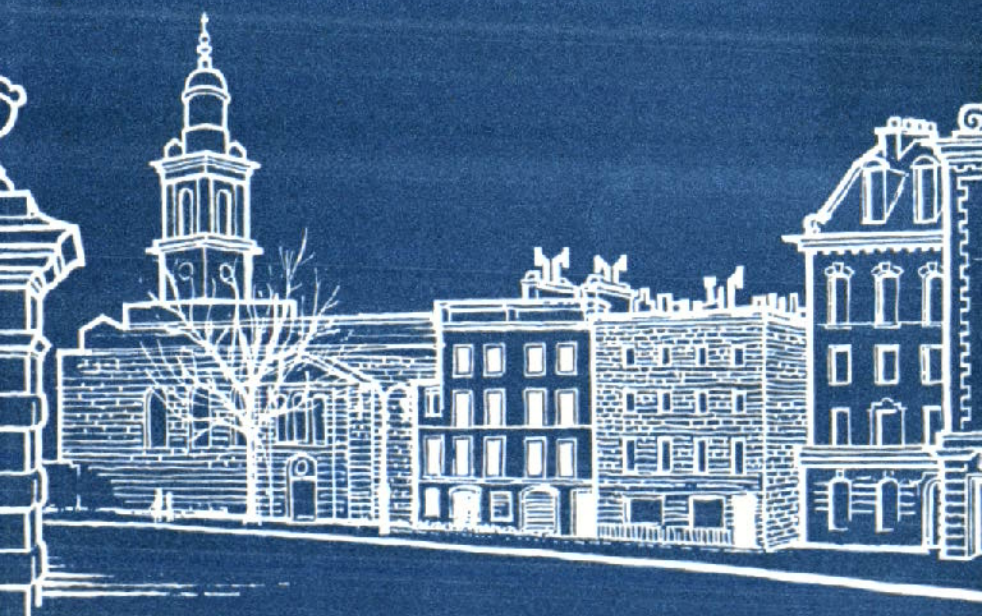


IEA

Pricing or Taxing?

**RALPH HARRIS
ARTHUR SELDON**



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PRICING OR TAXING?

Ralph Harris/Arthur Seldon

1. Local government is wrongly financed because private benefits in rate-funded services are largely, and in trading services partly, financed by taxes (local and national) instead of charges.
2. The Layfield Committee accepted the case for charging in principle but failed to investigate it as closely as additional forms of taxes.
3. Its recommendation of a local income tax does not solve the problem of incorrect and inadequate financing because the mounting public resistance is not to the tax-base, the tax-rate, or the tax-locale but to the tax-'take'.
4. Local (like national) government services are under-financed because people will not pay as much in taxes as they will in prices linked to the services they receive.
5. Charges would draw more revenue into some local government services. The largest, education, and possibly health and housing, could draw revenue through the device of the voucher.
6. Charging would create the knowledge of alternative costs to stimulate local authorities in increasing efficiency and responsiveness to consumers. Without charging local government is largely blind.
7. Charging would increase the authority of local government *vis-à-vis* national government by increasing local revenue not obtainable by further taxation.
8. The administrative and practical problems of raising revenue by charging and the voucher cannot in general be identified except by experimentation.
9. The obstacles to charging are not so much economic or administrative as political and bureaucratic because they would make local services more consumer-orientated and possibly stimulate private competition.
10. The Layfield Committee was confined to the financing of local government services; the Redcliffe-Maud Royal Commission was confined to examining their structure. Both inquiries embodied the economic fallacy that price can be divorced from supply and demand. A third Layfield/Redcliffe-Maud inquiry should combine both and arrive at urgent conclusions on financing and control.

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Pricing or Taxing?

*Evidence on charging for local government services invited
by the Layfield Committee and a critique of its Report*

RALPH HARRIS
and
ARTHUR SELDON

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PREFACE

The *Hobart Papers* are intended to contribute a stream of authoritative, independent and lucid analysis to the understanding and application of economics to private and government activity. Their characteristic theme has been the optimum use of scarce resources and the extent to which it can best be achieved in markets within an appropriate framework of laws and institutions or, where markets are inoperable, by other methods.

The focus of interest is the working of market systems and the structure of prices they produce. The economic analysis may thus be applied to goods and services produced not only in the private sector but also by government. The questions are whether the activities of government are necessarily performed by government or better performed in the private sector, whether government activities can or should be subjected to market prices, and how far changing conditions make it desirable for government activities to be transferred to the private sector or private activities to the government sector.

In Britain government goods and services are supplied to consumers at prices ranging from (or near) full market charges to (or near) zero at the time of sale or consumption, that is, nearly or largely 'free' and therefore paid for by taxes (the individual consumer's or someone else's). The vast structure of government goods and services has grown up over a century or more for reasons that have often long been outdated by economic and social change, and a reappraisal of the methods of financing them has long been overdue.

The inquiry by the Layfield Committee, appointed in 1974, was created for intellectually less impressive but more immediately political reasons. High and rising taxation is accelerating resistance, avoidance and evasion. And tax revenue has been proving inadequate to maintain the 'public' services at acceptable standards and qualities. The public has at last induced politicians to face realities.

The Institute was not surprised to receive an invitation to submit evidence on the extent to which 'public' services could be financed by pricing. Since its early days its central interest in market pricing had led it to sponsor studies in the financing of goods and services supplied by government as well as in the

private sector. The formal invitation was received in October 1974 and a more individual one in November which said the Committee would like views on 'the scope for placing local services on a more commercial footing . . .', on which services 'were the best candidate, what the impact on local authorities' finances might be and how the arrangements might work in practice'; and it was 'interested in the idea of a voucher scheme'. In December the Committee was sent a list of 18 Papers (page 16) analysing the pricing of a wide range of services from health through refuse collection to police. The Institute also sponsored two new inquiries into education and leisure facilities and sent them to the Committee in April and June 1975. A later analysis of anti-pollution measures was sent in November. In addition the Committee invited the General and Editorial Directors of the Institute to supplement the written material by oral evidence in October 1975. Since the Institute has no corporate opinion on policy, this evidence was given in a personal capacity and not on behalf of the Institute.¹

This *Hobart Paper* reproduces, as Part I, the substance of the oral evidence, with some minor sub-editing mostly to clarify the meaning, and, as Part II, a commentary on the Committee's Report. Italics indicate passages emphasised in speech.

The government has invited local authorities to submit their observations on the Report by November 1976 and the Institute is publishing this *Paper* as a contribution to the discussion which should then begin. It should also help to maintain the Committee's balance of emphasis on the relative importance of pricing and taxing. Even though the Committee gave much less space to pricing, and its detailed consideration of taxing led it to make its main recommendation of a local income tax, the principle of pricing was approved but passed to the government to discuss with local authorities. This is in itself a remarkable development. Half of the Committee comprised members – 8 present or former Councillors and officials and a local government trade union secretary – who could be expected to be sceptical about introducing or extending market machinery to local government. But the other half comprised 7 independents and the Chairman (the members are listed on page 18). The only result so far is that the Minister for the Environment, Mr Peter Shore, seems to have drawn on the proposal for rates to be varied with the capital value rather than the notional income

¹The Report inadvertently described it as coming from the Institute.

value (rent) of property. Despite the pressure he has maintained for economy in local government expenditure, he has shown no awareness of the discussion and recommendation on charging.

The major issues are discussed in the evidence and the commentary. Here several general aspects of the inquiry are observed briefly.

—The first is that, although the Institute had been invited to give evidence, and Professor Alan Day referred to ‘the many relevant publications you have produced’, the Committee seemed overwhelmed by the practical difficulties of charging and by doubts about the relevance of vouchers as a means of drawing additional finance into education. The questioning began by supposing that there was only small scope for charging but it ended more hopefully when the list of services that could be financed by charges were successively outlined and, as Professor Day said, they indicated ‘appreciable’ scope for new revenue.

—The Committee produced the surprising objection that it might not be able to discuss education vouchers because of the political consensus that education should be provided by government as a part of ‘social engineering’. Since it had been commanded by government ‘to review the whole system of local government finance’ its self-doubts were difficult to understand.

—Would charges have to await a reverse income tax or other means of enabling people with lower incomes to pay? One of the attending officials remarked that the Committee could not assume that a reverse income tax would be introduced. Yet for 10 years or more trends in government thinking, both Conservative and Labour, have been increasingly in sympathy with a device to ‘top up’ low incomes. Labour in 1966 was discussing a minimum income guarantee when Mr Douglas (now Lord) Houghton was Minister co-ordinating the social services. The Conservatives in 1971 introduced an embryo reverse income tax in the form of the Family Income Supplement when Sir Keith Joseph was Minister of Social Security and in 1972 worked out a scheme for tax credits. The Committee could thus even more reasonably have assumed that in the coming 5, 10 or 15 years a government of either party, or a coalition, or perhaps a realignment, might introduce a variant of the new technique for ‘topping up’ low incomes that has been tried in the USA and that is implied in the inquiries into the interaction of taxes and social benefits in the USA, France, Germany, Denmark, Sweden, Norway, Australia and Japan. It may be the instinc-

tive caution of a public official to suppose that what does not exist cannot be assumed, though it is more realistic to proceed on probabilities, or at least to allow for possibilities. It may also be the natural resistance of public officials to a new technique which might eventually restrict the province of government activity and thus the demand for them and their remuneration. Professor William Niskanen's Hobart Paperback, *Bureaucracy: Servant or Master?* (1973), argued that bureaucrats maximised their budgets.

—The IEA Papers and the oral evidence argued the economics of charging, and it was expected that the questions would be concerned with economics. Yet some of the members of the Committee and an official seemed to be more concerned with unknown administrative or political difficulties. Economists are accustomed to the predictable objection of 'politically impossible' to economic arguments that cannot otherwise be faulted. Committees of inquiry are manned by people who are appointed because they have knowledge but whose very 'practical' experience leads them to over-estimate the difficulties in the way of reform, and perhaps imagine difficulties that may never materialise. Thus, a Layfield member, Dame Kathleen Ollerenshaw of the Manchester District Council, in a public statement after the Report was published, said that gradual introduction of a voucher system was a political impossibility because the financial circumstances would never be right.¹ Since a voucher for state schools need not require more finance, presumably she was referring to the cost of incorporating private schools. This question was raised at a private seminar recently addressed by Professor Milton Friedman. He offered as one solution that the value of the voucher should be determined by dividing the number of children at all schools, state and private, into the total expenditure by the state. The resulting figure would be marginally less than the average cost of state education and would therefore create a new incentive for state schools to increase their efficiency and keep costs within the value of the voucher.

Part II criticises the failure of the Layfield Committee to go further into a long-neglected instrument of finance that it approved in principle. It must be hoped that the discussion on the Report will stimulate the examination of charging for local authority services. Yet it would be unrealistic to ignore the op-

¹*Daily Telegraph*, 4 September, 1976.

position to charging that will be raised by other local authority councillors and officials. The whole discussion on reforming government can be vitiated if it is not conducted in a severely analytical form. In a recent Hobart Paperback, *The Vote Motive*, Professor Gordon Tullock of Virginia State University presented precisely this kind of analysis. And Dr Morris Perlman of the London School of Economics said that it might not be possible to understand economic policies except by reference to the political and bureaucratic undercurrents and pressures in favour of and opposed to reform.

This is perhaps one more missing fundamental element in the Report: the Committee assumed its job was solely that of analysing the best solutions and presenting them to Whitehall which would then adopt them. The economics of politics is a comparatively new extension in Britain of the subject of economics, although it is being studied by Professor A. T. Peacock of the University of York and Professor Charles Rowley of the University of Newcastle, and others. And in the constitutions of committees of inquiry it remains to consider how far people with a close interest and knowledge of the subject should be appointed as advisers and not as members because, although authoritative, they must usually have a direct personal, material interest in the outcome.

The Institute presents this *Hobart Paper* with thanks to the many authors whose work down the years made it possible and in the hope that it will further stimulate more radical thinking on the role of charging and pricing in national as well as local government. The material in this *Hobart Paper* is the work of the authors in their personal capacities and not in the name of the Institute.

September 1976

ARTHUR SELDON

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THE AUTHORS

RALPH HARRIS was born 1924 and educated at Tottenham Grammar School and Queens' College, Cambridge. He was Lecturer in Political Economy at St. Andrews University, 1949–56, and has been General Director of the Institute of Economic Affairs since 1957. He wrote (with Arthur Seldon) *Hire Purchase in a Free Society*, *Advertising in a Free Society*, *Choice in Welfare*, etc., for the IEA. His most recent essay, 'In Place of Incomes Policy', was published in *Catch '76...?* (Occasional Paper 'Special' (No. 47), 1976). He is Secretary of the Wincott Foundation and the Political Economy Club, formerly secretary, now a Vice-President, of the Mont Pelerin Society, and a Council Member of University College, Buckingham. Mr Harris lectures and writes widely on post-war policies and economic requirements of free society.

ARTHUR SELDON was born in London in 1916, educated at Raine's Foundation School and graduated from the London School of Economics where he was Research Assistant to Sir Arnold Plant, 1937–40. He was a Tutor in Economics for the London University Commerce Degree Bureau, 1946–56, and a Staff Examiner in Economics to the University, 1956–66.

After some years as the editor of a retail journal and as an economist in an office in the brewing industry, he joined the Institute in its early years and wrote its first Paper in 1957 (on pensions), its early reports on advertising, hire purchase and welfare with Ralph Harris, and several later Papers. His most recent contribution was an essay, 'Remove the Financing Flaw in "Public" Services', in *Catch '76...?* (Occasional Paper 'Special' (No. 47), IEA, 1976).

He wrote *The Great Pensions Swindle* (Tom Stacey, 1970), and compiled *Everyman's Dictionary of Economics* with the late F. G. Pennance (J. M. Dent, First Edition 1965, Second Edition April 1976). He is writing on the role of price in government and society for the publisher, Maurice Temple Smith. He has been an occasional contributor to the *Economist*, the *Financial Times*, *The Times* and the *Daily Telegraph*.

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PART I
ORAL EVIDENCE

I. PRICING LOCAL AUTHORITY SERVICES

CHAIRMAN: First of all, may I welcome you here and say how very grateful we are to you for finding the time to come and talk to us this afternoon. We have had a number of very useful papers from you¹ and we would like during the course of the afternoon to do two things: first of all, to ask whether there is anything particular you would like to add to the material you have sent to us by way of opening, and secondly, to raise a number of queries and questions with you which have occurred to us partly as a result of reading your papers and partly on matters which are in our own minds generally. May I ask whether there is anything you would like to say before we start on the matters which we would care to raise?

HARRIS: Chairman and gentlemen, could I open up by introducing myself as General Director and Arthur Seldon as Editorial Director of the Institute of Economic Affairs, and to say that as economists we are an unusual couple because we are rather modest economists. We are best regarded as academic publishers of a wide range of other people's writings, although we have written 10 or a dozen *Papers* for the IEA, many of them on topics well away from the concerns of this committee. We have published among the 250 publications in our catalogue about two dozen which we thought were fairly relevant to your terms of reference, and these we have sent you.¹

I think that what I wanted to say is that the IEA has no corporate view, and since 1957 we have commissioned outside economists to study all kinds of aspects of public and business policy. I think Arthur Seldon would agree that we have been increasingly impressed by the illumination which market analysis throws upon practical issues of public policy, and in some ways we now claim that the Institute quite deliberately endeavours to redress the balance between the approach of the macro-economist and that of the micro-market economist. On the matter that we are concerned with, we concede at the outset that free markets and all its analysis apply in theory to private or personal goods and services for which the individual consumer can pay and claim for himself more or less the exclusive benefit; whereas there is a category of public goods and services where the benefit is widely diffused among the beneficiaries. The best example of this is national defence where, if it is

¹[Listed at page 16. - ED.]

Written Evidence Submitted to Layfield, 1974-75

I. List of IEA Papers and Reports (submitted in December 1974)

HOUSING & LAND		
<i>To Let?</i>	Norman Macrae	1960
<i>Vacant Possession</i>	John Carmichael	1964
<i>Housing, Town Planning & the Land Commission</i>	F. G. Pennance	1967
<i>Housing Market Analysis & Policy</i>	F. G. Pennance	1969
<i>Housing and the Whitehall Bulldozer</i>	Robert McKie	1971
<i>Private Capital for New Towns</i>	Introduction by F. G. Pennance	1969
<i>The Cost of Council Housing</i>	Hamish Gray	1968
<i>Choice in Housing</i>	F. G. Pennance, Hamish Gray	1968
<i>Verdict on Rent Control</i>	Friedman, Hayek, Stigler, de Jouvenel, Paish, Rydenfelt	1972
<i>Government & the Land</i>	A. A. Walters & others	1974
HEALTH		
<i>Health Through Choice</i>	D. S. Lees	1961
<i>Inconsistencies of The National Health Service</i>	J. M. Buchanan	1965
<i>Paying for the Social Services</i>	Douglas Houghton	1967
LIBRARIES		
<i>Libraries: Free-for-All?</i>	A. P. Herbert/R. Harris	1962
TRANSPORT		
<i>Transport for Passengers</i>	John Hibbs	1963
<i>A Self-Financing Road System</i>	G. J. Roth	1966
PARKING		
<i>Paying for Parking</i>	G. J. Roth	1965
WATER		
<i>'Economic Charges for Water'</i> (in <i>Essays in the Theory and Practice of Pricing</i>)	P. A. Bird, C. I. Jackson	1967
FIRE		
<i>'Pricing and the Risk of Fire'</i> (in <i>Essays in the Theory and Practice of Pricing</i>)	R. L. Carter	1967
REFUSE		
<i>'Pricing for Refuse Removal'</i> (in <i>Essays etc.</i>)	Sudha Shenoy	1967
SEASIDE FACILITIES		
<i>'Pricing of Seaside Facilities'</i> (in <i>Essays in the Theory and Practice of Pricing</i>)	W. D. Peppiatt	1967
GENERAL		
<i>Relief for Ratepayers</i> (reprinted in <i>Freedom or Free for All?</i>)	A. R. Ileric	1963
<i>Rates or Prices?</i>	A. K. Maynard/D. N. King	1972
<i>After the Boom . . .</i>	Sir John Hicks	1966
<i>Choice in Welfare 1970</i>	R. Harris/A. Seldon	1971
2. 'Local Authority Sports Facilities' (typescript)	Alan Jenkins	June 1975
3. Education Vouchers and Loans		
Interim Report—	} Alan Maynard	April 1975
Final Report—		June 1975
The evidence was published as Hobart Paper 64, <i>Experiment with Choice in Education</i>		October 1975
4. Education and Health		
<i>Choice in Welfare 1970</i> , together with 18 copies of Hobart Paper 64		October 1975
5. Pollution		
<i>Pricing for Pollution</i>	Wilfred Beckerman	November 1975

thought to be a public good, once it is provided you cannot exclude any of the members of the community from benefiting from this expenditure. Public goods and services are classically understood to be the proper province of finance from public taxation sources, whereas private goods and services are thought best supplied through the market. It is true that even in the private sector of goods and services there is also a penumbra of social benefit or social detriment – the whole issue of pollution and all that, the question of private motoring or private smoking or private gardens, which have all kinds of implications for one's neighbours – the so-called spill-over effects. Likewise we are impressed by the extent to which so-called 'public goods' have a large and sometimes even dominant element of private benefit which would be appropriately dealt with by market arrangements.

The case for market pricing

We have come to answer on behalf of our authors for the case they have often presented with some force about the useful role that market arrangements can play. A common criticism we encounter most days of our lives is that it is all very well in theory to talk about markets but in practice they do not work perfectly. We sometimes start off by saying how much more imperfectly public markets work, and then we come back and see that, where pricing can be applied with advantage to goods and services with a large or dominant element of private benefit, its advantage is that the consumer can make decisions about the worthwhileness of a particular line of supply. There is a discipline of demand in that the consumer audits the whole time the goods and services being supplied, whereas in public provision there is unavoidably (and in some cases it is inevitable) substituted for the continual consumer preference a single, central or local government macro-decision which is enforced upon all consumers, although some would wish to be exempted from, say, the economies and would be prepared to pay more to retain the prevailing level of services.

I therefore rest our approach very firmly on practical considerations and I quote a piece of evidence from the White Paper on National Superannuation¹ which, in 1969, represented

¹[*National Superannuation and Social Insurance*, Cmnd. 3883, HMSO, 1969. – ED.]

