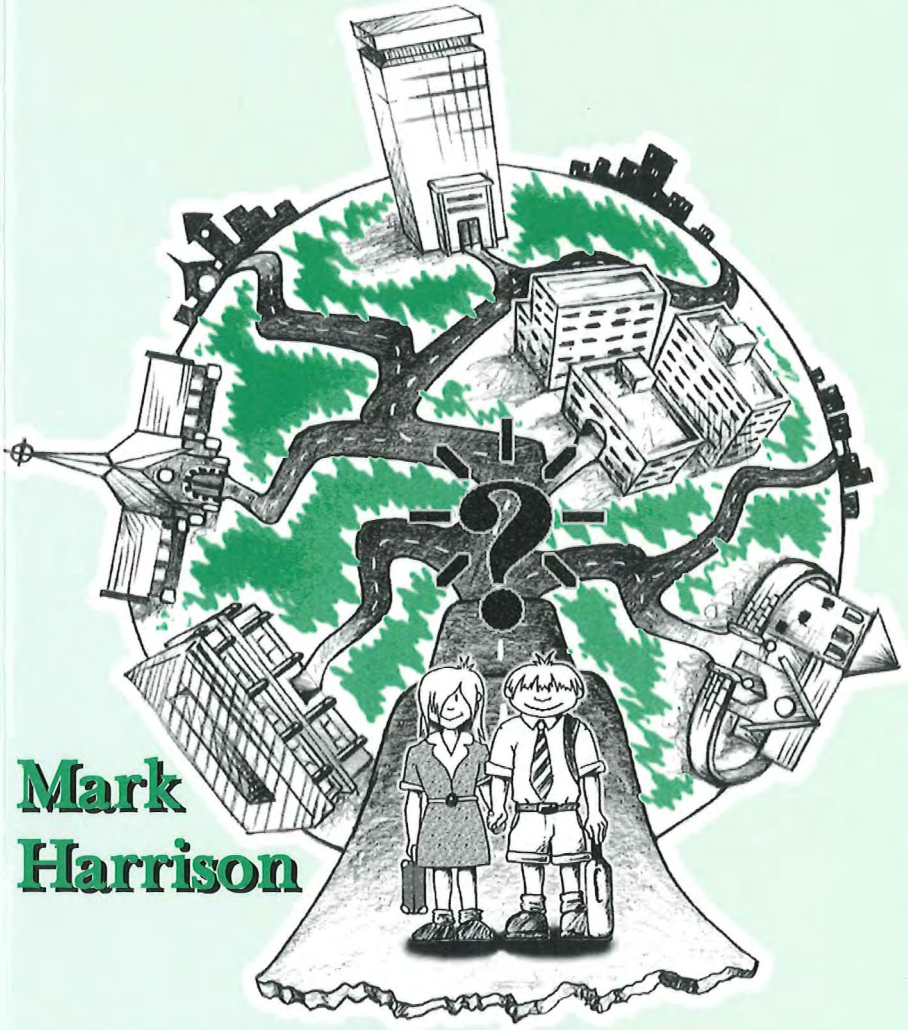
A Private Education for All



Mark Harrison

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Executive Summary

- we need to define clear educational goals and systematically measure whether they have been achieved
- schools may have religious and cultural as well as academic and vocational purposes
- an education system must allow for diversity so that the variety of preferences for education can be satisfied
- to escape the public education system, parents must pay a large implicit tax
- the weakness of the public education system is not due to underfunding, as on average per pupil expenditure has been higher in the public sector
- the failures of the public education system are linked to its institutional structure, which allows producer interests to dominate
- the public education system does not promote equity, as it is not targeted and students from better-off families stay at school longer
- school autonomy, especially in personnel, is important in providing effective education
- a market-based education system, with autonomous schools competing for students, would overcome many of the problems of public education
- to attract pupils, schools would have to respect the interests and judgments of parents, and would have an incentive to offer innovative educational methods
- pupils from poor families could be targeted directly through an income-related voucher

FOREWORD

Though everyone recognises the importance of education to the nation's future, many lack confidence in the public education system. Employers complain of graduates who do not have basic skills, controversy surrounds the curriculum, and parents are so dissatisfied that more than a quarter of them send their children to private schools and, as a *Sydney Morning Herald*/ Saulwick poll in August 1994 indicated, another 30 per cent of them would do so if they could afford it.

What can be done to remedy this situation? In Australia, most thinking on this issue is unsatisfactory. The major education lobby groups demand that more money be spent on education, despite lacking evidence that this leads to better performance. Even those who realise that more money is not the answer seem reluctant to tackle the institutional problems at the heart of our educational malaise.

In short, the problem with public education is that it is politically administered and shielded from competition. Until political interference is minimised and competition increased, it is unlikely that there will be great confidence in the education system. The key to a well-educated public is the abolition of public education.

This is a radical proposal, but the case for it has been mounting for a long time, and especially in the last five or so years. Markets are known to improve performance in many areas of activity. While markets operate in many different ways, their superiority rests on two basic factors: information and incentives. In markets, people have better knowledge and the incentives to act on that knowledge. Increasingly, people have begun to ask whether these advantages of a market system could not be introduced into the education system.

Books such as John Chubb and Terry Moe's *Politics, Markets and America's Schools* and Myron Lieberman's *Public Education: An Autopsy* have gone a long way toward establishing that markets can bring benefits to the education system. Education is not a 'special case' immune to the advantages of markets – and nor, as we have seen, is it a special case immune from the disadvantages of public sector provision.

These ideas, however, have been slow to make an impact in Australia. The CIS is glad to publish Mark Harrison's *A Private Education For All* as a contribution toward encouraging the necessary

Harrison shows that, contrary to the claims of its Australian supporters, public education is neither efficient nor equitable. It costs more than the private education system to run, even though its educational outcomes appear to be inferior. It does not meet the normal tests of equity, failing to target those most in need and giving more resources to the already well-off, who spend more years in the education system. The public education lobby fails the tests it would set itself.

He explains how schools would be better run under a market system. By giving schools autonomy and letting them compete with each other for students, the schools would have both the capacity and the incentive to organise themselves in the most effective way. A market would allow for more diversity, not just in types of education (academic or vocational, subjects offered) but also in the broader educational environment of the values imparted by the school.

Part I of *A Private Education for All* is Dr Harrison's Bert Kelly Lecture given in Hobart in November 1994. It concisely sets out the key arguments for a market-based education system. It was felt, though, that many readers would want to explore these issues in more detail than was possible in a speech. Some educational matters will be dealt with in greater depth in future publications of the CIS's *Taking Children Seriously* research program. In *A Private Education for All* Dr Harrison has included, in Part II, an analysis of the funding of primary and secondary education in Australia. There is much useful information here on the expenses many parents are prepared to bear for their children to receive a private education. It also shatters some of the myths about the resources available to private schools. Contrary to popular perception, many private schools spend less per student than their government-run rivals. This has important implications for the education debate in this country. If private schools are providing what parents want, and are doing so at a lower cost than the public education system, it becomes much harder to see why we persist with current ways of organising education.

Greg Lindsay
Executive Director

About the Author

Mark Harrison is a Lecturer in the Department of Economics at the Australian National University, where he teaches microeconomics and the economics of education. He has an honours degree in economics from the Australian National University and received his PhD from the University of Chicago, where he returned in 1995 as an Olin Visiting Assistant Professor to the George Stigler Centre for the Study of the Economy and the State. He has worked for the Industries Assistance Commission, has been a consultant to the Higher Education Sub-committee of the Industry Taskforce on Leadership and Management Skills, and serves on the economics accreditation panel for college level school courses in the ACT. He has published articles on education policy in various journals and has written about government schooling in *Capital Ideas: Suggestions for Economic Reform in the ACT* (1993).

Author's Acknowledgments

Some provocative and interesting books which have greatly influenced my thinking on education issues and are highly recommended to those interested in education reform include:

John Chubb and Terry Moe, 1990, *Politics, Markets and America's Schools*, The Brookings Institution, Washington D.C.

Myron Lieberman, 1993, *Public Education: An Autopsy*, Harvard University Press, Cambridge, Mass.

Thomas Sowell, 1993, *Inside American Education: The Decline, The Deception, The Dogmas*, The Free Press, New York.

Edwin West, 1970, *Education and the State* (2nd edition), Institute of Economic Affairs, London.

The first three are reviewed in my article, 'Recent American Writings on Education' *Agenda* 1(1): 91-100.

I must also thank David Hughes for numerous insights provided in tearoom conversations, Leanne Holmes for comments, and the Centre for Independent Studies for organising the Bert Kelly Lecture series.

