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# **Solutions to the Problems of Public Sector Education**

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A Report to the Minister of Education  
by the  
Adam Smith Institute



*Adam Smith Institute*

## TABLE OF CONTENTS

The Provision of Schooling . . . . .	1
The Problems . . . . .	2
Public Sector Supply . . . . .	4
Public Sector Finance . . . . .	5
The Solutions. . . . .	7
(a) The Tax Rebate System. . . . .	8
(b) Funding Private School-Building . . . . .	11
(c) Contracting for School Services . . . . .	11
(d) Private Examination & Accreditation Agencies . . . . .	12
(e) Gift Deductibility. . . . .	12
Conclusion. . . . .	13

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Adam Smith Institute  
50, Westminster Mansions,  
Little Smith Street,  
London SW1P 3DQ  
England.

tel: (01)-222-4995



## THE PROVISION OF SCHOOLING

British schooling is provided for the most part by public sector supply. The most recent figures for England and Wales show the state supply accounting for 94% of all school places, educating approximately 9 million pupils, compared with the  $\frac{1}{2}$  million in private schools.

Schools outside of the public sector, including the misnamed "public" schools, are popularly perceived to supply a very expensive education to the remaining 6%. This perception, encouraged by the apparent provision of "free" state education, is incorrect. The latest available figures from the Department of Education put the average per-child costs of a place in a state school as follows:

For primary schoolchildren . . .	£ 744
For 11-16 year-olds. . . . .	£1,004
For 16 + . . . . .	£1,623

This can be compared with the average fees charged for day pupils in private sector schools in 1981:

For private day boys . . . . .	£1,423
For private day girls. . . . .	£1,219

Although the private school fees appear to be higher on average than the state school costs, two points tip the balance the other way. Firstly, the private schools educate a higher proportion of the more expensive sixth-formers than they do of younger pupils. Although 6% of all pupils, they rise to 17% of the 16+ group; and it is pupils from this group who cost the public sector £1,623 per place per year.

Secondly, though of no less importance, the state school figures are for recurrent costs only. They do not include, as do the private school figures, amounts which reflect the cost of new buildings and equipment or of improvements to buildings and equipment. These capital costs would dramatically increase the state school figures.

With the inclusion of these two factors, the fees charged by private schools cease to seem expensive by comparison. On the contrary, in many cases the cost of a state school place, financed out of rates and taxes, is higher than the average fee charged for a place in a private school. The education of the ~~6%~~ in private schools is only expensive in the sense that their parents have to pay in full both for the private school place which is taken up, and for the state school place which is not.

### THE PROBLEMS

The basic problem of British schooling is that it is not sufficiently responsive to the demands of parents. Since they have little meaningful choice, and no means of withdrawing the financial support which is given on their behalf to each state school, parents have minimal opportunity to exert any input on the practices maintained or the standards achieved. The child is required by law to attend, and the parent is required by law to pay. There are thus few if any opportunities for consumer pressure to be exerted except very crudely at the political level. The normal recourses by which consumers satisfy their preferences in private markets - by consuming less of the good or service, or by taking custom elsewhere - are not available

in education except to the small minority who can afford to pay twice.

The problems of education in Britain are those inherent in public sector supply. In the interest of providing a standardised product, variety and choice are sacrificed. With the aim of ensuring a decent standard of education for all, the state sector squeezes out much of the variety and choice which would improve the system.

Variety permits not only the prospect of different education for children of different talents and temperaments, it also allows comparisons and contrasts to be made concerning the efficacy of different educational procedures. Competition in standards enables the success or failure of educational innovations to be fairly assessed, and points out the areas of inadequacy where improvements are needed.

The present, fairly uniform, system of comprehensive schools denies itself the progressive and problem-solving opportunities which competitive variation would bring. It also denies to parents the opportunity to satisfy differing tastes and views concerning the education of their children. Even within the existing standardised system, opportunities for parental choice are specifically denied. Opinion polls show educational standards to be the key factor which might prompt parents to change schools, yet information on the relative performance of schools in examination successes has not been available. The record of passes which is soon to be published will not list them as a proportion of total examination entries, so parents will still be unable to



make accurate judgements of a school's performance.

#### PUBLIC SECTOR SUPPLY

As with other goods and services dominated by public sector supply, education has become producer-oriented. That is to say, the level of education and its quality are determined by the teachers, the administrators and the legislators who are involved on the production side, rather than by those who consume and pay for the service. Since the public have no choice in the matter, and cannot, for the most part, take their custom elsewhere, they have to take whatever education is provided. They do not have to be taken into account in the way in which teachers, local government administrators and those involved in legislation have to be taken into account.

