Destruction Is No Blessing

Last January, a devastating earthquake struck Kobe, Japan. Who can forget the awesome scenes of destruction?—skyscrapers reduced to piles of rubble, freeways heaved and twisted, homes wiped out by fire. Thousands perished and one of the country's leading commercial hubs was left paralyzed.

Amid all that ruin, some observers saw a ray of hope. Destruction, they argued, will require repair and that means the creation of new jobs. The Kobe earthquake will actually stimulate economic activity, turning at least some of the pain of the initial losses into a national blessing.

"Despite the devastation," wrote Nicholas D. Kristof in the January 18 edition of the *New York Times,* "some experts said that in some ways the earthquake could give a boost to an economy struggling to recover from a long recession." The spending needed to rebuild the port of Kobe "may give a stimulus to Japan's economy, the world's largest after America's."[1]

This notion that destruction is an economic stimulus is not new. After World War II, some who surveyed the wreckage of western Europe argued that the rebuilding effort would lift the continental economy. Reflecting back on those years, British Prime Minister Harold Wilson once explained the rapid rise of Germany and the stagnation of Britain in these terms: Germany had the good fortune of having its manufacturing capacity totally wiped out, whereas Britain was still using plants that had survived the war. The implication was that Britain would be better off today if only Germany had dropped far more bombs on it in the 1940s.

After natural disasters here in the U.S., one sometimes hears the same line of reasoning. When floods in the Midwest left behind billions in lost property in 1993, then-Treasury Secretary Lloyd Bentsen openly declared on national television that the nation's economy would receive a healthy stimulus as a result.

It's hard to imagine survivors of the Kobe earthquake deriving much solace or consolation from such assurances. "I'm so glad my home was flattened because now I have the chance to rebuild it and stimulate the economy" is not a widely held view, I'm sure.

The great free market economist Henry Hazlitt dismissed "the blessings of destruction" myth in a chapter by that title in his classic *Economics in One Lesson*:

> No man would want to have his own property destroyed either in war or in peace. What is harmful or disastrous to an individual must be equally harmful or disastrous to the collection of individuals that make up a nation.
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> Many of the most frequent fallacies in economic reasoning come from the pro-

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pensity, especially marked today, to think in terms of an abstraction—the collectivity, the "nation"—and to forget or ignore the individuals who make it up and give it meaning. No one could think that the destruction of war was an economic advantage who began by thinking first of all of the people whose property was destroyed.

In other words, the problem with all this is that some people are not using their heads to think this through; they are looking at a tree or two and ignoring the forest.

This is the same fallacy that arises if one looks only at where a thief spends his loot and not where he got it from in the first place. We don't assume that bank robbery is an economic stimulus just because some businesses benefit when the thief goes on a shopping spree. Everyone seems to understand, in that instance, that every dollar the thief spends at the local mall is a dollar that can't be spent by the people to whom the money really belongs.

When destruction is part of the equation, the futility ought to be even clearer. If the citizens of Japan rebuild Kobe at a cost of $20 billion, that's $20 billion they won't have for other things. Much will be lost forever because it is irreplaceable at any price. Anyone who simply observes the increased activity in the construction business as people spend to rebuild and then concludes that the earthquake is some sort of economic blessing in disguise is myopic and simplistic.

Wouldn't it be great if we lived in a world wherein destruction *was* indeed a magical route to economic progress? It's the one thing that governments do very well and have more experience in than any other group or institution. Blowing things up or tearing them down is a lot easier to accomplish than creating them in the first place—and for some, it can be downright fun as well. We could dispense with toil and sweat and just go on a rampage, knowing that the economy was being boosted in the process. If Mother Nature wouldn't cooperate by giving us an occasional disaster, we could blow up a few dams and create our own floods.

If there was any good news at all in the Kobe disaster, by the way, it wasn't to be found in the rubble. A headline in the January 28 *New York Times* said it all: "Kobe's Best Problem: Too Many Gifts." While government agencies drowned in their own red tape, private individuals and organizations poured forth a gusher of generosity. Relief supplies overwhelmed the city, so much so that within two weeks of the quake, officials were pleading "enough is enough!"

People helping people is a good thing. Wanton destruction of things of value is not. Simple truths, but some people don't yet seem to fully comprehend them. □

1. For a rebuttal to the experts, see Thomas L. Martin, "The Blessings of Earthquakes?" in *The Freeman*, May 1995, p. 275.

THE FREEMAN
IDEAS ON LIBERTY

Capitalism Is Merciless—to Capitalists

by Allan Levite

Attending college in the late 1960s left me with many unique memories. Among these was the economics class in which the instructor told the students that such firms as IBM and Xerox were so huge and powerful that they dominated their markets. Smaller competitors were helpless against them. They exercised such tremendous control over patents and technology, and spent so much on research and development, that other firms in their industries could never hope to compete effectively, much less overtake them. For these reasons, government intervention was necessary to protect both consumers and competitors.

Of course, this sort of thinking was neither confined to the 1960s nor the exclusive product of economics professors. Many decades ago, socialist author George Orwell, in an effort to demonstrate the superiority of socialism over capitalism, made much the same point when he mentioned a phonograph company that had bought a patent for a superior phonograph needle. The company did not produce the needle and never intended to. It simply wanted to kill the invention, so that it would not compete with its existing product line. (Orwell seems to have forgotten that patents are government-created and government-enforced monopolies.) He used this example to illustrate his point that capitalism suppresses more technology than it creates. Under capitalism, he wrote, money is risked only on projects that promise quick profits. Remove the profit principle, he claimed, and inventors would have a free hand.[1]

But time has completely disproven his theory. The phonograph companies were completely unable to use this tactic or any other to stop the spread of cassette tape and CD-ROM technology. This is an ample illustration that no matter how much they might try, capitalists cannot repeal the laws of markets. (Governments have also tried to do so, with the same lack of success.) For brief periods, capitalists can dominate markets or industries, but the achievement of such domination is always temporary. It sets in motion forces that no capitalist or group of capitalists could ever control. Lucrative profits, for example, attract competitors; and soon, the level of profit evens out. This does not prove Marx's thesis about the falling rate of profit, for a decline of profitability in one industry will be offset by gains in another. But it does help to disprove the notion that "the big boys" run things. If they did, they would surely be able to prevent the loss of their own markets!

Both IBM and Xerox had ample power over technology by means of their tremendous research expenditures and control of patents, but it did not help them keep their markets. As for projects presumably being squelched because they do not offer quick profits, one need only compare the number

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