Author's Preface

The following paper is my Bert Kelly Lecture, delivered in Hobart in November 1994, with updated examples and a new section on how schooling is financed in Australia.

One of the penetrating comments I received from the Bert Kelly Lecture audience was that the title is a misnomer. The lecture is about schooling, not education, and they are not the same thing. We have all met highly schooled people who are uneducated, and learned people who are unschooled. Keeping this in mind, I focus on schooling because it is the core of our current education system and of government education policy.

The problems identified in the paper are inherent in government operation of schools. The resulting policy recommendations involve introducing a market system of schooling.

Other concerns are, of course important. School reform must address crucial issues, such as teacher training, the evaluation and measurement of student performance, who should determine the curriculum, who should set exams, and the role of home schooling. A movement to privatisation will require a focus on these matters. As in other industries, the process of privatisation will force fundamental consideration of the role of government.

It is not clear that schooling should always be preferred to alternative sources of education. Much education takes place outside school, and much of what goes on inside schools has little educational value. The family is the main educator, especially in teaching values, morality and character. The family accounts for educational success and failure far more than the school.

It could be argued that what is needed is choice in education rather than choice in schooling. A genuinely free education market would be dynamic and innovative, resulting in education in a variety of settings, rather than in a specific place, for a certain number of hours, and a certain number of days during the week and year.

Pressure on schooling will come from sources outside governments' control. Changes to the family and new technology will shape education as much as government policy. New computer and cable technology has the potential to provide home access to alternative sources of education. The movement of women into the workforce will increase the custodial role of schools.[1]

[1] This paragraph draws on Ravitch (1993), which is a discerning speculation on the future of education.

But neither schools nor technology can take the place of the family. If the family is in decline, school reform can be frustrated, but becomes all the more important.

We need to ask whether government policy has contributed to the weakening status of the family and whether changes can halt or reverse it. School policy is one important instance where governments can make changes that give more responsibility to the family rather than usurping its role.

Education reform is also intimately related to other policies. For example, labour market regulation affects job opportunities and non-school alternatives for youth. Schools cannot be granted autonomy on personnel matters without industrial relations reform allowing individual contracts between schools and teachers.

The concluding section of the talk speculates about what would it be like if we ran our supermarkets the way we run our schools. It was inspired by an ACT Labor politician who derided the local Liberals' proposed decentralisation of government schools by suggesting 'schools will be in competition with each other like shops in a shopping mall' (Berry 1994). I have often heard this dismissive line from those in the education lobby, plus the assertion that education is 'too important' to leave to the private sector (unlike growing and distributing food). I imagine most of these people have no idea how difficult it is to run a shop. Certainly it is harder than making self-serving pronouncements on education policy.

When I wrote the supermarket piece, I assumed that following the collapse of communism in Eastern Europe, no one was suggesting that the government take over food distribution. But David McLoughlin from New Zealand, a writer for *North & South* magazine, informs me that 150 foodbank organisers meeting in Auckland decided to take the New Zealand Government to the Human Rights Commission for not putting food on the nation's tables, claiming the Universal Declaration of Human Rights requires the government to feed the masses. He writes (McLoughlin 1994)

> Just imagine if the Human Rights Commission decrees the government has to feed us ... Would we get a choice of menus, or would it be $4.99 fatty mince and two veg every night? Would we be allowed to buy a few luxuries to supplement the state-provided diet or would we have to turn to the black market? What would happen to supermarkets and other foodstores, would they be turned into enormous soup kitchens? Or would the government give us vouchers to exchange for the food of our choice at our usual outlet?

PART I: THE BERT KELLY LECTURE

'Politics is the art of preventing people from taking part in affairs which properly concern them'

Paul Valéry

One of the benefits of presenting this Bert Kelly lecture isthat it encouraged me to read his autobiography, *One More Nail*, a book with a great deal of gentle charm. In the book Bert tells of a campaign meeting in his electorate way out in the bush. When he arrived at 8 p.m. no-one else was there. By 8.30 p.m. two people were present. Being young and keen he started the meeting. After he had been going for 10 minutes, one of the two turned to the other and said in a startled tone 'Cripes, Bill, bloody politics' and disappeared hurriedly into the night. He had thought it was a football meeting.

So perhaps I should warn that although the topic of today's talk is education, much of it is about politics. That is because we run our education system through the political process. Almost three-quarters of Australian children are in public schools, and they are administered by central bureaucracies answerable to a minister. Private schools are heavily regulated by the government too.

I will not be making political predictions. What I will be doing is examining how the political process works in managing education.

What I claim is that our current system is defective. The political process is a bad way to run education. In practice public education is extremely wasteful and does not give value for money. Further, it performs poorly at meeting broad social objectives, such as redistributing income to the poor and equalising opportunities. In sum, it is both inefficient and inequitable.

We can run our system better by moving to a market based system. I conclude that the problems with Australian education are inherent in the government operation of schools, and only privatisation of our education system will achieve enduring reform.

The Economic Approach

I approach the subject as an economist. That does not mean that I consider the economic ends of education as all important or that education should be reduced to a factory style process. In fact, under a market system parental preferences will determine what schools do

and will include non-economic goals. Experience suggests that, for some parents at least, religious matters will be paramount.

Economists focus on efficiency, which means maximising benefits minus costs. It does not mean a single minded drive to cut costs, as is sometimes claimed by educationalists. The relevant benefits are not limited to economic benefits but are all social benefits flowing from education.

Measuring Benefits

To achieve efficiency, educators should measure both the costs and benefits of various approaches to education, and choose the approach that maximises the difference. If we care about educational benefits, we need to define clear goals and measure whether they have been achieved. The need for systematic evaluation applies to all educational goals. For example, if it is claimed that public education improves the distribution of income, the distributional effects of education subsidies should be assessed.

Despite sometimes wild claims about the benefits of public education, little attempt is made to measure them. For example, an important function of schools is to teach basic skills, and this is often used as a justification for public schooling. Due to resistance by teachers' unions and education bureaucrats, however, Australia does not have a tradition of systematic testing of student attainment of basic skills. Without test data it is simply impossible to compare student performance across time, between states, or between schools. It is impossible to determine whether schools are teaching basic skills, where the problems lie, where to focus reform efforts, and whether changes actually improve matters. This failure to test is a sign of poor performance.

Sometimes the public education lobby argues that the benefits of public education cannot be measured. The obvious response is that if they cannot be measured, how do we know public education is producing them? A more thoughtful response is to recognise that some school outputs are very difficult to measure from above, and can only be measured by those involved at the school level. If so, centralised systems will find it difficult to foster these benefits, and a decentralised system may do better.

The argument that the strength of public education is that it produces benefits beyond the teaching of basic skills is open to question. A 1994 Saulwick opinion poll found that people by a two to one margin thought private schools did a better job than government schools in developing the potential of young people and preparing

them to be good citizens (Cockburn 1994: 2).

Educational Quality

The education lobby likes to focus on total education spending. It opposes cuts and lobbies for increases, often making selective and misleading comparisons with other countries (e.g. ATU-ACT 1993, Marginson 1993, Morrow 1994). This preoccupation with expenditure is too narrow a focus. The quality of education is determined by more than expenditure. It also depends on parental involvement, curriculum content, teacher training, school ethos, instructional methods, classroom procedure and school organisation.

A good education system must foster these other determinants of educational quality and get value for money spent. It is certainly easy to spend more and have a more expensive education system. The question is what benefits arise from the extra spending? If the system does not work well, then much current spending is wasted. Spending more will not make much difference.

That is, how we spend is as important as how much we spend. Determining total funding is one step. We must immediately ask what should the money be spent on: teachers, equipment, school grounds, buildings, administrators? Even if we decide to spend a certain amount on teachers, do we spend it on more teachers? Higher pay? Training of new teachers? Training of existing teachers? An education system must determine the answers to all these questions.

The Importance of Diversity

An education system should allow for diversity, so that the variety of preferences for education can be satisfied. I want to emphasise the necessity of diversity in education. Education has many purposes – academic, religious, vocational, cultural or, more realistically, some combination. The purposes are not mutually exclusive: for example teaching academic skills may help vocational aims, religious beliefs may promote academic performance. What is considered a 'good education' differs from person to person, and there are varying opinions about the value of all the determinants of educational quality.

Consider the role of education in indoctrinating religious beliefs. This has always been a function of education, but not all agree with it. Because there is diversity in religious beliefs, even those who agree education has a religious purpose disagree on what beliefs education should impart. And even those who agree that education should indoctrinate religious beliefs, and what beliefs should be conveyed,

may disagree on how to best teach those beliefs.