The result is that those engaged on the production side have tended to meet each others' needs and desires, rather than direct their attention to the satisfaction of those who consume the service. Where the producers have coincident views, these have prevailed even though opposed by the great majority of parents. Poll results reveal that parents generally opt for strict discipline and education which imparts basic skills such as literacy and numeracy to their children. Despite these well-recognised preferences, the trend has been towards relaxation of discipline and for the spread of child-centred education with stress laid on awareness and participation.

In the absence of an effective public monopoly, parents would have had their opinions count by exercising choice

over the selection of a school. Instead, the effect of producer-orientation has been to spread educational practices which parents would never have consented to, given any choice in the matter.

A further effect of a producer-oriented monopoly has been to make education an ideological battleground. With control shared between teachers, administrators and legislators, groups concerned to use education to influence children to their views have been able to direct their attention at these groups. Parents have been denied the choice to reject unwanted ideologies by transferring their children to schools which provided authentic education.

#### PUBLIC SECTOR FINANCE

The supply of education is governed by what the government believes can be afforded, rather than by what consumers are willing to pay. Furthermore, the allocation of such resources as are available is determined by the desires and needs of producers, rather than by the preferences of the consumers. Thus resources have been allocated to reducing the average size of classes. It is an article of faith that this is an educational good, despite total lack of evidence. Children educated in smaller size classes do not do better; it is the teachers who do better.

Over the past 20 years the amount spent on education has gone up both in real terms and as a proportion of GNP. Class sizes are smaller and there are more resources per child. Despite this there has been no increase in the total number of examination passes, or in measured levels of literacy and numeracy. The resources have been allocated to

satisfy the priorities of the producers.

The finance of education out of rates and taxes has meant that available funding has depended on the economic health of the nation, and on what legislators have thought the public would tolerate, rather than by what parents have thought appropriate. Economy campaigns have been implemented by producers in such a way that producers have been largely protected from their effects, and so that popular services have been threatened or cut.

A significant proportion of the funds available for education are locked into non-teaching activities such as heating schools, cleaning floors and cleaning windows. In many cases these activities, too, are producer-centred, being provided by union-controlled in-house council services. This also limits the effectiveness of any campaign to limit the costs of education, or to have funds spent more effectively.

Given the high position which education occupies in the attention of parents, and the capacity of the producers of education and its associated services to protect their own economic position, there are narrow limits within which the cost of public sector supply can be reduced. In general, the savings achieved fall short of those intended, they do so at the expense of services rather than wastage, and they are gained only after an unacceptable level of turmoil, opposition and loss of goodwill.



## THE SOLUTIONS

Although various proposals have been advanced to raise the quality of state education, to make it more cost-effective and more responsive to demand, the central problem remains that of public sector supply itself. No proposals will be of lasting beneficial effect unless they provide for both variety and choice, and give parents a means of exerting continual pressure for improvement.

These proposals, instead of looking to the costs of public sector supply, look to reducing the demand for the public sector product. They are aimed at encouraging large numbers of parents to opt out of the public sector altogether, and to seek private supply instead. This will not only introduce the variety and choice necessary for improvement, but will also relieve the state of the burden of supply.

Just as in the United States the new report by Professor James Coleman of Chicago shows that private schools do better because they provide more challenging academic programmes, demand more homework and maintain stricter discipline, so do private schools in Britain make more of each child by providing a different service. The aim of these proposals is to make that service generally available to parents, instead of leaving it, as it is at present, the prerogative only of the rich. The aim is to lower the cost of exit from the public sector so that increasing numbers can avail themselves of the opportunity to depart.

- (a) The Tax Rebate System: The most effective means of encouraging parents to opt out of the state system and to seek private sector supply instead is to give tax rebates to those who do so. While various voucher plans would undoubtedly bring choice and variety, they are difficult to introduce, and involve overall dramatic change to the whole educational structure. The tax rebate plan does not attempt to transfer existing state education resources into private hands, but to promote the increasing build-up of an alternative and equivalent private sector supply.

Under the tax rebate system, parents who opt for private education will receive a rebate on their taxes in the form of a cheque representing part of the money which they have enabled public funds to save.

Opinion polls show that there are many parents who would opt for private education, given fairly modest inducements to do so. In the case of schooling for the 11-18 age group, the average cost per year of a state education cannot be less than £1,080 on the Department's own figures. As stated, counting the additional factors one arrives at a real cost higher in many cases than the fees for private schools. While not all of that cost would be saved, there would nonetheless be substantial savings if significant numbers chose to opt out. Less teachers would be required, less schools, less books and supplies, less facilities and less administration.

A tax rebate of £350 per child taken out of the demand for public sector education would cost public funds £185.1 million for the 6% already in private education. If £350 provided

sufficient incentive to induce another 6% to leave the state sector, the cost to public funds would be a further £185.1 million. But against that total payment of £370.2m, there would be a potential saving of £571.1m created by the departure of the extra 6% from state provision.

