Published on *Adam Smith Institute* (http://www.adamsmith.org)

The broken Withywindle fallacy [1]

Written by **Anton Howes** [2] | Tuesday 22 January 2013

Over on the Guerrilla Economist blog, Ust Oldfield discusses the economic consequences of the dragon Smaug [3] on Tolkien's fictional universe, Middle Earth. He argues that the net effect on Middle Earth's economy may well have been positive. Both Dwarves and dragons hoarded the gold, so there would have been no monetary shock from the rapid withdrawal of so much precious metal from the economy. The Dwarves were then forced to offer their labour and skills to the outside world as refugees, contributing to the economy at large.

Perhaps. But there is something wrong with this picture. Ust neglects to mention that much of the Dwarven kingdom of Erebor and nearby Dale were utterly destroyed. Thousands of years' worth of accumulated physical, human (or should that be Dwarven?) and social capital incinerated. In order to have a net positive effect on the economy of Middle Earth, the Dwarves' integration with the wider economy must outweigh this massive destruction of wealth. This is unlikely, to say the least. For a start, the human city of Dale existed because of its trade with Erebor. Therefore the Dwarves were already engaging in peaceful and mutually beneficial exchange with the rest of Middle Earth. The Dwarves' actions as refugees can only have created less value if their highest-value, voluntary choices were forcibly eliminated.

The second problem is an epistemological and moral one. Sure, this is fiction, but Ust should not be so quick to defend forcible actions to create the most value for the most people. In his analysis, the values of a minority are subjugated to that of the population at large in a zero-sum manner. Creating a Dwarven diaspora constitutes the loss of the economic, social and cultural institutions that best satisfy their demands. Dwarves lose, Middle Earth supposedly gains. And yet, in a peaceful world without the destructive interventions of Smaug, both parties gain through voluntary exchange according to what they themselves value most.

Ust, like many other Keynesians, loses sight of what actually matters in economics: economic growth and production are only important because they satisfy peoples' demands and values. Forcibly removing their best avenues for peacefully satisfying demands can only be a net loss to all.

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/media-culture/the-broken-withywindle-fallacy

Links:
[1] http://www.adamsmith.org/blog/media-culture/the-broken-withywindle-fallacy
[2] http://www.adamsmith.org/taxonomy/term/5795
[3] http://guerrillaeconomist.com/2013/01/03/the-economic-consequences-of-smaug/

[4] http://disqus.com/?ref_noscript
[5] http://disqus.com