There is also much diversity in opinion on how education achieves any particular purpose, whether through teaching cognitive skills, or by socialisation, or by screening.

Even those who agree on the purposes and functions of education may disagree on how best to achieve them. Even the experts disagree and majority opinion changes over time.

Nor is it clear that there is one correct answer. Diverse abilities and needs of children mean that different types of education are suited to different students. There is simply not one best education for everyone. What is successful for one may not be for another.

The correct amount to spend and the best way to allocate educational expenditure will differ from parent to parent. There is a trade-off between expenditure on education and other items, as well as a trade-off within education. Some parents may prefer smaller class sizes, others larger school grounds, while others may prefer a school that is close to home. For example, what is the optimal school size? It will depend, among other things, on the skills of the principal and the tastes of the parents. Some may prefer a large school with broad curriculum offerings, others a small school with more individual attention.

In public education, decisions are made and conflicts resolved through the political process. It does not do a good job. A central bureaucracy finds it difficult to promote consumer satisfaction or respond to diverse needs. Even if politicians and bureaucrats wanted to provide the type of education that parents want, they have very little information on which to base their decisions. The political process involves infrequent choices on bundles of issues. The variety and intensity of parental demands are not measured. There are no price signals to show which options are most highly valued relative to costs.

Under the political process, decisions made by the government are forced on all parents who send their children to government schools. Even decisions that please a majority will not please everyone. The lack of diversity and choice in the public system is a major problem.

Religious diversity makes it impossible for government schools to satisfy all parents. If public schools avoid religious issues entirely, they will not satisfy those with a desire for denominational instruction of their children.

Another example is single sex versus co-educational schools. For

many years co-educational schools were deemed best, and most single sex government schools were abolished. Now there is much evidence that academic performance is better in single sex schools, especially for girls. Parents may prefer single sex schools, depending on the importance they place on academic performance, and on other aims. Some girls may be better off in a single sex school, others in a co-educational one.

Instead of giving parents the choice, the government system imposes one scheme on all. In some parts of Australia, if you want your child to attend a single sex school or receive a religious education then you must choose a private school.

In addition, the public system is slow to innovate or respond to new information. Experiments, such as single sex classes in a co-educational school are not tried. When new programs and methods are introduced, they are not evaluated. The costs of change are large as the whole system is lurched one direction then another. Mistaken changes are disastrous.

Dominance of Producer Interests

Those running public education have little incentive to respond to parents' desires. In the public system, issues are resolved on the basis of political clout, not consumers' choices. The way the political process works favours producer interests, such as teachers, education academics, and bureaucrats.

Those exercising political power have the right to make public policies and devise government structures that are binding on all, and are financed by all taxpayers. Those who win the right to exercise the state's power can coerce and seize money. In a democracy, anyone who can gain sufficient popular support can take control of public authority. The political process involves individuals and groups vying to capture this valuable right. During elections, the various interests try to get candidates who support them elected. Between elections they struggle to influence how officials exercise their authority.

The exercise of public authority in an industry affects the distribution of wealth between consumers and producers. In the political battle for the use of public authority, producer groups are favoured. Concentrated producer interests, often already organised, will tend to dominate diffuse consumer interests. Those with a larger stake in an issue have a greater incentive to spend resources acquiring information about politicians' views, and to vote accordingly. Producer

groups are able to deliver more support to politicians, in terms of both money and votes, and politicians have an incentive to favour the producer interest.

In government educational decisions, teachers' unions tend to have a lot at stake. As a result, it should not be surprising that the decisions made in the public education system are not always what even a majority of parents want. Public education is not designed to be controlled by parents, but instead by the political process. Parents are but one part of the constituency of public education, and there is no guarantee they will win control.

In practice educational decisions are dominated by public education producer interests, and consumer desires are neglected. Changes take place only if producer interests do not object too much and changes that benefit producer interests are favoured. The result 'is an industry geared towards political action instead of better service as the way to enhance producer benefits' (Lieberman 1993: 273).

Information Provision and Consumer Protection

In education policy the government's information provision and consumer protection roles have been exercised to favour producer interests.[2] The trend in the post-war period, such as the abolition of inspectors, external examinations and detailed curricula, has been to make teachers less accountable to the central bureaucracy and to increase teacher power over pupils (Parish 1987). Other changes to the same ends include the abolition of intermediate qualifications and a general reduction in information on transcripts, despite the opposition of parents and employers. Teacher union pressure has resulted in the removal from student transcripts of information made available to universities. The current push is to remove grades and class rankings from report cards.[3]

Vocational Training

Consider also the recent push for vocational training in schools in response to a doubling of the year twelve retention rate.[4] Govern-

[2] See Lieberman (1993) for a comprehensive and lucid analysis of how this has happened in the United States.

[3] See, for example, 'School reports: no more marks' *Sydney Morning Herald*, 9 July 1994, p.1.

[4] The year twelve retention rate rose from 34.8 per cent in 1981 to peak at 77.1 per cent in 1992: Australian Education Council (1994) p.19, table 10B. It has since fallen to 74.6 per cent in 1994.

ment policy was to raise the year twelve retention rate, but with little concern about the value to the additional students encouraged to stay on, or what might best suit their aspirations and interests. Continued high youth unemployment rates and calls for more post-school training confirm that schools are not serving these students. But of course, more students means more jobs for educators, and a further political benefit that youth who stay on at school are not measured as unemployed.

Retention rates are not an educational outcome, but measure the input of students' time. The question is: what is the benefit to students from spending an extra two years in school, and does it exceed the costs? The costs include forgoing two years in the workforce gaining job experience and learning valuable skills (both vocational and social), as well as earning money. Of course, a recession reduces the costs of staying at school longer (students forgo unemployment rather than employment), which partly explains the strong rise in retention rates in 1991 and 1992, and the recent fall.

A common theme in current government reports is the need to 'broaden the curricula' to account for those in year twelve who have no interest in going on to higher education.[5] The proponents of vocational training in schools claim that an academic curriculum is only 'relevant' to those who want to go to university.

This assertion can be disputed. Employers frequently complain that school leavers lack basic skills. In a changing world, general academic skills could provide a greater ability to adapt or learn on the job. Vocational skills may date quickly. The worst outcome of all is to give students specialised training for jobs that no longer exist.

A more sensible policy would be to consider the best way to provide vocational training. Are schools suitable institutions for teaching vocational skills? What is the cost and effectiveness of providing vocational training in schools rather than other channels, such as on-the-job training?

The best vocational training system will change over time. In a rapidly changing world, 'curriculums and instructional approaches that are state of the art today may be obsolete tomorrow' (Hoffman 1993: 8). A flexible, diverse and dynamic system capable of experimentation and innovation is needed. A public system run through the political process is none of these things.

[5] Although only 35 per cent of year twelve students continue on to higher education (AEC 1994, table 16(A), p.29), the proportion who want to is larger, as demonstrated by unsuccessful applications.

No doubt parents and students consider preparation for employment a valuable purpose of schools, and it is a scandal that the education system has taken so long to reflect these preferences. But the training system that comes out of the political process will not necessarily promote the interests of the students involved. The policy process is subject to self-interested pressure from teachers' and other unions.[6] Their record in dealing with youth unemployment does not inspire confidence that the outcome will be more employable youths.

If the vocational courses are really designed to best prepare for employment those who do not want to go to university, why then is it insisted that the courses should count for university entry? In a revealing statement, the then president of the NSW Teachers Federation, Phil Cross, called for the abolition of the external Higher School Certificate (HSC) exam in NSW. 'Universities would perceive any move to modify current entrance procedures to include work based skills as "watering down standards" and would resist it. Scrapping the exam therefore was likely to be the only way forward' (*Sydney Morning Herald* 30 July 1994).

To summarise: current courses are said to be academic and not suited for those who do not want to go on to university. So non-academic courses are to be introduced. But students who do them will still be able to enter a university. By definition, the students who do this will not be as well prepared for university, since the courses are deliberately non-academic and not for people who want to go to university. Presumably the universities must now teach the preparatory academic skills the schools used to teach. The result must be a further lowering of academic standards. Resistance by the universities is met by the threat to abolish the university selection role of the HSC.

