Education on The Cheap

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A REPORT that attendances at evening classes have been falling during the last two years and that this has been attributed to the increase in fees, has set me thinking about that elusive concept, marginal utility. This economic concept, whatever its deficiencies in explaining the nature of prices in general, does throw some useful light on the effects of subsidies.

But let me first blow away one or two economic cobwebs from this concept. For one thing, marginal utility does not of itself determine price in a competitive market. If I thought a pair of roller skates had a marginal utility appeal to me no higher than five shillings, I am sure an exposition of the theory to the shopkeeper would not induce him to part with them for this amount if he had priced them at say five pounds. Nor could a rich bed-ridden old lady be induced to pay £500 for a television set when the competitive price was say £150—*even if she were willing to pay this price if she had to.* Subjective estimates of value are of no account in determining price in these circumstances. Nor is it any good trying to average all subjective estimates.

The theory does make sense, however, where there is a complete monopoly of a product, where price is elastic and subject to the law of diminishing returns for the seller and where he aims at his price via supply and demand and is not obliged to keep his price low because of competition.

Here, subjective estimates of usefulness or desirability will affect *demand* and he will equate this with his supply

at a price which brings him the greatest overall return (maximum sales at a maximum price).

However, having got that off my chest, let us have a look at the more important aspect of subjective evaluation as it appears in an individual who may choose to spend his money on a *variety* of commodities or services at given prices.

Observing market prices he will exercise his choice subjectively. Thus he may spend more on tobacco or beer than do others; or more on clothes than others, etc.

Now observe the effects of subsidies on individual commodities.

To subsidise milk does not necessarily mean the recipient of the subsidy will buy more milk, for this may be high on his list of priorities and he will have bought sufficient for his needs irrespective of its cost, so the subsidy which gives him a saving on what he regards as an essential item in his budget may only induce him to spend more on beer or baccy. Take away the subsidy and you take away a subsidy on beer and baccy—not on milk.

Of course a milk subsidy might cause a person to buy more—if he felt he could do with more—but only if his other preferences had been fully satisfied.

To return to the evening classes. In 1968 attendances are reported as having dropped 6.7 per cent. The people represented by this figure have evidently decided that they would rather spend their money on something else; evening classes rate low on their list of preferences. A lowering of charges might well induce some or all of them to return to school but then the subsidy in this case would be going *also to the other* 93.3 *per cent of attenders* who would promptly spend what they saved on baccy and beer, stockings, shirts, bingo, or what have you.

Our politicians, before they recommend future subsidies, might enrol for evening classes themselves—taking psychology and economics.

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