

## **OPINION: Market Dogma Won't Fix Education**

### **Market Dogma Won't Fix Education**

Trevor Cobbold 7 December 2007

A recent article by Henry Ergas, head of the Asia-Pacific Division of CRA International, an international consultancy firm, vigorously defends the Howard Government's record on education and other issues (Australian Financial Review, 30 November 2007). Ergas supports the increasing privatization of school education under the Howard Government and says that the Government transformed education by providing greater choice for consumers.

That article responds to criticism of the Howard Government that the growth in Commonwealth funding for private schools has supported them to skim off affluent, easy-to-educate students and reduce diversity in public schools. It makes the following points:

- government schools continue to receive far greater public funding than private schools;
- students are socially segregated in government schools because of residential zoning;
- private schools also serve children from less affluent families; and
- competition from private schools increases the quality of public schools.

Each of these defences is flawed.

The school expenditure defence essentially misses the point about the impact of increased subsidies for private schools and is misleading in its comparison of government and private school expenditure.

The argument that there is significant social segregation in government schools because of residential segregation ignores the point that the shift of more and more middle and higher income families to private schools has exacerbated social segregation in government schools.

While private schools do have students from low income families, the fact is that these students comprise a much higher proportion of government school enrolments than in either Catholic or Independent schools. Further, students from low income families are a declining proportion of private school enrolments and an increasing proportion of government school enrolments.

The fourth defence is based on selective citation of evidence. The weight of international research evidence is that competition from private schools has little to no effect on student achievement in government schools. The evidence on the impact of charter schools in the United States on student achievement in other government schools is mixed.

Contrary to the assertions of Ergas, the international research evidence tends to give greater support to the critics of the Howard Government's policies. Research studies show that markets and privatization in education generally:

- fail to increase innovation and diversity in curriculum and pedagogy;
- reduce collaboration between schools;
- increase effective choice largely only for the middle class;
- contribute to socio-economic and racial segregation in schooling;
- increase disparities in performance between schools; and
- exacerbate social inequalities in student achievement.

### **School funding and expenditure**

Ergas cites comparative levels of government expenditure on government and private schools to suggest that government schools are much better off than private schools despite the massive increase in Federal funding for private schools. He fails to acknowledge the extent of the increase in Federal Government funding for private schools, ignores the equity implications of the increase and uses misleading figures of comparative expenditure in government and private schools.

### **Massive increase in Federal funding for private schools**

It is the increase in government funding for private schools, not comparative levels of funding between school sectors, which has driven their increasing enrolments. Increased subsidies for private consumption usually generate higher demand. It seems that Ergas has forgotten the fundamentals of market economics, namely, marginal analysis.

Figures published by the Productivity Commission show that total government funding (Commonwealth and state/territory) per student in private schools, adjusted for inflation, increased by about three times the increase in government school funding in recent years. Between 1999-2000 and 2004-05, it increased by over 30 per cent compared to an increase of about 10 per cent for government schools.

This disparity is largely due to the massive increase in Federal funding for private schools. Between 1999-2000 and 2004-2005, it increased by \$1584 (current \$) for each private school student compared to \$261 per government school student.

### **Funding increases benefited higher income families**

Higher income families were the main beneficiaries of the Federal Government's largesse. A range of research studies published by the Australian Council for Educational Research, the University of Melbourne and the ANU have demonstrated that it is mainly middle and higher income families who have shifted to private schools and thereby received the benefits of increased Federal Government subsidies.

Fee increases in private schools were not capped as a condition of Federal funding. Private school fees have risen by two to three times the rate of inflation over the past decade or more. As a result, they remain a large barrier to most low income families.

Ergas notes that the Howard Government introduced new funding arrangements for private schools based on income levels of the communities they serve – the so-called SES funding model. However, special funding guarantees mean that about 50 per cent of private schools are not actually subject to the model and would have their Federal funding cut if the model was strictly applied.

