

# **A Real Education Revolution:**

## **Options for voucher funding reform**

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## Executive summary

The federal government's 'education revolution' perpetuates the waste, inefficiency and perverse incentives that come with funding micro-management.

- The current school stimulus package is a prime example of this, with a range of ill-suited, cost-padded infrastructure works being laid out across the country.
- If Australia wants a real education revolution, it should ensure that government funding follows the student and not the preferences of education ministers or bureaucrats.
- One way to unlock the funding chains would be to introduce a school voucher, empowering parents to make educational choices and tackling systemic educational disadvantage.
- This paper explores a wide variety of voucher options. It is estimated that vouchers could cost federal and state governments anywhere from an extra \$700 million to \$10.3 billion each year.
- The fiscal cost of seven national voucher schemes is outlined below.

Voucher scheme	Estimated additional fiscal cost (\$ billions)
Universal voucher <i>(\$12,000 for each student)</i>	6.9
Differential voucher (students with disabilities) <i>(\$12,000 for students without disabilities; \$15,000/\$25,000/\$40,000 for students with disabilities depending on disability severity)</i>	8.0
Differential voucher (indigenous students) <i>(\$12,000 for non-indigenous students; \$15,000 for indigenous students plus \$7,000 relocation allowance for rural/remote area indigenous student)</i>	7.2
Differential voucher (low-income students) <i>(\$12,000 for students from medium to high income families earning more than \$1,000 per week; \$15,000 for students from low income families earning less than \$1,000 per week)</i>	10.3
Targeted voucher (students with disabilities) <i>(current funding for students without disabilities; \$15,000/\$25,000/\$40,000 for students with disabilities depending on disability severity)</i>	1.5
Targeted voucher (indigenous students) <i>(current funding for non-indigenous students; \$15,000 for indigenous students plus \$7,000 relocation allowance for rural/remote area indigenous student)</i>	0.7
Targeted voucher (low-income students) <i>(current funding for students from medium to high income families earning more than \$1,000 per week; \$15,000 for students from low income families earning less than \$1,000 per week)</i>	5.2

- Far from being radical, vouchers are a mainstream policy pursued in 30 countries around the world from the United States right through to developing countries such as Columbia.
- There is sufficient empirical evidence that vouchers encourage more choices in schooling, improve academic outcomes and are highly popular with parents.
- One of the greatest advantages of vouchers is that they allow children from disadvantaged backgrounds to access high-performance schools.
  - Many vouchers around the world are specifically earmarked for students from low-income families or minority backgrounds, or students with disabilities, that deserve the best education available.

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## Introduction

Since November 2007, the federal government has proceeded to implement its much-touted 'education revolution' platform.

Critical policies in this area have included laptop access for all students from years 9 to 12, trade training centres in schools, more investment in teacher quality and a national curriculum. In the 2008-09 budget, the government announced at least \$6.5 billion in new measures.<sup>1</sup>

Earlier this year, the government also announced a three-year \$14.7 billion 'Building the Education Revolution' stimulus package. Under the program, any of Australia's 9,540 schools are eligible for funds to build infrastructure on campuses.

The reality is that the government's policies largely amount to a continuation of funding methods firmly entrenched at both the commonwealth and state levels. The so-called 'revolution' in education amounts to little more than maintaining, and in some cases consolidating, the already heavy degree of centralised control over education

This control gives the appearance that the government is 'doing something' in education, yet at the significantly increased risk of waste, inefficiency and perverse incentives often associated with micro-managed government programs. The current schools stimulus package is a prime example of this, with a range of ill-suited, cost-padded infrastructure works being laid out across the country.<sup>2</sup>

The criticisms of the schools stimulus have come thick and fast, but they could be readily extended to other centralised school funding models used in Australia. Experts have variously panned the initiative as a 'fake education revolution'<sup>3</sup> and a 'squandered opportunity',<sup>4</sup> with the spending having more to do with 'political opportunism and spin than raising standards, improving outcomes and delivering a more effective and responsive education system.'<sup>5</sup>

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<sup>1</sup> Hon Julia Gillard MP, 2008, *Education Revolution 2008-09*, Budget Ministerial Statement, [http://www.budget.gov.au/2008-09/content/ministerial\\_statements/download/Education.pdf](http://www.budget.gov.au/2008-09/content/ministerial_statements/download/Education.pdf) (accessed 18 June 2009).

