

# Who spends more wisely: Individuals or government?

Danny Dorling

Responsible Tax Lab

Will 2019 see an end to austerity? Last year, the Chancellor announced that the ‘era of austerity is finally coming to an end’ nearly four months after Theresa May said she would be willing to break her stance against tax increases in order to fund her pledge for an annual £20 billion for the NHS by 2023. Shadow chancellor John McDonnell reacted with disbelief to the chancellor’s declaration – Labour had just called for £108 billion in additional public spending to address the damages of a decade of austerity.

In previous blogs I have criticised how [the factory model of taxation](#) treats the government’s budget as if it is limited to what it chooses to tax. Anyone taught even the most rudimentary economics at school knows this is not true – but, of course, most people are not taught such rudimentary economics at school. Furthermore, politicians who are opposed to public spending often choose to treat the public with disdain, telling them that they ‘cannot spend what they do not tax’.

In the past, politicians have sought to justify new or increased taxes through actual, or presentational, hypothecation – i.e. telling the public that the revenues will go towards a specific service. A national insurance scheme, for instance, has been proposed as a way to pay for a national health service and cover social security spending. Within a few decades the tax is still levied, but by that point has simply become general taxation. And so, again, politicians may somewhat disingenuous in suggesting that such policies can last.

The debate at present often lacks any analysis or recognition of what is best spent publicly and what is best spent privately. For example, in terms of who is best placed to make spending choices on social care in old age, or whether student fees should be paid by the state, through a graduate tax, or through loans taken out by students who do not have their fees paid by their parents.

In general, the state is a far more efficient provider of infrastructure than private toll road entrepreneurs or those who would wish to have all public parks privatized. It is especially the case that when goods are bulky, and infrequently purchased, any individual can be easily duped. No one should wish to become such an expert at heart surgery such that through their repeat purchase of bypass operations, they become an informed consumer. It follows then that state-funded health care is best. Similarly, no one should wish to repeat so many years at school that they become an expert in selecting educational providers. Painstaking international research has shown that any country that does not have a mixed model of state and private housing provision will quickly have a serious homelessness problem.

In short, for items that you buy often – where the consequences of making a mistake are not dire – the private market can be most efficient. But even in transport, countries that have come to rely too much on private cars suffer from

the greatest congestion, pollution and obesity, as well as the inefficiencies of traffic jams and huge debts [required to purchase yet more cars](#).

After over a decade of austerity in this country, I would stress that when it comes to money it is the poor who are by far the most careful spenders. If you believe in the efficiency of private consumption, you should aim for the poor to have more to spend as they allocate money so much more wisely than the rich. Conversely, if a little more of the wealth and income of the rich were taxed and spent better by the state, we would all be better off.

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### Links:

[Hypothecation: An idea whose time has come, or a proxy solution for deeper concerns?](http://www.covi.org.uk/hypothecation-an-idea-whose-time-has-come-or-a-proxy-solution-for-deeper-concerns/)

<http://www.covi.org.uk/hypothecation-an-idea-whose-time-has-come-or-a-proxy-solution-for-deeper-concerns/>

### And also:

<http://www.covi.org.uk/hypothecation-beyond-the-factory-model-of-taxation-part-one/>

<http://www.covi.org.uk/the-case-for-hypothecation-in-the-introduction-of-new-taxes-part-two/>

<https://progressiveeconomyforum.com/jubilee-2022-writing-off-the-student-debt/>

[http://www.dannydorling.org/?page\\_id=4921](http://www.dannydorling.org/?page_id=4921)

<http://www.dannydorling.org/?p=4384>