**COMMITTEE OF INQUIRY INTO
LOCAL GOVERNMENT FINANCE:
MEMBERS**

Mr (now Sir) Frank Layfield QC	<i>Chairman</i>
Mr Alexander L Bushnell	<i>County Clerk, Treasurer, Collector, Perthshire County Council.</i>
Mr Geoffrey Drain JP	<i>General Secretary, NALGO.</i>
Professor Alan Day	<i>Professor of Economics, London School of Economics.</i>
Dr George W Jones	<i>Senior Lecturer in Political Science, London School of Economics.</i>
Mr Barry Thornton Jones	<i>Chief Rating Surveyor, Imperial Chemical Industries.</i>
Dame Kathleen Ollerenshaw DBE	<i>Member of Manchester District Council.</i>
Viscount Ridley TD, DL	<i>Chairman, Northumberland County Council.</i>
Mr George C Sharp OBE	<i>Convener, Fife County Council</i>
Professor John Stewart	<i>Associate Director, Institute of Local Government Studies, University of Birmingham.</i>
Mr Maurice Stonefrost	<i>Controller of Financial Services, Greater London Council.</i>
Mr Ronald Brain	<i>Ex-Deputy Secretary, Department of the Environment, formerly Ministry of Housing and Local Government.</i>
Professor Gordon C Cameron	<i>Professor in Applied Economics, University of Glasgow.</i>
Councillor J Smart JP	<i>Chairman of the Wakefield Metropolitan District Council.</i>
Mr S H Wright	<i>Managing Director, Lazard Bros & Co Ltd.</i>
Dr E James	<i>Sen or Lecturer, Department of Pure Mathematics, University College of Wales.</i>

Mr R. H. S. Crossman's approach to reshaping government pension arrangements. Because at that time, as with local government at the present moment, there was concern about the lack of taxable resources to finance the scale of benefits and pensions that it was thought people would wish to have, Mr Crossman in his White Paper emphasised the advantages of a large element of direct contribution by the beneficiaries rather than by a flat-rate benefit financed out of general tax funds. In paragraph 25 he explains what is in a way the essence of the advantage of the market system that links payment with consumption. He says :

'People are prepared to subscribe more in a contribution for their own personal or family security than they would ever be willing to pay in taxation devoted to a wide variety of different purposes.'

It is easier to get people to pay from their own pocket for things which they have chosen, and which they can deny themselves if they wish, than it is to get them to accept the taxation imposed by central or local government for services which they would not have chosen, or would choose to have perhaps in a different form. That is our general reinforcement of the argument. I do not know whether Mr Seldon wishes to add anything more particular on that.

SELDON: I think I would add this: it seems to me that the evidence we have submitted is of a different kind from the evidence you seem to have received from a large number of your sources. They seem to me, from what I have seen of them, to have discussed methods of raising revenue by new or different kinds of taxes, or by shifting tax burdens. Our approach, by emphasising the extent to which 'public goods' may yield personal benefits, emphasises the new sources of revenue which local government might draw on if it were considered that there was scope for a new use of pricing, or for an extended use of pricing by means of fees or charges where, as in some services, fees or charges are now used. Earlier this week I made an effort - rather a crude one - to calculate how much of the main categories of local government services, which seem to number about 16, were financed by various forms of charges. I wonder whether I might pass round the outcome of my effort?

CHAIRMAN: Certainly, Mr Seldon. That would be very helpful. (*Handed and distributed.*)

**THE PROPORTION OF SERVICES
FINANCED BY PRICING, England and Wales, 1972-3**

TABLE I—MAIN GROUPS OF RATE-FUND SERVICES

<i>Service</i>	<i>Expenditure (to nearest £m)</i>	<i>Income from fees & charges (to nearest £m)</i>	<i>% (approx)</i>
1. Education	2,903	166	5
2. Libraries	82	5.0	6
3. Museums, art galleries	9	(0.4)	4
4. Health	165	3	1
5. 'Personal social'	391	61	16
6. Police	467	11	3
7. Fire	106	2	2
8. Justice	47	1	2
9. Sewerage	196	10	5
10. Refuse	143	7	5
11. Baths, laundries	41	10	25
12. Land drainage, smallholdings, etc.	40	3	7
13. Roads, lighting, parking etc.	476	29	6
14. Youth employment	9	(0.0)	0
15. Sheltered employment etc.	7	(0.5)	7
16. Environment, parks, etc.	107	10	10
health	63	3	5
town & country planning	93	5	5
housing	158	14	10

Source: Department of the Environment, *Local Government Financial Statistics, England and Wales, 1972-3*, HMSO.

Extent of pricing in local authority services

SELDON: I think what I am going to say is illustrated rather graphically by these figures, which seem to show that, excluding housing, the extent of financing by some form or other of pricing varies from nil to what seems to be something like 70 per cent in the case of car-parking—in my Table II near the foot [page 21]. But there seems to be something of a clustering around 5 per cent up to about 10 per cent, with only the occasional service finding more than 10 per cent of its revenue from pricing. It would seem to us from work we have done with our authors and their *Papers* on a range of services, which include fire, libraries, schools, health services and so on, that the existing structure of local government services seems to have grown up under the impetus of a wide variety of causes, some

TABLE II—SOME DETAILS

<i>Service</i>	<i>Expenditure (to nearest £m)</i>	<i>Income from fees & charges (to nearest £m)</i>	<i>% (approx)</i>
<i>Education</i>			
Nursery	8	(0.0)	0
Primary	735	8	1
Secondary	917	30	3
Special	110	12	11
Further—Polytechnics, etc.	110	9	8
Colleges of Art	15	1	6
Agricultural	9	1	14
Other major	259	23	9
Evening Institutes	20	4	18
Teacher training	114	3	2
School health	40	(0.3)	1
Youth service	24	(0.6)	2
Adult recreation etc.	11	(0.7)	7
School meals, etc.	239	7	3
<i>'Personal Social'</i>			
Children's homes etc.	34	2	6
Residential nurseries	5	(0.5)	10
Approved schools, remand homes	17	4	22
Homes for elderly	113	41	36
Temporary accommodation	3	(0.6)	20
Home helps	43	3	6
Meals in the home	5	(0.8)	19
<i>Health</i>			
Health centres	6	(0.4)	7
Midwifery	16	(0.1)	1
Health visitors	18	(0.0)	0
Home nursing	29	(0.1)	0
Vaccination etc.	4	(0.0)	0
Ambulance	54	1	2
Family planning	4	(0.1)	3
<i>Roads, etc</i>			
Parking	26	18	71
<i>Environmental</i>			
Public conveniences	16	(0.7)	5
Allotments	2	(0.4)	20
Private street etc. works	19	13	72
Registration of births, etc.	6	2	34

Source: As for Table I.

of which make sense and others which seem to have come about by accident. I would have thought that it was high time there was a new investigation or re-assessment of the economic

rationale of the methods of financing local government services in terms of established economic theory.

Although it is true that economists do not always agree, there is a fairly well-established body of opinion about the nature of 'public goods', and it is difficult to make sense of a list which exhibits such a wide variety of dependence on some kind of charging. I would hope that some of the *Papers* we have submitted by our authors would have sown some doubts and raised a number of questions about the reason for what may seem inordinately low figures here. It is difficult, for example, to justify a 6 per cent source of fee finance for public libraries that were established a century or more ago for reasons which are now lost in the mists of time, and which are now serving purposes quite different from those of helping working men to acquire access to works of culture, as it was then. Our approach would be to ask 'why'? On what grounds is it possible to explain why so little revenue for these services is drawn from payment? What scope is there for expanding that sort of revenue, especially at a time when there seems to be widespread and widening agreement that the limits of capital and income taxes seem to have been reached, or might be reached? I would have thought that it is on these themes, which arise generally from most of the specialised studies, that perhaps we might supplement your questions.

CHAIRMAN: Thank you very much, gentlemen, for your opening remarks. May I say four things very briefly. First of all, Mr Seldon and I had a conversation earlier this year in which he expressed some anxiety about the state of our minds from press accounts which might suggest we had closed our minds to considerations of this kind. Apart from the fact that the newspaper was wrong, I can assure you that we have not closed our minds to anything yet, nor I hope at any other time, and our views are still open to influence.

Secondly, so that we do not take up unnecessary time on it, your observations about the idiosyncratic origins of finance are matters that we generally appreciate, so we accept that as being a factor we should take into account in examining the structure of local government finance.

Thirdly, may I say very briefly that though we would like to probe a number of matters, I hope you will not read anything into our questions other than an anxiety to explore carefully and thoroughly what it is you have to offer us and exactly what its basis is, and that you will not assume that this is a fortification of the newspaper accounts which you read earlier in the year.

Fourthly, we have found it very helpful to us to organise our ques-

tions in the hands of one of our members, and so we have asked Professor Alan Day today to deal with the majority of our questions although, in a mood of excitement, one or other of us may join in in an amateur way from time to time.

PROFESSOR DAY: I hope my colleagues will join in in other than a mood of excitement. I hope they will join in in a mood of sceptical sympathy. The initial statements by Mr Harris and Mr Seldon, I think, have indicated that your way of thinking is in line with our way of questioning. We have attempted in the committee to make some use of this standard economist's distinction between public goods and private goods. We have also attempted to make distinct use of the distinction between local and national public goods which, of course, is a very important one for our purposes and, if I may, perhaps I could come back to that particular set of questions a little later to see whether you have any views in that area.

Private goods/public goods boundary

For the moment I suggest that we do concentrate on the boundary between purely private goods and public goods in general. I think one is not giving any secrets of the committee away to say that we have had considerable difficulty in making practical use of this acceptable conceptual distinction, and I think where we hope that you will be able to help us is in going further with making practical use of it. Perhaps it is worth saying that, although the members of the committee have had knowledge of, and access to, the many relevant publications you have produced, I suspect that most members of the committee have not been able to work right through them. Perhaps I just might express a personal regret: I think that a summary of them could have been very helpful to us, but perhaps this could be the opportunity in which in effect we could get a verbal summary of the relevant elements of them.

The problem that worries many of us as members of the committee is that, accepting the philosophy that where the benefit of a particular service is clearly identifiable as going to the particular individual, then there is a good case for that individual paying the price and choosing whether or not he takes the benefit of that service, the practical problems of drawing boundaries between those and the public goods seem to be remarkably difficult. Secondly, I think the problem that hits us is that for those elements in this list of expenditure—leaving aside if I may for the moment education, as I think we should concentrate on the education question separately because it involves very difficult political problems—the possibility appears to arise that the proportion of total local government expenditure which could pretty persuasively be put over into the private goods category and attributed pretty persuasively to private individuals is relatively small. If you can persuade us that that is a misjudgement I think you will have produced an important service.

I have made a rather long rambling kind of semi-question but my question is, where can you guide us in this list of expenditure, leaving

aside education, to categories of expenditure which are currently primarily financed by taxation, which in terms of this philosophical economist's approach could persuasively be transferred into the private goods sector and predominantly be financed by payments by individuals choosing whether or not to take the service?

Scope for increased use of pricing

SELDON: We have not said that all of these services should be met or financed mainly or dominantly by some kind of pricing. What we do argue – and I think this is true of us both – is that there would seem to be some scope for an increased amount of revenue that might be drawn from fees. If you agree that there is a conceptual difference between the notion of a public good and its private benefits – because no goods are entirely one or the other, of course – then it seems to me that you are saying that for administrative reasons or for reasons of expediency you find it difficult to reach a conclusion that you might recommend that government draws more revenue from fees for, say, the collection of refuse, which is done in quite a number of other countries, or libraries or seaside beaches or art galleries – that is a difficult one, I know, and has a history – or the health services, for which the use of charges is by no means alien even to our own recent practice. Are you fastening on administrative difficulties?

DAY: No. I might have appeared to have fastened on difficulties. I am looking for guidance, and I think the committee is looking for guidance, about which of these sets of expenditure can most persuasively be argued as justifiably transferable – largely, predominantly or to a significant extent at any rate – into the private goods category where private payment is made. Mr Seldon suggests refuse collection, suggests libraries, suggests health services . . .

SELDON: Some.

DAY: I think it would be helpful if, on the basis of the research that your authors have done, you could guide us to those elements in this list for which you think there is a very powerful, a pretty powerful, a fairly powerful sort of case for transferring to some extent from the tax-financed sort of basis to the fee-financed sort of basis.

(i) Libraries

HARRIS: One paper we submitted was by A. P. Herbert and me. I wrote a longish introduction to a paper by Herbert on

libraries. His concern was with the unfairness to authors of the free lending of books through libraries. I recall, not just recently but even in ripe middle age, being quite astonished at his analysis of the borrowing at the Hammersmith library. He took the trouble to go to that library to see not just how many copies of his books had been borrowed, for which he got nothing, but how many copies of the prevailing book at that time—*No Orchids for Miss Blandish*, or something like that—to see how much borrowing was what he called light fiction. My recollection is that 75–80 per cent of all the borrowing was fiction, and the notion that it was mainly an engine for educating the populace was a preposterous nonsense. Insofar as it is not fiction, it is middle-class people borrowing ‘improving’ books or hobby books and that kind of thing, and gramophone records. I must say it seems to me that the benefit of libraries, which have been used by me at different stages of my life and by my family fairly extensively, is almost wholly if not entirely a personal benefit. Of course, you could exempt students or old-age pensioners on grounds of income in the absence of a reverse income tax which enabled them to pay. But it seems to me preposterous that a rate should be levied upon the general body of ratepayers for the benefit of a quite small minority of habitual users of the libraries, which then find great difficulty in maintaining a service and keeping their doors open. The pricing system is not merely a way of enabling me to contract out; it is a way of enabling my neighbour to contract in powerfully and be prepared to pay quite a lot for the service which he uses intensively. Therefore, pricing is not a method, as some people sometimes cynically think, of dismantling a public service; it may be a method of strengthening a public service by getting the spending power of individuals behind those things for which they are prepared to pay more in price. That seems to me to be one central issue. I can see no ground for universal free borrowing of library books and gramophone records and so on.

(ii) *Fire services*

The second one, which is rather a quaint one in a way, is the fire service. I have recently had a fire and this fire enabled me to judge a number of things like the efficiency of different insurance companies, my house being insured by one company and the contents being insured by another company—the house

insurance was fixed up by the building society and I had no choice in that. The fire brigade, I was later informed, appeared to take longer than it should, possibly resulting in a great deal more damage, although the fire was confined to one room. Suppose the fire brigade in fact looked to recoup a large part of its costs from a charge on the beneficiary, i.e. my insurance company, or, if you like, me through my insurance company? That would be one way in which I would then be able to monitor how satisfactory that fire brigade was. The insurance company may find that my local fire brigade is always slower to arrive than brigades in other areas. At the moment it is a scattered impression of residents who happen, this year or next, to be visited by the fire bug. If you just take the fire service it is a perfectly reasonable charge to make wholly a personal benefit to be covered through insurance in the way that other hazards are covered, and that would actually have some effect in disciplining fire brigades in my view, as well as throwing up the costs which would have to be shown and would have to be looked at by insurance companies and so on. That seems to me a clear one.

(iii) *Refuse disposal*

With refuse the argument is that it could be collected by putting it out to tender. That has enormous advantages. I have neighbours who have two or three dustbins, quite literally, and who put out a lot of other stuff too. I have other neighbours who are cautious in these matters and burn most of their refuse in their gardens. It seems to me that all the encouragement at the moment is to throw the maximum amount of work on the refuse collection services because there is no corresponding increase in the cost. My neighbours pay for my extra dustbins to be emptied. That seems to me again to be entirely a personal benefit, *my* dustbin. You would have to lay a law down about health and the non-throwing of refuse on to public or open ground and that kind of thing. Given that, the individual would decide whether to deal with his own refuse, sort it out, sell it or indulge in several dustbins.

Those services seem to me clear-cut, and I would have thought there would be enormous educational benefits in making a start in one or two of these areas and demonstrating how it might work, perhaps allowing, if they are prohibited at the moment, local authorities at any rate to do it and see how

experiments in particular places might work. They might work better in some areas than in others.

(iv) *Seaside facilities*

On beaches, the paper we published – ‘Pricing of Seaside Facilities’ – is a splendid one. Ratepayers in seaside towns all groan under the burden of rates imposed on them to attract tourists while many themselves do not benefit. They just happen to live there; they do not conduct any business to enable them to latch on to the tourist trade. The alternative arrangement is having seaside facilities, including even beaches that were kept clean, where you have to pay to have access. This happens to some of the better beaches in France, for example, and it seems to me there is scope there for local authorities to put the cost where the benefit is, and not to disperse it among the widows and orphans who happen to be ratepayers in those areas.

I think a strong case can be made on economic grounds. I do not see any difficulty really, Professor Day, in a rough-and-ready way. Two economists, of course, could go on endlessly arguing about public and private benefit but substantially those that I have touched on are predominantly, if not nearly exclusively, private benefits, given that there is no personal consumption good or service that is wholly private. If I keep my garden free from weeds, that is a benefit to my neighbour. If I allow weeds to flourish, that is a detriment to my neighbour and, therefore, you could come into the whole business of policing my garden. You do not get pure cases of personal goods *versus* public goods but substantially I would say that libraries, refuse collection, fire brigade services and seaside facilities could come very close indeed to candyfloss and lollipops as personal consumption goods.

DAY: I think this is very helpful, if I may say so, Chairman. They are the top of your hierarchy – those which are nearest, as it were, to pure private goods, granted this possible position. I do not think I would go so far as to say that there are no pure public goods or no pure private goods, but I do not think we need debate that particular issue. These are very high up your hierarchy. I think possibly some of my colleagues will have reasons for questioning whether they should be so high up the hierarchy but I wonder whether, before we do that, I could ask you what you would put next in the hierarchy of things which are arguably pretty transferable because, so far, we have less than £400 million of expenditure. It is important but relatively small in total local authority expenditure – and, of course, we are avoiding education.

SELDON: And you are also excluding housing which I have not listed here at all.

DAY: I think perhaps sensibly excluding housing, where the arguments are familiar, although it is debatable how far they are within the terms of reference of this committee. If we leave housing and education aside, education to be treated separately by us later in our discussion, what else would you put a little lower down the hierarchy?

SELDON: If you exclude both of those then you are confining us, cornering us as it were, to something like a quarter, I would guess, of total local government expenditure.

DAY: Forgive me. I was simply postponing education for the moment.

(v) *Public baths and pools*

HARRIS: Just looking at this list which is before us, at No. 11, baths – swimming pools and laundries – I do not know what swimming pools cost. I know what they cost in my particular area, which I think is £300,000 in an area spending £30 million, and it is quite a slice. Swimming pools seem to me to be enormously under-priced or over-supplied. Again, the benefit of swimming is widely diffused in the good health of our neighbours but it is essentially a personal enjoyment which is indulged largely at the expense of neighbours.

(vi) *Parking*

Perhaps the increase from £2 to £6 for a breach of the parking-meter regulations may be a move in the direction I am advocating. I do not see why motorists should throw a cost on to their non-motorist ratepayer neighbours. It seems to me that parking, except where the cost of collecting a charge would be above the revenue you would collect, is a classic case where you would expect that prices would cover costs and, indeed, private parking facilities might then move in more extensively and come to the aid of the motorist, but you cannot compete with a free service. One of the problems about a government service financed by the rates is that it prohibits competition. I cannot set up a refuse-collecting business because I am in competition with the Enfield council which is doing it for nothing. I cannot set up a private swimming pool very easily because they are

providing rather broken-down swimming pools but still they are charging nothing for them, so that one advantage of charging is that you would have some discipline upon demand, some discipline on costs and some impetus by competing suppliers to provide swimming pools as, in a forthcoming publication, we are showing that you get in squash courts and tennis clubs, etc. You get private clubs doing things better for a charge than local authorities are doing often for a zero or minimal charge, so I think we could enlarge the list a bit.

(vii) *Adult education*

Under education comes evening-class education. That is a good hunting ground, it seems to me, for people who charge me on the rates for studying all kinds of weird and obscure hobbies and leisure pursuits that I am not even sure are good for them, let alone of any social benefit to me! But let me reserve that — that will come under education.

SELDON: There are a number of services where we might suggest there was some scope for an element of charging but where there is an obvious answer, namely that incomes are too low and that you cannot expect people to pay for them. In fact their origins are something like 70 or 90 years old and they were founded not on the ground that local government was a more efficient method of supplying them but on the ground that incomes were low, and that unless they were supplied free they would not be there at all. I would say that, if we are to suggest where else revenue might be drawn from a system of fees or charges, we should necessarily couple that with our view that you would have to discuss the distribution of income and some method of supplementing low incomes so that people are enabled to recoup. If that were so I would include a couple or more of the items under health and two or three items under personal social services.

(viii) *Health and personal social services*

DAY: Could we know which those would be?