<sup>2</sup> Some of the key issues have been raised by Gavin Lower and Natasha Bitu, 2009, 'Millions handed to axed schools in stimulus debacle', *The Australian*, 12 June; Natasha Bitu, 'Hall costs go through the roof', *The Australian*, 13 June; Natasha Bitu, 2009, '\$2m handed over as closure looms', *The Australian*, 15 June; Justine Ferrari, 2009, 'Kevin Rudd's local school gets \$3m for double-ups', *The Australian*, 16 June; Gavin Lower, 2009, 'Plans axed as pledged funds fall short', *The Australian*, 19 June; and Paige Taylor and Justine Ferrari, 2009, '\$250,000 hall for remote Yulga Jinna Remote Community School 'a waste'', *The Australian*, 20 June.

<sup>3</sup> Ken Wiltshire, reported in Justine Ferrari, 2009, 'Schools infrastructure fund under fire', *The Australian*, 13 June.

<sup>4</sup> Louise Watson, reported in *Ibid.*

<sup>5</sup> Kevin Donnelly, 'School marks not fixed with bricks', *The Australian*, 15 June.

Even principals and school councils, who would normally accept government funding, come what may, have criticised various elements of the government's stimulus spending program.<sup>6</sup>

To engender a real revolution in the education system, there is a need to break down the walls of centralised school funding. Parents need to be empowered in their choice of schools, and schools and teachers need incentives to become more responsive to the diverse needs of their students.

One of the most enduring suggestions to break down government control in education is to ensure that its funding follows the student, and not the education ministers or bureaucrats. This method of funding is commonly known as portable school funding entitlements, or a 'voucher' system.

In essence, a voucher system provides each parent with government funds to spend at the school of their choice. By separating government financing of education from the operation of schools, vouchers can help break down monopoly control over school services delivery and promote competition between government and non-government schools.

As has been increasingly understood by both sides of the political spectrum, vouchers also represent a powerful tool to tackle educational disadvantage. This is because parents of children with special education needs, or from low-income families, are financially empowered to take their children out of failing schools and into high-quality educational institutions.

This paper examines key aspects of potential voucher reforms for the Australian school system. The next section will discuss some of the basic mechanics of voucher funding schemes.

Some potential voucher options, and their budgetary cost to governments, will be canvassed. Other issues will then be explored, including the impact of federalism and distributional issues. An examination of the international literature on the effectiveness of school vouchers will also be undertaken.

As will be noted below, for less than the total cost of the government's education revolution spending to date, Australian governments can embark on real funding reform – via a voucher system – that unlocks constraints on choice and meaningfully tackles educational disadvantage in our communities.

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<sup>6</sup> Henry Grosseck, 2009, 'Schools' pride felled by bullying bureaucrats', *The Australian*, 18 June; Justine Ferrari, 2009, 'Randwick Public School P&C says it's out of time', *The Australian*, 19 June.

## What are voucher funding schemes?

The basic attributes of a school voucher funding model were explained by Nobel Prize winning economist Milton Friedman in a classic 1955 article on the role of government in education:

‘Government, preferably local governmental units, would give each child, through his parents, a specified sum to be used solely in paying for his general education; the parents would be free to spend this sum at a school of their own choice, provided it met certain minimum standards laid down by the appropriate governmental unit. Such schools would be conducted under a variety of auspices: by private enterprises operated for profit, non profit institutions established by private endowment, religious bodies, and some even by governmental units.’<sup>7</sup>

In practice, different voucher mechanisms are used in an effort to promote parental schooling choice and break educational disadvantage:

- Universal voucher – all parents receive a voucher worth the same amount of money towards the education of their child
- Differential voucher – all parents of school children receive a voucher, for example adjusted either for the income level of the family or the costs of educating children with special educational needs (e.g. indigenous students, students with disabilities, students with a language background other than English, or geographically isolated students)
- Targeted voucher – only certain households or children receive a voucher. For example, vouchers could be confined to low income households, poorly performing students or students with disabilities.

These vouchers could either be provided directly to parents to spend on their child’s school education, as Friedman originally suggested, or the voucher entitlement could be sent directly to the school of a parent’s choice upon enrolment of the student.

