

[It's time to stop trying to defy gravity](#) [1]

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Yesterday's Dow rally notwithstanding, financial markets have finally realised that politicians can't defy gravity for ever. Somehow, the authorities have managed to keep growth booming for twenty years. Now we are realising that they only did it by creating a fake boom on the back of cheap credit, inflation, and paper money. After every crisis ? the 1985 Savings & Loan collapse, the 1987 stock market crash, the 1998 Russian default, and all the rest ? they just threw money at the problem. With TARP, quantitative easing and the Eurozone bail-outs, the politicians seemed to have saved us from disaster on an even bigger scale. We expected another Great Depression, and it never happened. Britain's Lord Young was even saying that we'd 'never had it so good'.

Sadly, all that money which the authorities were throwing at economic crises was fake money, created on their printing presses and computer spreadsheets. It fuelled a twenty-year growth in government and encouraged people to take out loans, start and expand businesses, buy bigger houses and go on a spending spree like the world had never seen.

But you can't actually defy gravity, or economic reality, for ever. Just as you need larger and larger doses of a drug to get the same hit, so you need larger and larger doses of fake money to keep the boom going. Eventually, when you realise you can't afford that any more, the boomtime euphoria falters and withdrawal symptoms start.

And here is the hard news: just as the withdrawal process is better for the addict's body than being dependent on drugs, so is the downturn better for the economy than continuing to fake a boom. It is just as inevitable ? and just as painful. During the boom years, we invested and spent on things that just don't make sense in normal times. So our resources are simply in the wrong place, producing the wrong stuff. We will simply have to write off a lot of that investment, which means factories and shops closing, and people losing their jobs. Some resources ? like people and land ? we will be able to use to build businesses that are better suited for today. Much else, we will just have to scrap. It is a painful business, but in the long run it will be good for us. The longer we try to put off the inevitable, the worse it becomes.

At last, the markets seem to be recognising this reality. It will be nasty, and the downturn will be deep. But frankly, it is better to live in the real world than a fake one.

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