

PUBLIC EXPENDITURE ON EDUCATION

(A note by Mr. Lawson)

1. If we are to have the necessary room to cut taxes, then we must hold total public expenditure steady at the level now estimated for 1977-78. And if we are to do that, then it is clear that significant reductions will be required in 1978-79 and succeeding years in the programmes set out in the latest Public Expenditure White Paper (Cmd. 7049). Since we actually wish to see substantial increases in some programmes - notably defence - the reductions required over the rest of the field will need to be commensurately greater.
2. There are five major public expenditure programmes which, together, account for 70 per cent of total public spending (excluding debt interest). These are, in order of size: Social Security; Education and Libraries, Science and Arts; Health and Personal Social Services; Defence; Housing. It will be noted that, not only is Education second only to Social Security, but also that, since Social Security is largely a matter of transfer payments, Education is the largest of the programmes which make a substantial demand on real resources.
3. It seems clear, therefore, that we need to seek substantial savings, in White Paper terms, in education: it cannot remain immune from the overall requirement to find economies. It seems equally clear - although no precise costings are given - that Mr. St. John Stevas's paper, LSC (78) 66, henceforth referred to as the Stevas Paper, does not suggest the necessary savings, and may even imply further increases in expenditure.
4. The principal purpose of the remainder of this note is to suggest where the necessary savings might be found. It is confined to education and libraries - i.e. it excludes science and arts, which account for less than 5 per cent of the total education and libraries, science and arts expenditure.
5. Education spending thus defined was running, in our last year in office (1973-74) at £7,736 million. In their first two years Labour increased this by £244 million; they then did an about-turn and in their second two years reduced it by £332 million, with the result that this year's outturn is expected to be £68 million lower than when we left office. (All figures are at 1977 survey prices, i.e. in constant 'funny money' terms). They now plan a further about-turn with an extra £81 million next year rising to an extra £239 million by 1981-82. It is far from clear that this is either necessary or justified.
6. The biggest single determinant of education spending is demographic trends. For the first time for a considerable period these are broadly favourable. Between 1977-78 and 1981-82 the number of children of compulsory school age is expected to decline by 10 per cent from 9,272,000 to 8,346,000. This is because, in addition to the continuing decline in the number of primary school children, there will henceforth be a slight reduction, instead of a marked increase, in the number of secondary schoolchildren under 16. However, over the same period, the Government is expecting to see an increase of 11 per cent, from 2,157,000 to 2,398,000 in

the number of 'voluntary' pupils and students - i.e. the under-fives, secondary schoolchildren over 16, and students in higher and further education (including evening institutes). Although the expected rate of increase is the same at both ends, the bulk in terms of numbers is accounted for by the over 16s: those staying on at school beyond the school leaving age, and those going on to higher or further education. Overall, this produces a net decline of 585,000, or 6%, in the total pupil/student population.

7. Moreover, the further up the education ladder, the greater the cost. Thus, for example, taking current expenditure alone, the average school pupil cost £366 to educate in 1977-78, compared with £1,529 - more than four times as much - for the average student in higher or further education.

8. Major savings could be achieved by planning for a very much smaller increase in both the student population and (to some extent consequentially) the numbers staying on at school beyond 16 than is assumed in the White Paper. Total current expenditure on higher and further education alone is expected by the White Paper to rise by £333 million - or 17% - by 1981-82, and by £116 million next year (1978-79). We should certainly aim to save at least £200 million by 1981-82 here.

9. Student numbers are still determined by the Robbins formula of supplying higher and further education to all those who (a) are qualified for it and (b) demand it. It is therefore suggested that we should try and influence both these determinants; i.e. in the context of (a), persuade the relevant institutions (especially the very expensive universities) to demand higher qualifications for entry, and in the context of (b), seek other ways of reducing the demand. It was partly in this context that the Public Sector Policy Group gave as one of the recommendations in its report, "consider making higher education grants wholly or partly repayable." Unlike most other public expenditure savings, this would be distinctly popular with the man in the street. And while it is true that the big savings would come later, as student loans are repaid, there would undoubtedly be savings right from the word go as the weakly-motivated and marginal would-be student was deterred from seeking higher education by his reluctance to incur the obligation to repay a loan.