More than 30 countries have adopted voucher-type schemes to fund the school education of young people. This reality demonstrates that the voucher system of funding is feasible to implement and has become mainstream education policy.

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<sup>7</sup> Milton Friedman, 1955, ‘The Role of Government in Education’, in Robert A. Solo, ed., *Economics and the Public Interest*, Rutgers University Press, New Brunswick.

## How much would different national voucher schemes cost?

An important consideration for any proposed policy change is its expected impact on the government budget.

This section provides costings for a variety of hypothetical voucher schemes funded in a collaborative fashion by the commonwealth and state governments. The information presented is based on 2006-07 school demographic data, unless otherwise specified, and relates to the recurrent costs of educating children in Australian schools.

For the purpose of this section, an assumption is also made that the voucher schemes do not induce a shift in enrolments by school sector. As will be noted later in this paper, however, the experience of school vouchers in other countries suggests that they do encourage significant movements in school enrolments.

### Universal vouchers

One voucher option would be to fund each Australian school student on an equal per capita basis, ending any sense of funding discrimination between students.

Table 1 provides indicative costings for a scheme whereby the commonwealth and states provide a \$12,000 universal voucher for each student.

**Table 1: Indicative costs of universal voucher scheme, \$ billions**

	Govt schools	Non-govt schools	Total
Current funding (a)	26.9	7.3	34.2
Universal voucher (\$12k) (b)	27.3	13.8	41.1
Change (b) - (a)	0.4	6.5	6.9

Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

It is estimated that this voucher package would cost governments an additional \$6.9 billion per annum.

### Differential vouchers

Another strand of school vouchers are differentiated schemes that segment and vary the amounts of funding parceled out to groups of students. In this paper, it is assumed that all mainstream students would receive at least \$12,000 per annum and, in different cases, students with disabilities, indigenous students and students from low-income families would receive extra funds.

## ***Students with disabilities***

Governments currently provide additional resources to students with disabilities, with students assessed as having more severe disabilities generally receiving more funds than their less disabled counterparts.

Even so, there are significant variations between the states in terms of how much funding is directed to each disabled student.<sup>8</sup> It has also been observed that there exists a large government funding shortfall for students with disabilities in non-government schools.<sup>9</sup>

One way to ensure consistency in how students with disabilities are funded is to create a national differential voucher where these students receive additional fund loadings on a standardised basis.

Table 2 provides indicative costings for such a voucher. In this scenario, \$12,000 is given to each student without a disability with extra funding allocated to students with disabilities according to three hypothetical categories of disability severity (level 1 \$15,000, level 2 \$25,000, level 3 \$40,000).<sup>10</sup>

**Table 2: Indicative costs of differential students with disabilities voucher scheme, \$ billions**

	<b>Govt schools</b>	<b>Non-govt schools</b>	<b>Total</b>
Current funding (a)	26.9	7.3	34.2
<i>Differential voucher (\$12k non-disabled)</i>	25.8	13.4	39.2
<i>Differential voucher (\$15k level 1 SWD)</i>	0.9	0.2	1.2
<i>Differential voucher (\$25k level 2 SWD)</i>	1.4	0.4	1.8
<i>Differential voucher (\$40k level 3 SWD)</i>	0.1	0.0	0.1
Total differential voucher (b)	28.2	14.0	42.3
Change (b) - (a)	1.3	6.7	8.0

Students with disabilities = SWD. Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

It is estimated that this voucher package would cost governments an additional \$8 billion per annum.

<sup>8</sup> Fran Ferrier et al, 2007, *Investigating the Feasibility of Portable Funding for Students with Disabilities*, Monash University Faculty of Education.

<sup>9</sup> Jennifer Buckingham, 2009, 'Private hurdle for kids', *The Australian*, 21 April.

<sup>10</sup> There is little information on the distribution of students with disabilities in different jurisdictions according to assessed severity. This paper uses the (strong) assumption that a nationally observed distribution of students of disabilities, according to support need, is consistent with previously published information for NSW. See Fran Ferrier et al, 2007, op cit.

## ***Indigenous students***

There has been widespread public concern about the persistent (average) academic achievement gap between indigenous and non-indigenous school students across Australia.

