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Broken windows: still not good for the economy [1]

Written by **Pete Spence** [2] | Thursday 8 November 2012

The weather might not be predictable, but one thing is almost certain; when natural disasters strike, you can be sure that someone will claim this is a good thing. Sure enough, journalists have made the case here [3], here [4] and here [5]. It is claimed that Sandy will provide a stimulus for the US construction sector as damage estimates approach $50 billion. It is argued that in turn this growth in the construction sector will move through into other areas of the economy, this new activity driving growth.

Those who make this case could do worse than to read Frédéric Bastiat?s ? What Is Seen and What Is Not Seen [6]?. Rather than simply generating new economic activity, destruction is not costless. The cost of rebuilding devastated areas will be a cost at the cost of other alternatives. People who might have spent money on improving their homes may now have to rebuild them entirely. They have not gained wealth; they have lost the improvements to their homes that they would have otherwise enjoyed.

If it were true that destroying homes was good for growth, we should be smashing buildings as they spring up. By this logic we would be richer as a result. These arguments are seen not just in the case of natural disasters, but also when war occurs. World War II famously saw huge production numbers as nations clawed for scarce resources to build bullets and tanks. This was not production that improved the quality of people?s lives. Railings from parks and schoolyards were melted down to build bombs.

Similarly, while many breakthroughs were made in the form of new inventions during wartime, this came at the cost of other alternatives. It is impossible to compare with what might have been, but that does not mean that it is not important. Had World War II not happened then we would have been free to pursue research and development directed at improving the quality of lives, not at winning wars.

This story betrays an alarming obsession with GDP. GDP does not usefully describe the health of an economy. What is important is that people have more of the things that they want and natural disasters destroy this prosperity. Bastiat?s classic essay dispelled this myth in 1848, yet it is clearly still rampant.

There is a good news story here, but it's not one of false stimulus. It is one of the continual process of development and production. The damage in the US has been much lower [7] than in less developed countries also struck by Sandy. Development has helped to save lives. As we lift more people out of poverty, we can expect natural disasters to be less lethal.

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