Incongruously, while the education lobby is busy changing the school curricula to be less academic, it is also pushing for more students to go on to higher education (see Marginson 1993). The net result is likely to be an increase in the amount of time students spend in schooling, but it is not clear they will emerge any better educated or more employable. The explicit agenda is to massively increase educational attainment, with emphasis on equal outcomes rather than equal opportunities. It is much easier to demonstrate inequali-

[6] For example, Laurie Carmichael of the ACTU was an influential member of the Finn Committee, which recommended that by the year 2001 95 per cent of all 19 year olds should have completed year 12, or an initial post-school qualification, or be enrolled in education or training.

ties than inadequacies. Of course, the higher the level of attainment equalised, the more is spent on educators. Usually those calling for more formal schooling for different groups are the professional educators, not those deemed disadvantaged. Certainly not all families share the educational assumptions of teachers and academics.

Treatment of Private Schools

The dominance of public sector producer interests is also demonstrated by the treatment of private schools. The public education lobby claims the government holds 'responsibility for the management and success of public education' (BRHSTF 1991) and should set policy to ensure that 'enrolments in government schools are maximised' (ATU – ACT 1993: 126). Declines in public sector market share are met with calls for cuts in funding to, and increased regulation of private schools. In what sense this makes government schools a success is not clear.

Teachers' unions consider it their role to 'campaign through the media emphasising the positive values of attending government schools and if necessary the negative outcomes of attending non-government schools' (ATU-ACT 1993: 127).[7] A truer indication of what teachers think of public education would be to find out where they send their own children, just as the fact that the British Leyland workers' car park was full of Japanese cars told you more than union propaganda on the value of buying British. Many education bureaucrats and senior Labor Party politicians go to considerable expense to send their children to private schools. In Victoria, public school principals even have salary packages which include contributions towards their children's private school fees.

Claims that private schools have more resources than government are simply not true. Average total expenditure per student is higher at government than at non-government schools. Until recently, even the government's own figures on annual per pupil expenditure showed that government schools spent more per student. These statistics are biased towards understating government

[7] Teachers' unions also exercise their influence on, as well as through, the media. After *The Canberra Times* published a couple of articles written by me on ACT schooling, along with a reply written by a teacher union consultant, the ACT Branch of the Australian Teachers' Union recommended that its members not buy *The Canberra Times* and that schools getting the papers as part of the newspapers in education program should cease to do so. See the editorial 'Pluralism Necessary', *The Canberra Times*, 15 November, 1993 p.10.

expenditure on government schools. Many costs, such as superannuation, are excluded from expenditure in government schools but are included in private school expenditure. [8]

Parents who send their children to private schools pay a large implicit tax. Those who choose private schools receive per head government funding, but much less than the subsidy paid to the average government school student. In 1993, parents sending a child to a non-government secondary school in the poorest category paid an implicit tax of $2,056.

The per head subsidies fall as school income rises. Parents who spend more on their child's education receive less from the government and also pay a higher implicit tax. For example, the extra private expenditure on education between Independent and Catholic schools resulted in average per student government funding for Independent schools being cut by $850. With parents of children at Independent schools paying on average $2,668 per student more than parents of children at Catholic schools, extra expenditure is in effect being taxed at an average rate of 47 per cent (i.e. it costs $2,668 to buy $1,818 of extra education).

In effect, education is heavily subsidised, but parents pay an implicit tax if they choose a private school and an implicit tax on additional private expenditure. If parents want to send their child to a private school with the same level of resources as the average government school receives, they must pay a substantial amount out of their own pockets. Public schools have a huge financial advantage over private schools.

The establishment of new private schools is restricted. The Commonwealth and State governments can effectively decide which proposed schools will be allowed to operate, and can impose minimum and maximum enrolment levels. This power is explicitly used to protect existing schools from competition. New schools outside an approved system receive even less funding. These policies occur despite the fact that opinion polls show that a majority of parents would prefer to send their children to private schools (Cockburn 1994).

Poor Value for Money

As the political process is used to benefit producer interests, parents receive poor value for the money spent on the public system. This is confirmed by the fact that many parents pay extra to send their

[8] See Part II for more details.

children to private schools which on average have fewer resources than government schools.[9]

Diversity in circumstances and of tastes for quality and type of education mean that, from the parents' point of view, much expenditure on public education is wasted. In general, the quality and type of education provided by a public system will not match the quality demanded by any particular individual. Obvious instances of this problem are parents who want to spend more on their child's education than the public sector does, and those who want it spent in a different way, such as by providing single sex or religious education.

Difficulty in Encouraging Effective Teaching

The public system finds it difficult to provide effective education. The empirical evidence suggests that academic success is a product of effective school organisation, and the strongest influence on the overall quality of school organisation is autonomy. Bureaucracy is unambiguously bad for educational outcomes. Effective schools are subject to much less external administrative control than ineffective schools (Chubb & Moe 1990).

The importance of autonomy can be illustrated with mundane, but important, matters, such as those at the school level knowing how best to spend their maintenance budget. But the most vital need for autonomy is in personnel matters.

Autonomy in choosing and setting incentives for staff is vital because the most important requirement for effective education is good teaching. Good teaching involves many intangible qualities, such as enthusiasm and creativity, which are inherently difficult to measure in an objective, quantifiable manner. At the school level, everyone knows who the good and bad teachers are. Good teaching is impossible to monitor from outside the school by those further up the hierarchy. Autonomy gives a principal the chance to build up a team by systematically recruiting the kinds of teachers she wants and providing performance incentives.

Government schools in Australia are controlled by a central department responsible to a minister. The central department carries out recruitment of teachers. Staff pay, conditions, and promotion are centrally determined, and are often related to paper qualifications and years of experience (which are easily measured from above) rather than effective teaching performance. Principals have little say over recruitment and how staff incentives are structured.

[9] See Part II for details.

Indeed, the trend is toward centralisation at the national level of industrial regulation of teaching (Marginson 1993). A recent decision of the Australian Industrial Relations Commission involved detailed management control of the Victorian Education Department through the award system, including specific directions on the selection of principals and of staff by principals (Sloan 1995: 25).

The current system involves politicians, courts and bureaucrats controlling schools and forcing them to meet various objectives. Autonomy is deliberately denied to schools. A centralised bureaucracy with little discretion at the bottom levels of the hierarchy will be unable to encourage good teaching and is unlikely to be an effective way to provide education.

Special Interests and the Curriculum

Another problem with the political process is that public education becomes a battleground for competing special interests, often driven by social engineering goals. Non-educational objectives are promoted at the expense of educational objectives. This has been clearest in curriculum matters.

The new National Curriculum attempts to use education as a tool of social change. To quote from ACT Curriculum Guidelines from the Board of Senior Secondary Studies, 'Across curriculum perspectives are those educational and societal issues that are of such significance that they should permeate the curriculum' (p.12). They include: Aboriginal and Torres Strait Islander education, environmental education, gender equity and multiculturalism.

You may agree or disagree whether the social objectives of the new curriculum are worthwhile, and can argue whether education can in fact achieve them. But one thing that cannot be disputed is that when these social issues are pushed onto the curriculum, standard academic skills are crowded out. When extra objectives are specified for public education, less time is available for traditional objectives.

My experience is that the soft social sciences find it easier to incorporate the across-curriculum perspectives. One wonders how they are incorporated into mathematics, physics, and chemistry, and at what cost. Professor Garth Gaudry gives us some idea. He describes the proposed New South Wales science curriculum, derived from the National Profiles, as putting forward the view

> that it is not necessary to understand basic concepts, laws and known facts in science. They are a grab-bag of fashionable sounding themes, mixed with liberal doses of social aware-

> ness, embellished with certain key words to make it sound like science. ... A large part of the document is devoted to sociology rather than science. ... The words 'know' and 'learn' do not appear anywhere. So a student may be judged to be a success in science – and any other subject – without actually knowing anything. This pseudo-science is supposed to make the science curriculum more interesting and relevant. But to whom? It will not meet the needs of those who aspire to go to university, nor of prospective TAFE students, nor those who require a general education in science. It will lead to a further collapse in the content of HSC courses (*Sydney Morning Herald* 15 March 1994).

Examples of suggested science projects for years 8 to 10 included 'compose slogans encouraging the wise use of resources, such as water, electricity, chemicals and natural gas, in the school laboratory'.

There is no shortage of interest groups determined to get their message into the classroom. For example, an RSPCA spokesman feels 'the only resolution in reducing dog attacks in the long term is going round to schools and educating children on what is involved in owning a pet' (*Sydney Morning Herald* 12 April 1994). Robert Hughes, Principal of Peakhurst Public School, replied that the RSPCA would have difficulty in getting a timeslot in what is a busy curriculum. 'Dog education would have to replace another subject such as drug education, sex education, AIDS education, bike education, driver education, road safety education, school bus education, computer education, environmental education, multicultural education, health education and so on' (*Sydney Morning Herald* 14 April 1994). Not to mention proposals for Aboriginal culture education, compulsory foreign languages and gambling education (sponsored by the racing industry) (ACEA 1995: 3). Perhaps there is still time for reading, writing, mathematics, and science.