According to a compendium to the latest Productivity Commission Report on Government Services, the proportion of indigenous students that did not achieve national literacy and numeracy testing benchmarks was substantially higher than the proportion of all students.<sup>11</sup>

Although this achievement discrepancy is not a standard phenomenon across the country,<sup>12</sup> a number of proposals has been canvassed in recent years to help close the average school performance gap. These include scholarships for indigenous students to attend high-achievement non-government schools,<sup>13</sup> greater flexibility for schools servicing primarily indigenous students,<sup>14</sup> improved curriculum standards and better school attendance rates.

A policy proposal that has been largely overlooked so far is a voucher that enables indigenous students to move from poorly performing to high-performance schools. This would represent a demand-side reform helping to lift school participation and academic performance, complementing the largely supply-side solutions described above.

Table 3 provides indicative costings for a voucher whereby \$12,000 is given to each non-indigenous student with extra funding allocated to indigenous students (\$15,000). Given the lack of diversified school supply in remote and very remote areas, the voucher scheme will be complemented by a one-off allowance (\$7,000) for each eligible indigenous student to relocate to a metropolitan school if his or her family so chooses.

**Table 3: Indicative costs of differential indigenous students voucher scheme, \$ billions**

	<b>Govt schools</b>	<b>Non-govt schools</b>	<b>Total</b>
Current funding (a)	26.9	7.3	34.2
<i>Differential voucher (\$12k non-indigenous)</i>	25.7	13.5	39.2
<i>Differential voucher (\$15k indigenous)</i>	1.9	0.3	2.2
Total differential voucher (b)	27.6	13.8	41.5
Change (b) - (a)	0.7	6.5	7.2

Voucher amount includes \$7,000 relocation allowance for indigenous students residing in remote and very remote locations, calculated by weighting total number of indigenous students by the proportion of total students attending schools by remote/very remote geo-locations. Figures are

<sup>11</sup> SCRGSP, 2009, *Report on Government Services 2009, Indigenous Compendium*, Productivity Commission.

<sup>12</sup> The development economist Helen Hughes has led research that shows indigenous students learning in mainstream metropolitan and major regional centre schools are generally performing markedly better than their counterparts in rural and remote areas. See Helen Hughes and Mark Hughes, 2009, *Revisiting Indigenous Education*, CIS Policy Monograph No. 94.

<sup>13</sup> Noel Pearson, 2004, 'No danger of another stolen generation', *The Australian*, 5 November.

<sup>14</sup> Julie Novak, 2006, *School Autonomy: A Key Reform for Improving Indigenous Education*, CIS Issue Analysis No. 72.

based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

It is estimated that this voucher package would cost governments an additional \$7.2 billion per annum.

### ***Students from low-income families***

While Australian schools are recognised for providing a world-class education compared to many other OECD economies, concerns have been raised about student underperformance in our education system.

According to a federal government study, Australia has too long a ‘tail’ of underperformance linked to disadvantage.<sup>15</sup> This outcome is concentrated amongst students from low socioeconomic status (SES) communities, with the difference between students from the lowest SES quartile to those in the highest equating to more than two years of schooling in both reading literacy and mathematics.

To address this, governments have embarked on a range of measures including an emphasis on improving teacher quality, strategies for improved student engagement and retention and improving school transparency and accountability.

An appropriately designed differential voucher scheme should also be on the policy agenda, because it can give students from low SES backgrounds a better chance in life by accessing quality education in high-performance schools.

Taking the income levels of students’ families as a proxy for SES, Table 4 provides indicative costings for a voucher whereby \$12,000 is given to each student from a middle- to upper-income family and extra funding (\$15,000) allocated to students from low-income families.

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<sup>15</sup> Commonwealth of Australia, 2008, *Quality Education: The Case for an Education Revolution in our Schools*, Department of Education, Employment and Workplace Relations.

**Table 4: Indicative costs of differential low-income families voucher scheme, \$ billions**

	<b>Govt schools</b>	<b>Non-govt schools</b>	<b>Total</b>
Current funding (a)	26.9	7.3	34.2
<i>Differential voucher (\$12k middle to upper income)</i>	<i>16.3</i>	<i>10.5</i>	<i>26.9</i>
<i>Differential voucher (\$15k low income)</i>	<i>13.6</i>	<i>4.0</i>	<i>17.7</i>
Total differential voucher (b)	29.9	14.6	44.5
Change (b) - (a)	3.0	7.3	10.3

Voucher allocated to students from families earning less than \$1,000 per week. Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** Barbara Preston, 2007, 'The social make-up of schools'; SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

It is estimated that this voucher package would cost governments an additional \$10.3 billion per annum.