SELDON: If reverse income tax were operative then I would have thought you might possibly be able to work towards a structure of pricing for, say, home nursing, the ambulance

service and family planning under the heading of health. Then again there is a large assumption that we should have to make, namely that as long as incomes are as different as they are now, and as long as some incomes are as low as they are now, it is difficult on practical grounds to offer suggestions on pricing in some of these services. But if you would deal – as I imagine you would find yourselves having to do at some stage – with the genesis of some of these services and with the change in circumstance which has led to the case for them being much weaker now than it was, then that opens up a new vista of services for which more revenue might be drawn from charges.

Under the heading of roads I would grant that street lighting is almost wholly a public good except, of course, that some houses get more light, and it is arguable whether that is a public good or a public bad. I know some homes which are complaining that local authority lighting keeps them awake at night and perhaps they ought to be paid some form of compensation.

(ix) *Roads and planning permissions*

DAY: Could I suggest two other possible additions to your list which you have not mentioned yet? Perhaps I should say that certainly from my own personal point of view my questioning on the sort of thoughts you have is by no means hostile; it is very much to try and find out what the possibilities are on as reasoned a basis as can be. Two other possibilities are the use of roads, for example by supplementary licences or by more sophisticated electronic techniques and, although of course subject to the consequences of the new Community Land Act, charging for town and country planning permissions and so on. What would your reactions to those be?

SELDON: We published a paper by the late Professor F. G. Pennance which argued that planning permissions should be auctioned, which is virtually what you are saying?

DAY: No. What I was suggesting was really the payment for the service and the work involved in obtaining planning permissions and so on. I think the Pennance argument is an argument for a type of taxation, in effect, from the benefit of this power one is given by the planning permission. Is it not arguable that the work of functions such as obtaining a planning permission, the work of the district surveyor, the advice of the health inspectors on new drains and all this kind of thing, in terms of your principles should be paid for?

(x) *Police: advice on theft prevention; conveying*

SELDON: I would accept that. I would go further and apply

your general principle that local services should sell advice. Dr R. L. Carter in his *Paper* on theft argued that, although there were some police services for which charges were made, there were a number of further services which were now performed free of any charge, such as advice on theft prevention. There are others too – I think convoying was another. It seems to me that, where a public service is defined as almost wholly a public good but does shed personal benefits, or is capable of yielding personal benefits, there seems to be no reason why they should not be charged for. I would have thought that you might look down the list and see which other services *seem* to be wholly or basically public but yield, or could yield, personal, and therefore chargeable, services.

DAY: I grant that, by asking for the temporary exclusion of education and possibly the permanent disregard of housing for the purposes of our current discussion, one is excluding a big proportion of local authority expenditure, but we have got a list which is a noticeable proportion now.

Planning cost comparisons

HARRIS: On planning, I do want to emphasise the merit which comes alive in my mind, which I have not heard specifically and cannot think I have seen written down. If you consider the merits of charging to developers the proportionate cost of the services of the local authority which are necessary by statute and so on, the enormous advantage of that is that it makes quite explicit what those costs are and enables comparisons to be made, so that authorities working in a number of areas would be able to say: 'What is this in Enfield? Why is the cost three times as much as elsewhere?' There may be very good reasons why it is, but at least you are explicitly charging out the cost to the beneficiaries. It becomes embedded in their costs but it reduces the tax element and increases the price element.

Tolls

On roads, I want to tell you that I have just recently returned from Scotland where, you remember, 15 years ago there was an enormous battle in which Scottish nationalists and everyone were involved, stones of destiny were being stolen and letter-boxes defaced.

It centred on the issue that the Forth Road Bridge was going

to have a toll gate on it. Everyone I spoke to in Scotland had only one comment about the toll, which was that it was ludicrously cheap. You saved yourself some 30 miles and so on. There must be opportunities here and there, particularly new developments, where you can find bits of road or bridges that are being built and which do benefit motorists in particular areas, and you apply a charge. This is widely used on the Continent and much less widely used, indeed very rarely, in this country.

DAY: It seems to me, Chairman, that we have gone through the list of specific cases which, arguably, are transferable from the public to the private charging sector. I would have thought that there might well be responses from some of my colleagues on the committee on those particular issues, . . .

Practicability of charging for refuse removal

MR. B. THORNTON JONES: The only point I have got is on the practicality. We have got the question, say, of refuse collection. This will be a fairly general service to everybody concerned; pretty well everybody will take it up and enjoy the benefit of it, but at that point is there any point in making a specific charge to the generality of people enjoying it? It would seem that the administrative costs might be considerable and might be outweighed by the fact that everybody is taking part in it. I can accept it in the case of a library, I think, where the use is far more limited to certain individuals, but where the use becomes fairly generalised, as it would in the case of emptying dustbins, there seems to be little argument in your case there for making a specific charge. You might just as well include it in the rate as you do at present.

HARRIS: On my observation of my neighbours there is a very wide variation in the amount of refuse that gets put out. In addition to one or two dustbins there are various other cardboard boxes with empty bottles, and one thing and another in, from one of my neighbours! But perfectly seriously, if I were charged per dustbin, this would induce me to internalise costs and to avoid throwing on the refuse collector, who I would have to pay, the costs of collecting a lot of rubbish I could easily sort out and make up into paper bundles which would be collected by a commercial company, without a charge, who would even make a small abatement if you had some definite arrangement to put aside all your government papers and newspapers in a bundle each week. I would have thought there are

really quite wide variations in the use made by individuals of the refuse service. A charge again makes quite explicit what the costs are and gives some inducement to economise in the use of resources directed to the task of collecting refuse.

THORNTON JONES: The thing which worries me is, if you are licensed for one or two or three dustbins plus so many cardboard boxes, the procedure is going to be complicated and you are going to lead to a further increase in town hall staff, which is a thing we do not want to encourage.

HARRIS: My milkman does not find it difficult to charge me with an enormous variation of milk, cream, gold label milk, and one thing and another. I think, with respect, we can exaggerate the difficulty. Transfer from here to there involves a leap, but once the leap is made the capability of private suppliers to adapt their charging on a formal or informal basis according to the established customs of households is quite remarkable. There would be wide variations, and again you would have variations between areas from which a learning process would emerge, whereas at the moment it is a uniform, mundane type of service which does not seem to develop very much over the decades. So that that is a practical issue. Whether again it is a matter of experimentation I do not know, but the experience of other countries is certainly to me indicative of the opportunities for making this into a private service.

SELDON: May I add something on that? We are both of us, you and we, conjecturing. We think there are advantages and you see difficulties. I think neither of us can establish his case. I think that is an argument for some local government areas doing it and demonstrating which of us is right.

DR G. W. JONES: The way you have emphasised it so far is that charging should be encouraged in areas where public goods produce private benefits, personal benefits. I think there is another way of looking at it, which is that the pricing in charging should be introduced where there is really an element of personal choice, where people can decide to have the service or not. I think some people have put this element to us. I am wondering, therefore, if I am right, whether planning permission, for instance, would come into that, because people cannot choose whether to have planning permission or not; if they want to build their garage, or to alter the format of their house, put an extension on it, they have to have planning permission, so there is not the element of choice there.

Pricing compulsory consumption

HARRIS: Your argument is that where consumption is compulsory then the tax is the appropriate financing mechanism rather than price. The classic comeback which economists have used (you may have heard Professor Day or not before, or any other hard-pressed economist sitting here) is third-party insurance. It is a classic case: a motorist is not allowed to take his car on the road within the law unless he is insured against damage to other people. That does not mean that the government sets up a super insurance company and throws the whole burden on to the tax. The consumer can choose between a wide range of insurance companies which conform to that requirement. So it does not follow, it seems to me, if you are imposing, for example, a minimum requirement of education, namely that people are educated between certain years, 5 to 16, at approved institutions, that you cannot have private as well as state provision of education. Although we have become accustomed to the idea, there is no necessary corollary that compulsory consumption is provided at zero price. I think that is our basic case here. There are probably many other examples. So many things seem compulsory these days. I am not too sure whether third-party insurance is the best case.

SELDON: In all cases of licences like dog licences, television licences, broadcasting licences, there is no choice but you pay.

CHAIRMAN: You pay a flat rate. As I understand Mr Harris's argument, this is one of the practical difficulties. I can see an argument which says there is an element, albeit a substantial element, of personal benefit in having the refuse collected and the point about personal inconvenience is very considerable, but I share the anxieties Mr Thornton Jones is talking about. If you say there will be a flat rate charge it would be a very sensible way of yielding a substantial contribution to public funds, but once you begin to say you may have one dustbin or two—the administrative possibility of managing it through a public department—it strikes me it may well remove the financial advantage of doing it.

SELDON: If you think that local government would find it difficult, I suggest we have an experiment with a private company.

CHAIRMAN: That is quite a different matter. I understand the argument which says that you should farm it out, and the tests there are different, the mechanisms at play, the incentives at play are different.

HARRIS: That is exactly the case of our author on the refuse example as drawn on from Canada. You lease it out to competing suppliers and you give them a two- or three-year run. If they do not give satisfaction – of course they have a substantial monopoly in that area – they will be replaced.

MR M. STONEFROST: I was not quite clear about the guidelines you used when you gave your health-type examples. In the local government field there are some small charges made of a fringe nature and when we came to health you seemed to extend them, but again relatively modestly. Could you tell us what line you would adopt in the health area?

SELDON: My prior assumption was that incomes are in some way topped up so that people can pay. If you look down that list, there are seven items under 'Health' in Table II, and they all draw quite tiny amounts from charges. I would have thought that, given that incomes are made up, you could envisage some element of charging for some services which would have all the advantages of enjoining care in the use of resources and tapping new income. The only large item there is the ambulance service, which seems to me to have fairly large scope.

DAY: In that particular case, how would you reconcile charging for the ambulance service with free provision, not of course by local authorities, of the health service? It appears to me the ambulance service is, in principle although not in administrative practice, most closely associated with the health service.

Health insurance

SELDON: We would envisage a structure of charges for all health services too, but there is no problem, as I thought someone might object, that in an emergency you cannot contemplate a system of charges. I should have thought all of these risks, or most of them, are coverable by some kind of health insurance, and I see no reason why they should not be covered. They are not large-scale risks or catastrophic risks, which I agree should be 'socialised'. Take a service like family planning: I would have thought that is something which people could properly be expected to pay for.

DAY: Could I ask in those circumstances, where the risks are insurable, what would your attitude be? Would you regard these as being in the

nature of third-party insurance for cars where you compel the individual to insure, or in the nature of comprehensive insurance for cars where you leave it to the individual to decide?

HARRIS: If there is a social requirement that we do not want people dying prematurely for lack of forethought in covering themselves against the costs, any more than we want people's houses to be burnt down to the risk of their neighbours, you make a compulsory requirement that they should be covered, as you do in education. In that case it is an age requirement with inspection of schools, and in this case it would be a requirement like third-party car insurance that people must be covered against certain risks. But we have an education voucher, and we have also a health voucher as a warrant that wafts away many of these difficulties, because you can then put the whole thing on a competing insurance basis and you impose compulsion to imply social interest and concern and determination that people should be covered, but you apply no further compulsion about the source from where they get their service, except insofar as it is inspected to see that it is satisfactory, and you top up incomes to cover the inadequate income case.

DAY: So the argument, as I understand it, in these cases is very largely concerned in terms of competition in provision of services, as you have allegedly with insurance companies at the moment?

Choice, competition and information in provision of services

HARRIS: It is level of provision, and it is also choice in consumption. At the moment – I come back to the instructive case of libraries – libraries are provided freely and they find difficulty in raising enough finance to provide as good a service as they wish to provide and you get a broken-backed service, whereas if you had charging you could finance a very good service indeed for those who wished to pay. So it is choice in level of provision as well as competition in the effectiveness of supply.

SELDON: May I also add a point about the *information* service which pricing gives. At the moment ratepayers have no idea what local services cost; they have no idea at all. Even if we could emerge with only a *notional* structure of costs and prices which were not paid but which were there to be observed and to act as a sort of discipline so that people were aware of the scarce resources which they were using, and so that we might hope they would use them rather more carefully, even

that would have some advantage over a system in which there is a complete blanket over costs, and no one knows the scarcity of the resources he is using, or the amount of *damage* he does by ignoring the *opportunity* costs.

Charging might reduce social benefits

SECRETARY (MR I. YASS): Just to test the sort of argument which has been put to the committee against extending or increasing charges, I think in general terms it goes something like this, that we are dealing with goods which are a mixture of public and private goods, and to the extent that you reduce the demand for those goods by charging for them, or charging more for them, you not only reduce the private benefit but you also reduce the public benefit. To take one example you mentioned, namely the Forth Road Bridge, one of the benefits of having a Forth Road Bridge is not simply to save the time and petrol of people who are crossing the bridge, but also to reduce the congestion in the places that they used to go through before the bridge was built. To the extent that by imposing higher charges you deter some people from using the bridge you are imposing some costs on the old routes. Similarly, if you take the case of something like swimming pools, if you increase charges and deter some people from using them, not only do you reduce the private benefit but you also reduce the benefits to the community at large of not having these chaps wandering the streets on Sunday afternoons, or whatever, and in that particular case you are not only reducing the external benefit but you are reducing benefit particularly to the sections of the community that the provider of the service most wants to reach. I think probably the most powerful argument that has been put to the committee and in the absence of a negative income tax—I think this committee cannot assume there is going to be one—is the great difficulty about pricing things at the level which will cut off benefit to people who can least afford it.

SELDON: I think that argument is only half valid. That argument is valid only for public goods which are produced and which are there, but if it is a question of replacing or renewing them then you do need some mechanism which pricing does supply for indicating the *extent* of the renewal or reconstruction or replacement. If you accept that circumstances change, that incomes change, techniques change, and so on, then, insofar as you are constantly replacing or replenishing or amplifying or extending public goods, it seems to me that argument does not apply.

Pricing may increase demand

HARRIS: Could I dissent marginally from my colleague on that, because I think there is the danger of supposing pricing

necessarily is aimed at reducing demand. I am anxious to try and emphasise the point that pricing in some circumstances may *increase* demand; that is to say, I might go to swimming pools or to libraries that were better adapted to the kind of requirements that I have, but I find they are full of school children when I want to go, or I find they are not open at the right time. The Forth Road Bridge, so far from reducing demand and throwing traffic on to other roads, has been an enormous source of increased traffic going up the east coast of Scotland, and before that you had the ferry service which was immensely more costly and less efficient. It seems to me part of the argument about pricing is that you enable people to signal to the supplier where they would like more but different, more convenient, a different assortment, a different mix in their library service or swimming pools. It does not seem to me that pricing should be represented as a kind of ogre that is always going to exclude consumers. Pricing means you leave more money in the pockets of the people who pay taxes; you must remember that they are going to spend it on something, and they may wish to spend more of their private money for a service which was better adapted to their requirements. I do not myself see that pricing should invariably be seen as a way of excluding consumers but of changing the supplier.

YASS: I would accept pricing may maximise the private benefit from the provision of the service, but I do not think that necessarily answers the criticism, does it, that it will reduce the public benefit? We have just said that by increasing the charge for swimming pools it may make it more convenient for you because there are not the school children there, but that is precisely the argument that those who oppose higher charges for swimming pools put against it.

HARRIS: I did not mean to say that I would not have school children going there, but there may be times when I could go to swimming pools when they were not full of children, and that would keep me off the streets or from the pubs and be of enormous social benefit!

CHAIRMAN: Both your answers tacitly accept Mr Yass's point, but that is only part of the story. You do not eliminate it, as I understand it, in either case. His equation, or rather the equation he has reported to us, still has to be taken into account.

SELDON: I would argue only so far as you are talking of public goods which are produced and which exist, so you

have some costs, apart from Mr Harris's point that prices could increase the output. If we are talking about, and if we contemplate, a renewal of public goods, which is general, then I do not see why it is assumed that in the absence of pricing there is a mechanism for identifying or optimising the scale of output. I see nothing in the machinery of government which leads you to suppose that it is more efficient, or less imperfect, than a system of market pricing.

Identifiable externalities

DAY: Could I suggest that I think Mr Yass's point is largely a point in terms – to use jargon – of externalities. For example, if there are no swimming pools and as a consequence there is more crime, this is a cost of the absence of swimming pools which is imposed on the community as a whole, and reasonably should be taken into account in the market mechanism for the swimming-pool service. I take it that identifiable externalities such as that you would regard as appropriate to be incorporated into the market price charged for any sort of service?

SELDON: In concept I would yield that, but in practice I see no argument for supposing that government is more competent at identifying and measuring external benefits than a system of markets in which you can 'internalise' some external benefits. After all, you *can* internalise some externalities. If you are talk-about damage done by companies in the form of congestion, or smoke, or bad smells, you can internalise them. I can see more scope for maximising the output of goods in which there are sizeable external benefits than I can in assuming government will necessarily know the answer.

CHAIRMAN: It is not such a simple question as that, is it? There may be many things, if there were a private mechanism to measure, the private mechanism would measure better, but where, nevertheless, government is the only person or body in a position to measure it, and therefore it has to.

Charging without income support via a negative income tax

MR P. McINTOSH: When you discussed the services where charges could be made, you mentioned seaside facilities and borrowing records and novels and, at the other extreme, health provision and ambulances. You thought that charging for the latter would require some kind of negative income tax. Could you tell us which of the services you mentioned could be charged for without some form of income maintenance?

CHAIRMAN: How would all those look if the proposition was that there is going to be no negative income tax?

HARRIS: In a case like libraries, for example, you could proceed on the basis that display of an old-age pension book or student union membership card would give access to the service without payment, so that you could in a rough-and-ready way exempt some categories in the same way as with free or cheap transport. Without reverse income tax you can do a rough-and-ready assessment of groups who might then be exempted from charges that you would apply to the greater part of the population. But I would have thought all we have said about swimming pools and refuse collection, and the point which Mr Thornton Jones raised, comes into its own here, whether the consumption is widely dispersed or, as he thought, equally distributed like refuse collection. There would in fact be a reduction in rates resulting from the charges. On the whole there would be a switch from rate expenditure by the individual family to market expenditure. You would not have to wait for the whole paraphernalia of reverse income tax in all those cases, except I think Mr Seldon touched upon the health cases as being subject to that one.

SELDON: I do not think you can separate the question of the extent to which more revenue might be drawn from a structure of pricing and the question of the inequality of incomes. It seems to me you have to take a view. If you say nothing can be done about raising low incomes by a system of tax credits, then you are depriving yourselves of a wide range of services for which you might recommend some fruitful new sources of income. And not only income, because pricing means more than income: it means their *costs* can be expected to be lower. Also the informational effect is an advantage which you cannot get from any other method of financing. I do not see that you can separate those two, so I would not agree that you should contemplate two separate lists.

McINTOSH: If for all these reasons you cannot for a moment contemplate a shift of incomes, then there is not very much scope for charging?

SELDON: No, I would say, if you force me, that there are some services in which you could contemplate charges, like libraries, and some elements of fire services, art galleries, certainly some in

the two large categories we have excluded, housing and schooling in its various forms. And we have not touched on services like parks yet; that is a very large item.

Assumptions on income redistribution and pricing

STONEFROST: Could I ask a question about inequality of incomes? At the risk of being misunderstood – or, even worse, being understood – it is how one talks about purer market forces. It makes an *a priori* assumption of a big interference in those market forces by equalising incomes. In other words, on what economic ground do you justify redistribution of income in order to make purer a certain lot of smaller economic matters such as pricing?

HARRIS: The classical case for the price mechanism always runs up against the fact that it is a form of voting with multiple votes but with unequal voting power because of the distribution of income. So you have to qualify the large claims that can be made for the merits of a price mechanism by reference to the fact that incomes are widely unequal, and you use tax to lop off high incomes and to direct government finance towards low incomes. That is a well-established case. Now I do not know much about the present state of the debate on public finance, but there is a case for redistributing incomes and leaving people much freer in the way in which they will spend those incomes, rather than in trying to deal with the unequal incomes by saying, 'We will provide for the universal consumption of certain services, like education, health, libraries and swimming pools', because some people would not be able to pay. That seems to be a roundabout way. Since on the whole the incomes that worry us are a minority – it may be large, but it is a minority of incomes that are too low – it seems to be rather wasteful to generate universal benefits that go to people irrespective of the height of their incomes as well as the depths of their incomes, so it is perfectly legitimate to separate those. You can have a view about it. I can think of economists who are champions of the market mechanism but who have very large qualifications about the set of income distribution which they would enforce before they allowed the market to operate.

