



Written by [Bob Adelman](#) on August 31, 2011

Thanks to Hurricane Irene, Business Is Booming!

Not counting lost man-hours and production, Irene is estimated to have cost at least \$20 billion but, as the *Washington Times* wrote, "Economists say much of the rebuilding of roads, bridges and buildings, along with retail purchases ... will recoup virtually all of the losses in the coming years."

The tornado that devastated Joplin, Missouri, is expected to have a similar effect. Damage estimates range upwards of \$3 billion but as a result, "We have opportunity in front of us," says Kirstie Smith of the Joplin Area Chamber of Commerce. June sales receipts in Joplin were up 5 percent already, compared to a year ago. She added, "The economic impact that we're feeling right now is all very positive. [Relief workers from around the country are] staying here. They're eating here. They're shopping in our stores. It's a devastating blow to the community, but really, it's an opportunity that no other community gets.... We have 13 miles of ground that's going to be empty, so the construction industry will obviously receive a little bit of a boon from that."



Another economist who weighed in with his assessment of the impact of the destruction is Charles Wolf, with the Rand Corporation, calling the short-term impact "unambiguously contradictory, but in the medium and longer terms ... natural disasters can be stimulative."

New Orleans following Katrina is also being cited as a test case for the stimulative effects of destruction. Michael Hecht, president of Greater New Orleans Inc. said, "The economy in New Orleans is doing better than it has in decades. All of that rebuilding activity helped supply employment, while the rest of the country was going through a recession. It's given New Orleans brand new infrastructure in everything from flood protection to schools to roads."

And after taking into account the damage wrought by both Hurricane Irene and the 5.8 magnitude earthquake, *Moody's* senior economist Ryan Sweet told Reuters, "It may take a little bit out of third-quarter GDP, but given the cleanup and rebuilding, we will get that back in the fourth quarter and a little bit, particularly as insurance and federal money flow into the affected areas."

These comments all agree: Devastation is a good thing.

Frederic Bastiat sees things a little differently. Although he died in 1850, the French economist saw



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something in these disasters that people on the scenes are missing altogether: the impact of those disasters on “the third man.” Building his case for considering the third man, Bastiat told the story of solid citizen James Goodfellow’s fury when he learned that his son had broken a window:

Have you ever been witness to the fury of that solid citizen, James Goodfellow when his incorrigible son has happened to break a pane of glass? If you have been present at this spectacle, certainly you must also have observed that the onlookers, even if there are as many as thirty of them, seem with one accord to offer the unfortunate owner the selfsame consolation: “It’s an ill wind that blows nobody some good. Such accidents keep industry going. Everybody has to make a living. What would become of the glaziers if no one ever broke a window?”

Suppose that it will cost six francs to repair the damage. If you mean that the accident gives six francs’ worth of encouragement to the aforesaid industry, I agree. I do not contest it in any way; your reasoning is correct. The glazier will come, do his job, receive six francs, congratulate himself, and bless in his heart the careless child. That is what is seen.

But if, by way of deduction, you conclude, as happens only too often, that it is good to break windows, that it helps to circulate money, that it results in encouraging industry in general, I am obliged to cry out: That will never do! Your theory stops at what is seen. It does not take account of *what is not seen*.

It is not seen that, since our citizen has spent six francs for one thing, he will not be able to spend them for another. It is not seen that if he had not had a windowpane to replace, he would have replaced, for example, his worn-out shoes or added another book to his library. In brief, he would have put his six francs to some use or other for which he will not now have them....

The reader must apply himself to observe that there are not only two people, but three, in the little drama that I have presented. The one, James Goodfellow, represents the consumer, reduced by destruction to one enjoyment instead of two. The other, under the figure of the glazier, shows us the producer whose industry the accident encourages. The third is the shoemaker (or any other manufacturer) whose industry is correspondingly discouraged by the same cause. It is this third person who is always in the shadow, and who, personifying what is not seen, is an essential element of the problem. It is he who makes us understand how absurd it is to see a profit in destruction.

This is the elemental truth that escapes all believers in Keynesian economics, that somehow breaking windows can jump-start the economy and put unemployed glaziers back to work.

At High’s Chimney Service, it costs between \$1,500 and \$2,000 to repair a damaged chimney, sometimes much more. One customer paid \$16,000 for his repair. And so where is the “third man” in this micro-drama? Is it the summer vacation foregone, or the purchase of a new car? Is it the delaying of the first year of college for the freshly minted high-school graduate who is now without funds for his tuition?

In Joplin, some 70,000 relief workers have taken up temporary residence to help with rebuilding. But what would these workers have been doing otherwise? What projects back home have been left unattended or delayed? What about the restaurants back home who aren’t enjoying the “regular” customers who are out of town? Are their June tax receipts *down* by five percent compared to last year?

In New Orleans, who is the third man? According to the *Washington Times*, even though “tourism has



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rebounded and the Louisiana Superdome has reopened ... large pockets of devastation remain and the overall population is far below pre-Katrina levels.”

In fact, Michael Hecht came awfully close to the truth about the “third man” in Bastiat’s story when he asked what would happen when the money ran out: “That is the critical question. When the Katrina funds run out in three to five years, are we going to have an economy that is more robust than we had before Katrina?”

As Bastiat said, “There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen*.”

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