

EDUCATION WITHOUT THE STATE

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To conjecture a Britain that had never experienced government intervention in education is not without problems. It would be helpful, for instance, if we could point to the experience of another country similar in all respects but without 'free' and compulsory state education. Yet this is hardly possible because government intervention prevails throughout Western countries and seems to be the inevitable consequence of the growth of political democracy.

The historical attachment to democracy is sometimes explained as the need to protect the poor. But since democracy is a simple majority voting institution, how can we expect the poor, who constitute a minority, to be particularly well served?

Pressure Groups, Politicians, Bureaucrat Self-Interest

More sophisticated observers in the economic school of public choice are now viewing democracy as an institution operated largely by special interest groups, vote-maximising politicians and self-seeking bureaucracies, which do not represent the poor. Many scholars now conclude that the eventual dominant objective of government school systems is not to promote the greatest happiness of parents or children, or the most efficient schooling, but to transfer wealth to educators. In line with this view, education illustrates, indeed, one of the most glaring examples of rent-seeking - the extraction of privileges from government - that the world has ever seen.

If the government school system is so firmly attached to politics, is it not merely academic to imagine Britain without its state education whilst continuing with its democracy? There are at least three possible responses.

- *First*, because democracy can appear in several varieties, it would be enlightening to conjecture the differences in education that could result

from variations in constitutional rules and structures. They would include more inclusive voting rules (reinforced as distinct from simple majority voting), decentralisation as opposed to central government dominance, restrictions and/or extensions of the franchise, and increased use of referenda.

- *Second*, even if it now seems impossible to return to a world of almost negligible state involvement in education, it is still a useful undertaking to correct public misunderstanding about schooling before the famous Forster Act of 1870 which introduced government schools.

Table 1: Growth in Private Schooling, England and Wales, 1818-1858

Year	Population	Annual Average Growth rate of Population (%)	Number of Day Scholars	Annual Average Growth of Day Scholars (%)
1818	11,642,683	1.40	674,883	3.60
1833	14,386,415	1.47	1,276,947	3.16
1851	17,927,609		2,144,378	
1858	19,523,103	1.21	2,525,462	2.35

- *Third*, since the present extent of rent-seeking depends on differences in the volume of information about education possessed (a) by the suppliers (teachers and officials) and (b) by the voters at large, the equilibrium could eventually change, at least at the margin, as parents, families and members of the general public became more informed. This essay will focus on the second and the third of these possibilities.

An Extension of the pre-1870 Trends Without the 1870 Act

Henry Brougham's Select Committee reported (in 1820) that in 1818 about one in 17 of the total population of England and Wales was being schooled and paid for largely by working parents. If education is a 'normal' economic good, we would expect this measure of schooling to increase with the rise in incomes. Brougham's Committee reported that the figures for 1818 were a considerable improvement in 18 years on 1800 when the earliest estimate was made. Ten years later, in 1828, Brougham in his private capacity followed up the report for 1818

with a 5% sample survey of his own, using the same sources (the parochial clergy) as before. His findings suggested that the number of children in schools had doubled.

Such evidence alone would challenge the view that the desire for education has to be *imposed by* the state. If education 'consumption' begins to appear and to rise with income, the most appropriate government strategy might be one or more of the following:

- redistribution of income to enable more parents to pay;
- more patience at a time of steady income growth; and
- concentration on removal of barriers to such growth.

The rising income correlation with the growth in education suggests that, as income per head increased in the 19th century, schooling grew 'vigorously' in response. Whereas the actual growth of income per head in the years 1801-71 was slightly over 1% per annum, the average annual growth rate of day scholars was well over 2% (last column of Table 1). The growth of schooling in England and Wales during this period, it should be emphasised, came before it was made free, compulsory and supplied by government. The annual growth of scholars also exceeded the annual growth of population (columns 3 and 5). During the compilation of the 1851 educational census, it was reported that the average duration of attendance at school of working-class children was nearly five years. The Newcastle Commission reported that by 1858 (seven years later), it had risen to nearly six years. And the attainment of an education threshold for most people was reported in the 1861 Commission's conclusion that '*almost everyone receives some amount of schooling at some period or another*'. It is true that government subsidies to schools were introduced in 1833, but their aggregate value was very low (only £20,000 in 1833). By 1841, they were still so small that they were considerably less than the private school fee revenue collected from parents in the City of Bristol alone. The major 19th-century legislation came in 1870 with the Forster Act. Yet by 1869 *most* people in England and Wales were literate, *most*

children were receiving a schooling and *most* parents, working class included, were paying fees for it.¹

It is surely reasonable to suggest that since *per capita* income continued to grow after 1858, both the number of day scholars and the average years of school attendance would have continued to grow. Since, moreover, there would have been no crowding out of private by government schools, the private sector would have continued to be diverse, with denominational church schools playing a much stronger role than after the Forster Act.