Charging for non-domestic users

DAY: Perhaps in a territory where the distribution of income is less worrying, I think it would be helpful to us to move on, instead of going on to the national *versus* local public goods issue – perhaps we might

come back to that—to consider non-domestic users of local services, who of course are substantial in number. I wonder whether you could give us any guidance on where, and to what extent, money could sensibly be raised by charges on non-domestic users? I think an obvious one is going to be the dustbins and the restaurants, but could you perhaps go beyond that?

SELDON: There you have no problem of poverty so you look down the list and you say, 'Where can we make these capitalists pay?' I would argue, as a principle, make them pay for every service which they use on a larger scale than in general others do. I would have thought that they make more use of police services in a factory or office block or dock; they make a greater use of services, which is not entirely accounted for in the rate.

DAY: Yes, this is the problem. Fair enough, a bigger dock needs more police services than a smaller dock.

SELDON: Yes.

DAY: Do you think, leaving aside certain things that might be measurable like refuse collection, but with things that are less measurable, like police or fire service, shall we say, that a system of charging which related in this sort of way to the use made by the commercial user of these services would come out very differently from a system of charging such as arguably exists at the moment through the rating system, that effectively your levy for police services would be in relation to the size of the factory which is roughly in relation to its rateable value? So would there be much advance if you were to attempt to do this over the generality of these services as opposed to perhaps some specific one like refuse collection?

SELDON: I would not have thought the risks which require the use of services like police vary directly with the size of a factory building. I would have thought that one service, or non-service, for which companies or firms could pay is their use of the environment. Pollution charges are a possible new source of income: the kind of price which could not only yield income but also cut down the damage they do. I would have thought the case for charging is quite markedly better than requiring them to avoid the use of damaging chemicals, and so on, by government fiat.

HARRIS: I must say we have a paper coming by Professor Beckerman on the whole question of pollution. He was a member of the recent Royal Commission and he renews the argu-

ment, which he did not succeed in getting the Royal Commission to adopt, but it is enormously persuasive; the argument is for using pricing as a way of charging to the factory the damage it does with its effluent, its smoke, its discharges and so on.

That does seem to me to be a way of correcting avoidable imperfections in the market system whereby the consumer or output prices do not reflect the full costs because they are thrown upon the community. That does seem to me to be one we ought not to have heard the last of.

Charges for trade effluent

THORNTON JONES: I want just to interject here. At the moment I know perfectly well that trade effluent is charged for in addition to the rates. It is a very sore point with a lot of companies and factories, the fact that in addition to the very substantial rates they pay they also have to pay a charge for effluent discharged into the sewers as well. In other cases such as one I can think of, an explosives works, where they have to have special police arrangements, they pay the whole of the cost of the police necessary to guard the explosives works in addition to the rates which are very substantial in themselves. So you have already got charging to a very large extent.

HARRIS: Yes, the whole of the cost of administering and providing that service is charged, where it can be isolated, to the beneficiary company, and that is a very satisfactory arrangement.

THORNTON JONES: This is already done.

HARRIS: Do you know – I am asking you questions now! – if there are areas where that is not done? It seems to me, going through a much more detailed list than this, one might still identify particular services to industry which could be charged out.

Local or national pollution charges?

CHAIRMAN: You have a double problem here, and we are looking to you to inform us really. I think the questions really are perhaps three, are they not? Are there areas where there is no charging mechanism at the moment separate from the rates, trade effluent being the classic case; secondly, if there are, is there an instrument for measuring it effectively; thirdly, if there is not, do you contemplate that it would be open to authorities to try it in different areas or is that for the nation to decide? Let us take the row about these matters currently under

review in the EEC. You might very well take two views. You might say that if we leave local authorities to levy a charge for such forms of pollution—disposal of trade effluent I think would probably be the appropriate term here—do you wish to see differing authorities impacting differently on the major national industries, some dealing with the whole of one and some dealing with small portions of it, or is that not an appropriate case for saying it is a national matter, it affects production and costs on a national basis and it must therefore be in the form of a national tax? I am not quite sure how you separate out those three questions.

HARRIS: I think there is a very strong case—coming back to the social and private question—for having national standards. I can see an objection, taking EEC, and taking even the regions within the country, that it would be improper to allow a lax authority to encourage or allow industry to conform to a much lower standard of performance to gain competitive advantage. Therefore I can see that for the nation as a whole, certainly over large areas, you should have some kind of prescriptive standard. But I can still see no objection to there being local variations in charging because they may reflect different levels of cost or different levels of efficiency in the provision of the service and the removal of effluent, and all that seems to be instructive. It is different prices acting as a national signal to draw attention to the fact that there are these differences between areas. Some of the differences might be capable of being diminished because if efficiency varies you can bring the lower up to the level of the higher standard of efficiency, and so on. I do not see a conflict of national standard and variation in the charging.

CHAIRMAN: To what other realms one can identify, other than trade effluent, do you apply this argument?

SELDON: I am out of my depth here because I have not made a study of this. All I can say to you is that we will send you a copy of the *Paper*. I am convinced by Beckerman's argument.

CHAIRMAN: We shall be glad to see it.¹

¹[Six copies of *Pricing for Pollution* were sent to the Secretary on 28 November, 1975.—ED.]

II. EDUCATION VOUCHERS

DAY: Should we go on to the next section, Chairman – education vouchers? Here I think I really have to throw you a difficult question. How can you persuade us that any kind of advocacy for this is within our terms of reference?

HARRIS: You mean because of central government grants and that kind of thing?

DAY: No. How would you meet the kind of argument that there is a political determination in the country that, for reasons of, shall we say, social engineering, standards of education shall not be determined beyond a certain extent – and the current fuss in Islington is an example – by the private family and private individual, and that this is a matter of social engineering and we have to accept as a committee that this is so – for example, the movement to comprehensive schools?

National standards and parental choice

HARRIS: On the point you have just made, if I link it to the point we have just discussed, again it would be possible, though not necessarily part of our recommendation, that you should prescribe in very considerable detail the form and composition of educational services, and still entertain the advantages of the voucher system as enabling people to choose between what will remain important differences, however severely, as it were, you constrain choice by specifying age, inspection of schools, range of courses, religious education and all that. There would still be and must be and unavoidably will continue to be – to mock the pretensions of those who claim there need not be – important differences judged in the eyes of parents on things like single sex and mixed schools. You rule that out – you make that prescriptive. There remain important differences in the teachers, the facilities, the location, the style of the school and all that, so that you could still absorb, as it were, a large amount of nonsense in terms of uniformity of enforcement and still leave scope for variety. Unless you say that it is a matter of total indifference to all parents in the whole country, so to speak, whether they go to this school or that because they are alike as post offices – which, by the way, are not alike either – you cannot really dodge your responsibility, gentlemen, in seeing that there is no way in which national policy, however it is formed, could rule out at least the possibility of some role being played by some form of voucher. We have eight on offer and there are several more variants.

SELDON: When 15 years ago we started publishing a series of papers by economists on a number of welfare services, we were told by politicians of all three parties that it was a waste of time for economists to question the existing method of organising or financing health, education or housing, because none of their conclusions would be acceptable. All the parties, both in government and out, would regard their views as politically impossible. We therefore had to make up our minds whether we were engaging in a waste of our resources, or else question that assumption, which I do now. I question the assumption that there is a national will that education shall be the instrument of social engineering. I do not know the evidence for that. I think it is a gratuitous assumption which pre-judges all the most interesting and fascinating questions in the whole realm of our social service expenditures, which account for half of our public expenditure. If economists were to accept that view, half of them would shut up shop. They must, as academics and scholars – they owe it to themselves and those who finance them and those who might learn from them – pursue their thinking wherever it leads. And if it leads to conclusions which seem to suggest that there could be more scope for influence or choice by families then it seems to me that it is their duty as scholars, and our duty as midwives of scholarship, to give them the opportunity of researching and writing.

DAY: Forgive me but, thank God, not all the members of this committee are academic economists, and I am at the moment wearing a hat as a member of the committee rather than as an academic economist. I would entirely accept the strictures that no academic should look at possible policies unless he thinks they are practicable in the fairly near future. Of course that would be very bad academic practice, but where the committee would need a very considerable degree of persuasion – and this is perhaps where it should be put in the hands of others on the committee – is to be persuaded that any recommendation for or against a voucher system is within our terms of reference. There is a second level of thinking: we could say that if vouchers were to be introduced in any of the eight forms this would have implications for local government finance and, of course, that is a separate and a lower level set of questions, but implicitly in your giving us powerful evidence on voucher systems you believe that advocacy or otherwise of voucher systems is within our terms of reference, and that we ought to say something about it in our report.

Untapped source of finance for education

SELDON: We would not have done what we have done were

PRICING OR TAXING?

Ralph Harris/Arthur Seldon

1. Local government is wrongly financed because private benefits in rate-funded services are largely, and in trading services partly, financed by taxes (local and national) instead of charges.
2. The Layfield Committee accepted the case for charging in principle but failed to investigate it as closely as additional forms of taxes.
3. Its recommendation of a local income tax does not solve the problem of incorrect and inadequate financing because the mounting public resistance is not to the tax-base, the tax-rate, or the tax-locale but to the tax-'take'.
4. Local (like national) government services are under-financed because people will not pay as much in taxes as they will in prices linked to the services they receive.
5. Charges would draw more revenue into some local government services. The largest, education, and possibly health and housing, could draw revenue through the device of the voucher.
6. Charging would create the knowledge of alternative costs to stimulate local authorities in increasing efficiency and responsiveness to consumers. Without charging local government is largely blind.
7. Charging would increase the authority of local government *vis-à-vis* national government by increasing local revenue not obtainable by further taxation.
8. The administrative and practical problems of raising revenue by charging and the voucher cannot in general be identified except by experimentation.
9. The obstacles to charging are not so much economic or administrative as political and bureaucratic because they would make local services more consumer-orientated and possibly stimulate private competition.
10. The Layfield Committee was confined to the financing of local government services; the Redcliffe-Maud Royal Commission was confined to examining their structure. Both inquiries embodied the economic fallacy that price can be divorced from supply and demand. A third Layfield/Redcliffe-Maud inquiry should combine both and arrive at urgent conclusions on financing and control.

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Date

it not that we thought there is evidence of a large untapped source of income. On the basis of the field surveys which, as you may know, we conducted in three years, 1963, 1965 and 1970, on the usual methods of sampling and so on, we found on every occasion that families in all social groups—more in the higher income groups, of course, but a surprisingly large percentage in what are called the Ds and Es—would add to a voucher out of pocket in order to enjoy a choice of schooling with the new dimension of influence and authority which the voucher would bring. It was on that ground that we thought it worthy of bringing to your notice what could be a new source, that other economists have totally ignored, of income for education which would raise standards, which would lead to increased efficiency in the use of resources in a service which accounts for something like a third or a half of total local government outlays, and which again offers the unique advantage of a service with knowledge and information about costs that no other system can yield. Although we are the only people who took this use of the voucher seriously at a time when it was rather scoffed at, we feel that events have vindicated us or seem to be on the verge of showing that, if you could add a new dimension of choice, you would release a sizeable amount of new purchasing power which could enter the industry of secondary and primary schooling. It was on those grounds that we thought, since we assumed you were concerned with re-appraising all sources of revenue—both old and new, that this was one source of which you might not know.

STONEFROST: Could I ask one or two questions on the effects of voucher systems on the economy, in our current circumstances or similar circumstances? You said that you thought it would result in a sizeable amount of new purchasing power in the educational field. At this time and for some foreseeable time the scene that faces us appears to be a fairly sizeable expenditure on such things as education and health, etc., compared to the productive capacity of the country. With the cumulative introduction of voucher systems—because one cannot take one without taking the lot—what in your view would be the expenditure effects upon those areas of service to which your voucher system relates? Would it not tend towards increasing resources in those areas?

SELDON: We are offering a judgement on the basis of field surveys, and all we can say is that by asking a series of questions addressed to a cross-section we got a series of answers, not

once but three times, which seemed to suggest that families in all income groups would willingly add, out of pocket, sizeable sums to a voucher if the voucher gave them a new element, which they now apparently feel they lack, of having real authority and influence in choice of school. We have no proof or evidence that if it were done in practice that would happen. Since it is not done, and since no government has done it, we have done what we could as a second-best and asked a series of hypothetical questions which seemed to yield that sort of finding. In 1965, when the expenditure on secondary education was of the order of £400 million, we found, extrapolating our findings on a national scale, that families would add £110 million. If you bring that sort of figure up to date, and if you recall that that figure was the centre point of the three field surveys, the last of which showed that an even higher percentage of families would add to the voucher, then you begin to talk of a quite sizeable sum being added without any need to cut public services, which the government now seems to think is the only alternative to financing them by higher taxes, which it excludes. It seems to think that the only alternatives are higher taxes or cutting public services. What we are saying is that there is a third alternative source, namely, a diversion of resources, or purchasing power, of funds out of consumption into education.

THORNTON JONES: You are not suggesting that the present expenditure on education should be reduced though?

SELDON: No, I am saying nothing at all about that.

DAY: You were saying that insofar as private individuals wish for themselves or for their own children to add to the current level of provision of service by foregoing other consumption, your system would allow them to be free to do this, and your surveys predict that they would do this on quite a substantial scale?

SELDON: Yes.

McINTOSH: You suggest we put this sizeable amount of revenue into education services from this source and, secondly, that the greatest amount of choice would be exercised possibly by the middle- and upper-income groups?

SELDON: By all income groups. I said the indications were that a high percentage of middle-income groups would do so,

but there was also quite a sizeable proportion of the lower-income groups.

Unequal benefit requiring income redistribution?

McINTOSH: I accept that, but this presumably means that people who have much less opportunity to switch their purchasing power will have a somewhat more restricted choice? Would this category of charging fall into that group, which was defined earlier as requiring a redistribution of income, or is it a process which you feel could go ahead now without some form of tax credit, local income tax or whatever you like to call it? Does it depend, do you feel, on some income redistribution?

SELDON: No. Our surveys were made in the context of the distribution of income at that time.

HARRIS: Your particular question is answered in this wise: one can conceive of a voucher system which would leave no-one in a worse position than they now are, but others would have a choice because they could top up their voucher. Indeed, one argument is that the voucher could be taxable as consumption in kind and that would be a net reduction in the cost to the central exchequer and so on. But the whole of the argument, which is so difficult to do justice to in summary, is that when you introduce this choice element you do have a feed-back to the supplier—the schools, headmasters and so forth—in a way which will itself set up an improvement mechanism. There is now no improvement mechanism except the intentions of a teacher or the supervision of the education committee, or the parents' pressure through parents' committees and that kind of thing. Having had three children myself going through bits of the state system, when you go to see a primary headmaster and say, 'Why do you not do French in the primary school?'—because that is a good time for them to start making the right noises and to learn how to overcome their natural shyness about speaking a foreign language—the answer is, 'No, we cannot do it because that is not what the Enfield education committee are in business to do'. 'All right, we will put up the money.' 'Oh no, you cannot put up the money. We cannot have a group of parents coming here and arranging for French to be taught'—although all the parents might very well put a few pounds into the activity. All I am saying is that once you break away from this monotonous uniform 'none shall have it

unless all have it', so long as you maintain the minimum standard no worse than it is, the hope would be that the improvement mechanism and the competition and the variety would itself raise that minimum standard. That is the whole intention. It is not to tread people down at the bottom – that is not the intention, nor the natural outcome in our view of this mechanism.

Relevance of vouchers to Committee's terms of reference?

YASS: I wonder if I could return to the question that Professor Day raised right at the beginning, namely the problem of relating this to the committee's terms of reference? The terms of reference of the committee are concerned with the system of local government finance, and I think we would have to say that the structure and administration of the education service as such is something which is outside the committee's terms of reference. I wonder if one can define the relationship between the voucher system and the local government finance system in this way: would it be correct to say that, taking if you like the most modest version of the voucher scheme in which all the educational provision remained in the hands of local authorities, and in which local authorities financed from their existing sources of revenue the vouchers which were given to parents, and in which there was no provision for the parents to top up the vouchers with any additional payment, given that situation the voucher scheme might affect the administration of the education scheme at the local level, but it would not affect the system of local government finance in any noticeable way? Is that right?

SELDON: That is the system, broadly, which has been tried for three years so far at Alum Rock in California.

HARRIS: But it had no implications for the expenditure of the local authority. That is your point – those are your terms of reference.

YASS: Yes. So in order to make it relevant to the committee's terms of reference – that is, in order to establish that it would change in some way the system of local government finance – one would have to postulate some variants on them in which the most important in your view, I take it, is that parents would be willing to supplement the value of the voucher, and one would therefore be able to draw on a new source of income in order to aid the local education authority or whoever it might be who was providing the education service? Is that right?

SELDON: Yes.

YASS: So the relevance from the committee's point of view, therefore, is taking education as a special case of a service for which a

charge might be made, and the particular mechanism you are advocating is vouchers?

HARRIS : And the topping up is the charge.

YASS: The topping up is the charge but in principle what you are saying is that education is not a service which should continue to be provided wholly free, and that some charge should be levied or should be capable of being levied by the local education authority on parents?

HARRIS : Yes, that is part of the answer. Could I try and relate the financing mechanism? I am very unclear about the detailed way the local authorities are reimbursed, but what it is tempting all the time to say is that you could supplement the rate income by a charge by the local authority upon parents who have children at the local schools. That is difficult, but what you have got in the central government is the mechanism of PAYE, a system of assessment of individuals both by family size and also income, and it seems to me that the attraction – and it brings it back to your terms of reference in a way – is that if the vouchers were taxable, so that in the hands of a wealthy person there would be no net benefit – they would be left with 10p in the pound of the voucher value – the government would itself be collecting more money which would be capable of being used for education or other services. The government is in a better position to reach the people who could pay for the service, who are the people with children, and do so in a way that discriminates between those with ability to pay other than as denoted by their rateable value. So a taxable voucher seems to be a more sensitive mechanism for raising charges, over and above the topping up. That is my point. We would not have to cut the education service as we are going to see it cut in a panic, blind fashion, over the next two or three years because you would have a way of recruiting more money and also getting the consumers, the parents, when they come to spend their vouchers, indicating those things which they would wish to preserve from cuts, or indeed, even to extend.

YASS: I take that point, but the point I was trying to establish was that the main relevance of the voucher scheme from the committee's point of view is to provide a means whereby private individuals can pay a supplement to the provider of the education service out of their disposable income and, as far as the committee is concerned, the particular mechanism of the voucher scheme and the advantages that it

might be seen to have in terms of wider consumer choice, and the effect that might have on the administration of the education system, are in a sense a side issue which is rather outside the committee's terms of reference.

Vouchers as indicators of parental preferences

HARRIS: There is a long story there which I hesitate to go into. I have not got the facts at my finger tips but I have seen costings of a wide range of schools, although it is very difficult to get them in local authority areas related to particular schools. I have seen figures for a number of schools for which parents queue up where costs are rather lower than other schools where parents do not queue up, and this seems to me to be rather suggestive. We talk about expenditure on education as though it were equivalent to benefit – you spend more, you get a better benefit in education. That does not follow. You can spend more in ways that do not give an increased benefit, and you can economise in all kinds of ways and maintain the standard, or, indeed, improve it. The whole argument goes back to the point that the school would be in a better position within the framework of compulsory standards, inspection and all the requirements that you lay upon it, to discharge its functions. It would be left with some larger element of discretion because it would be having parents indicating where they would spend their vouchers, how far they would top up, how much they would pay for extra music if they were not doing music, or language classes or whatever it may be in primary schools. There would be an opportunity for the actual service itself to change or adapt itself and respond to these things, so I think you get a supply element as well as a choice/demand element.

YASS: But we do not know whether that would lead to a net increase in expenditure or a net decrease.

HARRIS: It could not lead to a decrease if you said that the voucher is the average cost of schools in the area and people have to spend that money on schooling. You cannot have any leakage. The vouchers must be spent in that way so, in that sense, you have under-pinned the minimum standard; but you would have these other possibilities of supplementation.

Role of local authorities in a voucher scheme?

STONEFROST: Could we ask about the role of local authorities?

Should there be a national system of vouchers, say, in education? The local authority is the provider of a lot of different choice units. What is your comment about the freedom of the local authority (a) to decide the price or value of the voucher and (b) to discriminate in the prices it puts on the different schools irrespective of their costs, because from a local authority point of view they might want to make the maximum use of their assets and might want to induce more children to go to school X than school Y?

HARRIS: Offer green shield stamps, you mean?

STONEFROST: The freedom of the voucher system, in order to get equity in the value of the voucher, pre-supposes a national standard, a national base. What role would you see for the local authorities in such a national system of vouchers?

THORNTON JONES: I would go further and say, would there be any role at all for the local authority, really?

