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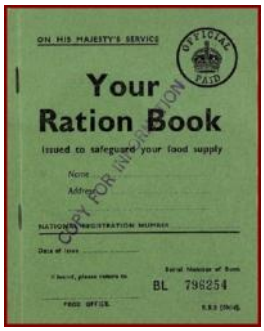
Welfare cuts might save money, but where's the growth? [1]

Written by **Sam Bowman** [2] | Tuesday 8 January 2013



Following the benefits cap debate today, I can?t help but think that, yet again, the government has missed the point. Yes, the cap will save some money. Virtually everything the government spends money on needs to be cut. But where are the pro-growth policies? Where are the jobs that people on welfare are supposed to take? And where is the wholesale reform of the state that would allow the really big cuts to be made?

The country is broke. Government debt has topped £1 trillion. This year, we will have borrowed another £108.5 billion [3], only down £13 billion from the year before. The deficit reduction plan has only just begun, and we'll keep borrowing until 2018 at the earliest.

At a little under £3bn/year [4], the savings from capping the rise in benefits at 1% in cash terms (a real-terms cut, in other words) are better than nothing. But let?s not kid ourselves ? they will be painful, especially since the fastest-rising prices are for things like food and home heating. Because we tax low-income workers and then give it back to them in the form of ?tax credits? (which are really just a cash transfer payment), many people who are in work will be affected.

On the other hand, public sector pay has been capped at the same rate, and it would be perverse for benefits to rise faster than Whitehall cleaners' pay. And this is no ordinary recession ? the deficit is staggeringly big, and the global economy is moribund. Cuts really do need to be made, and I haven't heard any alternatives from the people opposing these ones.

As I wrote last week [5], the government has singularly failed to make the big reforms that would make public spending cuts work by promoting growth. There has been essentially no deregulation of enterprise [6] ; no simplification of the tax code to produce a revenue-neutral tax cut (for everyone who can?t afford a Westminster lobbyist, at least); no real, pro-construction reforms to the planning system; and no sense on immigration.

The principle of universal benefits is, thankfully, being chipped away, but as long as the health and pensions systems remain as they are there will not be any way to avoid people on £24,000/year paying for the healthcare and retirement of people who have earned three times that.

So long as the tax threshold is so low, the government?s claims to be ?making work pay? are a joke. Full-time minimum wage workers pay nearly £1,600/year in tax, which is then topped up by more welfare

money (the mis-named ?tax credits?, which will now be capped!). How different would today?s debate be if we weren?t taking low-income workers? money away with one hand and giving it back as welfare with the other?

But these things are difficult. It?s easy not to touch business regulation, to keep immigrants out and leave reform of the welfare state to some other sods. Welfare cuts are very popular with voters [7], and it?s easy to see why. So, another frustrating day ? some cuts, yes, but none of the reforms needed to grow the economy and make them work.

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