The Savings in the Costs of Taxation

After 1870 the direct spending on education by individual families was replaced by indirect spending for them via government. To accomplish this feat government had to increase taxation. By the 1990s the sources of taxation for state schooling have become numerous and the total revenue required has vastly expanded. At this point we have to focus on one of the major economic consequences of the collectivisation of schooling, well understood by economists but usually neglected by educationists and laymen partly because it seems excessively theoretical. The economic concept of the deadweight welfare cost of taxation stems from the fact that instead of a 'perfect' tax system that uses lump-sum taxes for all revenue purposes, we impose a variety of taxes each of which causes distortions in consumption and/or resource allocation. Income taxes, for instance, cause distortions in the choices between leisure and work, excise taxes cause 'artificial' contractions of consumption of the taxed goods, and so on.

An example outlines the main issues. Suppose an excise tax is levied on television receivers thus causing an increase in price, but so high that the output falls to zero. No tax revenue is collected, and there is no direct cost of taxation (no withdrawal of private sector resources). But clearly there is another burden. Too few television sets are produced and too many other commodities. There is a misallocation of resources. We know that, without the tax, consumers had a

¹ Edwin G. West, *Education and the State*, London: Institute of Economic Affairs, 1965: 2nd edn., 1970.p.xvii:3rd edn. (revised and extended), Indianapolis, IN: Liberty Fund. 1994.

preference for a certain quantity of television receivers and a smaller quantity of other goods. After the tax they are constrained to distort their purchases into a less preferred pattern. Consumers are obviously worse off with the resource allocation caused by the tax. This burden, or 'deadweight welfare cost', exists even though there is no direct cost of revenue collection from the tax. This example shows that, although the two types of burdens are descriptively different, they are both costs in the economist's sense. In the more typical situation, an excise tax is not so high as to reduce production to zero (and some tax revenue is raised). In this case, the two burdens of tax, the direct cost and the deadweight welfare cost, co-exist.

It is important to realise that the deadweight cost of taxation increases exponentially with increases in the share of the GNP taken by government.² Since this share is larger in Britain than in the USA, the calculations of deadweight cost magnitudes are even higher for Britain.

Usher³ demonstrates that the conventional deadweight loss analysis adopted by US writers⁴ underestimates the cost of raising government revenue because it ignores the welfare cost of tax evasion. This cost also increases exponentially with the share of GNP taken by government. Incorporating tax evasion costs, Usher calculates that, with a government share of GNP of 50% and tax evasion of 10%, it costs 80 pence to raise £1 of extra tax revenue. In other words, the total burden on taxpayers when one extra pound of revenue is raised amounts to £1.80.

Judging from the recent economic literature as a whole, it seems reasonable to conclude that the deadweight costs of the taxes used to supply revenues for British state education in the 1990s amount to at least 50% of the direct costs of that education. Assuming there had been no Forster Act, therefore, citizens in the late-19th century would have been spared these excessive costs. But the main

² E. K and J.M. Browning, *Public Finance and the Price System*, New York: Macmillan, 3rd edn., 1987, for instance. assume that the cost grows by roughly the square of the increase in the size of the government's share of GNP.

³ Dan Usher, 'Tax Evasion and the Marginal Cost of Public Funds', *Economic Inquiry Vol*, XXIV, No. 4, 1986, pp.563-86

⁴ For example, C.L. Ballard, JA Shoven, and J. Whalley, 'General Equilibrium Computations on the Marginal Welfare Costs of Taxation', *American Economic Review*, Vol. 75. No. 1.1985

significance of this examination of the tax cost applies to the present time when the share of British government in GNP is around an all-time high and the deadweight costs have increased dramatically. Thus if, starting with the year 1870, government had not intervened in the expansion of schooling, it is probable today (in 1994) that we would be spared the unprecedented excess costs in taxation for financing state education.