Impact on public funds of a £350 tax rebate for 11-18 year-old schoolchildren moving to private supply:

Cost of rebate for various percentages in private sector		Potential saving to public funds if various percentages opt out
12%	£370.3m	£ 571.1m
18%	£555.3m	£1,142.3m
24%	£740.4m	£1,713.4m
30%	£925.5m	£2,284.6m

The significance of the calculation lies not in the actual figures, but in the fact that a tax rebate for private education would bring a net gain to public funds. The principle is that the state can save more by not supplying the education than it has to spend on a rebate to induce people to purchase private supply.

While an initial tax rebate of £350 per year would still leave parents with a great deal to pay themselves towards private school fees, opinion research shows that there are large numbers sufficiently dissatisfied with the state sector to do so. Furthermore, it is envisaged that the tax rebate would be increased over the years to encourage more and more people to leave the state sector. On the basis of initial response, the rebate could be set at a level designed to make the cost of it less than the saving



made possible to public funds. Similar analysis suggest that an initial rebate of £200 for primary schoolchildren would provide incentive to move sufficient numbers over to private supply that substantial savings could be made.

Possible Objections:

- (i) There would not be enough private school places. This would be true of the existing private schools, but new ones would arise. Instead of being the vast, capital intensive schools which characterise the state sector, these would probably be small and relatively specialist. Many would probably be formed by groups of teachers and parents renting property, or buying on loan former state properties.
- (ii) This system would favour the rich. It is the present system which gives choice only to the rich. The tax rebate system is specifically designed to take that choice down-market until it is an option which most parents can contemplate.
- (iii) This will cream off from the state sector bright children who would raise the standard, able teachers who would provide its quality, and concerned parents who would press for improvement. Bright children, able teachers and concerned parents are not some precious commodity owned by the state to be rationed and shared equally. They are individuals entitled to act for themselves. Half of the present private schools do not select for ability; there are many able teachers remaining within the state sector; and concerned parents can generate improvement by helping to start and run good quality schools.

(iv) This system would perpetuate social divisions. On the contrary, it would alleviate them. The present system allows only the privileged few to enjoy private education, while keeping the majority prisoner in the state sector. The tax rebate system would extend that choice and make private education a normal option for most people. The aim of the proposal is to secure an ever-increasing proportion of parents who choose their own educational provision. Its aim is to grow a vigorous private sector to solve most of the problems present within the state sector.

- (b) Funding Private School-Building: The task of those wishing to establish private schools would be easier if funding support by way of grants or loans were available. The schoolbuilding fund could be used to assist the creation of private schools as well as state schools. Private schools tend to be more cost-effective in building, and have the capacity to attract private donations. The government could consider introducing a programme to give grants and loans to viable private school projects.
- (c) Contracting for School Services: Within the state sector a requirement to invite tenders for school services would improve quality while cutting costs. Cleaning, maintenance, transport, catering and delivery of supplies are a few of the services which independent business could provide on a contract basis. Figures which include many British as well as worldwide examples show that savings of 50% are not uncommon for privatisation. School facilities such

as gymnasia, swimming pools, theatres and playing fields could be managed under contract by independent local businesses so as to maximise the efficient use of capital.

- (d) Private Examination and Accreditation Agencies: Private accreditation agencies, established as non-profit charities, could be used to monitor standards at different types of schools, in both public and private sector. Use of them by government could introduce an objectivity not present when teachers and administrators assess their own results. Similarly, an independent national examination centre, or perhaps more than one, could provide for the objective examination of schoolchildren on a basis which would provide not only a standard constant over both place and time, but a means whereby the performance of different schools and different types of schools could be assessed. The government could consider recognising such a national centre and employing its services in schools.
- (e) Gift Deductibility: More capital could reach education if gifts and bequests to charity-registered private schools were made totally non-labile to capital transfer tax, and fully deductible from the tax base of the contributing individual, institution or company.



## CONCLUSION

The problems associated with public sector education are those which might arise in any service or industry no longer in receipt of consumer input. Because public sector education pre-empts funds in rates and taxes, only those who can afford to pay twice are able to achieve access to variety and choice. They obtain these in the private sector.

The public sector supply is meanwhile producer-oriented, satisfying the needs and desires of the teachers, administrators and legislators involved on the supply side, rather than those of the parents on the demand side. There is an overwhelming case for the supposition that only a large-scale transfer of demand to the private sector can effect major improvements in education. Proposals are available to government which will not so much transfer public resources to the private sector, as stimulate the creation in the private sector of an alternative supply, one more responsive to demand and more progressive in its development.

The introduction of a tax rebate system, starting with rebates of £350 per child for 11-18 education, and of £200 per child for primary education will make effective the demand for both choice and variety in the private sector. This can be achieved at a net gain to public funds, by ensuring that the cost is exceeded by the corresponding savings achieved. Coupled with support for the establishment of private schools and other recourses to the cost-saving efficiencies of the private sector, this can rapidly transform British schooling and the opportunities which it generates for all.





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