### **Targeted vouchers**

The final type of voucher reform considered in this paper are those exclusively targeted at specific elements of the school population. The intention of such vouchers is to provide students with additional education needs a financial opportunity to access the best schooling options available. Remaining students are assumed to remain on the funding programs that currently exist at the commonwealth and state levels.

#### ***Students with disabilities***

Table 5 provides indicative costings for a voucher allocated to students with disabilities, that vary in accordance to three hypothetical categories of disability severity (level 1 \$15,000, level 2 \$25,000, level 3 \$40,000).

**Table 5: Indicative costs of targeted students with disabilities voucher scheme, \$ billions**

	Govt schools	Non-govt schools	Total
Current funding (a)	26.9	7.3	34.2
<i>Funding (non-disabled)</i>	25.5	7.2	32.8
<i>Targeted voucher (\$15k level 1 SWD)</i>	0.9	0.2	1.1
<i>Targeted voucher (\$25k level 2 SWD)</i>	1.4	0.3	1.7
<i>Targeted voucher (\$40k level 3 SWD)</i>	0.1	0.0	0.1
Total targeted voucher (b)	27.9	7.8	35.7
Change (b) - (a)	1.0	0.5	1.5

Students with disabilities = SWD. Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

It is estimated that this voucher package would cost governments an additional \$1.5 billion per annum.

### ***Indigenous students***

Table 6 provides indicative costings for a \$15,000 voucher allocated to indigenous students.

**Table 6: Indicative costings of targeted indigenous students voucher scheme, \$ billions**

	Govt schools	Non-govt schools	Total
Current funding (a)	26.9	7.3	34.2
<i>Funding (non-indigenous)</i>	25.4	7.3	32.7
<i>Targeted voucher (\$15k indigenous)</i>	1.9	0.3	2.2
Total targeted voucher (b)	27.4	7.6	34.9
Change (b) - (a)	0.4	0.3	0.7

Voucher amount includes \$7,000 relocation allowance for indigenous students residing in remote and very remote locations, calculated by weighting total number of indigenous students by the proportion of total students attending schools by remote/very remote geo-locations. Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

It is estimated that this voucher package would cost governments an additional \$0.7 billion per annum.

### ***Students from low-income families***

Table 7 provides indicative costings for a \$15,000 voucher allocated to students from low-income families.

**Table 7: Indicative costings of targeted low income families voucher scheme, \$ billions**

	<b>Govt schools</b>	<b>Non-govt schools</b>	<b>Total</b>
Current funding (a)	26.9	7.3	34.2
<i>Funding (middle to upper income)</i>	<i>16.2</i>	<i>5.7</i>	<i>21.8</i>
<i>Targeted voucher (lower income)</i>	<i>13.6</i>	<i>4.0</i>	<i>17.7</i>
Total targeted voucher (b)	29.8	9.7	39.5
Change (b) - (a)	2.8	2.4	5.2

Voucher allocated to students from families earning less than \$1,000 per week. Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding. Sub-totals may not sum to totals due to rounding.

**Source:** Barbara Preston, 2007, 'The social make-up of schools'; SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