10. Another financial device worth considering is the introduction of university-type charges for pupils staying on at school beyond the compulsory school leaving age. There really is no obvious justification for having totally 'free' education between 16 and 18. This suggestion may appear to conflict with the Stevas Paper's expensive recommendation that we should abolish the parental contribution towards student fees so as to "bring us in new recruits from the middle and professional classes." But surely what the professional and middle classes object to is not the idea of a parental contribution as such, but the fact that it is means-tested and thus not a charge but an additional progressive tax - on top of personal taxes which are already far too high.

11. As has been noted, the total national cost of supplying education beyond the compulsory minimum school-leaving age is primarily determined not by demographic trends but by the demand for such education. And the demand for higher and further education, and for staying on at school to take 'A' levels, can be conveniently divided into three categories. There is the demand for education for its own sake; the demand for education in order to acquire qualifications that are strictly necessary for a particular profession or vocation; and the demand for education in order to acquire qualifications - whether 'A' levels or a degree - which are not strictly necessary for a particular job, but which employers

nevertheless nowadays demand for the job in question as a convenient (and to them costless, but to the taxpayer very costly indeed) means of 'screening' applicants. The artificial inflation of demand for such education via this last route - which is not really a genuine demand at all but one induced by the demands of employers - is likely to pose a growing problem of misallocation of resources, and is clearly the area where the least painful savings could at least in principle be found. In practice, this is easier said than done. One possibility might be to try and persuade public sector employers not to demand 'A' levels, let alone university degrees, when job-screening via, say, 'O' level results; IQ tests and depth interviews would do just as well. So far as the private sector is concerned, it might be a topic worth pursuing with the CBI. For this is clearly an area where the education service and the taxpayer are being unfairly expected to bear the burden of the inflated cost of employers' recruitment and job-selection policies. Theoretically, the right solution in economic terms would be for the education service to charge employers for the screening service it is providing for them, just as (at another level) the 'headhunters' or personnel selection agencies do. The practical difficulties are obvious; but it might be worth looking at experience abroad in case such a system has, somewhere or other, been implemented.

12. A further major determinant of education spending is the pupil-teacher ratio. The Stevas Paper suggests that we should use the fall in the school population as an opportunity to raise standards; but it is doubtful whether higher standards (which are badly needed) necessarily imply a lower pupil-teacher ratio (as recent studies have confirmed). When we left office, in 1973-74, the pupil-teacher ratio stood at 20.6; over the past four years, despite the slight reduction in total education spending (which of course was achieved entirely by a £598 million cutback in capital spending, although since 1975-76 there has been a slight reduction in current spending, too), the pupil-teacher ratio has fallen steadily to 19.4. The White Paper assumes that it will continue to fall, to 18.3 in 1981-82. If, instead, we were simply to maintain the present (1977-78) ratio of 19.4, this would imply a saving of 28,000 full-time teachers - roughly 5 per cent of the total - by 1981-82. And this is on the White Paper estimate of the pupil population: if the numbers staying on at school beyond 16 were to be less than planned in the White Paper, there would be a bigger teacher saving still. It is clear that there is an opportunity here to save well over £100 million - quite apart from the consequential effects on the cost of teacher training.

13. It is presumably principally the planned reduction in the pupil-teacher ratio that is responsible for the planned increase in the amount of current expenditure per pupil over the White Paper period. This is planned to rise from £297 in 1977-78 to £327 in 1981-82 for the primary pupil, and from £453 to £488 for the secondary pupil. Maintenance of the present level of current spending per pupil would imply savings of some £130 million on primary education and £150 million on secondary education by 1981-82. There is thus a potential saving of £280 million by 1981-82 on current spending on school education to be added to the £200 million or so saving suggested in paragraph 8 on higher and further education, making a total savings target of £450 million-£500 million. On top of this there is any revenue that would accrue were it decided to levy a parental contribution for education in the 16 to 18 bracket.

