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Cut spending? If only it were that simple [1]

Written by **Sam Bowman** [2] | Wednesday 2 January 2013

In between the turkey, spiced beef and mugs of hot port, I spent some of Christmas thinking about the state. Specifically, how to make it smaller.

Milton Friedman used to say that cutting taxes would force governments to cut spending to make ends meet. The last ten years has basically proved him wrong. Why cut spending when you can spend more, tax less and let the next lot pay the bill?

The old ?tax cuts first? strategy is dead. For a smaller state, we need to cut spending as we cut taxes, and avoid government borrowing as much as possible.

But it?s not quite that simple. The problem is that there aren?t many places you can cut without also changing quite a few other things as well. ?Cut spending? sounds good, but, without much more fundamental reforms, almost any big spending cut would leave a lot of people high and dry.

The five biggest areas of government spending are health, welfare, pensions, education, and defence. To really shrink state spending, we need to cut all of these things. But without a complete overhaul of policy in general, no real cuts can be made.

The NHS is a socialist bureaucracy, but until we liberalize the healthcare market and make health insurance a viable alternative for NHS users, cutting the NHS might very well make patients? lives a lot worse. A simple cut to the NHS would be bad because, thanks to the state, a lot of people depend on it for their healthcare.

The same goes for all the other big areas of spending. Want to cut education spending? Fine, but without something like school vouchers or private education tax credits, things will probably get worse. Some bits of welfare can and should be cut, but without planning reform to reduce the cost of rents and employment deregulation to increase the number of jobs going, people who genuinely cannot find work will suffer. And a tax system that takes £1,500 from a minimum wage worker is utterly morally bankrupt.

Try explaining to granny why her pension is being cut after spending her life paying National Insurance (under the impression that it was something other than a tax in disguise). And defence cuts ? great, but not until we?re out of Afghanistan and servicemen?s lives won?t be threatened by a shortage of bullet-proof vests.

Of course deep spending cuts are needed. But, unless you?re happy to mess over people who rely on state services through no fault of their own, they can only work in conjunction with big changes in how we do things.

Spending cuts are a little bit like Brussels sprouts: quite good for you, but not very appealing on their own. But as part of a bigger meal, they can be wonderful. Deeper cuts are only possible with fundamental libertarian reforms of the state. That will be a bigger task than many would like.

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