

CHOICE MATTERS:

What needs to change to make schools competitive?

Despite increasing private school enrolments, school policy does not foster competition, explains **Julie Novak**

At first glance, Australia looks like it has a competitive school market. In 2004 there were 9,615 schools across Australia, including 2,677 non-government schools. Over the last two decades school enrolments have shifted dramatically in favour of non-government schools, a sign that parents are able and willing to exercise choice. Government schools had slightly fewer students in 2004 than they did in 1984. Non-government schools, by contrast, increased enrolments by 43%.¹

Australia, however, remains a long way from full competition between schools. Structural diversity in the school sector is more apparent than real. Within the government sector, there is substantial within-state uniformity, with schools given little opportunity to vary from centrally mandated requirements. Of the 2,677 non-government schools, nearly two-thirds (1,695) are Catholic, though Catholics make up only just over a quarter of the Australian population. Choice is more limited for non-Catholics. Particularly in the Catholic sector, a large number of non-government schools are governed by central authorities that

control funding, educational and operational standards ('systemic schools'), further reducing genuine choice for parents.

Real diversity is lacking because many of the underlying preconditions of a competitive market have not yet been put in place, or exist only to a limited extent. As this article explains, there are obstacles to schools entering and leaving the market, the price mechanism is muted, public funding discriminates against some schools, most schools are subject to significant centralised control, and there is too little publicly available information to inform choice by parents and students.

The school choice literature suggests that a more market-based approach to education would produce better long-term learning outcomes for students. In a competitive environment, schools would have an incentive to promote excellence in teaching to

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attract students, provide quality facilities, and to experiment with different approaches to education to give themselves a competitive edge. School accountability and responsiveness to the customer base (that is, students and parents) would be greater if parents had more ability to move their children between schools.² This article summarises what is needed for effective competition in the school sector to lead to better education for all students, and not just those whose parents can afford private schools.

To promote competition, regulations that hamper the free entry of new schools—particularly in the non-government sector, as well as the exit of inefficient and poorly performing ones—should be removed.

Freedom of entry and exit

In principle, low obstacles to entry into the school market enable new schools, as market circumstances change, to tailor services for students that are not available from existing schools. The potential entry of new schools can also discipline incumbent education providers to provide high-quality services. However, in practice, entry and exit into the Australian school market is circumscribed by government regulations. As the entry, exit and expansion of new government schools must be approved by the relevant state's Education Minister, government schools face muted incentives to respond to consumer desires. All new government schools must meet minimum entry requirements with respect to curriculum and education standards, teacher quality and professional development, school disciplinary policies, and the standard of buildings and facilities. In some States, individual government schools can only exit the market on the basis of the findings of a committee review or some other community consultation process.

More importantly, entry by Catholic and independent schools is also subject to stringent government requirements through State and Territory accreditation processes. In addition to entry requirements similar to those for government schools, all States have procedures

to examine and assess the potential impact of a new or changing non-government school on existing government and non-government schools within the same catchment area. A number of jurisdictions also impose minimum enrolment levels on non-government schools. These planning conditions are in effect the State-based application of the much-maligned former ALP Federal Government's restrictive 'New Schools Policy', restricting parental preference for low-fee non-government schools and shielding government schools from more direct competition.³

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Price mechanism

Prices for educational services transmit knowledge about the underlying costs of production and provision to consumers. Schools can use prices to elicit and confirm consumer preferences. Charging for goods and services also enhances accountability to the paying customer.

Catholic and independent schools are generally free to charge for educational services, with non-government school fees generally ranging from around \$500–\$17,000 per annum. In 2003–04 Australian parents paid around \$4.1 billion in fees and donations to independent and Catholic schools.⁴ Non-government schools can freely use this income.

On the other hand, within the government sector the price mechanism is practically non-existent. There is no charge to enrol a child in a government school beyond general taxes that are due,⁵ so the effective per-student enrolment price to families with children enrolled in government schools is zero.⁶ While this provides government schools with a price advantage over their competitors, it stifles broader innovation and discourages private investment in schooling.

To increase competition, greater freedom for government schools to charge fees for services rendered, including tuition as is currently the case for non-government schools, should be actively explored. School management in the government sector could then respond more effectively to market forces, and deliver advantages to students including better quality education.

