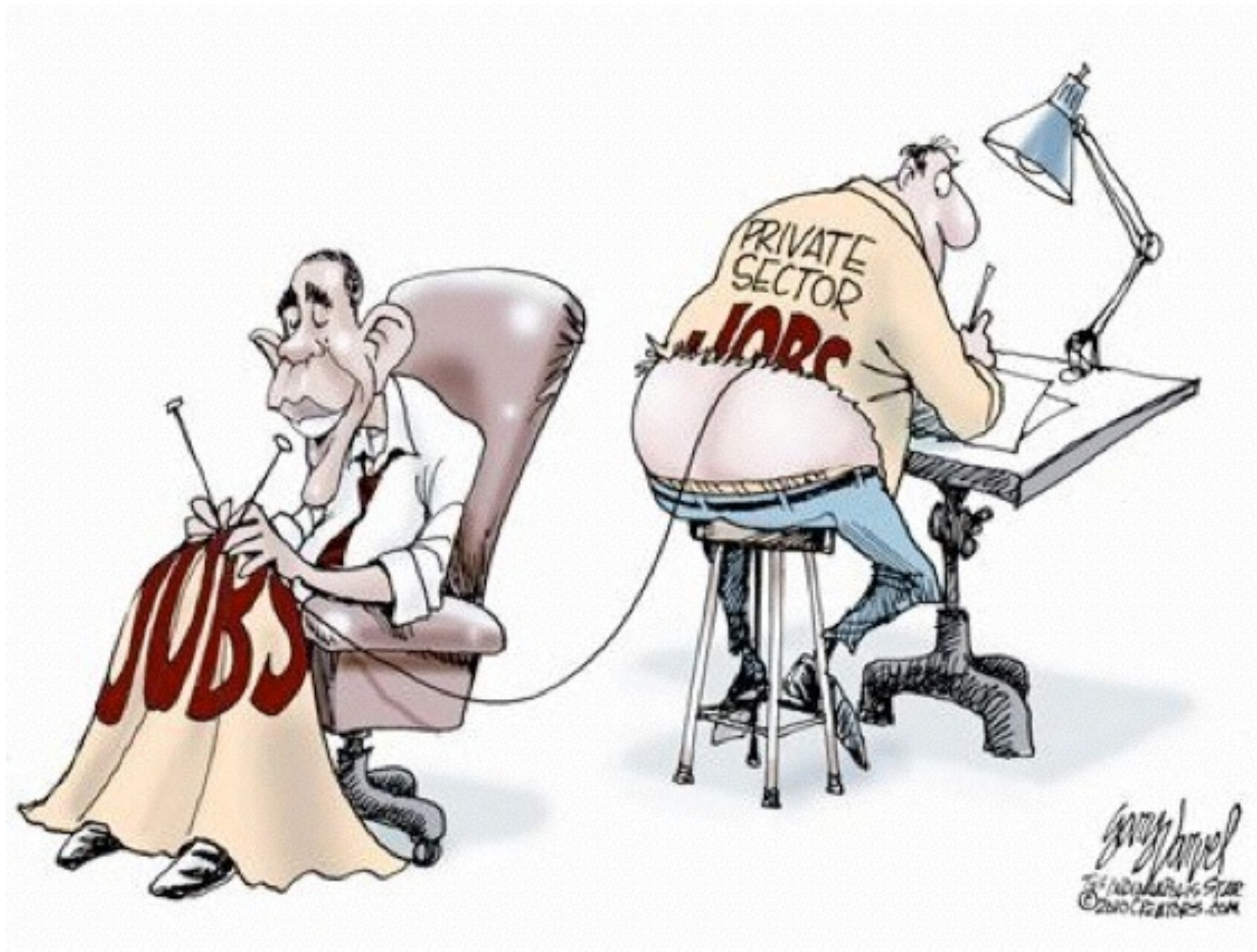
“The Seen and the Unseen” in Obama’s America:
What is “Seen”: The Obama Administration “creating” New Jobs
by Government Expenditure



