

[Helicopters vs Gnomes](#) [1]

Written by [Anton Howes](#) [2] | Monday 12 September 2011



Helicopter economics is back. Guardian columnist Simon Jenkins [writes](#) [3] that current economic strategies have failed to boost the economy, pointing out the absurdity of quantitative easing (which the ASI has been doing since day one), and to the failure of the private sector to fill in the gaps left by cuts in public expenditure. But his main concern is with lack of demand. He wants more cash in peoples' pockets so that they can spend, spend, spend; through VAT holidays, scrappage schemes, consumer vouchers or one-off benefit surges.

And then what? Once you've boosted spending (assuming that you can), how does the economy recover sustainably? Businesses aren't stupid. They'll see that these measures are temporary and plan accordingly: one-off plans in response to one-off policies. The glaring problem with this approach to demand-led policy is that it assumes demand is some homogenous force for good. It assumes that it doesn't matter what you buy, so long as you're buying. Whether it's new cars, televisions, the iPad 7, armaments, giant golden rotating statues, or the age-old classic of paying for people to dig dirt out of the ground and fill it back in again.

Consider the garden gnome. Bob Murphy amusingly [points out](#) [4] that recessions are akin to gnomes magically and suddenly reallocating capital and labour away from their most productive uses: the boom became unsustainable, and was eventually and dramatically shown up as such. Markets then quite naturally reallocate as best they can to new productive uses. The problem is that this takes time, and in the meantime some will have to be temporarily unemployed or underemployed, taking inferior jobs to the ones they had. But people like Simon Jenkins think that you can simply prop up the unsustainable status quo and expect it to eventually become productive again.

More sophisticated Keynesians claim that the natural reallocation by the market could be done faster with government help; but without realising that it's in politicians' interests to prop up the status quo, and that in order to boost demand, they need to tax, borrow, or inflate the currency at the expense of those lucky or sensible enough not to get themselves heavily into debt. Not to mention the fact that it's impossible to establish which way to reallocate: you could follow the market, but why harm savers and taxpayers by picking winners when they're emerging anyway? Or you could pick losers, which would defeat your aims.

Rather than causing further problems through demand-led policy, the best bet for growth is to make it as easy and fast as possible for markets to reallocate capital to wherever it can be used best: through free trade, free movement, free planning, and free exchange.

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[3] <http://www.guardian.co.uk/commentisfree/2011/sep/06/economic-recovery-britain-chancellor>

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