13a. So far as nursery schools are concerned, it will be recalled that the minority report of the Plowden Committee recommended the introduction of charges for such schools. The logic behind this is

that, since the main practical effect of nursery schools is to enable the mothers of children at such schools to go out to work, it is reasonable to ask for some contribution from this addition to family income. (Poor parents, of course, would not be required to pay any charge). The minority report, which is worth reading in full, is annexed to this note. As will be seen, it was signed by eight members of the Committee, among them the present Chairman of the Supplementary Benefit Commission, Professor Donnison, and Mr. Timothy Raison. It is obviously something that, in present circumstances, deserves careful reconsideration, since it would bring in a significant and rising flow of revenue to help offset the growing cost of providing nursery education, current expenditure on which is expected by the White Paper to rise by 19% by 1981-82. At the present time, fewer than half the under-5's are in nursery schools. If charges are confined to these children, and are levied at half the total cost, then the saving by 1981-82 would be of the order of a little under £40 million.

14. Capital expenditure on education has already been cut savagely by the present government, as mentioned in para. 12 above, and the White Paper plans a further - albeit gentler - decline to 1981-82. I doubt whether there is any scope, therefore for any further savings here. However, the Stevas Paper seems to suggest - although again, no costings are given - actual increases in capital expenditure: I do not think this is realistic in the light of our overall need to cut tax, and hence keep public expenditure steady. Para. 24 of the Stevas Paper, for example, suggests more capital spending in order to improve or replace old and over-crowded primary schools. It is by no means self-evident that the age of a primary school has much bearing on the quality of education; and over-crowding should in most areas be greatly alleviated by the substantial decline in the numbers of primary schoolchildren. In para. 28, on the secondary side, the Stevas Paper proposes the ending of 'split sites'. Attractive though this sounds, I fear it may be hideously expensive. Again (see para. 22), I do not see how we can afford the 1972 nursery school target, which would involve spending an extra £140 million a year by 1981-82.

15. So far as I can see, there are only two possible savings suggested in the Stevas paper. One, which is implicit, derives from his suggestion in para. 38 of a switch within higher education from the expensive university sector to the less expensive non-university sector. This is obviously desirable, and need not wait until the bulge in the university age group which will not occur until the mid-1980s.

16. The other is the explicit proposal in para. 34 of a reduction in the school meals subsidy. I am a little doubtful whether there is much scope for saving on school meals over and above the savings planned in the White Paper. It is important to recognise that there are two distinct elements in this subsidy: the subsidy (currently 50% of total cost) for those children who pay for school meals, and the entire cost of school meals provided free for poor children, teachers who supervise school meals, and the staff who prepare the meals. The White Paper expects these two elements together to be steadily reduced from £397 million in 1977-78 to £276 million in 1981-82 - yet at the same time it expects the number of children able to claim free meals to rise by over 50 per cent. It seems clear, therefore, that the White Paper is assuming that, by 1981-82, the subsidy for those children who pay for school meals will have been very nearly eliminated, and almost all the remaining £276 million of subsidy will go on the second element: free meals for meals staff, supervising teachers, and poor children. Are we prepared to stop any of these free meals?

If not, the scope for saving seems distinctly limited: perhaps £30 million by 1981-82 if the subsidy for paid meals is wholly eliminated. There may, of course, be scope for saving in school transport; but clearly anything we do here should not be done directly, but indirectly, by squeezing the local authorities (via cash limits and the RSG) and leaving it to them to decide what economies to make. In any case, the saving (if the Stevas Paper is right in para. 26) would appear to have an absolute upper limit of £100 million - the total cost of school transport subsidies. (It is also a highly politically sensitive area).