In fact pet care has been introduced into the ACT curriculum. In the same week the education department released a pamphlet explaining to parents how to teach their children to read at home. Once the schools taught students how to read and parents taught pet care. Of course, the children who suffer the most from the new policy are those with apathetic parents (especially if they do not even have a pet).

The social engineering objectives do not stop with the curriculum. For example, there is a gender equity industry. Its aim is equal

measured outcomes for all subjects in which girls currently do worse (the superior overall academic performance of girls is ignored, or claimed to be justified to compensate for discrimination elsewhere). The policy is achieved by redesigning tests to favour girls. Dr McGaw, director of the Australian Council for Educational Research in Melbourne, was quoted in *The Weekend Australian* (19 February 1994) as saying 'Where boys are still at the top, we are rapidly changing the rules so it won't continue to be so.' The cost to other objectives of pursuing these policies is ignored.

Does the Current Education System Promote Equity?

One argument made in favour of public education and the financial penalties on private education is that they are equitable. This argument is open to a number of criticisms.

Subsidies Are Poorly Targeted

It is true that the average income of parents who use private schools is greater than that of those using public schools. But if the aim is to help the poor, education subsidies could be better targeted. The current system does not give much to those poor whose children attend private schools and gives generously to rich families who use public schools. The 1986 Census showed that 48 per cent of those secondary school students with family income of $50,000 or more attended public schools, while 18 per cent of those with family income under $18,000 attended private schools. The implicit tax on private choice burdens those with a taste for education different from that provided by the government (such as a religious education).

Public Expenditure Favours the Middle Class and Rich

It should be noted that the per head expenditure in the government system is not constant. It varies widely between schools, depending on school size and school location. It is not clear how this varies between rich and poor. More work needs to be done, but my suspicion is that those in rich areas have more spent per head than those in poor areas. Most of the education budget goes to salaries. Teachers' pay increases with seniority. Teachers prefer teaching upper middle class students, and these jobs are allocated by seniority. Therefore the schools in the rich areas have the most senior, and expensive, teachers. They also have the most expensive school grounds.

The rich tend to school the longest and so receive more from subsidies to education. In particular, they are more likely to continue

on to higher education where the subsidies are very large. In 1992, school leavers from private schools were more than two and a half times as likely to enter higher education as those from government schools (AEC 1994: 27). In 1988-89 households in the highest income decile received educational subsidies six times higher than households in the lowest income decile (Saunders 1994: 176).

The public education lobby is inconsistent to argue that subsidies to higher education are equitable and that subsidies to private school students are not. On average, students in private schools and higher education are from richer backgrounds than students in public schools and those who do not continue on to higher education. In 1992, over 45 per cent of school leavers entering university were from private schools (AEC 1994: 27).

Opportunities Not Equalised

What benefits do the rich and the poor get from expenditure on education? The rich are getting better value for money. The poor are more likely to be in government schools which find it difficult to offer effective education. In addition, where there is residential segregation of public schools the poor often have to attend the worst government schools. The rich can buy their way out of a poorly performing public system. This widens the performance difference between government schools in rich and poor areas, because government schools in well-off areas face greater competitive pressure to retain students.

Educational opportunities are certainly not equalised in practice. This should be no surprise: political power is not equally distributed and the poor do not have equal opportunities to control the political process. The decisions resulting from political battles, such as the allocation of funding in public education, do not favour the poor. There is nothing equitable in students from poor backgrounds leaving high school with inadequate literacy skills. The unsatisfactory performance of the government school system at the basic functions of education affects the poor the most.

Reform: A Market System

The problems of public schooling are inherent in the government operation of schools. A centralised and politicised system is a poor way to organise education and makes the reform of government schooling difficult. Producer interests tend to limit the benefits that can be achieved, many desirable reforms are blocked, and some

changes are for the worse.

Many standard reforms, such as centrally administered merit pay, stricter accountability, and school based management may improve matters, but may also make them worse. These reforms often involve more bureaucracy and are never put to the market test. Indeed, they are seldom evaluated in any way. The traditional institutions of school control are left intact. The schools remain subordinate to the education department, which may resume control if mistakes are made or government policy changes. The reforms seldom involve autonomy in personnel matters – perhaps the most crucial for educational success.

The general trend towards centralised national control, for example through industrial regulation, the national curriculum, the key competency model, and the Vocational Training System, weakens the independence of private schools and makes it more likely that pressure on governments to fund only schools that use teachers' union staff will be successful. Indeed, the increased regulation of personnel matters provides a serious threat to the performance of private schools. Moreover, the classroom is being subject to more scrutiny in the courtroom. Some parents have sought to have school disciplinary decisions overturned by courts.[10]

The state of government schools is a product of the system under which they operate. Without reforming the system, the root of the problem is not removed. The key to improving the education system is to move away from public provision to a market-based system. That is, schools need to be privatised and removed from the political process.

Parental Choice, Autonomy and Freedom of Entry

A market-based system gives parents the right to choose amongst autonomous schools. Schools must attract students to survive and their viability depends on seeking out and satisfying market demands from their clients, the parents and students. Parents will have their preferences, interests, and judgments respected. That is, the whole system would operate as the private sector currently does, with schools running themselves and being accountable to parents. The system will shift from being producer dominated to consumer orientated, extending to all the kinds of choices the rich take for granted. Increased autonomy will encourage the development of

[10] In the ACT, expulsion decisions made by private schools are to be subject to review by a government tribunal.

successful schools open to all children, increasing the educational opportunities of the poor.

In a market system, price signals provide information to producers on the value parents place on different educational packages, and provide the incentive for producers to respond to those preferences. Schools that offer what parents want at least-cost will do best.

Decentralised markets are better than bureaucracies at recognising and responding to individual circumstances and desires. People know their own interests best, and individual schools know how to best organise themselves. Freedom of parents to choose which school to send their children to, and freedom of new schools to enter the market encourages a match between the type of education parents want and the kind they receive.

Competition will also generate the incentive to search for and experiment with new teaching methods, providing stimulus to educational innovation. One of the advantages of the market is its ability to initiate low cost experiments, that are quickly copied if successful.

Whether a truly decentralised market based education system can arise depends crucially on the extent of government regulation. A market system only works if there are minimal restrictions on the entry of new schools, so that new schools can emerge in response to what parents and students want, and schools that fail to attract support can go out of business. Existing schools must not be protected by entry regulation as they currently are.

The government can still be involved in the financing and regulation of schools to achieve social aims. However, government funding must be attached to the student, that is per head funding, just as the Commonwealth currently finances the private sector, so that parental preferences determine how the funds are spent and the costs of the government determining how funds are to be used are avoided.

The government can set a minimum level of expenditure on education through a voucher program. Individuals can increase educational expenditure directly out of their growing incomes without having to wait on the political process. The result may be more or less total expenditure on education than now. But whatever the level, it will give better value.

To achieve equity and equality of opportunity aims, the government's funding should be targeted at the poor, through an income-related voucher. More resources will only be useful to poor parents if schools are made more accountable to them. The government could

continue to fund the education of all students, but the bigger the government's role in funding, the greater the influence of the political process. Increased government funding is inevitably followed by increased government control, as Australian universities and private schools have found out. The danger is that increased government funding of the private sector may result in the government regulating the private sector to become more like the public.

Another factor that is often ignored is the costs of raising the taxes needed to fund government education expenditure. In Australia, these costs have been estimated to be as high as 65c for an extra dollar raised, depending on which tax is used (Findlay & Jones 1982). These costs are borne whether the government provides education itself or spends the money in a decentralised manner. It is certainly costly to raise taxes on families merely to give the money directly back to them to spend on education.

Any system of financing should remember that people pay for what they value and value what they pay for. It may be that when parents bear some of the costs of education directly there is more pressure for cost efficiency and greater involvement by the parents in their child's education. If schools were to receive at least some funding directly from parents, the parents would have a greater say in what the school does and the school would be less subject to political control and to the vagaries of the political process.

Social objectives, such as curriculum requirements, can be achieved by direct regulation if it is believed that the benefits outweigh the costs. However, there are always dangers in opening the education system to the political process.