SELDON: It would be a matter of the extent to which you think that social policy ought to be centralised or localised. I do not see that it is for anyone at this point to indicate any sort of iron rule. Surely we have not yet experimented, and no-one knows how it might work. These are hypotheses, and all that we know is that we are short of funds, that our existing method of financing schools and education as a whole out of taxes is not raising as much revenue as evidently families would like to pay, and that if you allowed them to pay in ways which *they* preferred you might raise more money. That is all one can say, and all that one can conclude from that is a glimmering of an idea which can be judged only by some sort of pilot study which would show how it would work in practice. I do not see that we can get much further in answering your questions, which cannot be answered except by knowledge.

HARRIS: Could I say that, as citizens, we may have very strong preferences in this matter. The great merit of local government is implied by its name, that there is something distinctive about the government in this area compared with elsewhere, and if I do not like it I can move to another county or another Greater London borough, or whatever it may be, whereas with national government if I do not like it I have to quit the country. I have to find some other perch, and that raises all sorts of issues about how you can win acceptance without becoming a political refugee. If we are to talk about

participation and choice and democracy there seems to be an enormous assumption—presumption—in favour of a wide variety between the ways in which local authorities try to do much the same kind of thing. National standards by all means, but I would have thought there was an immensely strong case and an immensely appealing case, irrespective of party politics, for saying that we should be as relaxed as possible about variety, allowing that the local authority is more accessible to my pressure, allowing that I can move more easily from one authority to another, and allowing that everyone is now talking about participation and regionalism and semi-nationalism and all the rest of it. So I would hope that we might have a national voucher which is a matter of national finance but that, so to speak, you might allow all kinds of local twiddley bits to be attached.

DAY: Could I be clear? As I understand it, the basic idea of this scheme is that there is national finance of some sort of minimum standard which has to be provided, and which the consumer has to take up because his voucher is otherwise useless, and presumably there will still be a rule that he sends his child to school for a certain number of years. Then there are providers of education services who respond to the demands of parents saying 'I will pay my voucher over to you and I will not pay it over to you. I will pay some additional money over to you and I will not pay it over for that purpose'. If this is the pattern I really do find some difficulty in understanding where the role of the local authority is in this picture. In the deepest sense I see no necessary reason why, in your system, the school provider, the builder of the school, the employer of the teachers, should be a local authority at all. It could perfectly well be an educational trust, a profit-making company, whatever. Is that not entirely consistent with your system?

HARRIS: Yes, it would be one possible development.

DAY: So are my colleagues not right in thinking that in implication—it may or may not be a good or a bad implication—your system is that the role of the local authority as an education authority under this sort of system would be greatly reduced, probably to the position of a supplier of services responding to demand in much the same way as a restaurant responds to demand, and fails or succeeds?

SELDON: No, I do not see it like that. It seems to me that local authorities could remain owners of buildings, they would remain the employers of their staffs, they would lay down standards, and they could have *more* power insofar as the revenue which finances their schools would come from *local*

free for everybody on an equal basis, and we must not have discrimination between people about how deep their pockets go and all that kind of thing – you could visualise a world of British restaurants! (If you remember during the war with rationing we had British restaurants.) We are moving away from a world where you visualise food shops as being some kind of universal provision with minimal or zero pricing for putting up nourishing fare of a certain kind and so forth. To move from that and say that we will now have competing restaurants is such a jump . . .

Effect of vouchers on local government finance?

CHAIRMAN: If I may say so, you are leading us away from what is our essential interest. We see a lot of what you say and we are not here to debate whether it is a good idea or not, this point. We are trying to see how it fits the sort of things we are entitled to look at. Where does it fit into the framework of it? There is a lot you have said which we understand and we are not asking about that because we can see what it says. What we are trying to deal with are those matters where we are not quite sure how it fits in to the local government structure. We are on the point of change. We therefore have to try and see, as Mr Yass was indicating earlier, where it fits in. To what extent, on the one hand, can it be said to be a matter of the system of local government finance and, if so, what qualifications attach to it; that is one end of our concern.

The other end is to say that in considering it, if it comes within our proper ambit, reasonably construed, in what way does it affect the structure and role of local government when seen through financial spectacles. These are our two anxieties, quite apart from any other questions we have about the way in which you operate it and the benefits you might get from it, and I think we follow all you have said about that. It is these two areas which give us the greatest difficulty, and anything you can say that can help us to understand exactly how it fits into the system would be valuable, particularly in areas where there is scope for us to say, 'If it does not fit it ought to be altered', as distinct from those areas where we feel obliged to say, 'That is a question of altering the role which is not our province'. It is these two areas which give us a great deal of trouble and on which we should most value your comments.

SELDON: In a sentence, I would have thought there was no difficulty in seeing where its pertinence lies in terms of your task to re-appraise sources of local government finance, both old and new. I would have thought that a hypothesis which is based on an effort at a second-best discovery of the public reaction to a new method of financing, and which suggests

that there is a possibility of a new source of finance to supplement what is already raised by taxation and so on, fits obviously into your task of discovering what the possible new sources are if the existing sources seem to have dried up.

HARRIS: We are saying really that the voucher we are now offering you is a top-uppable voucher. It has to be a voucher which is added to but it seems still relevant to say that, since education is financed a lot from central government, the value of the voucher could be taxable because it is a benefit in the hands of the recipient, and that would be a major additional source of income. In fact it would almost be penal unless you used parts of the proceeds to reduce other taxes. If you taxed the value of the voucher in the hands of the recipient that would give rise to a very large additional revenue to central government, which presumably could be made available for education or other local services provided by local authorities.

Statutory requirement of 'free' education

THORNTON JONES: How does that tie in with the statutory requirement to provide education up to the age of 16 free of charge?

HARRIS: A taxable voucher?

THORNTON JONES: Yes.

HARRIS: It would be free of charge only to those who were not taxable.

THORNTON JONES: That would not conform with the present statutory requirement, would it?

SELDON: The laws are made by man, and you can change them. We have ignored the other effect, which economists know prices have: namely, more economy in the use of resources by suppliers. Bad schools would go out of business and bad headmasters would be demoted or sacked or pensioned off, and you would get a feed-back effect after some years, so that a price would operate on both sides of the account – both on the outlay side and the income side.

HARRIS: Could I meet your point, which is that we will offer a variable value voucher? Is a variable value voucher a way of getting round that or not?

sources and families, even though the agent was national. The source of influence would be local, and the local governments would be less under the influence of national government in a system where you channelled money *via* vouchers to local sources – that is, to families of children who attend local schools.

DAY: Yes, I can see a model where the local authorities are the only providers of school services where the vouchers come from the central government and are in the hands of the private citizen. Where, then, is going to be the choice of the private citizen if the local authority simply decides to provide a particular kind of school? Is it not possible that the outcome will be in a particular local authority area that the only kind of car you can buy is black, as it were?

Competition in provision of education

SELDON: I do not see why you should assume that local governments would have a monopoly. There would be, after four or five years, perhaps, some influence on the individuality of each school. The schools, in their anxiety not to lose their customers, as it were, would begin to alter their teaching methods, their subjects, their curricula and so on. There would be a widening of markets, as in the experiment which starts next year, I understand, in New Hampshire, where they are going to offer a voucher which is tenable outside the state. There would certainly be more competition from other local governments and from other suppliers.

DAY: Yes, I think I understand you. Am I right in understanding that you are saying that this monopoly power of the local authority could be avoided, either by the possibility of cross-trading and using your vouchers in another local authority, or by the possibility of private schools existing which, of course, is the alternative model I was hypothesising a little earlier?

SELDON: No-one could say which model would emerge until you saw how families used their vouchers. And we are assuming that they would use their vouchers in a way that would maximise their choices in terms of the extra income they wished to add.

DAY: Am I not right in understanding that if the choices available to voucher users are to be maximised the consequence of this is that the role of the local authority as a school provider is reduced and becomes simply that of a competitor in the provision of a service, just as if it were operating a restaurant in competition with private restaurants?

SELDON : Subject to standards.

DAY: Yes, subject to standards and so on.

STONEFROST: Might not its position be rather less than a restaurant owner who can in fact decide what food he provides at what price? Would not the school provider be required to provide a set level of service for that voucher at that voucher price? There are three powers that the local authority could have which puts it as an interventionist between the voucher and the choice of the family, and each of them depending on the degree would interfere with the choice of the family against the private sector: one of them is the right to vary the value of the voucher by saying that this voucher will provide X level in our authority, different to that in the rest of the country; the other is to contribute a part of local taxation towards schooling additional to the voucher; and the third is to vary the price of individual schools in its own system to suit an overall pattern rather than the real cost of a particular school to the parent. Without a combination of one or more of those, the role of the local authority is rather less than that of a restaurant owner. I am not suggesting that that is a wrong thing but it seems to me to follow. Either you have local authorities with power standing between, which interferes with the choice of the private provider of education, or the value of the voucher is manipulated in one form or another by the local authority directly or indirectly.

SELDON : You may be right or I might be. All I can say is that if we operate in an open society we should allow scope for the multiplicity of methods of organising and financing schools. And I am saying that we unnecessarily limit ourselves to one method of organising, one principle, and one main source of income. I am saying only that in an open society there should be scope for experimentation, at least with new methods of financing, which all our field-work seems to suggest could lead to a sizeable increase of revenue.

STONEFROST: I do not want to be misunderstood. I was just seeking to find out what the role of the local authority would be in this situation, not trying to comment.

HARRIS : For a moment I was slightly shocked by Professor Day's levity in talking of restaurants. That was my initial reaction, but it then struck me what an interesting example it is because economists have great fun with this kind of speculation. Supposing governments some years ago under some mad impulse of war or delusion said that what is even more important than education, or health for that matter, is food, and therefore food must be provided free and must be provided

THORNTON JONES: I do not know!

HARRIS: If you offer a voucher which is the full cost of education in the great majority of circumstances, but which was something below the full cost, that would still not get round your point. You are obliged at the moment to offer full-time education until the age of 16 without charge. That is the law.

SELDON: That depends on whether you regard a voucher as a form of purchasing power or whether it is an entitlement to a service. If it is a docket which entitles you to a service supplied by government, then there is no question of a price charge. The alternative is to envisage all state schools charging prices which are paid for by the voucher of varying values.

CHAIRMAN: That does not meet Mr Thornton Jones's point though, does it? If there is no taxable voucher, of course, your point is valid. As I understand Mr Thornton Jones's point, once you tax it are you not derogating the existing statutory requirement – not the financial requirement but the Act governing the provision of education?

I am a man given a voucher. Never mind what colour or value it is. I have an entitlement, on the point Mr Thornton Jones is putting, to walk into a school and say, 'I have a son and want him educated. Carry on'. The point he is making is that wherever it may be, whatever colour that voucher is, it is taxable. The point is, am I not entitled to say that that is a derogation of the Education Act? That is Mr Thornton Jones's point as I understand it.

THORNTON JONES: I am just wondering whether it takes us outside our terms of reference.

CHAIRMAN: I entirely agree. That is a very important point.

DAY: You could avoid Mr Thornton Jones's problem and satisfy the spirit of the law if your vouchers were not taxable.

HARRIS: Yes, and if they were top-uppable. If you allow for the fact that you are spending more year by year and decade by decade, if the value of the voucher is fixed now, substantially the additional expenditure will not come from taxes or rates but from topping up and from economy in other aspects of education. This seems to me an on-going process. If you look to the future there will be increasing demands on educational expenditure. These additional bits, without moving back from your free requirement, would be subject to topping up and you would have some of the other advantages of economy in fringe activities, as they may be regarded by schools.

Topping up by voucher or direct charge

STONEFROST: So far as provision of education by local authorities is concerned, which is a domestic matter of schools and teachers and curricula—a pretty large sector—a voucher system is not needed for topping up, is it? One can introduce an additional price for certain features of a school and therefore add that kind of selective element within the local authority education system without a voucher.

HARRIS: Yes. It turns on a matter of marketing—whether a school puts out a prospectus which specifies what the additional cost would be to come to this school or specifies a whole range of price tags. I agree you could have a voucher or you could just charge.

YASS: If I may come back to the effect on local government finance once again, presumably in order that people who did not wish to top up their voucher should still be able to obtain free education, the total value which was given out would approximate to something like the existing cost of running the education service, so it would not in itself affect the burden of expenditure which now has to be made from taxes of one kind and another. Is that correct?

HARRIS: Yes, that is right.

CHAIRMAN: The global sum to be raised, and then it is constant?

HARRIS: For the moment that is right, but if you go from now on and assume that it is a service which will be attracting increasing expenditure, at the moment that will mostly come from rates or taxes.

YASS: But do you envisage that there will always be a standard of education provided which will be covered by the cost of the voucher and which will not require topping up?

HARRIS: Yes, that is the assumption.

CHAIRMAN: Then it remains neutral?

HARRIS: It remains neutral this year.

CHAIRMAN: What Mr Yass is saying in his second question is, do you assume a statutory norm which the global cost of the vouchers will constantly cover?

HARRIS: Right.

CHAIRMAN: To that extent it remains constantly neutral to the rates and taxation system.

HARRIS: I was assuming that you start from here on an ascending path of expenditure on this kind of service. This is what advance normally means in all countries – you spend more and more on this kind of thing, so you could, as it were, hold the minimum standard expressed in expenditure, though under competition, ingenuity and one thing or another you may get better value from the minimum standard. All I am saying is that from henceforth developments or changes or varieties offered by schools might be subject to additional charges.

Minimum standard: static or varying?

YASS: In that case one of two things can happen, presumably: either the minimum standard stays where it is, in which case expenditure from taxes on education does not go up in real terms but the value of the education provided at the minimum level becomes increasingly worse in relation to the schools which are attracting topping up, or else the value of the minimum standard of education is pulled up by the improved standards which are obtaining elsewhere, in which case you are also pulling up the amount of expenditure which has to be financed from taxation.

HARRIS: The possible fallacy is the first point, which is confusing, if I may say so – it values the education by reference to expenditure. The whole of the output of the public sector is valued at cost and that cost is the input; it is not the measured cost of consumers voting with their money to say, ‘This gives me that much satisfaction’. Therefore it is perfectly conceivable that you could have a stable real monetary level of expenditure, still applying over 10 years in which education has changed in all kinds of ways, and for that stable minimum standard to imply a much improved variety and range of options in the school. That is part of the effect of a degree of freedom which the school would have to have to adapt itself. The whole point is that it would adapt itself to what consumers are urging, so you would redirect some of this expenditure so that, given static expenditure, if you like at today’s levels, in 10 years’ time it may be a different sort of product.

CHAIRMAN: You are saying in effect expenditure constant and quality variable?

HARRIS : Quality improved.

CHAIRMAN: Variable.

HARRIS : Right, Chairman.

Varying local costs

DAY: Perhaps a slightly less difficult problem but one which would have to be tackled in this sort of thing is how would you deal, in the voucher system, with unavoidable differences in cost between areas of, for example, different historic costs of the buildings, for example higher teacher salaries in one part of the country than another, or more expenditure necessarily in one part of the country on, shall we say, bussing which is an unavoidable part of education? How would you allow for that in your voucher system? Would the voucher value vary noticeably in an unavoidably high-cost area and an unavoidably low-cost area?

HARRIS : Mr Stonefrost suggested that it might vary locally because local authorities might top it up or subsidise the transport or whatever it may be. I do not know how important it is. It would turn on how significant were the differences in cost of running schools in different areas. If they were substantially different, which I would hope they might be, there is an argument for regional variations which you used to have with supplementary benefits. I do not know if it still applies but supplementary benefit used to have a regional element for variations in costs of food and services.

CHAIRMAN: It is more difficult than that, is it not? Can we take two comparisons which at any rate give me a certain amount of uncertainty? If you take Camden, I am sure you do find easily within the whole of that borough a school whose historic cost is very low, where the cost of maintenance is very high, and not far away a new modern school with very high initial costs and high interest charges, within the same borough possibly a mile apart—the old Hampstead and the old Camden. A corresponding but not similar set of circumstances would exist in Hertfordshire 10 or 12 miles away where each of the four schools would bear very substantially different interest layers on the development cost if any interest remains—which it does in at least one case—very different maintenance costs, very differing sums necessary to keep them in reasonable condition by heating, lighting or whatever it may be, and very different transport costs. It is that kind of variation which seems to me very difficult to predict. I say that with some emphasis because this is one of the difficulties which appears in things like the grant structure. I am not sure how that sort of comparative

problem which presents such vexing difficulties in other fields, for which no adequate answer has been found yet, would be dealt with in the voucher system.

SELDON : I do not see what other answer we can give except to say that the whole study of the voucher method of financing education has been largely ignored by economists, and that is the reason why *your questions have no answers*. It is a question of a chicken and an egg. It seems to me the only way of finding the answers is to have a pilot study in which you could see what kind of problems you faced. *I do not see that we can supply the answers before you accept that there is an idea here which lends itself to experimentation.*

CHAIRMAN: Our difficulty, as you can appreciate, is not so much to understand the attractions of the idea as to see how many of the problems it raises would be dealt with in a sufficiently clear way, at least in general terms, to say that that is something about which substantial action can be taken.

I think that probably has told us a good deal of what we wanted to know. We have all found it very enjoyable. Before I conclude, is there anything that you wish to draw to our attention which we have not specifically covered so far?

HARRIS : I think we have had a good run.

Summary of principles of pricing

CHAIRMAN: I wonder if I could summarise in a nutshell, accepting the hazards of over-simplification and the deficiencies of a layman talking on an expert subject? If I can summarise your propositions as being five in terms of raising revenue by fees and charges as against simply allowing it to be swallowed up in generalised taxation.

First of all, you make the point, if I follow it rightly, that where there is a material or dominating element of private good in the supply of the service concerned you say that in principle it is more efficient and appropriate that that should be paid for at prices that are determined, whether by cost or otherwise, rather than engulfed in taxation generally as a matter of principle.

Secondly, you say that has the advantage of either making costs explicit or more nearly explicit than they can be if they are lost in the generality of taxation.

Thirdly, you say that as a consequence of the second proposition that means you are supplied with some information about how the system operates because the costs have become explicit to one degree or another, which enables people to operate and judge the system more efficiently to the degree which it has made clear.

Fourthly, as I understand it, you say it follows from that that you

would get competition in costs and, hence, better direction in the use of resources.

Fifthly, you say that where you get choice in provision you could provide better indicators to the suppliers which puts them in a better situation, whether local authorities or others, to judge what it is that is most required.

Does that fairly generally encompass your views?

HARRIS : Certainly. I did not think we had been as coherent as that !

CHAIRMAN: We have enjoyed it very much. Thank you very much indeed for giving us your time.

(The witnesses withdrew.)

PART II

REJOINDER TO THE
REPORT

I. POLITICAL ECONOMY

Voting by Market or Ballot Box?

Setting

The occasion for the appointment of the Layfield Committee in June 1974 was what the Report describes as 'a general outcry' about the 'unprecedented increases in rate demands' that Spring. The average increase in rates for households in England and Wales approached 30 per cent, with one case as high as 160 per cent. The newly-elected Labour Government, already embarked on policies that would push central and local spending still higher, responded to the outcry in two ways. It introduced a special 'relief' that shifted more of the burden from domestic ratepayers to central taxpayers, and announced a Committee of Inquiry with wide-ranging terms of reference:

'To review the whole system of local government finance in England, Scotland and Wales, and to make recommendations'.

As an indication of the urgency the Government attached to this 'crisis in local government finance', the Secretary of State for the Environment asked that the Report should be completed by the end of 1975. In its formal submission,¹ dated 9 March, 1976, the Chairman, Mr (now Sir) Frank Layfield, QC, pointed out that this timetable did not allow his Committee to deal in as much detail as they would have wished with all the issues, which had last been reviewed by the Kempe² Committee in the very different world of 1914.

The Layfield Committee was made up of 16 people including 2 local government officials, a retired civil servant, 4 councillors or former councillors, the Secretary of NALGO,³ 4 university teachers (in economics, government, politics, mathematics), a lawyer and 3 business men. More than 1,000 witnesses submitted evidence, among which central and local govern-

¹*Local Government Finance: Report of the Committee of Enquiry*, Cmnd. 6453, HMSO, 1976.

²*Final Report of the Departmental Committee on Local Taxation*, CD 7315-6.

³Mr Geoffrey Drain subsequently revealed his vehement opposition to all talk of economics in government spending in a letter to *The Times* (19 July, 1976) in which he denounced the Treasury's concern for cuts as reflecting 'maverick "foreign confidence"'. Without acknowledging his union's sectional interest in maintaining swollen employment in local government, he attacked international bankers who 'care more about the balance of payments than about unemployment...'

ment agencies, officials, political organisations, amenity groups, trade associations, trade unions and other pressure groups were heavily represented.