17. There is, however, a further possible saving implicit in para. 20 of the Stevas Paper, which deserves further exploration. This is its reference to alternative provision for the bored 15-year olds. If these are allowed to leave school in order to take up approved work - e.g. apprenticeships - there should be some saving to the education budget. On the other hand, there is a clear commitment, in para. 32, to spend a substantial sum of money, over and above the White Paper plans, on starting up an 'assisted places' scheme in lieu of the old direct grant system. The Stevas Paper seems to envisage at least £50 million for this, and quite possibly more: obviously savings to meet this would need to be found elsewhere in the education budget. I have suggested earlier in this note how and where those savings might be achieved.

18. All in all, we need to be looking for overall net savings in education, in terms of the White Paper plans, of at least £150 million in 1978-79, rising to at least £350 million in 1981-82. In percentage terms, this would imply a reduction of less than 2% in the total White Paper plans for education and libraries, science and arts in 1978-79, rising to a reduction of a little over 4% in the White Paper plans for 1981-82. If this were achieved, education etc. spending in 1981-82 would be only marginally lower, in volume terms, than the estimated outturn for this year (1977-78).

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A postscript on school meals (to be considered for our 2nd Parliament!)

In a number of European countries (Switzerland I believe is one) no school meals are provided at all: children bring packed lunches to school with them. This is obviously the only sensible system: it gives children more choice, involves less of a chore for teachers, requires no indiscriminate subsidy, reduces public sector manpower (no school meals staff), avoids the row whenever school meals charges are raised - and enables poor children to be helped more discreetly by an adequate FIS-type scheme.

EXTRACT FROM PLOWDEN REPORT (CHILDREN & THEIR PRIMARY SCHOOLS), 1967.

NOTE OF RESERVATION ON PARENTAL CONTRIBUTION TO THE COSTS OF NURSERY EDUCATION (CHAPTER 9). BY PROFESSOR A. J. AYER, DR. I. C. B. BYATT, PROFESSOR D. V. DONNISON, MR. E. W. HAWKINS, LADY PLOWDEN, MR. T. H. F. RAISON, BRIGADIER L. L. THWAYTES AND DR. M. YOUNG.

1. Chapter 9 notes that the Hadow Report recommended nursery schools in 1933 and that the Education Act of 1944 gave them the blessing of Parliament; yet it does not draw what seems to us the obvious lesson. Why has nothing effective been done? Quite simply, there have not been enough resources, in teachers or buildings. If that is true of the past it certainly remains true of the present. Resources are relatively as scarce as ever. The prospects of nurseries are not therefore that much better than they were in 1944, and will not become so without the crucial further proposal we make here. Extra resources are needed, and (apart perhaps from some voluntary and private nurseries which will charge anyway) will not be forthcoming on a large scale unless the amount of money being spent on education is substantially increased. The necessity for this is shown in Chapter 31. The answer we suggest is a parental contribution. If nurseries were the Council's over-riding priority the situation would perhaps be different. They are not.

2. Our suggestion is advanced as much in the interests of children whose parents cannot afford to pay as it is of others. Without a parental contribution we fear that nursery education will not be extended at all and such children be no better off than they are today. With it, we can be more optimistic, and, if the hopes are realised, there will be nursery schools which can be attended by the children of poorer parents, in and out of educational priority areas. They are often just the ones who could benefit most. Charging the richer will be a means of helping the poorer. Charging those with smaller families will be a means of helping those with larger.

3. What other sources of finance are there? We cannot be confident that, of the public money available for social services, less should necessarily be spent on housing or old age pensions so that more could be spent on nursery schools. Rates and taxes cannot be raised expressly for the purpose. We

recognise that in public services benefits and contribution to cost cannot, and should not, be precisely equated. Public services exist where one cannot, and should not, try to. But the resistance of people to pay higher taxes is still an important consideration. Pensioners and others would scarcely welcome such an impost just for the purpose of financing nurseries. This is all the more so because a few of the mothers who will send their children to nursery schools will be able in consequence to go out to work part-time and add to the income of themselves and their families, and a great deal could be made of those few by the opponents of nursery schools.