As Chubb and Moe (1992: 9) put it:

> all the crucial decisions about organisation and governance must be placed in the hands of the schools. They must be truly autonomous. For this to happen, and for it to be real and enduring, the authority to control schools from above must be eliminated as far as possible. Any authority that remains will inevitably become a magnet for political pressure, and it will eventually be used to reassert control when the schools exercise their autonomy in ways that powerful political interests do not like.

Political battles will favour organised special interests, especially when the battles involve attention to detail, as regulation often does. The complete privatisation of schools is a radical suggestion.

But the performance of Australia's current private sector provides evidence of the benefits of markets, attracting 28 per cent of students despite on average having less resources than government schools, and despite the large financial penalties to parents for choosing a private school. To survive, private schools must provide what parents want. The current private sector provides proof that the funding and operation of schools can be separated and gives the lie to claims that a market system means no academic leadership by the principal (often parents prefer the private sector because of academic leadership)[11] or that a market system must result in corporate sponsorship or flashy advertising.

The Howard Proposal

To take one recent example of the difference between the market process and political process, John Howard recently suggested that schools should stay open until 5 p.m., providing optional child-minding services. The public education machine immediately swung into action, firmly quashing the idea, claiming that a majority of parents did not want it and that it was just too difficult to introduce.

How the teachers' unions gauged parents wishes on the matter was not made clear. It could be difficult for teachers to understand the inconvenience of school finishing at 3 p.m. Certainly there is no doubt that the Howard proposal would be helpful to working mothers and single parent households, even if they do not form a majority.

But in the public education system, such matters are a subject for centralised decision-making, and minorities are not catered for. Actually, whether a minority or majority of parents supported the idea was never a relevant consideration. The teachers' unions opposed it, and that was enough. The costs of introducing the proposal over the opposition of teacher unions in our centralised system are just too great. The public education rhetoric about helping the disadvantaged proves very hollow when the self-interest of producer groups is at stake.

In a market process it is a matter for individual choice. Schools can offer after hours supervision and activities. Parents who consider it important can choose schools that do. In fact, some private schools do offer this service.

In contrast, the main innovation in the public sector has been the

[11] See ACT Schools Authority (1985) for a survey of parents about why they chose private schools.

introduction of 'pupil free days', which had reached ten per year in Victoria under the Kirner government (representing a five per cent cut in classroom time for pupils). Pupil free days are especially inconvenient for working parents who must make alternative child care arrangements. Despite the fact that pupil free days are often tagged on to a weekend or school holidays,[12] it has been claimed that pupil free days provide a crucial opportunity for teachers to consult with each other about professional matters without the distraction of giving classes and supervising students. It should be pointed out that school holidays already provide twelve weeks of pupil free days which could be used for professional development.

Criticisms of Market-based Schooling

Are Parents Too Incompetent to Choose?

The most common objection to parental choice is that parents are incompetent to choose their child's education, either because they do not care about their children or because they do not have the information to correctly judge the benefits of education. This argument is typical of the attitude many in the public education lobby have towards parents. To justify government involvement in the schooling of most children, the claim must be that most parents are too incompetent to attend to their child's schooling. Suppose for the moment the claim is true, and the government takes responsibility for ensuring children receive the 'correct' education.

The trouble with giving government the responsibility for provision of schooling is that political pressures from special interest groups mean the resulting educational decisions will not necessarily have the welfare of children (who after all do not have a vote) as their prime objective. To the extent that the political process is not hijacked by special interest minorities, but instead reflects community opinion, then the problem is that the community consists of the same parents who were considered too ignorant or negligent to make decisions about their own child's welfare. The argument for government involvement does not provide any reason why their choice of political representatives should be any better or why there would be any community pressure for 'correct' amounts of education to be provided for children. How can parents choose the representatives

[12] In the ACT, as Anzac Day fell on a Tuesday in 1995, Monday was declared a pupil free day at many government schools.

who will make correct education decisions if they cannot adequately judge the education themselves?

The question is not whether parents always make perfect choices, but whether on average they would make better decisions than the current system. Parents are generally more likely to make better decisions because they have a greater interest in their children's schooling and a more intimate knowledge of their capacities and needs than anyone else. There is little evidence for the contrary proposition – that most parents do not care about their children's schooling and are ignorant of their children's capacities and needs. There is even less for the assertion that governments make decisions that are, on average, better for children.

It should be noted that many complicated decisions affecting children's welfare are currently left to parents, such as choosing a surgeon to operate on a child. It is not clear that children would be better off if they were allocated to doctors. Also, parents are currently allowed to choose their children's education, provided they are rich enough to afford private schooling.

Under current policies, some parents are prevented from choosing what they consider to be a better school for their children and are held hostage in public schools until all people share their outlook. Sowell (1993: 57) calls this the 'utopia-or-nothing approach':

> In other words, poor children who are ready right now to go elsewhere, to get a decent education denied to them in their substandard schools, are to be held hostage in those schools until such indefinite time as either
>
> (1) all other children around them are also ready for quality education, or
>
> (2) one of the innumerable education 'reforms' that come and go finally works. It is hard to imagine a more unconscionable sacrifice of flesh-and-blood children to ideological vision. Moreover, if this is such a wonderful principle – either morally or educationally – then why do we permit the children of the affluent to escape being used as hostages for the greater glory of social justice?

Will the Children of Negligent Parents Suffer?

Sometimes it is agreed that only a small minority of parents are incompetent, but that this means that choice should still be denied to all – because the children of these parents, the least educated, the

least ambitious and the least aware, would be left behind and would suffer. The majority should be prevented from benefiting from choice because some minority may not gain.

Any argument that parental choice results in an ignorant minority being left behind is an admission that choice will work for most parents. It is certainly inconsistent with the argument that choice is elitist and that a majority of parents are incapable of choosing.

It is not clear whether even the children of apathetic parents will gain from granting public schools a large captive clientele. Forcing schools to improve to retain the better students may lift the standards of all schools, and help all students, just as the current private sector provides some check on government school shortcomings.

I disagree with the patronising claim that the poor are incapable of choosing. A most promising exercise in choice occurred in East Harlem. Teachers set up their own schools, the schools had substantial autonomy and parents were free to choose amongst schools. The result was an innovative and diverse school system. Student achievement increased dramatically, the district moved from the worst in New York to the middle, despite the dismal socioeconomic environment, providing evidence that choice will be beneficial for the poor (Chubb & Moe 1990: 212-215).

If it is only a small minority of parents who are ignorant and neglectful, that provides no justification for massive government involvement in the schooling of all children. Instead policies should be directed at the small minority of parents who are the problem. However, such policies will raise controversial issues of the role of the state versus the role of the family.

What if We Ran Our Supermarkets the Way We Run Our Schools?

Economists have been accused of wanting to run our schools like supermarkets. My experience is that supermarkets are staffed by friendly, hardworking people and are open long hours. Most people are quite satisfied with their supermarkets. Clearly schools and supermarkets are different. But imagine if we ran our supermarkets the way we run our schools. Due to the importance of equality of opportunity to buy groceries and to protect children from starvation due to negligent and ignorant parents buying the wrong groceries, we have government provided supermarkets, financed by taxes, at which shoppers can get a basket of groceries for free.

Customers are forced to shop at the supermarket in their suburb, and can only change to another government supermarket with permission, and subject to room at that supermarket. Private supermarkets exist, but customers have to pay for their groceries there. Entry of new supermarkets is heavily regulated. New supermarkets are not allowed in areas of declining population. The government favours private supermarket proposals from the large national chains.

The public supermarkets in each State are run by huge Departments of Supermarkets. Pay, staffing and working conditions are centrally determined, by negotiations with the unions. Some regions find it difficult to attract staff. Employment conditions are strictly regulated, with rigid job classifications (check-out operator, shelf-stacker, trolley retriever, price labeller). Hours worked and tasks are strictly mandated, and the number of staff in each position strictly regulated. Pay rises tend to be uniform across all classifications. Although the public supermarkets seem to be overmanned when compared to the private sector, checkout queues are much longer and shelves are frequently empty.

Managers find it difficult to order supplies on time, experiment with new suppliers, fix windows, get supermarkets painted, or build new facilities. All these decisions are overseen by central office and involve much bureaucracy. Most spending goes on salaries. Cuts in the equipment budget mean that shopping trolleys are very old, most with three or four wobbly wheels. Home delivery has been abandoned as a cost-cutting measure. Many ideas introduced in the private sector, such as express checkouts and checkout scanning devices, have not been adopted in the public sector due to union opposition.

