

Broken Window Effect

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I love my car. I do not appreciate the fact that our lousy pot-holed roads damage it. I was cribbing about the cost of a suspension overhaul the other day when an unsympathetic friend quipped: At least the bad roads are good for our mechanics. What does an economist have to say about a statement like that? Let us turn to Frederic Bastiat's famous example of the broken window.

A hoodlum smashes a shop window. The townspeople gather, survey the damage, and conclude that their settlement is not worse off because the town glazier has just got some business. Bastiat says this view is incorrect; the townspeople are fools who do not see the economic effects of the incident on all the town's economic actors. They only see its immediate effect on the glazier. If a wider view of society were taken, then the townspeople would see that the shopowner will have to forgo a new suit in order to pay for the new window. The tailor's loss of business is something the townspeople have overlooked. Thus, the town is actually worse off. Property has been destroyed.

Similarly, in the case of my damaged suspension, my unsympathetic friend was missing out the numerous CDs I would have bought if the flyover was smooth. If I did not have to fork out huge sums at the garage, I would have been able to indulge my passion for music to a much greater extent.

There are numerous examples of broken windows in India. All our generators, inverters, UPSs and CVTs are broken windows: these are not industries. Similarly, our water pumps and water storage tanks are not industries. They are also broken windows. If electricity was of good quality in terms of voltage and frequency, and if supply was reliable, we

would have spent a lot of money on other things: clothes, books, music, food and drink. All these industries are losing out because of bad quality electricity. If water utilities were properly run and if we had 24-hour supply at correct pressure, we would not have a plastic water tank and domestic water pump industry. Instead of these broken windows many real industries which contribute to our quality of life, would gain.

These poorly-run public utilities and our horrible roads are not promoting any economic activity whatsoever. They are simply

destroying our property. In the case of my car, I do not take the damage lightly. I do not wish to pay any taxes to a regime that systematically causes major damages to my most treasured private property, earned the hard way.

Through the example of the broken window, Bastiat wanted to teach a very important lesson to all budding economists: that they should look at the

effects of any policy on all economic actors and not just focus on the immediate benefits to a few. Henry Hazlitt's famous textbook, *Economic in one Lesson*, now in its 50th year of publication, begins with an exposition of Bastiat's broken windows. Yet there are many who ignore this important lesson.

In India, the greatest example of a massive broken window is one that is actually perpetrated by the state's economists on the gullible public. This is the charade known as employment generation schemes. Crores of rupees are spent in this way, and the state's economists, these sophists, would have us believe that, by spending money in this way, gainful employment is being generated. We, the gullible public, see a district magistrate spend huge funds in the countryside

- The Indian State dupes people in the name of employment generation schemes
- These schemes are a burden on the taxpayer
- Many such schemes are financed through deficits
- This is the result of politics of populism which benefits only the politician
- A true democracy must represent the taxpayer

ostensibly employing people in constructive activity and conclude that employment is actually being generated. We are making a big mistake. We are not looking at the effect of the policy on all economic actors.

If we looked at all the economic actors in society, we would quickly see through the state's cunning.

Something, in this scenario, we are missing out the taxpayer. It is his money that the district magistrate is spending. Would not the same amount of employment occur if the taxpayer had spent the money himself? We are also missing out the fact that much of the district magistrate's loose spending is financed through deficits. We are missing out the fact that the resulting inflation will be a tax on the poor. These schemes were originally thought of by the Congress. But the BJP continues with the charade. Indeed, the NDA government recently announced an additional employment generations schemes by setting up a ministry for urban employment generation. All this is nothing by grand larceny on a grand scale.

So, who is public enemy No 1? I do believe I have identified him as the government of India. Instead of protecting our lives and properties, its minions are actually destroying our most precious assets. The mismanaged utilities and the corrupt public works

departments force us to spend huge fortunes on repairing the damages caused to us. And, as if this was not enough, the state spends taxpayers' money on the politics of spoils while basic issues of governance lie neglected.

We must realise that, with socialism, we do not have a democracy; we have a kleptocracy. True democrats represent taxpayers and see to it that tax revenues are well invested. The present lot loots the treasury, and when that is not enough, they print money. Public money is systematically stolen and the lives and properties of the taxpayers are not looked after. Every scheme, every PSU, every plan is just another way of stealing public money. This must end, and soon.

There is no alternative but to amend the section of the Representation of Peoples Act that restricts electoral competition to socialist parties. The BJP has disappointed b not jettisoning Nehruvian socialism and dispatching it to the dustbin of history. Theirs is the same rent-seeking. There is space for a secular free market party and it is the only democratic way by which we can overthrow this corrupt socialism. The spirit of Minoo Masani's Swatantra Party as is being sought to be revived by many of his liberal followers. They have filed a PIL in the Bombay High Court. This must be decided upon soon.

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