In British private education before 1870, the record of educational outputs such as literacy was even more impressive than the numbers of children in school and presents an even more serious problem to typical authors of social histories. Professor Mark Blaug has observed that, 'Conventional histories of education neatly dispose of the problem by simply ignoring the literacy evidence'.⁵ He emphasises that, since it is common in developing countries for literacy to run ahead of the numbers in school, we have to recognise the existence of numerous educational agencies outside formal state schooling (column 4 in Table 1).

These agencies in the 19th century included the adult education movement, the mutual improvement societies, the Literary and Philosophical Institutes, the Mechanics' Institutes and the Owenite Halls of Science. Professor Blaug also refers to freelance lecturers who travelled the towns and stimulated self-study among the poor. And in part-time formal education the Sunday Schools and adult evening schools were obvious examples. Simultaneously also, there were the factory schools 'which proliferated in the northern textile industry long before the 1833 Act made them mandatory'.⁶

From this impressive collection of agencies outside the formal state education system, paid by parents, grandparents, employers, charities and other private sources, it is clear that they would have continued and probably strengthened had there been no Forster Act in 1870.

⁵ Mark Blaug, 'The Economics of Education in English Classical Political Economy: A Re-Examination', in A. Skinner and T. Wilson, *Essays on Adam Smith*, Oxford, Clarendon Press, 1975, p.595.

⁶ Blaug, *ibid.*, p.597

Non-Profit Institutions

The government schools that were introduced after 1870 were non-profit institutions and they came eventually to enjoy strong monopoly powers. One of the serious weaknesses of non-profit organisations is their sluggish response to dynamic change. Suppose, for instance, new cost-saving (or output-increasing) methods become available that have not been widely adopted so far. In a for-profit free-market system, entrepreneurs would incorporate the new methods and would seize the corresponding opportunities for entry stimulated by direct and clear income-gaining incentives. In a world of non-profit organisations, in contrast, such incentives do not exist. There are no conventional entrepreneurs, only administrators. Prompt and widespread entry by innovators is therefore not to be expected.

But does the problem apply also to the private schools many, if not most, of which are also non-profit institutions? The efficiency obstacles here are not so serious. Managers of a non-profit private school are normally sensitive to the vital contribution of donations to their budget (and therefore their personal incomes), as a direct function of the school's reputation. In addition, private school fees make a decisive difference. When a parent withdraws a child the fee income automatically decreases and places immediate pressure on management. Government school headmasters, in contrast, have no such direct economic pressure from their parents-customers.

Even though most of the private schools might have remained non-profit organisations after 1870 without the Forster Act, they would have been subject to increasing competition from the vast array of the non-formal private education agencies. This competition would have been strengthened in the absence of compulsion for there would have continued to be a legal right to quit formal education and to seek the competing informal private alternatives at any time. The effect of compulsion has usually been to strengthen the monopoly power of the government school, especially when, as happened in the late-19th century, the average family's income was pre-empted through indirect (regressive) taxes on

goods and services to finance the so-called 'free' schooling available only in state schools.

Conclusion

The fluid, flexible, heterogeneous and competitive educational scenario of the pre-1870s is the environment that the more radical of reformers of education are now demanding in many countries. The choice of school movement, it is maintained, has been to a large extent misinformed. What is needed is choice in *education*. School choice has not and will not lead to more productive education because the obsolete technology called "school" is inherently *inelastic*. As long as "school" refers to the traditional structure of buildings and grounds with services delivered in boxes called classrooms to which customers must be transported by car or bus, "school choice" will be unable to meaningfully alter the quality or efficiency of education.⁷

Although this argument is perhaps extreme it contains a substantial truth. Genuinely free markets are unpredictable in their unfolding school organisations as well as in their offerings of completely new curricula with which they constantly surprise us. The post-1870 era without the Forster Act provided precisely the setting necessary for the emergence of a truly dynamic and innovative *education* market in the 1990s. It is unfortunate that this market was destroyed by the combined action of politicians, bureaucrats and rent-seekers, action that not only reduced the potential quality of education but also imposed on citizens' enormous financial burdens, especially in the deadweight costs of taxation.

⁷ Lawis Perleman, *School's Out*, New York: Avon Books. 1992, pp 186-87