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Bk Marcus has a good post on Bastiat's broken window fallacy at lowercase liberty.

> What-is-seen-and-what-is-unseen is a powerful way to introduce someone to the concept of *opportunity costs*, but in the case of the broken baker's window in Bastiat's original essay (and in the cases of World War II, the World Trade Center, typhoon-ravaged coastal cities, and now New Orleans), what *should be seen* is the whole and functional window as part of the wealth in the world and the destroyed window as part of the destruction of wealth.
>
> Before the little vandal, the baker had a window and some savings. After the vandal, the baker has a new window and less savings. That means less wealth. What exactly is unseen?
>
> What is seen, unfortunately, is the increase in nominal GDP caused by replacement of the broken glass.

Bastiat's evisceration of the broken window fallacy dovetails nicely with some of the material at the True Cost Economics site. See especially "Scrap the GDP."

The ASI and Globalization Institute blogs regularly feature enthusiastic posts about how "globalization" and "more trade" (neither one the same as *free* trade, by the way) lead to "economic growth" and skyrocketing GDP. But nobody in those circles stops to consider how much of the nominal GDP measures genuinely productive activity, and how much is the cost of replacing broken windows. How much of the GDP reflects activity that takes place only because it's subsidized, and the non-privileged bear the cost? How much of the GDP is made up of such externalities–the replacement of "broken windows" like cleaning up pollution, the inefficiencies of centralization and bureaucracy, or building more highways and airports to transport goods long-distance that would be more efficiently produced near the point of sale? How much of GDP reflects the monetization of activity formerly carried out within the household and barter economies, as evicted peasants work in sweatshops to earn the wages to buy the food they used to grow themselves?

Addenda. Some good stuff in the comment thread. colorless green ideas provides a link to a better index of economic output.

And Bill at Reasons to be Impossible says

> the old eastern bloc regimes used to use the semi-Marxian Gross Material Product (which would have roughly equated with added labour) — when they joined the western bloc they switched over to using GDP which basically doubled their effective appearance.

Well, surprise, surprise, surprise!

My original post drew some comments by Alex Singleton at Samizdata and the Globalization Institute Blog (hat tip to freeman for the link).

> Kevin Carson complains that it does not deduct "broken window" spending. Trashing a window and then replacing isn't his idea of real economic growth. Yet I think GDP is a good measure precisely because it keeps things simple. Government statistics are difficult enough to objectively collect as it is: if statisticians have to make value judgments about how much a natural habitat or a certain type of bird flying in the sky is worth, the statistic will soon lose any meaning.

If it keeps things deceptively simple, or imposes a level of simplicity greater than the subject matter warrants, it's a worthless statistic. Don't libertarians spend an awful lot of time combating ideas that, despite their appealing simplicity, are just plain wrong? An activist government can increase GDP by hiring the unemployed to dig holes and fill them in again. If the statistic only measures how much money is being spent, without regard to broken windows and crutches for legs broken by state capitalism, then it never had any meaning to begin with.

> GDP isn't a perfect measure, but I think it's a mistake to say it overestimates "real growth". If anything, it underestimates it. In Off the Books, W. Michael Cox and Richard Alm point out that the statistic misses many of the improvements in living standards.

Seems to me that this argument doesn't really do much to rehabilitate the GDP. Cox and Alin didn't directly address any of GDP's shortcomings in the opposite direction, which

I mentioned in the earlier post. They didn't address the extent to which GDP includes broken window spending. They didn't address the extent to which increased GDP registers the monetization of activity that previously took place in the household and barter economies; in that case, the GDP may actually reflected a reduced possibility for independent subsistence outside a corporatized economy. As I've pointed out earlier, forcibly driving subsistence farmers off their land through modern-day enclosures, and forcing them into the wage market, may make for a big increase in GDP–but not a big improvement in the dispossessed peasants' quality of life. And arguably, much of the exploding GDPs in third world countries reflects just such a development, in which peasants are forced against their will to work in sweatshops for the wages to meet needs they previously provided for themselves. Cox and Alin, finally, didn't address state-mandated increases in the cost and complexity involved in maintaining the same standard of living: Ivan Illich's "radical monopoly" by increasingly professionalized services and increasingly complex goods, the discontinuation of cheaper and simpler models of goods and of spare parts for them by cartelized industry, and other ways in which the floor is being raised under the minimum level of consumption for an acceptable standard of living (as Paul Goodman put it, by crowding out cheaper alternatives for subsistence, the state capitalism is making comfortable poverty less and less feasible).

So even if Cox and Alin are right about the *positive* qualitative factors ignored by GDP, we're left trying to make an off-the-cuff comparison between two unmeasurable deviations, in opposite directions, and to form an impressionistic judgment as to which is more significant.

Rather than Bastiat's broken window, by the way, a better analogy might be broken legs. How much of the nominal increase in the GDP of third world countries is the value of crutches, in the form of wages for labor, given to those whose

legs were broken through forcible robbery of direct access to the means of subsistence?