The Report was unanimous, except for a Note of Reservation by Professor Alan Day, with part of which Professor Gordon Cameron associated himself. The Committee did not follow the traditional practice of listing a numbered series of recommendations, but concluded with a chapter entitled 'Proposals' running to 9,000 words, followed by Professor Day's Note of 7,000 words.¹

Professor Day's reservation concerned what he regarded as the over-sharp polarisation his colleagues made between 'centralist' and 'localist' financial structures. Professor Day argued that the problem of accountability could be tackled by a compromise approach that would define the standards of specified local services for which central government accepted responsibility, leaving local authorities accountable to rate-payers for additional expenditure subject to local discretion. He nevertheless endorsed a local income tax as a means of reducing the rate burden on poorer households and on commerce and industry. Our criticisms of the Report, therefore, apply equally to the Note of Reservation.

What it called the 'daunting' scale of local government is indicated in the Foreword as 'the spending of £13,000 million a year, the management of £25,000 million of capital loans and the employment of some three million people . . .'. Among the 'significant trends' leading to public dissatisfaction, the Report included the almost continuous growth in local government expenditure since 1890 (amounting by 1976 to 13 per cent of national income), the increasing proportion of this cost borne by central government grants (rising towards 60 per cent), and the resulting difficulty for government in devising methods that combined economy in local costs with freedom in spending the block grants.

With admirable clarity of exposition, the Report ranged widely over the forms of local expenditure and income, the relations between government and councils, the differing methods of control over current and capital expenditure, the origins and operation of local rates, and the relative merits of alternative sources of finance.

¹The 'main evidence' is available for inspection at the Public Records Office and 'the major items' will be published by HMSO in either printed or micro-fiche form.

Its most specific proposal was that a local income tax should be introduced to supplement rates as 'a necessary condition of greater local responsibility' (para. 59, p. 198). This reform was seen by the Committee not as a 'mere adjustment' or 'palliative' to meet particular complaints, but as the keystone in 'the construction of a financial system' to replace 'a collection of financial arrangements whose objectives were not clear and which had never been properly related to each other' (par. 1 of Proposals, p. 283). The twin principles upon which the Committee's proposals were based may be summarised as an insistence upon the need for 'accountability' and an over-riding belief in 'local democracy'.

Critique

Our central criticism of the Report is perhaps all the sharper because we share the Committee's concern about uniting decisions to spend with responsibility for providing the finance; but we judge its proposals to fall far short of remedying the ills it correctly diagnosed. Despite its merits in other respects, the Report revealed the weakness of seeking a conventional, acceptable, consensus solution to a series of problems which are themselves the outcome of the very orthodox approach it exhibited. In shying away from radical reform, it illustrated the inherent defect of many official committees of inquiry laid bare by the inimitable A.P. (Sir Alan) Herbert in *Anything But Action?*, published by the IEA as Hobart Paper 5 in 1960.

The trouble is, as APH said, that government has become like the fat man who cannot see where he is putting his feet. As the damaging effects of blundering around can no longer be ignored, the Minister nominally 'responsible' for the offending feet invites advice from a group of other 'responsible' individuals, carefully selected from those unlikely to tell the 'fat man' bluntly that he should start slimming. A committee or commission, constructed to include 'representatives' of leading interests, sets to work in a spirit of British compromise to prepare a report that will be unanimous if possible, and anyway will not offend 'respectable' opinion on either side in politics or press. Thus in presenting an almost unanimous report signed by all but one or two of its 16 members the Layfield Committee must have compromised and avoided speaking out: its 'highest common factor' could not be as good as its best thought.

The APH pattern would seem to fit exactly the Layfield Com-

mittee's formal, legalistic and unimaginative treatment of the central issue of accountability. Having urged that local authorities should enjoy wider discretion in carrying out their chosen functions, it contented itself with the suggestion that they 'should be responsible for finding the money through local taxes for which they are accountable' (p. 286). Here we would note the emphasis on taxes; and hence the single major proposal of a local income tax. Yet, having also acknowledged that the pressure to spend more comes from 'professional opinion and special interest groups' as well as from the public, they did not pause to ask how access to yet another form of local taxation would enable people compelled to pay the piper to call the tune.

On the proposal for shifting away from taxes to charges, which perhaps we were alone in urging on them, the Committee's response was hesitant, cautious and muffled. They acknowledged that fees and charges had fallen from 10 per cent of rate-fund expenditure in 1969-70 to 7 per cent in 1973-74. Tables I and II accompanying the oral evidence and Table III, which summarises Tables 2, 3 and 4 in Layfield, show that over a very wide range of personal, trading and other services, the proportion of expenditure covered by fees, charges and rents ranges from below 5 per cent (libraries, refuse collection), from 5 to 25 per cent (children's homes, further education, corporation estates), 25 to 50 per cent (slaughterhouses, cemeteries and crematoria, school meals and milk, corporation estates), to little above 50 per cent (council housing, parking, aerodromes, markets), with income falling significantly below expenditure on passenger transport, harbours, ports and piers.

On the scope for increased reliance on charges, the Committee seemed to be in at least one and a half minds. In Chapter 9, entitled 'The Role of Fees and Charges', they thought it possible that charges could play a bigger part but incredibly did not consider such a change could make 'a radical difference' (p. 136). Yet in the final Chapter on 'Proposals', they did not rule out

'a radical change. . . which would involve charging people to a much greater extent for the individual benefits they enjoy from those services',

though they added that this

'could only be undertaken as part of a deliberate national

TABLE III

LOCAL AUTHORITIES: CHARGES AND
EXPENDITURE ON RATE-FUND AND TRADING SERVICES,
ENGLAND AND WALES, 1973-74

(Summarised from Tables 2, 3 and 4, pp. 134-5 of the Report)

	Total Expenditure	Income from Fees and Charges	Proportion of Expenditure from Charges
	£m.	£m.	%
<i>Education</i>			
Further	675	117	17
School meals, milk	294	100	34
SUB-TOTAL (All forms)	3,357	279	8
<i>Personal Social Services</i>			
Children's homes	83	13	16
Houses for elderly	140	47	34
Other	300	16	5
SUB-TOTAL	523	76	18
<i>Housing (revenue account)</i>	1,160	704	61
<i>Trading Services</i>			
Passenger transport	90	74	82
Cemeteries, crematoria	20	7	35
Harbours, ports, piers	14	12	86
Markets	17	9	53
Slaughterhouses	6	2.7	45
Aerodromes	20	12	60
Corporation estates, etc	96	24	25
SUB-TOTAL	263	141	53
<i>Others</i>			
Libraries, galleries	106	6	6
Refuse collection	167	7	4
Parking	33	20	61
SUB-TOTAL	306	33	11
Other rate fund services	3,533	152	4
GRAND TOTAL	9,142	1,385	15

policy which would not be confined to local government services' (p. 290).

Again, they conceded that

'Meeting more of the cost of services through charges would not only help to reduce the level of taxation, but could also be more efficient',

yet abdicated offering their own judgement by concluding:

'It is not our task to say where the balance between charges and taxation should lie' (p. 136).

Hence their proposal, discussed in our Section II, for a joint review by the government and local authorities.

The Committee's non-verdict on the education voucher – as a possible half-way house to charging for schooling – reflects more explicitly their anxiety not to be thought unconventional and perhaps to reconcile conflicting opinion:

'The scheme goes much wider in its effects than local government finance and is a challenge primarily to conventional educational philosophy and policy. As such it extends far beyond our scope.' (p. 137).

'Buck-passing'

Such a hesitant, buck-passing response is all the more disappointing in view of our impression from giving evidence, confirmed by selected passages in the Report, that at least some members of the Committee had grasped the strength of the argument for charging. Thus in Chapter 9 on 'The Role of Fees and Charging' occurred the following passage:

'In theory what people will pay for is the best guide to what they really want, so the greatest satisfaction will be achieved if they are left to spend their own money on things they want to buy. Certain economic principles suggest that, if the prices paid by individuals for goods and services reflect the cost to society of providing them, the resources available will be used in a way which most effectively matches people's preferences.' (p. 135).

Having expressed part of the essence of the case we put to the Committee, however, the Report indicated four possible qualifications:

' . . . that the benefits individuals receive are related to the prices they are willing to pay;

'that people are wholly free to exercise choice about which goods and services to buy with their available incomes;
'that economic activity is generally competitive and free from monopoly or other restrictions; and
'that the distribution of income is regarded as equitable.'
(p. 135)

The key question is whether in practice these qualifications provide persuasive reasons against applying to many local government services the acknowledged merits of the system of market pricing that even the most conventional accept as an appropriate method to supply individuals and families with food, clothing, warmth and other wants and conveniences.

Objections to market pricing

The essence of the conventional case for governmental provision of specified goods and services, presented with varying degrees of cogency by the Committee in three passages on pages 59-60, 135-6 and 305, can be summed up under two headings: public interest and poverty. Thus a widely-held interpretation of 'the public interest' would agree that a minimum standard of education, housing, health and other amenities should be enjoyed by all citizens, even though they may be unwilling or unable to spend their own money on them.

As we made clear in our oral evidence, the existence of poverty is not sufficient to justify abandoning the advantages of free choice in competitive markets by providing even the most elemental goods and services 'free', or at universally subsidised prices. If it were, government would be obliged to undertake, at the expense of the generality of taxpayers or ratepayers, the distribution of food and clothing. In this event, the acknowledged boon of consumer choice for *everyone* would be sacrificed so long as a small *minority*, or indeed anyone at all, lacked the means to avail themselves of it.

Wide differences may be entertained about the appropriate poverty line and the resulting optimum distribution of incomes, but all who understand both the freedom and the efficiency of market arrangements would agree that the desired redistribution can best be brought about by a mixture of taxation and topping-up low incomes. The best discussion in everyday language of the essential case for consumer choice and its practical limitations is *The Economic Problem in Peace and War*,¹

¹Macmillan, London, 1947.

wherein Professor Lionel (now Lord) Robbins drew on his unique experience of the extension of collectivist decision in the single-minded business of waging total war. Anticipating the special case of poverty, he wrote:

‘. . . if it is felt that the working of the market results in a distribution of goods which is not equitable, the remedy is to be found, not in suspending the market or in *falsifying the system of prices*, but rather in direct operation on the level of net incomes and property either by way of taxation or by way of subsidies to persons.’ (p. 8) (Our italics.)

We may therefore leave aside the opposition to market pricing which often masquerades as a concern for poverty without pursuing the alternative methods by which incomes may best be redistributed, beyond indicating our preference for some variant of a reverse or negative income tax.¹ It is, however, hardly convincing for the Layfield Committee to disclaim authority to discuss such a necessary financial accompaniment of radical reform when its chief recommendation was the introduction of a local income tax that would in practice have large implications for ability to pay or entitlement to subsidised services.

Dangers of ‘public goods’ argument

Returning to the ‘public interest’ argument for governmental provision, we encounter what may appear more complex issues about the ability or disposition of individuals to spend their presumed adequate incomes in the way that corresponds to the prevailing public view about their best interests. The core of this familiar analysis was expressed by the Layfield Report as follows:

‘. . . private individuals, in deciding what they are prepared to pay for, do not have to take account of the costs or benefits they impose or confer on others . . .’ (p. 59)

A moment’s reflection will suggest obvious examples of such ‘externalities’ in the economic sphere of private action – or inaction – which affect third parties, either positively to their gain or negatively to their cost. Thus the building (or extension) of a private house may damage a neighbour’s amenities by blocking his view, just as the building of a village store may

¹*Policy for Poverty*, IEA, 1970.

benefit families in the neighbourhood by improving their shopping facilities. Likewise, money spent on a person's education may make him a better citizen, just as refusing to spend on education may make another a worse citizen. From such possible 'third party' ('external') impacts of decisions taken on purely personal ('internal') reckoning, economists have developed a theory of so-called 'public goods' which is often interpreted as requiring far-reaching intervention by government to correct discrepancies that might result from private choice and payment in the market.

The danger of this often highly theoretical analysis is that by exercising a little intellectual ingenuity, academic economists, sociologists and others have been able to justify severe limitations on the scope for individual choice – without weighing in the balance the formidable objections to the paternalist/authoritarian 'solution' they propose in its place. We may turn again to Robbins for the correct perspective:

'There is scarcely anything which I can do outside the privacy of my home which has not some overtone of indiscriminate benefit or detriment. The clothes I wear, the shows I frequent, the flowers that I plant in my garden, all directly, or through the mysterious influence of fashion, influence the enjoyments and satisfactions of others . . .' (p. 20)

By concentrating on the 'considerable penumbra' of public effects of private consumption, Robbins warns that there are 'few forms of totalitarian regimentation of consumption which could not find some formal justification by appeal to this analysis' (p. 21). Thus have the economic theorists of 'public goods' misled the politicians by arguing that, because the market did not account fully for external effects, *therefore* government production, distribution and exchange should replace it.¹ This is the most blatant example of the Nirvana fallacy in which the imperfect present is contrasted with the unknown but assumed perfect future.

Three alternatives

It is all the more disappointing that the Layfield Committee turned away from considering these fundamental objections to the conventional argument for 'public provision' when their

¹Questioning whether the familiar example of smoking chimneys justified government intervention, Professor Milton Friedman warned in a recent TV interview that 'Every governmental measure is born with a smoke stack on its back.' (*The Jay Interview*, Series II: 'Alternatives to Liberal Democracy, No. 1: Freedom through the Marketplace', London Weekend Television, 18 July 1976.)

Report included the following admirable passage setting forth the alternative ways in which 'society can influence private decisions':

'First, it is possible to enact laws to regulate individual behaviour, for example by requiring motorists to be insured. Second, taxes or subsidies can be used so that the cost to the individual reflects the cost or benefit to society . . . Third, the public sector may take over the activity itself and supply it free, as with some health services, or at less than its full cost.' (p. 59)

Applying these precepts, with the reservation that subsidies are normally better given to consumers than to producers, we see that if it is generally agreed that significant public gains may be reaped by ensuring all citizens consume a prescribed minimum quantum of education, medical care, housing, it does not follow that central or local government must resort to the third alternative of providing everyone with such facilities at nil or subsidised prices financed from various forms of taxation. The desired result could equally be achieved by employing the first two remedies, either separately or in combination, namely by stipulating an agreed minimum standard of consumption and/or subsidising individuals who would otherwise be unable to pay the market price. The standard example is of third-party car insurance, whereby the government enforces a requirement and leaves motorists to choose between competing insurance companies – in this case without subsidising the transaction, presumably on the assumption that car-owners can afford the market price or dispense with motoring. Something similar is perfectly possible in schools. The government could set a minimum period of compulsory education or a prescribed standard of attainment, inspect schools or examine pupils to ensure they come up to standard, and allow parents to choose between private and government suppliers of education with the help of a cash subsidy – or an ear-marked voucher if it feared that cash might be spent on other forms of consumption.

If the market solution, thus adjusted for low income and narrow outlook, can be applied to deeply-entrenched 'public goods' like education (as to medical care and housing), how much more easily could it dissipate the possible 'penumbra' of public benefit in the majority of services which local government now provides less efficiently (because uncompetitively) and

without regard for consumer choice (because financed compulsorily through taxation). Libraries, swimming pools, refuse collection, transport, parking, street markets, ports, crematoria, are no more 'public goods' in principle than bookshops, holiday camps, shopping arcades, garages, market gardens, squash courts, golf clubs, play centres. The availability of both groups of goods and services confer similar, often identical, types of benefits on individuals and communities. Indeed, the second group of private services has been chosen as providing in varying degrees alternatives to the first group of supposedly 'public' services. The critical difference is that the first are provided 'free' or below cost and financed indirectly through taxation so that they are not subject to the case-by-case audit of the consumer – who is made to pay his money but has no choice.

Divorcing payment from choice.

Here we see the decisive advantage of the market as the obverse of the incurable defect of 'public' provision. The market provides what Robbins has likened to a continuous process of election in which changes in consumers' spending compel competing suppliers to cater for their preferences – within whatever framework of minimum standards the government prescribes. In poor contrast, government authorities supply a mixed bag of goods and services on which those who pay the taxation have no say between elections – and then only on a crude take-it-or-leave-it basis offered by two or three parties between which there is seldom much to choose. Where the market caters sensitively for minorities and responds quickly to changing preferences, 'public provision' involves the coercion of minorities – and often under our electoral system of majorities – and cannot adapt itself to changing preferences if only because they cannot be registered in the absence of market pricing.

Turning from the conditions of supply to those of demand, we find the superiority of the market no less impressive in concept and experience. Where people are spending their own money, they will take trouble to inform themselves about alternative modes of satisfying their personal and family requirements. Whilst under a stronger compulsion than public agencies to live within their incomes, and therefore to seek the best value for money, individuals are more willing to pay

directly for services that benefit their families than they are to pay indirectly through rates and taxes for similar services supplied by public agencies not responsive to their preferences. Thus by divorcing payment from choice, 'public provision' sets up a schizophrenia which impels an otherwise rational individual to support demands for more or better 'free' services at the same time as he opposes the higher rates and taxes that would be necessary to finance them.

This elementary but fundamental analysis bears most directly on the two key problems confronting the Layfield Committee. It was formed to placate the 'general outcry' against the increase in local taxation, and identified the chief need as increasing the 'accountability' of local authorities; yet it promptly proposed another addition to the battery of taxes. Viewed from the vantage point of our discussion of the alternative machinery for private and public control over the use of scarce resources, it must be judged that the Layfield Report failed to grapple with the reduction of expenditure or the improvement of accountability.

Insofar as a local income tax enabled rates to be reduced, it simply provides a new disguise for raising finance which would swiftly be seen through. Insofar as local authorities would be more likely to use the new tax to increase its expenditures, the reform must simply exacerbate the 'general outcry' against the cost of council extravagance. Even if the new tax were not subject to this objection, it could do nothing to transform the local authorities into agencies that would be as truly accountable as competing suppliers in a competitive market economy. Does the individual feel he exercises more authority over his local MP, councillor, education committee, hospital board, library manager, refuse collector, housing officer than he does over his local butcher, newsagent, garage, restaurant, milkman, builder, laundry?

'Public authority' and accountability

Making due allowances for the irreducible imperfections of all human institutions, we think history and analysis combine to indicate that competition is capable of rendering private suppliers 'accountable' to their customers in a sense that can never be accomplished with a 'public authority' empowered, as it must be, to tax and spend without case-by-case consent of those emptily called its 'paymasters'. Even if 'public account-

ability' through periodic elections were supplemented by frequent referenda, the resulting actions by government must, in the absence of unanimity, involve an element of coercion against often sizeable minorities. It is the wonder of the spontaneous market process, insufficiently acknowledged, that it enables the fullest possible satisfaction of the widest conceivable range of differing – even conflicting – choices and tastes. Most of us would on reflection confirm from practical, everyday experience that paying through the market is a better way of getting most nearly what we want – and avoiding what we dislike – than a single, infrequent vote for a councillor or MP who is then apparently authorised to spend a large fraction of our income on our behalf for years without much hope of early reversal.

The market is superior to the ballot box, even if we assume that councillors and MPs are conscientiously moved only by the 'public interest' and are gifted with an ability to identify it and to devise the appropriate policies for giving it effect. Such assumptions hardly survive contact with the reality revealed by Robbins,¹ fresh from directing the Economic Section of the War Cabinet Secretariat:

'Our theories of state action usually imply, not merely infinite wisdom on the part of administrators, but also infinite time in which to use it. It is not until you have sat in the smoke-filled committee rooms working against time to get snap decisions from Ministers who, through no fault of their own, are otherwise preoccupied, that you realise sufficiently the limitations of these assumptions.

'Nor are the more fundamental of these limitations removable by improvements of organisation. You may reform your system of ministerial committees. You may augment the number of their advisers. You may employ troops of investigators to ascertain the reactions of consumers. You may stretch the sympathetic imagination to the utmost to seek to provide, within the limits of your plan, the kind of variety which you conceive to be desirable. You may sincerely believe that the process as you work it is, in some sense, good for the people.

¹The reality may be even more unflattering to democracy than Lord Robbins conveys. Thus Mr Dick Taverne, writing in the *New Statesman* (30 July, 1976) as a former Labour MP, said: 'I look back in anger at the charade of so many parliamentary votes. Regularly people voted against their own convictions even on matters of great importance.' Of the Dock Work Regulation Bill now going through its final stages in Parliament, he said 'few Labour Members' supported it.