Facing up to affluence

4. To the majority of the Council a principle that should be sacrosanct appears to be at stake. Maintained schools have always been free, and therefore should always remain so. But the principle crystallised at a time when incomes were a good deal lower. Parents are now more affluent; they are more interested in education. Today they are for the most part able and willing to contribute, and their willingness to do so could be used as a lever for getting a more general service. Particular proposals for educational improvement should surely be considered to see if on their merits it would be right or not to ask parents to contribute.

5. If this be the approach, contributions for nursery schools recommend themselves. Where the community makes education compulsory it is in general right that the community at large should pay. But this is not proposed for nursery education. It is not to be compulsory. Not to charge would therefore be to create injustice as between parents who do not choose to make use of nursery schools and those who do. The parents who do not would be paying, through their rates or taxes, for a service to other parents, sometimes wealthier parents, who take advantage of the new schools. Nor is nursery education to be universal for many years. It will develop in some districts more rapidly than in others. Not to charge would be to create further injustice between people in one district, who do not yet have nursery schools but have to pay for them through taxes, and people in other districts who do have them. In these two ways nursery schools will be different from most other maintained schools, and, if they differ, so should their finance.

6. Another argument is that payment—up to 13s. 6d a day—is already made for children attending day nurseries, and for much private baby-minding as well. Day nurseries constitute a precedent on which we lean. The majority do not suggest that charges for day nurseries should cease. The consequence would be that parents would pay for children up to three but at this age, though the service would be much the same, charges would be dropped. To act as we propose on this and to bring nursery schools into line with day nurseries would be more sensible, and should lead to more of the children who are at present privately minded for a charge being given an educational experience in a nursery school. It is also worth noting that in nearly all other countries visited by members of the C.A.C., including Denmark, France, Poland, Sweden and the U.S.S.R., there were charges for nurseries. We cannot see that Britain should on this stand apart.

Remission of fees

7. We are naturally in favour of remissions of charges for those who cannot afford to pay. For our main purpose in proposing charges at all for those who

can afford them is, as we have said, to secure nursery schools which would not otherwise be there at all for those who cannot. The suggestion is that the standard charge should be the 5s. per half day which is reckoned as the full cost (see Table 41), but if some L.E.A.'s could get the cost down to less the charges would also be less. Such a sum would clearly be beyond the means of families with low incomes or several children, and these should get free places. The larger the number of children, the higher the level of income that should qualify a family for remission. We further recommend that as soon as charges and remissions are introduced (even experimentally) steps should be taken by means of research to find out whether children who should be in nursery schools are not there because their parents are being deterred by the charges. The system for remission should be revised if necessary in the light of the results of the research. Whatever happens, all nursery schools in educational priority areas should be free to begin with in order to make sure that the children who need them most are not kept out. We propose that fees should be introduced as soon as possible in some other areas so that the size of demand (given charges and remissions) could be estimated as a basis for general national planning.

8. Nursery education needs definition. We do not think it would be right to charge fees for schools given the label of nursery, and not to children of the same age in schools called infant. Age should be the criterion, not type of school. We recommend that fees should therefore be charged for all children under five, irrespective of which sort of school they are in. It also follows that children of over five in nursery schools, who will be plentiful once the single date of entry is introduced, should not be charged.

9. If resources were more plentiful we would not favour charges. This is particularly because some parents who cannot afford to pay may be too proud to accept remission and therefore keep their children away. But new traditions can be created. Few parents are now too proud to accept State support for the education of their children in universities. If in universities, why not in nursery schools?

PUBLIC EXPENDITURE ON EDUCATION

Following the last discussion in Steering Group on Norman St. John Stevas's paper on education, Nigel Lawson has prepared the attached paper in consultation with George Cardona and myself.

With Mrs. Thatcher's agreement, I have arranged for the paper to be circulated to colleagues so that the main points made, with which I agree, can be considered alongside Norman's paper.

GEOFFREY HOWE