Public funding non-discrimination

An important market condition is that the same amount of taxpayer funding should be allocated to each child, regardless of family income and school ownership, at the school selected by the child's parents. This type of competitively neutral support⁷ effectively gives parents control of subsidy allocation. This would also allow greater choice, thus encouraging schools to compete against each other to attract students.

While there are student per capita elements within State and Commonwealth recurrent and capital school funding programs, these schemes are discriminatory. For example, family income and school resources are factored into grant programs for non-government schools. John Merrifield and David Salisbury suggest that these factors effectively reduce education funding to yet another income redistribution mechanism alongside the existing welfare system.⁸ This discrimination is compounded by generally preferential funding for children enrolled in government schools, through a greater number of schemes for government schools in most jurisdictions and a much greater quantum of funding provided to government schools by State governments.

Furthermore, school accreditation guidelines specify that schools must be established legally on a not-for-profit basis if they are to receive public subsidies. This effectively makes for-profit schools economically unsustainable.⁹ Given that the various Ministries of Education fund schools to educate each enrolled student, depriving children who could be enrolled in for-profit schools of public funds is inconsistent with the principle that government support for education ought to be provided for all children.¹⁰

Overall, the discriminatory school funding system severely distorts parents' capacity freely to choose those schools that would best educate their children. To create competition, governments should ensure that public recurrent and capital funding 'follows the pupil'.¹¹ A genuinely student-centred voucher system should be payable for students, on a per capita basis, enrolled in all school types (including government, not-for-profit non-government, or for-profit schools).

Provider autonomy

Decentralising decision making to principals, as school managers, to administer finances and assets, develop curriculum strategies, and manage human resources, enables schools to tailor education to the needs of local students, promotes better resource allocation, and creates diversity in the market where operational standards differ amongst individual schools.¹²

Human resources management

The government school sector across Australia is hampered by centralised human resources management systems and procedures determined by the respective State and Territory Education Departments. There have been only limited improvements in previous years, such as Victoria and South Australia giving individual schools a consultative role in some staff appointments. However this is typically restricted to support staff

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and non-permanent teaching staff. There is a lack of performance pay and condition structures for principals, teachers and other government schooling staff. The lack of incentives for staff to perform is not conducive to the continuous improvement of the teaching profession.¹³ This regulatory environment reflects the power of teacher unions within the government sector.

Non-government schools have much greater autonomy to hire and dismiss staff for under-performance, and can also introduce performance pay arrangements, consistent with general State and Commonwealth labour laws. These conditions encourage the provision of quality teaching within the non-government school sector. However, hiring practices are subject to State regulations on teacher qualifications and criminal history checks as proscribed by teacher registration bodies.

In an important policy development, the Australian Government has introduced reforms, as part of its 2005–08 schools quadrennium

funding cycle, empowering school principals in both government and non-government schools with greater autonomy over staffing decisions.

Financial resources management

In the government sector, principals (and, in some States, in conjunction with school councils and/or other relevant governing boards) are responsible for overseeing financial resources. While Victoria and South Australia in particular had introduced 'global budget' recurrent public funding reforms a decade ago, enabling individual government schools to use funds for purposes that they saw fit, the overall scope of financial management autonomy may be constrained by conditions imposed on other funding programs provided by government.

While individual schools may receive voluntary donations and sponsorship funds for school programs, which they can generally freely use, this funding is generally too low to make a significant difference to the financial autonomy exercised by the government school sector as a whole. Also, not all public sector funding, including for capital works, actually reaches the student body. For example, a 2004 study commissioned for the Australian Government Department of Education, Science and Training (DEST), found that up to 25% of total funding for State Government primary schools was consumed by bureaucratic administration costs.¹⁴

Non-government schools, by and large, have complete freedom over their financial resources, subject to satisfying general corporate financial governance procedures and State legislation regarding their non-profit legal status. This sector has more freedom to borrow funds, as well as to raise money from other sources such as sponsorships. However, as is generally the case with the government school sector, there are potential educational and financial restrictions and accountabilities placed on public funding, particularly funding targeted to particular programs.

Asset management

While government school principals have general responsibility for daily oversight of school assets, the assets of the government school sector are vested with the relevant State/Territory Education Minister. This means that individual school leaders do not have responsibility for building, managing or maintaining assets. In some States there is minimal autonomous financial delegation to principals to contract for (typically minor) capital works projects in schools.

