

# The benefit of benefits - and why wealth floods-up

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There are very few things in life that are more straightforward than the economics of paying benefits to those who need them.

The simple, straightforward, obvious fact that should be known to every politician in this country is that paying benefits can, and often does, pay for itself. The reason is simple.

Almost no benefits are paid to anyone with a high income. The majority of benefits are paid to people on very low incomes. And, what should be glaringly obvious to anyone who thinks for a moment about people on very low incomes is that they will spend almost every single penny they get on meeting their essential needs in life.

Understanding this really matters. If you listen to the average right-wing politician, you would think that every penny given to a person on benefits is money wasted. Nothing could be further from the truth. Money spent providing people on very low incomes with benefits does, in fact, enhance the wealth of the UK, and most especially, the wealth of the wealthiest in the UK.

That needs some explanation, because it is countercultural to make such a claim, and yet it is obviously true. If a person on benefits spends all the income that they get, it is not wasted, but it does, instead, become the income of someone else.

That someone else might be a carer, paid to provide them with support.

Or, it might be a supermarket that sells them their basic household needs.

Alternatively, it is an energy company, a landlord, or anyone else to whom they have to pay their bills.

The key point is that their spending is someone else's income. So, if you cut the income of those on benefits, you inevitably cut the incomes of all those people who enjoy the consequences of people on benefits spending whatever it is that they are paid.

In fact, this virtuous cycle created by the benefits people receive being spent back into the economy does not just happen once, but it can happen many times. Economists describe this as the multiplier effect. This also needs explanation.

Let's presume that the recipient of a benefit spends it all at a supermarket. Of course, that is not the end of the story. The supermarket will pay over VAT, and potentially corporation tax, as a consequence of receiving the income from the personal benefits. The government gets an immediate cut from the spending of those on benefits, in other words.

But then, the supermarket also pays staff, and as a result, income tax and national insurance are paid. The government gets another cut in that case.

Another part of the sum spent at the supermarket also goes to the suppliers of goods to that shop. VAT is also paid on that, and of course, the supplier might also pay corporation tax, business rates, and their staff, with yet more income tax and national insurance going as a result to the government.

But let's be clear, although tax is paid, everyone will have money left over after those liabilities are settled, and since the bottom 70% of households in the UK have remarkably few savings, this means that most recipients of most wages will also recycle almost all the net income they get back into the economy, meaning that this whole cycle then begins again, with more tax being paid every time the cycle happens.

In fact, the cycle would almost inevitably continue until all sums spent into the economy as benefits were returned to the government as taxes paid, unless it is interrupted, which it is when someone saves the money that they receive. Then, and only then, will the tax payment cycle come to an end. And, ironically, it is the savings of the wealthy that actually prevent the government from collecting as much back by way of tax paid as it might have done by paying benefits in the first place.

If you believe in neoliberal economics, you also, inevitably, believe in what is called trickle-down economics. This theory suggests that if only the wealthy are allowed to accumulate more wealth without limit (in other words, without taxation interfering in that process), their additional wealth will eventually trickle down through the economy, benefiting everyone.

In fact, the exact opposite is true. As my example shows, paying benefits into the economy creates a benefit for everyone, which can deliver growth, help balance the government books, and improve well-being right through the economic cycle, except for the fact that the wealthy, who can afford not to spend, prevent this happening to the maximum extent precisely because they do not need to spend all their income, and so save some instead. They do, as a result, stop the virtuous spending out of income from benefits that otherwise happen.

There is, however, another important point to draw out of this. Because it is the savings of the wealthy that halt the economic growth that results from benefit payments, they ultimately become the beneficiaries of these payments. In that case, there is no such thing as trickle-down. There is only a case of wealth flooding-up.

That is why we need additional taxes on wealth. With them, we would reduce the amount that the wealthy save, and release more funds into the economy via higher benefit payments, which would improve income and wealth for everyone, including the wealthy, if only they really understood how the economy works.

It is the economic ignorance and unenlightened greed of those who promote neoliberal economics that is, then, preventing us from having the benefit system that we need, and also preventing us from having the economy we desire.

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### **Taking further action**

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

**One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.**

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