

## **The Broken Window**

By Fred E. Foldvary

If someone throws a stone into a shop window, the owner needs to repair it. This puts people to work and increases total output. Since this creates jobs, would we be better off breaking lots of windows and repairing them?

Most folks would say this would be nonsense, since although it would employ labor, there would be no net benefit to society. Yet many similar schemes are promoted by politicians and supported by the public in the name of jobs, jobs, jobs!

This is the "broken window" fallacy exposed long ago by the French economist Frederic Bastiat in his essay *Ce qu'on voit et ce qu'on ne voit pas*, or "what is seen and what is not seen." Bastiat recognized that what economics should teach us is to understand the economic reality beneath the superficial appearance of everyday economic life.

What is seen is the broken window repairing and the workers that get employed, and the money they in turn spend. What is not seen is that these workers and resources would have been employed in something else if not for the broken window. What ultimately benefits society is not jobs but goods.

There is a minor economics classic book entitled *Economics in One Lesson*, by the late Henry Hazlitt. Much of the book elaborates on Bastiat, uncovering the unseen economic reality behind bad economic policy. Hazlitt points out that the public will never see the new suit that would have been made had it not been for the broken window.

War is a good example. War puts many people to work. It also puts people to death. After mass destruction, there is mass rebuilding, which is "good" for the economy. Does that make war productive? No, since they just rebuild what was there, or shift resources from other goods that would have added to what was there. Hazlitt noted that "the broken-window fallacy, under a hundred disguises, is the most persistent in the history of economics."

This is the fallacy involved when Congressmen resist closing a military base, because it would cost some jobs. What is not seen is the civilian uses that land could be put to, and the housing and jobs that would replace the useless military work.

Hazlitt noted that "everything we get, outside the free gifts of nature, must in some way be paid for." Government spending ultimately comes from taxes. What is seen is the benefits of the spending, and often they are truly benefits to some people. But what is not seen is the goods that would have been bought had the workers not been forced to pay the taxes from their wages. The public as a whole loses, because the gain to some is less than the overall cost to the taxpayers and consumers.

Another economist good at uncovering what is not seen was Henry George. George noted that workers superficially get paid in money. But in economic reality, they are exchanging labor for consumer goods. Superficially, a homeowner is paying interest on a mortgage. In economic reality, the rent from that land is being transferred to the lender who deposited money that was loaned out.

Superficially, rent control limits the rental paid to the landlord. In economic reality, the rent is not reduced, but split among the landlord and tenant. Superficially, we pay taxes on money income and on sales. In economic reality, wages are transferred from workers to landowners in the form of higher rents due to government-funded public works, and folks pay twice, once as rent and again as taxes.

Superficially, we are living in a wonderland of jobs, high tech, and a booming stock market. In economic reality, Americans are wasting a couple of trillion dollars a year from regulations and taxes. In economic reality, inflated land values and coming higher interest rates and other higher costs will someday cause a massive downturn and a depression. The volcanic forces are building up beneath the surface, where they are not seen.

That is the key function of economics: to help us see beneath the superficial appearance to the reality that can only be understood when we learn a bit of economics. We would then know how foolish it is to break windows just to make a job.

-- Fred Foldvary

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