Non-government schools generally have much greater autonomy to manage their own assets. Indeed, in most instances, the school, as an independent entity, owns the school itself. However, schools affiliated with centralised school systems tend to be bound by church or local community organisation policies and procedures.

Curriculum autonomy

The freedom of government and non-government schools in Australia to choose subject areas to teach, and the appropriate learning methods, is being progressively constrained by curriculum frameworks and standards, which in all States are legally enforceable. While government schools face far greater constraints on teaching a tailored curriculum, the traditional freedom and independence of non-government schools is being diluted by government regulations. Reduced curriculum differentiation between government and non-government schools may over time diminish

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the non-government school sector advantage in this area, with consequences for the competitiveness of the Australian school market.

The implications of increasingly centralised control over school operating standards cannot be overstated. The dilution of provider autonomy, through proliferating State and national education standards, reduces individual schools' ability to use human, financial and asset resources and curriculum models that suit local circumstances and different educational philosophies in the marketplace.¹⁵ Non-government schools need to challenge government regulations that reduce their independence.¹⁶ Government schools could also be afforded greater autonomy through the formation of 'charter schools,' exempting individual schools from public sector rules and regulations under the terms of a performance contract, while schools in turn are held accountable for student performance.¹⁷ In other words, these schools would effectively become non-systemic government schools, serving the needs of parents and their student children in a competitive market.

Publicly available information

Publicly available reporting to parents and the general community of financial, operational and academic performance at the individual school level, in an objective, clear, complete and accurate manner, allows consumers to gain knowledge of market alternatives and conditions to make informed, effective choices that satisfy educational demands.¹⁸

At one level, all schools across Australia provide information on individual student results to their parents. However, the frequency, format and grading systems vary markedly depending on the school and school system providing the information.

For example, schools in a number of States are now required to include information on the extent to which individual students results meet relevant State and national testing benchmarks, while other jurisdictions (for example, Tasmania) and school systems exclude this performance data from parents in student report cards. As a condition of Federal funding, States and Territories and non-government school authorities have agreed to provide for common student report cards, with a grading scale from 'A' to 'E' and information on the performance of the student against his or her peers.

However, the States and Territories provide only very limited information on the financial and educational performance of their individual government schools to the broader community. In Queensland and South Australia, there is currently no public reporting of educational performance in schools,¹⁹ while other States publish only restricted data sets. While New South Wales recently announced that it will publicly provide performance information on schools from 2006, its legislation still prohibits publishing school 'league tables' that compare school performance. The extent of public reporting also varies significantly within the non-government school sector, with not all non-government schools publishing an annual report on performance.

This lack of comprehensive market information may leave parents with only an impressionistic and ad hoc basis upon which to compare school performance when selecting an appropriate school for their children. The Australian Government has recently announced that all schools will be required from 2006 to provide comprehensive performance information in order to receive Commonwealth public funding. This should greatly alleviate problems currently associated with a lack of information, and encourage a greater awareness by parents of the nature of the school education market. Indeed, the provision of reliable and comparable performance information

should engender the use of 'exit' (for example, moving from one service provider to another) and 'voice' (that is, informing the provider of the need to improve performance standards) mechanisms by education consumers.

Conclusion

The realisation of genuinely competitive dynamics within the Australian school education environment is limited by regulations, restrictions and impediments at both the State and national levels. These constrain the capacity of schools to enter the market and expand where appropriate, prevent the price mechanism from functioning to its full potential, stifle diversity though a lack of autonomy for school leaders, and hold back rigorous information about school quality and performance from parents and the general community. The lack of full competition reduces the capacity of schools, particularly within the government sector, to provide diverse and innovative educational services, promote greater choice for parents, enable more active parental and community involvement in the education system, and encourage schools to respond effectively to changes in the education consumer market.

The failure of government schools and the broader education system to maintain quality instruction has been a growing source of concern in recent years. However, in line with their general reluctance to promote microeconomic reforms, the States have only tinkered around the edges to improve school operations, through a questionable mix of funding increases, reductions in class sizes and introducing new structures to the phases of school years. It is revealing that the most significant drivers favouring competition within the school sector in recent times have come from the Australian Government's 2005–08 quadrennium schools funding conditions, which include the publication of performance data for individual schools, greater autonomy for principals, and clearer forms of schools reporting to parents.

While these initial moves to create more market-based competition between schools are most welcome, much more needs to be done, particularly at the State level, to create a school market in the longer term interests of Australia's economic and social development.

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