The SES funding model has served to increase funding for the most privileged sections of the community. The Independent private school sector is the best-resourced sector and has the largest proportion of students from high income families of any school sector. Yet, it has received the largest increases in Federal funding under the SES model. Federal funding for Independent schools increased by \$1658 per student between 2000 and 2005 compared to \$1427 per Catholic school student. This reversed the pattern of increase under the previous funding arrangements whereby Catholic schools received the highest funding increases. In percentage terms, Federal funding for Independent schools increased by nearly double that for the Catholic sector.

Some of the wealthiest schools in Australia receive high levels of Federal funding. Some 40 per cent of all Independent private schools are funded beyond their entitlement under the SES model and this proportion has increased since the introduction of the new arrangements.

Thus, Federal funding increases for private schools under the Howard Government should be seen for what they are – a way of consolidating privilege in education for the most well off sections of the community.

### **Misleading comparison of government and private school expenditure**

Ergas' point that total government expenditure on private schools is less than expenditure on government schools implies that government schools are therefore more advantaged than private schools. Nothing could be further from the truth.

Ergas' comparison omits a significant source of private school expenditure, that is, fees and donations. Official figures show that average total expenditure per student in public and private schools is similar. According to the National Report on Schooling in Australia, average expenditure per student in government schools across Australia in 2004-5 was \$10 715 while average expenditure in private schools was \$10 473 per student. Expenditure in Independent schools in 2005 was \$13 049 per student compared to \$8 817 per Catholic school student.

However, these official figures are not designed to provide an accurate comparison of levels of expenditure in government and private schools. Government school expenditure is measured on an accruals basis while private school expenditure is measured by a hybrid of cash and accruals accounting and therefore is not strictly comparable to estimates of government school expenditure. For example, private school expenditure includes all capital expenditure within each year the government school measure accounts for capital expenses by depreciation of the total asset base.

The official figures on government and private school expenditure provide a highly misleading comparison for several other reasons as well. Many significant expenditure items that are included in expenditure on government schools are excluded from the measure of private school expenditure.

The government school expenditure measure includes an estimate of the user cost of capital which is the estimated cost to government funds tied up in capital such as land and buildings to provide services rather than investing elsewhere or retiring debt. However, there is no estimate of the user cost of capital included in private school expenditure for government land grants and capital expenditure grants to private schools. Historically, many governments have granted land to some private schools directly, or indirectly, through land grants to churches. Governments could

have otherwise sold the land given to private schools and used capital expenditure grants to invest elsewhere or to retire debt.

In addition, payroll tax is included in the government school estimate while private schools are exempt from payroll tax.

If the user cost of capital and payroll tax were excluded from the government school expenditure measure, total expenditure per student would be at similar levels in government and Catholic schools. Expenditure in Independent schools would be nearly 50 per cent higher than in the other two sectors. In 2004-05, the user cost of capital in government schools was \$1454 per student and payroll tax was about \$400 per student.

Another problem with using official measures of school expenditure to compare levels of government and private school expenditure is that the private school measure does not include several forms of government assistance and expenditure on private schools. For example, they do not include the cost of tax deductible donations for capital expenditure and government expenditure on the administration of private school regulation and funding.

Tax deductions represent a loss of government income tax revenue and therefore should be recorded as a form of government expenditure on private schools. An inquiry into school funding in the ACT in 2001 was informed that donations contribute about 7 per cent of total private school funding and about a third of these are funded by tax deductions.

Another form of government assistance to non-government schools is access to professional resources such as resource centres and curriculum development resources free of charge. Non-government schools also have access to assessment services, such as Year 12 examinations and provision of UAI scores, funded by governments. These are not included in estimates of government expenditure on private schools; indeed, most of these are included in estimates of expenditure on government schools.

The whole system of administration for government funding of private schools and ensuring public accountability for the quality of schooling is borne by the taxpayer. It involves considerable staff and other expenditure by the Commonwealth and State/Territory governments. However, these costs are not included in estimates of government expenditure on private schools. In contrast, the costs of administering the government school system are included in the government school expenditure measure.

These exclusions from the measure of government expenditure on private schools mean that private school expenditure is under-estimated by comparison with government school expenditure.

There are also other exclusions from both measures such as in-kind donations. These are much more significant in private schools than government schools. For example, in-kind donations such as buildings and equipment are a significant component of private school expenditure, especially in the Independent sector.