There are large differences in the quality of supermarkets between suburbs, with the rich areas seeming to have the best supermarkets. When deciding where to live, the quality of the local supermarket is an important factor.

There are many laments about the quality of public supermarkets. Independents and minor parties often raise election funds and support from the Checkout Operators Union with strident demands for more spending on public supermarkets, to reduce the enormous check-out queues. Bans on private supermarkets are periodically proposed, so that the rich will use their political influence to keep the quality of public supermarkets high, but many politicians, bureaucrats and public supermarket employees do their own shopping at the private markets. Media reporting of supermarket issues is usu-

ally based on 'facts' supplied by the well-organised public supermarket lobby group.

Which products are stocked on government supermarket shelves is a controversial political issue, and is subject to much special interest pressure. Public supermarkets stock Australian goods only and do not carry cigarettes and alcohol. The Commonwealth government funds a campaign for a national shelf-stocking policy, which outlaws all fatty foods and environmentally unfriendly products.

Managers are appointed by a local board, on which the Checkout Operators Union has substantial representation. Hiring is done through the central department. High school leavers who want to be checkout operators must do a special course in the Faculty of Shopping at local TAFEs. Subjects studied include the sociology of shopping. Firing staff is a complicated process. Pay depends mostly on seniority, but a master checkout operator allowance is available, mainly to those operators who acquire qualifications in product selection and show support for the government's supermarket social justice aims. Gender equity requirements where married couples must share shopping duties are being introduced.

Supermarket closures are a controversial political issue, and the subject of many government inquiries and customer demonstrations. No suburb wants to have its supermarket closed. Supermarket closures are resisted with violent demonstrations. Governments are re-elected on promises not to close any public supermarkets. The option of selling ex-public supermarket buildings to be operated as private supermarkets is explicitly banned.

There is much academic research into appropriate shelf stocking policies, optimal supermarket size, and various measures of supermarket productivity. Very little of the research is used by those operating supermarkets. But there is much pressure to increase staff-customer ratios. A commonly used indicator of customer satisfaction is customer retention rates, those supermarkets in which customers spend the most time obviously being the best.

Supermarkets find it difficult to know what customers prefer. Some managers have tried including customers on boards, but it turned out most customers did not want the chance to run the supermarkets themselves. Managers are never sure whether those customers on the Board are representative or are pushing a pet interest. In any case, many important decisions are made by those in central office, who have even less information on consumer desires

and special needs and little incentive to promote consumer satisfaction. Issues are resolved on the basis of political clout, not consumers' choices, and the producer interests dominate.

Proposals made by senior Opposition spokesmen that supermarkets be open weekends, public holidays, and after 5 p.m., as some private supermarkets do, have been quashed by industry representatives, claiming most consumers do not want to shop at these times, and it is too difficult to introduce because not all stores want to open these hours. Instead, more 'customer free' days are proposed, where staff from different supermarkets can liaise and discuss product selection.

Economists have proposed that supermarkets be allowed to organise themselves, that new supermarkets be free to open and that customers be given the right to choose which supermarket to shop at, giving supermarkets the incentive to cater to customer needs. Supermarkets would be accountable to customers rather than the central bureaucracy, those that offered what customers wanted at least-cost would do best. Most find these ideas impossible to envisage. Producer interests have come out strongly against the proposals, arguing that untrained customers cannot possibly judge what is an appropriately stocked shelf and the poor would suffer the most. Groceries are too important to be left to the private sector, they say.

We should be thankful that politicians consider running shops trivial enough to leave to the private sector. Or is it too important to be left to the government?

Part II: The Financing of Primary and Secondary Education in Australia

Funding

Constitutional responsibility for schooling lies with the State governments. Each State government provides schooling at the primary and secondary level and is responsible for school and teacher registration, curriculum content, course accreditation, student assessment, supply of buildings and materials, and teacher recruitment and employment conditions. These activities are mainly carried out by a central department responsible to a minister, although some have been devolved to the school level in a few States.

Parents have a right to choose non-government schooling for their children. In 1994, 28.5 per cent of Australian school children attended non-government schools, a proportion that has increased steadily from 22.5 per cent in 1977 (ABS 1994 & earlier issues). The strongest growth has been in the non-Catholic private sector, which has more than doubled its share over that period. Non-government schools are self-administered or managed collectively by independent organisations, but are subject to regulation. State departments administer the regulation of, and government funding for, non-government schools.

Table 1 Proportion of Australian students at each level of schooling by sector, 1993

	Sector		
Level	Government	Catholic	Independent
Primary	74.9%	18.9%	6.2%
Junior Secondary	68.3%	20.0%	11.7%
Senior Secondary	66.5%	19.8%	13.7%
Total Secondary	67.7%	19.9%	12.3%
Total	71.9%	19.3%	8.7%

Source: Australian Education Council (1994), Table 5A. Senior Secondary is years 11-12. Junior Secondary is years 7 to 10 in some States, 8 to 10 in others.

Table 1 also illustrates that the proportion of students in private schools rises with the level of schooling. This increase is due to the higher retention rates in private schools and because some students switch from government to private schools.

The State and Commonwealth governments provide most of the funding for schooling. In 1991, State governments provided 67 per cent of total outlays in the schooling sector, the Commonwealth government 20 per cent and private funding accounted for 13 per cent (EPAC 1993: 19).

The bulk of State government spending goes to government schools, but some grants and interest subsidies go to non-government schools and direct to parents of children attending those schools.

The Commonwealth government provides supplementary general recurrent grants (78 per cent of Commonwealth spending in 1990) and capital grants (9 per cent) to government and non-government schools (ABS 1992b: 177). Means tested subsidies are also paid directly to parents under Austudy. In 1991, 221,452 students received an average grant of $2,750 through secondary Austudy (Chapman 1992: 1), which was 35 per cent of those aged 15-19 who were attending school (AEC 1992a: 3, 19).

Special purpose grants (12 per cent of Commonwealth spending) are also provided to schools under various programs, such as the disadvantaged schools and special education program. These programs are often targeted at particular groups, rather than being a general subsidy to education.

In 1990, non-government schools received 54 per cent of Commonwealth school grants (62 per cent of recurrent grants, 26 per cent of the capital and other grants) (ABS 1992b: 177). Non-government schools must meet a host of requirements in order to receive funding. For example, they must be registered, which requires curriculum programs and physical facilities to be assessed every five years. An existing school must gain approval for many changes, such as offering more levels of education or changing from single sex to co-educational or vice versa (DEET 1991). Schools must be non-profit.

Expenditure on government education systems was $10,318 million in 1992-93 averaging $4,625 per student. Average expenditure per primary school student was $3,965 and per secondary school student was $5,649 (AEC 1994: 41, 42). These figures are called Average Government School Recurrent Costs (AGSRC) and include expenditure on public school works and direct expenditure on provision of buildings and grounds, but understate the true cost of providing government education. The opportunity cost of the land used by schools (what the government could get from renting out the land to its most valuable alternative use) is not included, nor are superan-

nuation costs or direct payments to parents.

Government schools are mainly funded by the State governments. Commonwealth per head funding was $319 at the primary level and $472 at the secondary in 1993 (AEC 1994: 44). Fees charged to parents at government schools are relatively small. For example, in 1988-89 they averaged $45 at the primary level and $120 at the secondary (EPAC 1993: 20). Funds raised directly by government schools are not included in the expenditure figures.

A portion of both Commonwealth and State funds (the recurrent grants) are allocated to non-government schools on a per capita basis according to a 12 category distribution scheme. The amount per student falls as the school moves into higher categories. Schools are categorised according to their private income relative to some standard level of resources. From 1985 to 1992 this standard level of resources was derived from the Community Resource Standard, which was a target resource level developed by the Commonwealth Schools Commission. In 1993 the Government moved to the AGSRC as the standard. The private income used to determine the category a private school falls into includes, not only fees, but also the dollar value of any difference between the national average and actual salaries paid to teachers and support staff.[13] New schools outside an approved system receive even less funding.

The poorest schools are in category 12 (their income is 0-10 per cent of the standard), the richest in category 1 (more than 88 per cent of the standard). The Catholic systemic schools are in category 10. The bulk (over 64 per cent) of the private schools and students were in category 10 in 1993 (AEC 1994: 47, 48).

Table 2 Income per student of non-government schools by source of funds, 1993

Source of Income	Catholic	Independent	Total non-government
Private	$1,120 27.8%	$4,269 67.1%	$2,094 44.1%
State	$874 21.7%	$789 12.4%	$848 17.9%
Commonwealth	$2,030 50.4%	$1,306 20.5%	$1,806 38.0%
Total	$4,024	$6,364	$4,748

Source: Department of Employment, Education and Training (1995), Table 3D.