'But I cannot think that, if you are honest with yourself, you can believe that such a system involves, or can involve, such degree of freedom for the consumer to get what he wishes, such an active participation in the daily moulding of social life, as a system which is based upon demand prices.'
(pp. 22-23)

Effective accountability

If political scientists and philosophers would deign to contemplate the gulf between their seductive theory of 'representative government' and its unalluring practice – with the cumulative concentration of unmanageable power in the frail hands of fallible politicians and public officials – the case for market pricing developed and refined by classical liberal economists over two centuries could not fail to be powerfully reinforced. The plain truth is that once the sway of government extends beyond a limited range of genuinely *public* goods and services – grouped around defence, law enforcement and relief of poverty which cannot be handled by the market – the 'accountability' of politicians and officials acting in the name of 'the public' is attenuated until it swiftly recedes to vanishing point.

Earnest discussion of electoral reform, devolution, political participation will avail little if it misses the real target: to reduce the distended range of so-called 'public responsibilities' that politicians have inherited or assumed but cannot discharge effectively. Unless a determined effort is made to shrink government activities to the capacity of our governors, 'representative democracy' will increasingly be seen as a hoax that conceals an apparatus of coercion, with its functionaries at best enforcing what they think right on their fellows, or at worst enjoying the exercise of power and conferring privileges on themselves and their favoured sectional interests. Readers who have studied Hayek's warning against 'the road to serfdom'¹ and his subsequent call to reconstruct 'the constitution of liberty'² will recognise the world of significance that lies behind a recent more popular restatement by his gifted student Dr Shirley Letwin, which included the following passage:

'Any practical hope for substantial accountability must rest on the government's doing relatively little and at a measured pace.'³

¹Published by Routledge, 1944.

²Routledge & Kegan Paul, 1960.

³*Spectator*, 3 July, 1976.

In its caution and consequent respect for the fast-evaporating conventional consensus, the Layfield Committee missed an opportunity to point the way towards increasing accountability by restoring authority to individuals through the market. Even judged by the short-term calculation of political expediency, it can already be seen to have missed the bus when a few months later the Cabinet was forced to risk splitting its followers in the House of Commons by imposing what may prove no more than the first instalment of 'cuts' in proposed increases in grossly inflated central and local government spending.

II. MICRO-ECONOMICS

Financing by Taxes or Prices?

The Layfield Report acknowledged the advantages of charging, at least in principle, but did very little about it in practice. The contrast between good intention and buck-passing recommendation leaves an impression of ambivalence.

The intellectual conservatism is revealed in its survey of public attitudes to local government finance (Annex 8). Under the heading 'Attitudes to alternative means of financing local services', all four options offered to its sample of 3,000 were taxes: a fixed sum from each wage-earner; a local tax on income; rates; and a local sales tax. Yet many local authority services that have grown up since the Industrial Revolution are not 'public goods' in the economist's sense that, like national defence, they must either be financed by taxes or not provided at all. Prices (charges, fees, and so on) for many private benefits are technically practicable (non-payers can be excluded) and economic (collection costs would not exceed revenue). Since *public goods* account for probably less than a fifth of all so-called 'public' expenditure, the examination of the scope for raising revenue from charging should have been far more extensive and searching.

Evidence on education voucher ignored

Out of the relative mountain of words in our oral evidence came a barely audible mouse of recommendations on fees and charging:

'A radical change in the policies for financing local services which would involve charging people to a much greater

extent for the individual benefits they enjoy from those services could only be undertaken as part of a deliberate national policy which would not be confined to local government services. But there may well be scope for increasing the proportion of local government revenue derived from charges without any radical change in social policies. There should therefore be a review of policy and practice in charging for local services, to be carried out jointly by the government and local authorities. We have indicated what the aims of such a review should be and some of the considerations which should be taken into account. We have suggested that the accounting arrangements should identify the amount of any subsidy and the amount of expenditure financed from fees and charges should be made explicit in the grant settlement.' (p. 290)

In other words: we think there may be something in the idea but we leave it to someone else to do anything about it.

On the education voucher, which IEA field studies had indicated could be a source of additional revenue, the Committee said that the voucher confined to state schools would not affect finances and the voucher tenable in other schools would require changes of policy. The first view is not supported by argument and the second side-steps the fundamental question of the relationship between financing and the structure of local services.

The second view is discussed in III below. The first view ignores the scope for drawing new funds into state education if it became more responsive to children's varying requirements as judged by their parents with whatever advice they could obtain. It thus cavalierly ignored this source of revenue, which would be voluntary and in response to the new dimension of choice that state education increasingly suppresses in favour of the élitist paternalism of councillors, officials and teachers. The Committee thus overlooked the most hopeful source of additional revenue that avoids the coercion, resentment, avoidance and evasion of yet further taxation such as its local income tax. It paid no attention at all to the increasing activity in the education voucher in Kent County Council, to experience in the USA, to the interest in Australia, to the work of economists and sociologists in the USA and Britain, to the increasing discontent of parents with lack of choice, to the oppressive power of the bureaucracy or the syndicalist pretensions of the

teacher-employees. Yet it found time to visit the Netherlands, Sweden, West Germany, Denmark to study local taxes and Northern Ireland to study payment of teachers' salaries.

On vouchers the Committee thus seemed to avoid the onus of decision and to beg the question, or exclude matters necessarily implied in a study of finance on the ground that they were not specifically required to include them.

The first question, put by Professor Day as spokesman for the Committee, invited us to 'persuade' it that advocacy of vouchers was within its terms of reference (above, p. 45). This was a puzzling question. The Committee had been sent evidence from IEA field studies showing that people in all social groups would top up a voucher if it gave them a choice of school; that is, they were prepared to pay something for the ability to avoid or escape from a school they thought unsuitable for their children. Yet we were invited to suppose, for reasons of 'social engineering', that education standards should not be within the influence of individuals or families. This attitude is another aspect of the theory of public choice. It is the consequence of judging public opinion macro-economically – e.g. for or against comprehensive schools – without asking individual parents for their personal preferences between individual schools in the light of their relative costs. We argue elsewhere in this Rejoinder that costless (social) surveys are 'priceless' in two senses: without prices and abortive.

When some members of the Committee seemed to accept, or at least understand, this evidence on additional revenue, an official intervened to emphasise that the Committee was concerned with finance and that the structure of the education 'service' was outside its terms of reference. We deal with this fallacy in the following paragraphs.

Terms of reference misinterpreted

The Committee's interpretation of its terms of reference was itself debatable and self-stultifying. They said the Secretary of State made it clear that 'our terms of reference were intentionally stated very widely'. But there was a conceptual confusion. 'They were designed so as to permit us to consider any aspects of *finance* we found relevant.' (Their italics.) But since local government had been reorganised four months before the Committee was appointed, it went on:

'*We* [our italics] considered that important changes in local government functions were not within our terms of reference, and that it was improbable that either Parliament or the government would contemplate any major change . . . in the near future. Naturally the separation of this financial review from structural issues imposed significant limitations on some aspects of our work.' (p.xxvii)

On these tenuous grounds the Committee made a *political* judgement that the politicians would not contemplate further changes in functions beyond the 1973 reorganisation (now increasingly recognised as undesirable); but it did not (apparently) check with the Minister. Instead it went on with its inquiries but with the important *implications* of financing excluded. Thus where consideration of financing *might* affect the structure of services, this exclusion was a crippling self-denying ordinance.

There is here an important principle in the appointment of government committees of inquiry. If the terms of reference specifically exclude aspects of policy that a preliminary consideration of the subject suggests are necessarily implied by them, should a committee refuse its commission as impossible? Or should it proceed on the assumption that what it is not specifically asked to investigate it must rigorously exclude? On whom is the onus of judgement and decision?

In the Layfield case the economic principle is clear enough. If the Committee felt it could not discuss the scope for pricing the separable private benefits in 'public' services because it was not specifically instructed to discuss changes in the range of services provided by local government, it may have been *technically* right but it should have emphasised that it was hobbled at the outset. The range and scale of services cannot be divorced from the methods of financing.

Hamlet without the Prince

This unnatural divorce between organisation and finance illustrates the central dialectical weakness accepted by, or imposed upon, the Layfield Committee. To accept the structure of services without considering the effect of alternative methods of financing is like discussing supply without reference to demand and price. Local government that wants to finance itself efficiently must delve deeply into the *amount* of local

services that people want in the light of costs and the methods by which they prefer to pay. It can no longer complacently assume that taxpayers want whatever it provides and will readily pay in the ways it lays down. The Committee discussed local government finance in the context of governmental macro-economic management (three sets of references in the index; micro-economics is not referred to as such). This contrast reflects the imbalance of economic thinking in the 40 years since Keynes's *General Theory of Employment, Interest and Money*.

In 1969 we had the Redcliffe-Maud Royal Commission that reviewed the structure of local government services without discussing their financing. Now we have had the Layfield Committee on financing that did not consider the range of services. When shall we have an inquiry that considers the inseparable twins together? Perhaps Lord Redcliffe-Maud and Sir Frank Layfield should be appointed to a new Committee with three each of their best members to report their joint conclusions in three months.

Price, supply, demand and ignorance

The heart and soul and centre-piece of the Committee's deliberations and its report should have been the *rationale* of local government *per se* as well as of the services it provides. Since it was appointed at a period when local government expenditure was outrunning revenue and since, as it might have argued, another committee with such wide terms of reference was unlikely for many years (the last was over 60 years earlier), it should have dug deep into the nature of local government and asked how far the services accumulated willy-nilly for more than a century were really *public* goods that local government must unavoidably supply and finance by taxes, and how far they yield separable personal benefits for which the appropriate method of financing is pricing. A consideration of the scope for charging as well as taxing would have led the Committee to re-think the fundamental micro-economic relationship between the demand for (and therefore the supply of) local services and their price. This interaction has been neglected for 50 or 100 years or more because in local government no one, neither supplier nor user, knows prices – not even for the few rate-fund services that carry significant charges, nor for the so-called 'trading services' that are supposed to be financed (mainly) by fees, fares

and other prices but that in practice do not cover costs.

This state of ignorance is reflected in the survey of public knowledge of and attitudes to local government finance, which reveals a disturbing situation. 'Over half' of adults had no knowledge at all of the method of calculating rate bills (applying rate poundage to rateable value); 'few' knew the rateable value of their home or the rate poundage in their area; only a quarter or rather more recalled their rate bills to within 10 per cent; less than 10 per cent knew that more than one local authority decide their rate poundage; fewer than 20 per cent had any idea of the proportion of local finance contributed by central government. The contrast with public knowledge of the prices of food, clothing, household goods, motoring, holidaying, etc. etc., is sharp. How can the right decisions on the allocation of resources be made in such ignorance?

There was evidently a question, or series of questions, on charging.¹ But it was given very much second place. And it was thought not worth quoting the percentages in the answers, so that they are less informative than the answers on taxes. 'A majority' thought charges for 'a number of services' 'about right'. (Is 'a majority' 51% or 99%? Which services? Were services included for which charging, or charging much nearer costs, might be favoured by many? And what value can be attached to 'about right'? How can the public know unless it is told costs, so that charges may be judged too low – or too high?) 'A significant minority' (15%? 25%? 35%?) thought 'some' charges 'too low' (which? how much too low?). 'Most people' (51%? 75%? 99%?) favoured charges nearer costs for swimming pools, adult evening classes, to a lesser extent libraries (how could they tell without knowing costs? were all services listed – including some named as possible candidates in our evidence?).

Macro-questions and micro-answers

Even this potentially fruitful micro-economic question was not used appropriately. A charge is a price that each individual judges for himself, or each parent for the family, as worth paying or not *in the light of the cost of alternatives on which the money could have been spent*. This is the economic reasoning on which the micro-economic parts of the IEA studies were

¹The questionnaire was not reproduced in the Report and was refused to us in July until published in the Autumn.

based; they asked, in principle 'Would *you* prefer to pay more in taxes or in (higher) charges?' Such a question means something to the individual, especially if he is told the cost of the state service and its alternatives. The question Layfield should have asked is: 'Would *you* prefer to pay higher rates or charges?'

Instead, individuals were asked if they thought *other* people should or should not pay higher charges. The answers reflect a vague feeling, based on little or no knowledge, that other people are paying too little for a service (e.g. swimming pools, adult evening classes, libraries, etc) the individual answering the questionnaire did not use, a general emotional feeling that some services are good things or intrinsically better than others (libraries than swimming pools), and similar impressions. This, in itself, is a faulty judgement: the individual's decision is not between 'libraries' (good) and 'swimming pools' (bad, or less good) as a whole, but between additional expenditures on the two. In economic language we must be concerned with *marginal*, not *average/total*, expenditure. £1 more on swimming may do the individual more good than £1 more on reading; £1 million more on pools may do the town more good than £1 million more on libraries. The answers to the Layfield questionnaire were therefore of no value as guides to the best use of resources and the best methods of financing. (They may have some use for vote-seeking politicians¹ as indications of public sentiment (or prejudice), but that was certainly outside the Layfield Committee's terms of reference – even more than the structure of local services.)

The further questions were even more barren. The sample was asked whether it would like to see the government grant to local authorities increased, decreased or unchanged. Little or nothing can be read into the answers. Which individual knows enough for informed answers? Each would have to be informed about his position as a ratepayer and a taxpayer to know whether he would lose or gain by changing the government grant. The survey found that few know their rates; probably fewer still know their taxes (indirect as well as direct). 'The majority' were content with the 'present' grant, though 'more' would have liked it increased than decreased. This result probably means no more than that people think someone else pays taxes – people in Whitehall, or other towns or counties, not they themselves. 'About half' thought that the police

¹Professor Gordon Tullock and Dr Morris Perlman, *The Vote Motive*, Hobart Paperback No. 9, IEA, 1976.

and 'a little over a third' (the nearest hint at a figure so far) education and fire services should be paid for wholly by 'government'. Presumably they meant taxes; but would they have answered in this way if they knew how much more in taxes *they* would have had to pay?

We do not blame the members of the Committee for this pointless polling so much as the post-war and lingering, though retreating, emphasis on macro-economic thinking and the resulting neglect of micro-economic methods of financing.

This ignorance – to which the Committee referred euphemistically as 'very limited knowledge', and which can hardly make for a responsible citizenry in a 'macro-political' sense, still less for informed local consumer attitudes in a micro-economic sense – itself provides a strong case for introducing charging as a source of information in the light of which better decisions could be made by local authorities as suppliers of services and by local inhabitants as users.

Instead of being relegated to a recommendation for a review by someone else, the Committee should have thought much more about pricing, and *more about pricing than about taxing*. It was appointed when local services were – are still – in danger of deterioration because their users have not paid – will not pay – enough money in taxes. The Committee's main recommendation for a local income tax blandly ignores the plain truth that the public is reacting not merely against the tax-rate, or the tax-base, or the tax-locale, but against the tax-take. Moreover, people would pay charges where they will not willingly pay taxes. The Committee did not divine this fundamental truth that could have led it to a very different, more fruitful recommendation.

Macro-taxing may be the only available method of financing street lighting or other public goods, but it is inefficient for major roads, libraries, and many other private benefits (except by stretching the notion of 'social benefits' until it becomes nebulous).¹ For two decades and more we have seen that the 'price-less' approach in social surveys yields valueless results. It is *only when the price to each individual is known and made part of*

¹All goods and services can be said to have external effects on third parties. A man who paints his door pink may please some of his neighbours and dismay others. If the existence of external effects were itself a sufficient justification for providing goods and services out of taxes, all of them would be organised by government. But external effects are a necessary but not sufficient condition: goods and services are produced in the market even though they confer benefits on others who cannot be charged; and government goods and services may do external harm to third parties.

the information he takes into account that his opinion or preference is significant. When field surveys with priced alternatives in education, medicine, housing and pensions were commissioned by the IEA in 1963, 1965, 1968, and 1970 they showed for the first time very different results from the price-less polls that had misled academics and governments since the war.

Although they may come to it reluctantly, politicians of all parties will have to begin to consider charging as an indispensable financial reinforcement of tax revenue in sustaining local (and regional and central) government services. This neglected source of revenue could be the most hopeful, or perhaps the main, way of maintaining rate-funded (and trading) services that would otherwise have to be run down – from libraries to police as well as from education to housing.

The 1976 summer drought also dramatised the consequences of divorcing prices from quantity consumed. The initial reaction of politicians, the press and the natural scientists was to think of remedying the shortage of water by new investment in desalination and other water-producing or -storing equipment. The truth gradually dawned towards the end of the summer that if there was no price at the time of consumption there was bound to be unnecessary and wasteful use of water. In late September charging for domestic water was urged by Mr Michael Young, Chairman of the National Consumer Council and one of the non-Ministers on the Emergency Water Resources Committee.

Effects of more revenue from charging

How far charging would sustain the existing structure of public and social services requires an economic judgement on how far demand for them will be found elastic or inelastic when their price is made explicit. It also requires a view on how far they can, or should, respond to individual demand. People may pay more for a service that varies with their payment. They have indicated as much in field surveys. More resources could therefore be gathered for education and other local services. The hope of those who wish to see local authority services continue unchanged is that charges would yield new revenue for them. Or do they fear that, confronted with the cost, customers would not be forthcoming, or would prefer private suppliers?

In 1975, when other local authorities were raising rates by as

much as 50 per cent or more, Lincoln began reviewing such charges as central government leaves to local discretion. Among the changes it introduced were an eight-fold increase in allotment rents; a doubling of charges for swimming pools, football pitches, pleasure fair machines; and increases of 50 per cent or more for hire of offices, meeting rooms, cricket pitches and charges for use of its abattoir (Table IV).

TABLE IV
EXAMPLES OF PROPOSED INCREASES IN LINCOLN CITY
COUNCIL CHARGES, 1976-77

<i>Item</i>	<i>Old charge</i>	<i>Proposed new charge</i>
Pest treatment (per labour hour)	£1.25	£1.65
Refuse and sewage collection (demountable containers)	£6.00	£6.50
Cesspool emptying	free- £3.25	full cost
Sewer saddling	£3.00	£7.50
Interments (example)	£15.50	£17.00
Abattoir - sheep slaughtering (e.g.)	£0.40	£0.70
Rent of office	£104.00	£150.00
Bowls - per half-hour matches per rink	£0.15 £0.60	£0.20 £0.80
Cricket - use of pitch & accommodation (weekend)	£3.00	£4.50
Caravan with vehicle (weekly)	£2.25	£3.00
City Guide	£0.37½	£0.80
Allotment (min. rent per plot)	£0.62	£5.00 p.a.
Golf green fee (weekdays)	£0.50	£0.60
Guildhall letting (non-non-profit users)	£15.00	£25.00
Large committee room (non-non-profit users)	£10.00	£15.00
Market - shops and stalls	£4.00-£6.00	£5.50-£8.00
furniture sales	£30.00	£40.00
Pleasure fair riding machines, etc.	£38.00	£44/£73
Swimming pool - block booking (juniors, per hour)	£10.00	£21.50
Football pitch (hire for season)	£20.00	£40.00
Overnight parking for coaches/lorries (excess charge)	£1.00	£3.00

The outcome of charging for local authorities would depend on how they responded to the new attitude of sovereignty exercised by users who pay charges rather than taxes. If local authorities fail to respond by supplying more individual services for users prepared to pay, they risk losing them entirely. If local authorities have the power to prevent users going elsewhere, the initial sparseness of tax revenue is not avoided, and the failure of local services is made evident. If local authorities respond, they strengthen the prospect of additional revenue with which to improve their services generally, but they must

then do much more to adapt their services to the preferences of users, not expect them to take whatever local authorities provide. It is difficult to believe that British citizens armed with purchasing power to pay market costs through charges would have tolerated high-rise blocks, council house slums, sink schools.

The dilemma of local government

This is the dilemma of local government, created and intensified by the growing reluctance to pay taxes for private benefits, that people in local government and citizens generally must face in the late 1970s. Are we concerned to channel *as much* resources as people are prepared to put into what have, by lazy habit but not economic nature, come to be regarded as 'public' services? Or do we prefer to see them remain under 'public' control (in practice political control), even if they have fewer resources? That is the challenge Layfield should not have passed on to yet another 'review' by officials and/or politicians. That dilemma should have been discussed explicitly and fully in the Layfield Report, but was not. The report is a civilised, well-written and dignified document based on the conventional macro-economic wisdom that has no solutions for problems deriving from the neglect of micro-economic attitudes and origins.

Two hundred years ago, the American rebels demanded 'No taxation without representation' in the days when government provided rudimentary public goods. When politicians provide private benefits, taxation puts intolerable strain on the frail claims of representative government, for it can no longer expect unquestioning compliance. *It has moved into the world of business, competing for citizens' purchasing power* which could better be spent in other ways. Truly representative government must rule by persuasion, not by fiat. It must increasingly finance its private benefits by attracting charges. To have analysed this as its central theme was Layfield's great opportunity.

