

The Broken-Window Fallacy Is Alive and Well, Hurricane Harvey Proves

As Hurricane Harvey, now tropical storm Harvey, makes its way across the southern US, estimates have already come in as to the cost of the storm. According to [AccuWeather](#), Harvey is expected to cost upwards of \$190 billion in damages, one percent of the national GDP. This makes Harvey the costliest storm ever to hit the United States, more than Katrina (\$100 billion) and Sandy (\$60 billion) combined.

Here Come The Clowns

As in the wake of every disaster, pundits and politically biased economists – including Larry Summers who [declared](#) Japan's 2011 Tsunami would boost economic growth – will wax elegantly on how Harvey will end up being a boon for “the economy.”¹ CNBC, for example, reports that Hurricane Harvey [may ultimately “raise wages.”](#) It will spawn government spending and insurance payouts to flood victims, we're told. These victims will spend that money in the economy which will put people back to work, employ the factors of production and so on and so on.

As usual, these types of talking heads forget Frederic Bastiat at their own peril. In his pamphlet, “[That Which Is Seen and That Which Is Not Seen](#)“, he warns of the unseen consequences of wasting scarce resources by replacing capital and capital equipment. Replacing goods that have already been produced is always an expense, a net negative, and never a positive. It's no cause for celebration to replace a flat tire or a broken windshield.

As a simple *reductio ad absurdum* thought experiment, imagine

tanks driving through our city streets, blasting away at buildings and infrastructure, so that insurance companies and governments can spend money on rebuilding them. Yes, it employs labor and capital to rebuild, but what about the unseen? What new products or services could these people have produced had they not been involved in replacing things? The economy as a whole loses when capital must be spent twice on the same things. Nothing new, hence no real wealth, has been created.

Reckoning the Costs

Moreover, the costs to insurance companies are felt throughout the economy as premium costs rise for all consumers. Since the Great Recession began, along with the Fed's zero interest rate policy (ZIRP) and low returns on investments, insurance companies are finding it ever harder to grow their respective insurance pools. These companies are still paying for Hurricane Sandy.

The rising costs of petroleum based products have already begun to rise as refining capacity has been interrupted for a time. Not just gasoline and diesel, but the myriad of plastics and other products the refiners produce in the East Texas area will become more expensive. This is the supply side of the equation. By reducing supply, price increases. This is basic economics. Higher prices are never a net gain for consumers.

Let us consider the next round of relief spending the government will now immerse itself in. Where do politicians get the money to spend on disaster relief? Certainly, not their bank accounts. They will get another loan from the Federal Reserve System, at interest, and the American public will foot the bill. Now you know why legislation is called a "bill" before it is passed into law. The Fed, on the other hand, will create this new "money" from thin air with a few computer keystrokes and dilute the current supply of money even further. Monetary inflation provides another unseen tax.

No Silver Lining

If you're finding little to be happy about when a natural disaster hits don't worry, you're normal. After all, they're called natural disasters and not natural bonuses. Also, by wasting capital to rebuild a destroyed city doesn't yield more wealth. If it did, then Japan [would invite the US Air Force back](#) to relieve their economy from a nearly 20-year slump. Destruction is always a net negative.

Whether it's a hurricane, tornado or earthquake or even a war, there is no silver lining in destroying capital. Destroying scarce resources is always a stupid move. But realize, the greatest destruction left in the wake of one of these events is the irreplaceable resource of human lives and the disruption of livelihoods. Those left standing after disaster strikes aren't comforted when a pundit tells them how lucky they are. All of their life's treasures have been destroyed. Not just houses and cars, but records, photos, and heirlooms that are not replaceable. The loss of incomes causes people into foreclosure, prematurely. Once the news cameras are packed away and Houston, Port Arthur or wherever USA is no longer in the news cycle, these victims must still cope with the damages.

Hard as I may try, It is very difficult to find that silver lining in the wake of a disaster. Natural or man-made.

¹.See also Paul Krugman, who declared a few days after 9/11 that there was a silver lining to the attacks, since they would spur economic growth: <http://www.nytimes.com/2001/09/14/opinion/reckonings-after-the-horror.html>

Also see economist Peter Morici who argued Hurricane Sandy would lead to "a brighter future." <https://finance.yahoo.com/blogs/the-exchange/economic-impact-hurricane-5...>

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