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## DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

5 March 1984

*In Nigel.*

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM *see PR 26*

Thank you for sending me a copy of your minute of 29 February to the Prime Minister enclosing a draft of the Green Paper.

I think that the authors have done a very good job. The publication should do much to improve public understanding and stimulate debate. I particularly welcome the balanced concluding passage, with its emphasis on the choices to be made between lower taxes and improvements in services.

Officials here have already sent to the Treasury some suggested amendments to the passages (paragraphs 15 vii, 27, Table 4 and paragraph 40) in which I have a Departmental interest. With one or two further amendments I endorse all these suggestions and, for convenience, reproduce in the annex to this letter the two most important. I believe it would be wrong to add to our troubles with the local authorities by including anything like the present 15 vii, which only tells one side of the story; equally the near-stability in spending since 1978-79 on a programme as big as education and science deserves a short paragraph; and the present paragraph 40, on the future prospects for education, needs filling out.

I also have one or two other comments:-

Paragraph 10

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
LONDON SW1P 3AG

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Paragraph 10. In fairness to my predecessors, including the Prime Minister, we should add demography to the list of forces which have driven up social spending in the last 20 years. (The school population, for instance, rose by almost 2 million or over a quarter between 1965 and 1975, and has since fallen only by a million.)

Paragraph 21, penultimate sentence

Increased rates have resulted from a reduction in the Exchequer grant percentage as well as from higher expenditure.

Paragraph 33, last sentence

Would it not be worth emphasising that child benefit is not taxable?

Paragraph 35

This is very brief by comparison with the treatment of the (smaller) health and education programmes, and I hope that you and Michael Heseltine can strengthen it. A reference to possible economies in defence R and D expenditure might be useful.

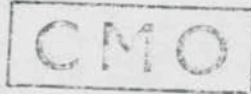
Paragraph 71

I wonder whether "unacceptably" is correct here: we have made our preference clear. At this stage in the argument there is surely virtue in posing the three choices. Alternatives would be to substitute "historically" for "unacceptably" or to omit "unacceptably" but insert after "taxation" - "involving, inter alia the costly but important purpose of raising tax thresholds in real terms -."

I am copying this letter to those who had your minute.

*Yours,  
Heseltine*

CMO



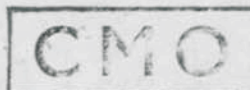
Paragraph 15 (vii) Delete, and substitute:-

"Expenditure on education and science, three quarters of it by local authorities, has increased by 1 per cent in cost terms since 1978-79, compared with a fall of 12 per cent in the school population and an increase of 10 per cent in the number of home students in higher education. Within the total there have been important shifts, largely because of demographic changes, from primary to secondary and further education and from capital expenditure, which has fallen by a third, to current expenditure. Expenditure on school meals has also fallen by a third."

Paragraph 40 Delete, and substitute:-

"40. Demographic changes affecting education over the next decade are such that, if current levels of provision per pupil and per student were broadly maintained, education's share of GDP could be expected to decline significantly. The number of pupils in maintained schools is expected to fall from over 8.9 million in 1984 to some 8 million in 1991. If the cost per pupil were maintained at existing levels every 100,000 fewer pupils would lead on average to savings of around £90 million a year. The latest projection, currently under review, of the number of full-time and sandwich home students in higher education shows a fall from over 500,000 now to well under 450,000 in the early 1990s, with the decline in the size of the relevant age-groups more than outweighing a continued increase in the age participation rate. This would yield savings in student grants even without a further reduction in the dependence of students on public funds for their maintenance, and also in expenditure on universities, polytechnics and colleges.

40A. A number of factors are however likely to work in the opposite direction. In addition to inescapable diseconomies of scale as pupil and student numbers fall, there is a case for a better as well as a smaller teaching force (see Cmnd 8336) and better in-service training. There will be pressure for a further increase in the participation rate of under fives, though it is currently at a record level of 40 per cent. Technological advance in industry should result, in the national interest, in extra demand for relatively expensive courses in science and technology within further and higher education - although there may be scope for involving employers and employees in the financing of some such courses."



Elson per  
his copy  
R27

15 MAR 1964