The nature of evidence, and unforeseeable effects

We were asked to say how charges (new or higher) or vouchers would work in practice. Our reply was necessarily two-fold. First, general economic analysis could only suggest possible developments. Second, apart from field surveys based on hypotheses, only experimentation could provide answers. Beyond a point, speculation and hypotheses are not fruitful

unless they are tested by empirical evidence that could come only from applying a principle in practice. Perhaps that is why the Committee's questioning turned nebulous near the close. The central general core of evidence is that people will pay more by charges than in taxes, and specifically that they would add to a voucher. That should be sufficient to justify experimentation. Beyond this point questioning begins to seem like obstructionism against new social techniques that might disturb conservative politicians (of all parties) and bureaucrats.¹

The Committee's attitude reveals a failure to understand the difference between the nature of the market and the nature of government. The market is usually very effective in discovering solutions for difficulties that seem insoluble, but its full outcome is usually *unforeseeable* and cannot be contrived by 'social engineering'. Professor F. A. Hayek put the proposition clearly when he spoke of

'[the] faith in the spontaneous forces of adjustment which makes the liberal accept changes without apprehension . . . [and] assume that, especially in the economic field, the self-regulating forces of the market will bring about the required adjustment to new conditions . . .'²

The problem raised near the end of the evidence by a member of the Committee and the Chairman, that they could not see how to vary charges or the voucher value to allow for unpredictable differences in costs – historic, current, maintenance, interest, heat, light, or transport – presents no difficulty if services are allowed to adapt themselves to reflect market conditions (i.e. consumer preferences) instead of receiving central government grants to cover arbitrary book-keeping costs that are irrelevant for the efficient use of resources. This is the central change in attitude that is required for rethinking the financing of local services that could have produced conclusions to which we turn in III.

Why were private benefits assumed 'small'?

Professor Day in his questioning said that, although the distinction between public goods and identifiable private benefits was 'acceptable', the proportion of local services that

¹The usually urbane Whig historian T. B. Macauley must have been vexed with an obstructionist when he wrote of 'the fool who resolved not to go into the water until he had learned to swim'. This acid observation contains a fundamental truth: to reject untried social techniques because there is no evidence of their results before they are used is clearly circular reasoning.

²*The Constitution of Liberty*, Routledge & Kegan Paul, 1960, p. 400.

could be put into the private category seemed 'relatively small' (above, page 27). If we could persuade the Committee that this was a 'misjudgement', he thought we should have performed an important service.

With the help of Tables I and II we did what we could in the oral evidence. If evidence is acceptable in principle as a guide to policy, must it be demonstrated by witnesses without recourse to official sources of evidence?

One of us was asked some time ago to advise on charging for NHS prescriptions. At a meeting with the Minister the argument for charging was rebutted by officials by the assertion that low charges would not be administratively worth collecting and high charges would disturb household budgets and be socially unacceptable. It was difficult to contest this 'evidence' since officials could produce 'proof' from the official statistics. It is not the least defect of government services that they cannot be subjected to outside 'second opinions' based on official evidence. Professor Gordon Tullock has said in a recent work on the economics of democracy¹ that the only source of information for the services supplied by the bureaucracy is the bureaucrat. It may have been evidence from officials that caused the Layfield Committee to begin with its possible 'misjudgement'. But that could be explained by another proposition of the theory of public choice: Professor William Niskanen has argued² that bureaucracies tend to maximise their size; and although charges would draw in new revenue they might also diminish the size of bureaucracies.

This is not necessarily a criticism of bureaucrats any more than it is a criticism of businessmen for maximising profits or politicians for maximising votes (though the adverse effects are more difficult to remove in bureaucracy). It is an attempt (relatively new to Britain though developed for some years by American economists) to understand the policies that politicians and bureaucrats are likely to produce by making a realistic assumption about their motivation rather than acting on the romantic assumption that they are guided solely by the 'public interest' which they alone claim the competence to divine. The assumption that profits are maximised at the

¹*The Vote Motive, op. cit.* The high costs of secrecy by government in permitting such major misjudgements as Concorde and the atomic energy programme were discussed by Professor P. D. Henderson in his inaugural lecture delivered at University College, London, in May 1976.

²*Bureaucracy and Representative Government*, Aldine-Atherton, 1971, and *Bureaucracy: Servant or Master?*, Hobart Paperback No. 5, IEA, 1973.

expense of the public, in a 'zero-sum' game in which more profits mean less public satisfaction, is in principle no different from that in politics on maximising votes or in bureaucracies on maximising size, though in practice it is more difficult to ensure that maximising votes or bureaucratic size does not create public loss: it is easier to prevent monopolistic profits than monopolistic politics or unaccountable bureaucracy.

It is difficult otherwise to see how the Committee should have *begun* with the view that the proportion of local government that could 'pretty persuasively' be attributed to individual benefits was 'relatively small'. This view may have been encouraged by the general conservative habit of mind that considers anything that has developed, such as 'public' services (or high government expenditure), to be natural or unavoidable, as well as by the dominance of economic thinking in favour of government activity as desirable for macro-economic management of the economy, which the Committee accepted uncritically. But *all* public services yield *personal* benefits. Whether they are financed by taxes or by prices turns on whether the benefits are *separable*. Only if they are not separable must they be financed by taxes. But if they are separable, as with most so-called 'public' benefits, they can be financed by prices. If they are provided by local government, it is often or largely for reasons that have little or nothing to do with their economic nature but with social conditions long past, with administrative convenience, with bureaucratic empire-building, or with party politics.

*Personal v. 'social' ('public') benefit – towards the
'social surplus'*

An alternative fallacy that may have misled the Committee is that public finance is justified for any form of expenditure that serves a wider 'social' or 'public' interest. Thus it is too easily assumed that government should finance all provision for schooling and medical care because of their contribution to an educated and healthy citizenry. But if individuals also derive a personal benefit from such services at least sufficient to cover their cost, there is no reason why government should go beyond enforcing a minimum standard and topping-up low incomes. The 'spill-over' in public benefit from such private expenditures could then be regarded as a 'social surplus' analogous to the 'consumer surplus' economists used to

attribute to consumption that yielded a total satisfaction in excess of the market price. In technical economic jargon, so long as 'free riders' can be excluded, the service can be provided through the market at full cost to the consumer, with the benefit to society reaped as an uncovenanted bonus.

Dr Morris Perlman has indicated his verdict in language that the professional economists and the political scientist on the Committee will recognise:

'Garbage collection, education, housing, health services . . . How much have these activities to do with the economist's concepts of externalities or public goods? The connection . . . becomes more and more tenuous.'¹

He concludes, with other economists who analyse the theory of public choice, that the continuance of 'public' services requires to be explained by political motives and bureaucratic pressures.

The Committee should therefore have begun with the expectation that the proportion of local expenditure that could be attributed and therefore charged to individuals was relatively large, not relatively small.

How large? To estimate the amount of revenue that might be drawn from charges requires an examination of each service micro-economically: mainly the value of the private benefit, and also the administrative costs, the costs of topping-up low incomes, the elasticity of demand to judge how far demand might fall, the resulting effect on production costs, and so on. This was precisely the task that the Committee, with all the resources of government and the officials at its command, should have accomplished, or at least attempted.

If it took the 'rate fund' services (supposedly financed mainly from local taxes) and the 'trading services' (supposedly financed mainly from pricing) summarised in Table III, it could at least have assembled a broad approximation.

III. THE REPORT THAT WAS NOT WRITTEN

The Economic Consequence of Charging

What could the Committee have discovered if, instead of hobbling itself by a self-denying ordinance, it had itself pursued the fruitful line of pricing to its logical conclusion, even if some of its members had signed a dissenting minority report?

¹Party Politics and Bureaucracy in Economic Policy', in *The Vote Motive*, *op. cit.*

Implications of pricing

It – or a majority – would then have been liberated to discuss the implications of pricing for

- i. the local revenue of local government;
- ii. the effective accountability to charge-paying customers;
- iii. the vitality of local democracy and its diminished dependence on central government;
- iv. the strengthening of councillors as effective representatives of local citizens;
- v. the attitude of employees (teachers, administrators, etc.) in running services for untied consumers rather than captive customers;
- vi. the opportunity for citizens as customers to decide where to economise in the use of scarce resources.

i. Increased revenue

Charges are prices that normally reduce demand. How could they make up for flagging tax revenue?

Charges could increase revenue for services in four kinds of circumstances. First, some services have to be consumed in amounts, or minimum amounts, laid down by law. School entry- and leaving-ages more or less determine the demand for the largest local government service, education. If the Committee had recommended fees starting at 20 per cent of current school costs, or around £50 a year, it could have pointed to a new source of revenue – and *without* disturbing the structure of services. (The Treasury is said to have proposed the trifling figure of £10 a year.) The charge could be the topping-up of the voucher.

Politicians would be foolish to dismiss the proposal out of hand without assessing public reaction. The proposal is not a charge of £50 a year for nothing (or nothing more than before). It is not even £50 or *worse* education – larger classes, ageing equipment, etc. It is £50 and *better* education because of the new dimension of choice that many parents – like those at William Tyndale School – would think cheap for £1 a week to escape from a school they did not want. This improved *quality* is the obverse of higher revenue that the Committee (voiced in the questioning by its secretary) overlooked. For even within the state sector it is possible to give choice of location, choice of atmosphere, choice of headmaster and

staff, choice of curricula, choice of academic-cum-pastoral mix, etc., etc., between schools even though there is no escape from central control from Whitehall and syndicalist influence from the National Union of Teachers in the state system as a whole. (The revenue would be reduced by the cost of topping up the lowest incomes by a reverse income tax.)

The new dimension of choice within the state system could be dramatised by using the device of the voucher and giving it a value of 80 per cent of school fees. In later years a lower value could enable rates to be reduced if the citizens indicated their preference for pricing over taxing through a local ballot or referendum. Higher charges (lower voucher values) would mean lower taxes.

Other services subject to legal requirements – sewerage, refuse collection, registrations (births, etc), planning permissions, etc. – could similarly yield revenue from new (or higher) charges.

Second, local services that are monopolies to which local residents have no alternative unless they move – teacher training, fire services, police services (convoying, etc). libraries, museums and art galleries, mid-wives, home nursing, etc, – are in a similar position.

Third, local services for which demand is inelastic, so that demand might fall off but by a smaller proportion than the (increase in) charges, would yield revenue despite the smaller quantity supplied. And the reduction in supply would reduce costs, thus further narrowing the gap between expenditure and revenue. Possible examples include adult education, social and physical training, smallholdings, sports and recreational facilities (like tennis, golf, squash rackets, swimming), public conveniences, street markets, car-parking, justice, aerodromes, . . .

Fourthly, local government services that are more competitive with private services could gain from charging by increasing their efficiency and reducing costs. Possible examples are passenger transport, employment exchanges, housing, etc. In this group the increase in revenue may be more or less than the reduction in costs, but the net effect on local finances would be beneficial.

ii. Accountability

Part I outlined the general argument for accountability through consumer sovereignty in the market as superior to

voter sovereignty in the ballot box. Charging would introduce new inducements to consumer-orientation, economy, and demand-anticipation that are absent in the indirect, arbitrary and often clumsy machinery of local representation that sounds imposingly democratic on the hustings or in television interviews but gives the ratepayer-citizen-consumer very little knowledge, influence or authority in day-to-day practice.

The Committee's discussion of accountability was confined to the dilemma of reconciling central financing with local control. Since it concentrated largely on raising new revenue by taxation, it did not enter the more vital arena of the comparative efficiency of accountability by local government to rate-payers and by individual private suppliers to price-payers. Local government services that are statutory and monopolistic and subject to little fear of loss of custom are paternalist at best and autocratic at worst. Their primary preoccupations are with continuity, smooth administration and the reconciliation of internal conflicts; and accountability to ratepayer-customers is normally a very remote control. Charging would bring them a new awareness of the ultimate source of their funds and a new sense that the local citizenry were not supplicants 'provided' with a service but customers paying for it and newly able to go elsewhere if dissatisfied.

iii. Costs and local democracy

The provision of services at nil or subsidised prices enables local authorities to exclude competition from commercial suppliers that would have to charge prices to cover costs. It follows that local authorities, like other monopoly suppliers, cannot minimise costs. Thus charging would lead them to tighten up efficiency and reduce costs, and so re-vitalise local democracy by reducing dependence on central grants. The possibility of loss of demand from local price-paying customers would be a far more effective discipline than the fear of losing central government funds, in which political pressures count for more than giving satisfaction to the local public.

iv. Democratic representation

Councillors dependent on satisfying local customers and thereby drawing finance from them (as well as winning local votes) will be more effective representatives the less their local

services are financed by central funds. Thus if the dependence on central funds can be reduced from, say, two-thirds to one-third, the better the prospects that the proportion of local electors who vote may rise from the present one-third to nearer two-thirds. The higher the proportion of local services financed by income from charges, the more truly representative local councillors would be, the higher their quality, and the better local services would be managed.

v. Local government servants and the public

Local services financed largely by taxes, supplied in turn largely by central government, divert the loyalty of employees to local and national government as their employers. The present system hides the economic truth that the ultimate employers of all employees are the customers.

This tax-veil over economic truth is unavoidable in *public* goods that must be organised collectively by government and financed communally by taxation. But it is unnecessary and undesirable in so-called 'public' services that provide private benefits. Charging for private benefits would turn employees 180° to face their ultimate employers – parents in education, patients in health services, tenants in council housing, book borrowers in libraries, householders in refuse collection, etc., etc. It would remove the pressure to form large trade union organisations, in which individuals are submerged, to bargain with large pseudo-employers, the councils. It would remove the *middle-men* between them and the public – the politicians and bureaucrats who too often form a barrier separating them from the public rather than a link. It would remove the tendency to syndicalist influence, in which schools seem to be run as vehicles to preserve jobs for teachers, etc etc, that create discord between suppliers and customers, and that must collapse before the economy is paralysed by seizure. Charging would encourage teachers, doctors, nurses, officials and employees of all kinds to create a more harmonious relationship with their customers – the individual members of the general public they serve.

vi. Transferring decisions on economising from government to citizens

Pricing would replace the pseudo-accountability of necessarily remote and uninformed governmental processes by the

informed personal accountability and responsibility enforced through the market. As a result of government-induced inflation and increased taxation, most families have suffered a contraction of their personal standard of living by up to 5 or 10 per cent, and some by 20 to 30 per cent, in the last three years. The 'cuts' they have been obliged to make in their budgets would have been less painful if they could have chosen how far to reduce spending on smoking, motoring, drinking, eating out, newspapers, holidays, or running down savings in the light of knowledge of their own circumstances. In 'public' goods and services supplied by local and central government, resistance to comparable cuts may come from trade unions, professional associations, other special interest groups, or even from councillors, none of whom can know where families would prefer to see economies made.

Some might and others might not prefer cuts in such 'public' goods as education or health services, but all are compelled to take whatever cuts result from the political bargaining or log-rolling¹ in the Cabinet room and the Council chamber. If larger scope were allowed for charging for 'public' services then, without breaching the prescribed minimum standards, economy would create scope for reductions in spending on frills like evening classes and leisure centres, to say nothing of the overmanned bureaucracies which may outnumber teachers, doctors, nurses, social workers. And pricing would enable enthusiasts who attach a high value to swimming pools, libraries, dancing or art classes to vote with their own money to preserve them from cuts: a salutary form of pledging their own purchasing power where they too freely vote for others to pay for the services they themselves want. There could be no more effective discipline on over-spending.

Conclusion

Charging is not only a method of financing that could yield revenue inaccessible to taxation. It is also central to the questions of accountability, of the relationship between local and central government, and of the revitalisation of local democracy that the Committee, having confined its recommendations to a new tax, had to discuss with no prospect of new solutions. Its general commendation of charging in

¹The economics of log-rolling is discussed as part of the theory of public choice by Professor Tullock in *The Vote Motive*, *op. cit.*

principle goes further than any other Committee of Inquiry, and it is possible to find in its text recognition of the economic rationale of charging and of the possible scope for extending it in local government finance. The regret must be that it did not follow through this general commendation with the enthusiasm it gave to finding yet further taxes. The Layfield Committee's central proposal for a local income tax thus appears to evade the very objection of the public to high taxation which the Committee was invited to resolve.

QUESTIONS FOR DISCUSSION

1. Define 'public goods'. How are they related to the structure of British 'public' services as they have developed over the past century?
2. Why are local government services financed largely or wholly by rates and taxes?
3. How far do the external effects of local government services require them to be financed by taxes rather than by charges?
4. Attempt to estimate the element of private benefit in local government services and the revenue that might be drawn from financing by charging.
5. How far does the scope for charging depend on topping up low incomes by a reverse income tax or other methods?
6. How far should charging for private benefits wait on the solution of the administrative difficulties?
7. What are the economic advantages and disadvantages of charging? Who would gain and who would lose from charging?
8. What attitudes to charging would you expect from the bureaucracy and from local and national government?
9. In committees of inquiry into government services, how far should informed/experienced politicians and officials be used as members and how far as expert witnesses?
10. Assess the logical connection between the economic reasoning and the practical recommendations on charging of the Layfield Committee.

FURTHER READING

In addition to the IEA Papers analysing the pricing of specified local (and central) government services submitted in evidence, readers may wish to consult more general works on the theories of public goods, public choice, and bureaucracy.

(I) THE THEORY OF PUBLIC GOODS

- Buchanan, J. M., *Demand and Supply of Public Goods*, Rand McNally, Chicago, 1968.
Peston, Maurice, *Public Goods and the Public Sector*, Macmillan, 1972.
Rowley, Charles K., and Peacock, Alan T., *Welfare Economics: A Liberal Restatement*, Martin Robertson, London, 1975.
Tullock, Gordon, *Private Wants, Public Means*, Basic Books, New York, 1972.

(II) THE THEORY OF PUBLIC 'CHOICE'

- Buchanan, J. M., and Tullock, Gordon, *The Calculus of Consent*, University of Michigan Press, Ann Arbor, Michigan, 1962.
— *Public Finance in Democratic Process*, University of Carolina Press, 1967.
Dolan, Edwin G., *TANSTAAFL: An Economic Strategy for Environmental Crisis*, Holt, Rinehart & Winston, New York, 1971.
Mishan, E. J., *The Costs of Economic Growth*, Staples Press, London, 1967.
Rothbard, Murray N., *Man, Economy and State*, Nash, Los Angeles, 1970.
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(III) THE THEORY OF BUREAUCRACY

- Downs, Anthony, *Inside Bureaucracy*, Little, Brown & Co., Boston, Mass., 1967.
Mises, Ludwig von, *Bureaucracy*, Yale University Press, 1944.
Niskanen, William A., *Bureaucracy and Representative Government*, Aldine-Atherton, New York, 1971.
Tullock, Gordon, *The Politics of Bureaucracy*, Public Affairs Press, Washington DC, 1965.
—, and McKenzie, R. B., *The New World of Economics*, Irwin, Homewood, Ill., 1975.

IEA Papers on Local Government Finance

Hobart Paper 54

RATES OR PRICES?

A study of the economics of local government and its replacement by the market

A. K. Maynard and D. N. King

1972 50p

'... discusses fundamental questions . . . too often ignored . . . The authors have drawn attention here to a very real problem and one that has received far too little attention from such economists as have shown any interest in the relation between the public and private sectors . . .'

Ursula K. Hicks, *Local Government Finance*

Hobart Paper 64

EXPERIMENT WITH CHOICE IN EDUCATION

An analysis of new methods of consumer financing to bring more resources into education by vouchers and loans

Alan Maynard

1975 £1.00

'Mr Maynard's paper will be of use to those who have not been exposed to the voucher debate before and who require an introduction to the subject . . . a valuable contribution to the education voucher debate.'

Leslie Wagner, *Education*

Hobart Paper 66

PRICING FOR POLLUTION

An analysis of market pricing and government regulation in environment consumption and policy

WILFRED BECKERMAN

1975 £1.00

'His aim is to use the standard tools of micro-economics analysis to demonstrate that resort to the price mechanism would be the most efficient way of preventing resource misallocation.'

The Banker

Research Report

CHOICE IN WELFARE 1970

Third Report on Knowledge and Preference in Education, Health Services and Pensions

Ralph Harris and Arthur Seldon

1971 £5.25

'The report . . . confirms the reliability of the 1963 findings that at least half the country wants a choice outside the State services.'

Guardian

'What [it] shows is that deficiencies in the welfare services worry more people than most politicians had supposed . . . As incomes have risen, in fact, so choice in welfare has become both possible and desirable.'

The Times