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Denationalizing housing benefit would make everybody happy [1]

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The problem with the housing benefit row [3], as with the broader row over the welfare cuts, is that many have lost sight of a simple fact: that incentives matter.

The government?s proposals would cap housing benefit at £20,000 per year. Iain Dale has already posted a good response to this on his blog [4] ? a quick look at the property section of Gumtree shows that £20,000 per year is plenty of money to rent a spacious house within travel range of anywhere in London. As Iain?s correspondent says, maybe these houses aren?t on Kensington High Street, but how many of ours are?

There is an injustice in asking people who commute for an hour a day into London to work to subsidize people who do not work to live in the most desireable parts of the city. As with so many welfare schemes, there is a net transfer of wealth from the working to the idle dressed up in the name of compassion.

But this is only half the problem. The other half is the perverse incentives that the current housing benefit system creates. Welfare rewards failure ? this is a tautology, and does not necessarily outweigh the compassionate argument for welfare. But by rewarding failure with state subsidized houses in highly desireable areas, the system makes failure a more attractive option than success for many people.

The welfare system is necessarily blind to circumstances, to prevent bureaucrats from abusing their positions of power as the sole arbiters of welfare. If the welfare system was denationalized and delegated to private organizations (I am resisting the urge to invoke the ?Big Society?) it would allow for a multitude of organizations that could look at circumstances and give to the genuinely needy.

Any worries about a lack of private giving should be quickly dispelled when you consider how many people are ?outraged? at these cuts. Doubtless, they would jump at the chance to give their money to a charity that pays for Kensington mansions for the unemployed, allowing the rest of us to give our money to people we see as being more needy in a more equitable way.

Many talk about the difference between the ?deserving poor? and the ?undeserving poor?. Some of this is the eye of the beholder ? I don?t want to pay for anybody to live in a house in Kensington, but perhaps Polly Toynbee does [5]. A privatized approach to welfare would leave us both happy, and allow for a welfare system that does not systemically encourage failure.

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