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

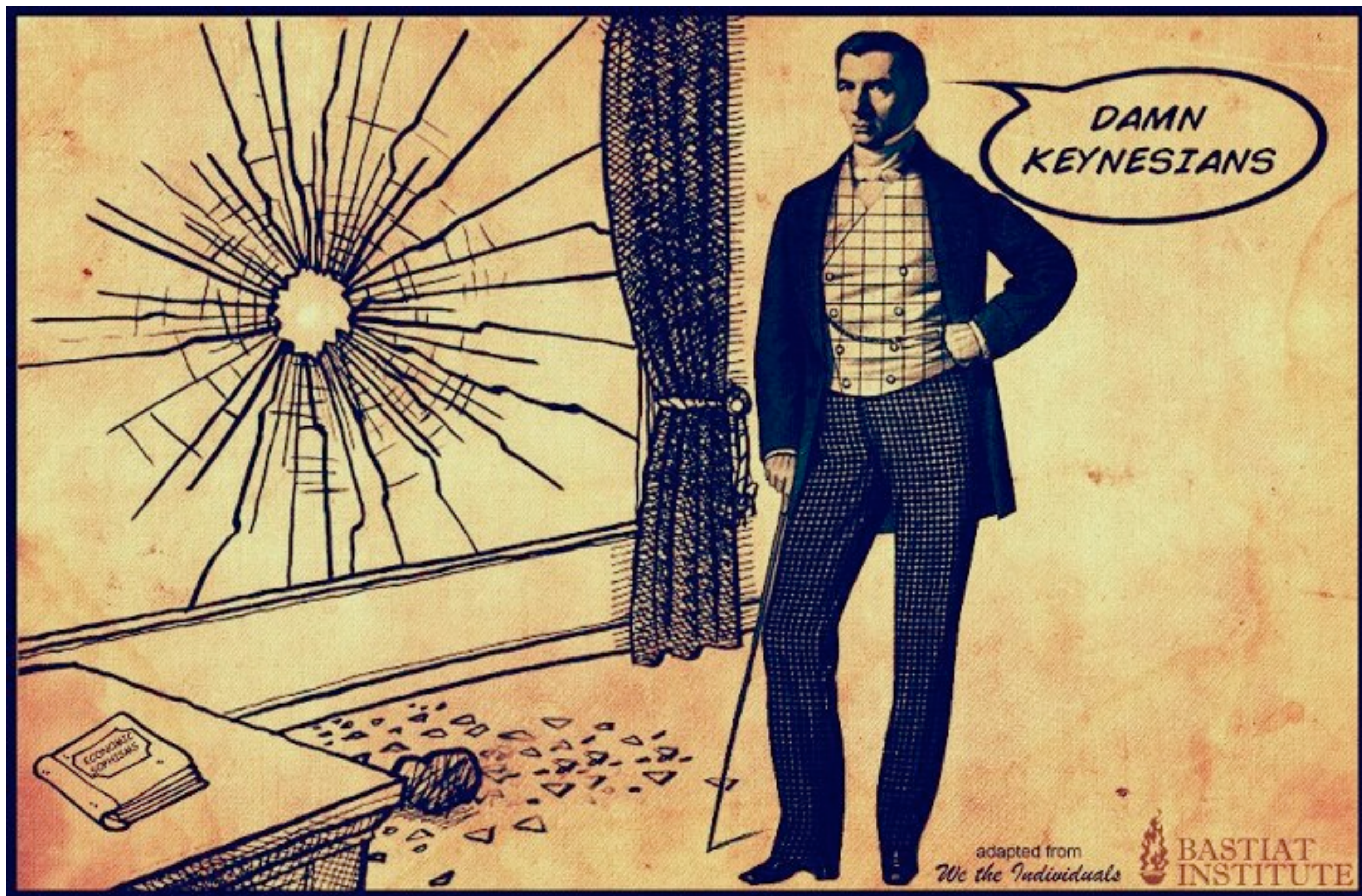


The Seen and the Unseen: The Obama Administration “creating” New Jobs





{Bastiat vs Keynesian “Crusoe Economics”}



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We the Individuals



BASTIAT
INSTITUTE

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

"That's all folks!"

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