[13] This paragraph was drawn from Australian Parents Council (1995) pp.3-4.

Table 2 shows that Catholic schools get almost three-quarters of their income from government. The richer Independent schools get smaller per student grants and one-third of their funding from government sources. The rest is private income, fees and donations. Private school fees averaged $1530 per year in 1991 (EPAC 1993: 20).

The upshot of all this is that in 1993 parents who sent their children to government schools received an average government grant of $3,965 for each primary student and $5,649 for each secondary student, not counting direct grants to parents.

Parents who sent their children to a non-government school received a maximum Commonwealth government grant of $1,701 per primary student and $2,486 per secondary student (the Commonwealth grant if you sent your child to a category 12 school). Those who sent their children to non-government schools in lower funding categories receive less. For example, those who send their children to a category 1 private school receive $423 per primary student and $671 per secondary student. Those at a category 10 school received $1,514 and $2,212 in 1993.

State government grants to private school students vary substantially from State to State. In NSW, Victoria and the ACT it falls with the school's funding category. In the other States it is a constant per head amount. In all States the per head funding is higher for secondary than for primary students. The average per student State government grant is $848 (see Table 2), around $700 per primary school student and $1,100 per secondary school student (DEET 1995: Tables 3A, B).

The current system of recurrent funding is roughly equivalent to each child receiving a voucher worth $3,965 at the primary level and $5,649 at the secondary. Fees at government schools are set equal to the voucher, so when the voucher is spent at a government school, it cannot be supplemented.

If the voucher is spent at a category 12 non-government school, a tax is paid. If we assume the average State grant is received, then per head government funding at a category 12 school is reduced to $2,403 at the primary and $3,593 at the secondary. In effect an implicit tax of $1,562 and $2,056 is paid. If the child is sent to a higher category private school, government funding is reduced further, that is the implicit tax is increased. For example, the cut in Commonwealth funding received when a child is sent to a category 1 private school means a tax of $2,840 at the primary level and $3,871 at the secondary level is incurred.[14]

The result of the current funding system is clear. In effect, it provides a generous per student subsidy, imposes a heavy tax on choice of a non-government school and taxes additional private expenditure on children's education at a very high rate.[15] If parents choose a private school, their government funding is reduced to about 60 per cent of average government school funding. The more they spend on school fees, the more funding is reduced. Parents must pay extra to send their children to a private school with fewer resources (the case at most Catholic schools). If parents want to send their children to a private school with the same or more per student resources than the average government school receives, they must pay for the bulk of their children's education out of their own pocket.

Table 3 Income per student of non-government secondary schools by funds and level of school, 1993

Source of Income	Catholic	Independent
Private	$1,533	$4,201
State	$1,116	$1,047
Commonwealth	$2,500	$1,719
Total	$5,149	$6,967

Source: Department of Employment, Education and Training (1995), Table 3B.

Table 3 gives an idea of the rate of taxation on extra expenditure. The extra private expenditure on education between Independent and Catholic secondary schools (on average parents at Independent schools paid $2,668 per student extra) resulted in the average per student government funding being cut by $850. Extra expenditure on education is in effect being taxed at the average rate of 47 percent (it cost $2,668 to buy $1,818 of extra education).

The current recurrent funding system is only roughly equivalent to this voucher arrangement because there are often many restrictions on parental choice within the government sector, such as

[14] The per head government grants for primary school students would be $423 from the commonwealth and an average of $702 from the State government, totalling $1,125, which is $2,840 less than the average government school receives. In states where the State government grant falls with the schools funding category, the implicit tax be higher.

[15] This interpretation of the Australian system of financing education was suggested to me by George Fane. See his analysis in Fane (1984).

zoning and capacity limits; State government grants to their own schools and to non-government schools are not constant per capita amounts; the average figures used vary from State to State and the government and non-government figures are collected on a different basis. Also the Commonwealth and State governments give out fixed levels of grants over broad ranges of school income. Within a funding category, the marginal tax rate on extra private expenditure is zero. Between categories it is greater than 100 per cent (a small increase in private income which moved a school from category 4 to 3 would reduce Commonwealth grants by $322 per secondary student in 1993).

Regulation of Entry

The Commonwealth and State governments can effectively decide which new proposed schools will be allowed to operate and can impose minimum and maximum enrolment levels. This power is used to protect existing schools from competition. Proposals for a new school must be vetted by a local panel, which considers the potential impact of a new school on existing schools (government and non-government). In 1991, the Commonwealth rejected 12 proposed new schools as 'not considered to be consistent with the planned provision of education in the proposed location. These new schools would be located in areas of significant enrolment decline and likely to have a detrimental impact on the educational programs and services in existing government and non-government schools' (AEC 1992a: 171).

Resources to Private and Public Schools

We can get some idea of the relative amounts of resources available to government and non-government schools by comparing the per student expenditure in the different sectors given in the National Report on Schooling. Comparisons using these figures should be made gingerly. The figures are collected on a different basis. The government figures are for a financial year, the non-government schools for a calendar year. The government data is collected at the system level for each State and Territory. The non-government data is collected for each individual school and aggregated to the State level. The many exclusions from the government school figures, such as staff superannuation and long service leave costs, funds raised directly from parents and the fact that public schools do not insure their buildings but are indemnified by the government, mean that the figures are biased towards understating the expenditure on

government schools. The exclusion of staff on-costs is particularly important as salaries account for over 70 per cent of expenditure on government education systems (AEC 1994: Table 17). These costs are included in the private school expenditures. Neither set of figures includes the opportunity cost of school grounds.

The per pupil costs at each level of schooling are difficult to compare across private and public schools because many private schools are combined primary and secondary schools, and expenditure at these schools is higher than average. Table 4 shows the figures for 1993 (government figures are 1992-93 financial year). Although the private sector had lower per student expenditure in primary and secondary schools than the government, its overall average was higher due to the combined schools.

Table 4 Per pupil expenditure, 1993

Level	Government	Non-government
Primary	$3,965	$3,138
Secondary	$5,649	$5,410
Combined		$6,613
Total	$4,625	$4,871

Sources: Australian Education Council (1994), Department of Employment, Education and Training (1995).

Despite the biases in the raw per student expenditure figures, per student expenditure in the government sector was higher than the non-government until 1992-93. This is illustrated in Table 5. The final column in Table 5 shows per head expenditure figures if the salary component of government figures are inflated by 20 per cent to account for the cost of staff superannuation payments and other on-costs.

Table 5 Per student expenditure in government and non-government schools

Calendar year	Non-government	Financial year	Government	Adjusted Government
1991	$4,197	1990-91	$4,305	$4,951
1992	$4,371	1991-92	$4,421	$5,084
1993	$4,871	1992-93	$4,625	$5,319

Sources: Australian Education Council (1992b), (1993) Tables 19 and 20; (1994) Table 18 and Department of Employment, Education and Training (1995) Table 2.

We saw in Table 1 that the proportion of students in private schools increases with the level of education, particularly for the non-Catholic private schools. But costs per student increase with the level of education, and so the different mixes of students between the government and non-government sector will influence overall per student expenditure. Non-government schools have a greater proportion of more expensive students. Table 6 shows how the distribution of students by level of education differs across the sectors.

Table 6 Proportion of students in each sector by level

Sector	Level		
	Primary	Junior Secondary	Senior Secondary
Government	61.0%	27.1%	11.9%
Catholic	57.3%	29.5%	13.1%
Independent	41.7%	38.2%	20.1%
Total	58.6%	28.6%	12.8%

Source: Australian Education Council (1994), Table 5A.

The government figures can be adjusted to reflect the different mix of students by using the government per head expenditure on primary and secondary schooling (see for example Table 4) and asking what the average per head expenditure in government schools would be if they had the same proportions of primary and secondary students as non-government schools. This is done in Table 7, and the result would be to increase government school expenditure by two to three per cent. This understates the effect of a different mix of students on government expenditure because it does not account for the fact that private schools have a greater proportion of more expensive senior secondary students.

Table 7 Expenditure in government schools if they had the same proportion of primary and secondary students as private schools

Year	Government	Adjusted Government
1990-91	$4,426	$5,090
1991-92	$4,549	$5,231
1992-93	$4,765	$5,480

The figures show that more is spent in total on the average

government student than the average non-government school student. After accounting for different mixes of students and the exclusion of salary on-costs, government school pupils received around 20 per cent more total expenditure than private school students.

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