



60 Second Adventures in Economics

2. *The Paradox of Thrift*

60 Second Adventures in Economics - Number 2: The Paradox of Thrift.

Much like a child getting his pocket money, one of the biggest economic questions is still whether it's better to save or spend.

Free-marketeers like Hayek and Milton Friedman say that, even in difficult times, it's best to be thrifty and save.

Banks then channel the savings into investment, in new plants, skills and techniques that let us produce more. And even if this new technology destroys jobs, wages will drop, and businesses hire more people – so unemployment falls again.

Simple. At least in the long run... But then a "live-fast-die-young" kinda chap called John Maynard Keynes cheerfully pointed out that "in the long run we're all dead".

So, to avoid the misery of unemployment, the government should instead spend money to create jobs.

Whereas if the government tightens its belt when people and businesses are doing the same, less is spent, so unemployment gets even worse. That is the paradox of thrift.

So instead they should spend now and tax later when everyone's happy to pay - Though making people happy to pay tax was something even Keynes didn't solve.