For all these reasons, the official figures under-estimate private school expenditure. If official figures on government expenditure on private schools included these and

other omitted items, average expenditure per student in private schools would be significantly higher than expenditure on government schools.

Comparisons between government and private school expenditure are also misleading because they are not adjusted for the different social obligations of the sectors. Government schools enrol higher proportions of students with complex learning needs that incur higher costs. Students from low SES families, Indigenous students and students with disabilities comprise a much higher proportion of government school enrolments than in the case of private schools. Government schools must meet other public obligations such as maintaining a system of local schools.

As a result, government schools face higher costs than private in meeting student needs and these higher costs should be taken into account in comparing levels of funding between school sectors. Adjustment for these differences in costs would extend the expenditure advantage of private schools.

### **Social segregation in school systems**

Ergas' argument that government schools are socially segregated because of residential segregation misses the point about the impact of increasing privatisation in education. Privatisation has exacerbated social segregation in Australia's schools because choice of a private school is exercised mainly by high and middle income families.

There is little likelihood, and certainly no evidence, that the shift of high SES families to private schools has come solely from high SES government schools. The more common phenomenon has been a hollowing out of higher SES families from government schools with a broad social composition. As a result, social segregation between government and private schools has increased. Government schools are increasingly becoming schools for lower and middle SES families and private schools have increased their enrolments of students from middle and high SES families.

### **School composition**

As a result, Ergas' third point also misses the mark. Private schools do have students from less affluent backgrounds, but these students comprise a much smaller proportion of private school enrolments than in government schools. The proportion of students from low income families in private schools is decreasing relative to those from high income families.

According to the most recent ABS Household Expenditure Survey, 26 per cent of students at government schools in 2003-04 were from low-income households, compared to 17 per cent of students in Catholic schools and 16 per cent of students in Independent schools. In contrast, 26 per cent of students in Independent schools were from high income households, compared to 16 per cent at Catholic schools and only 8 per cent of students at government schools.

Using different definitions of income levels and using Census data, the education researcher Barbara Preston has found that over 40 per cent of government school students in 2006 were from low-income families compared to 25 per cent of Catholic school students and 22 per cent of Independent school students. In contrast, only 27 per cent of government school students were from high-income families compared to 43 per cent of Catholic school students and 53 per cent of Independent school

students. About 80 per cent of all students from low income families attend government schools.

Preston also demonstrates that there has been an increase in the proportion of students from low income families relative to those from high income families in government schools since the election of the Howard Government in 1996. The ratio for primary schools increased from 1.21 in 1996 to 1.35 in 2006 while that for secondary schools increased from 1.34 to 1.62. The opposite trend occurred in private schools. In private primary schools it decreased from 0.59 to 0.52 and from 0.54 to 0.48 in secondary schools.

### **Competition from private schools**

Ergas' final point of rebuttal to the critics of the Howard Government is an unsubstantiated assertion. Very few studies have been conducted on the impact of private school competition on the performance of public schools. An influential study in the mid-1990s by a Caroline Hoxby, a US academic, found that private school competition increases student achievement in public schools. However, other more recent US studies conclude that private school competition has little to no effect on student achievement in public schools. Studies of the voucher program for private schools in Chile have concluded that it did not increase aggregate student outcomes.

Other research studies have been conducted on the impact of charter schools (independently operated schools within the public school system) in the United States, but very few have analysed the impact on student achievement in other public schools. The evidence from the available studies is mixed. Some conclude that there has been a positive effect from charter school competition. Others conclude that there has been no significant effect on student achievement in public schools.

More generally, the weight of evidence from the best designed and most comprehensive overseas research studies is that competition between schools does not improve student achievement once student and family background characteristics are taken into account.

### **Conclusion**

Ergas continues the tradition of supporters of markets in education in Australia who make unsubstantiated assertions about the benefits of markets and competition in education, selectively cite evidence in their favour and ignore research evidence that contradicts their beliefs and assertions. Market dogma has no place in education.

The reality has been that the education policies of the Howard Government were mainly directed at consolidating and extending privilege in education.

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