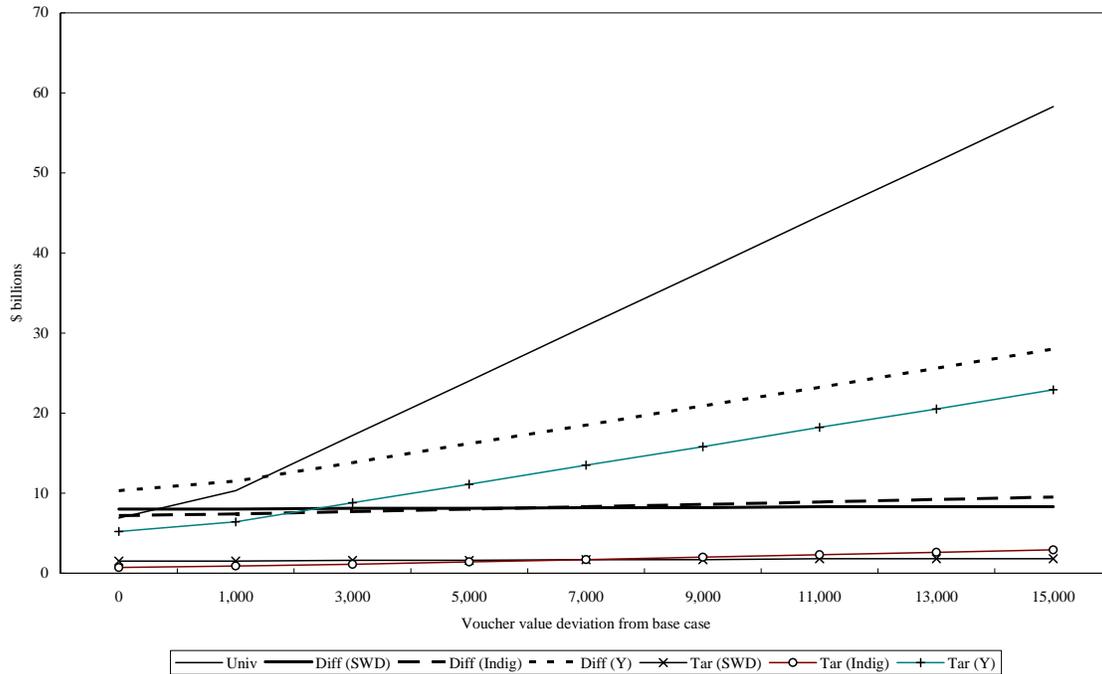
It is estimated that this voucher package would cost governments an additional \$5.2 billion per annum.

### **Assessing the options**

It is clear that an Australian school voucher scheme will require additional taxpayer resources to implement successfully. According to the case studies outlined above, a voucher could cost anywhere between an additional \$0.7 billion and \$10.3 billion per annum for commonwealth and state governments.

A broader perspective of voucher fiscal costs can be gleaned from a sensitivity analysis where the voucher funding rate, for each of the cases studied, is progressively increased (Figure 1).

**Figure 1: Voucher funding rates compared to base case**



Base case is defined as each of the voucher schemes examined in this paper. For differential vouchers, funding rates for non-mainstream students are adjusted only. Increases in funding rates for students with disabilities vouchers are averaged out across the three levels of disability severity. Indigenous voucher schemes include \$7,000 relocation allowance. Figures are based on publicly available data, and should be regarded as indicative estimates of cost magnitudes only. Excludes capital funding.

**Source:** Barbara Preston, 2007, 'The social make-up of schools'; SCRGSP, 2009, *Report on Government Services 2009*, Productivity Commission; IPA calculations.

While a \$12,000 universal voucher is less expensive than the differential voucher options – that provide funding of \$12,000 for each school student as a minimum amount – the universal funding option becomes prohibitively expensive as its base rate increases. Indeed, across most of the funding rate scales the universal voucher is the most expensive reform option.

By far the most cost-effective voucher options would be the targeted schemes for students with disabilities or indigenous students, reflecting the relatively small numbers of these students in the overall student population.

This analysis shows that a national voucher scheme would impose additional costs upon governments that already spend a collective \$39.3 billion on primary and secondary

education.<sup>16</sup> Whereas school vouchers might be rejected on a 'smaller government' policy criterion alone there are other considerations to bear in mind, not least the expected beneficial outcomes arising from vouchers.<sup>17</sup>

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<sup>16</sup> ABS, Government Finance Statistics, Australia, 2007-08, cat. no. 5512.0.

<sup>17</sup> According to Buckingham, 'these extra outlays would, at least in part, be offset by the efficiency of directing funding through families, and the downward pressure on schooling costs as a result of competition between schools.' See Jennifer Buckingham, 2001, *Families, Freedom and Education: Why School Choice Makes Sense*, CIS Policy Monograph No. 52, p. 32.

## Are there any other issues for school vouchers in Australia?

Some other voucher-related policy issues to consider include the status of commonwealth-state funding relationships, distributional issues, and school fees and parental contributions in a voucherised funding system.

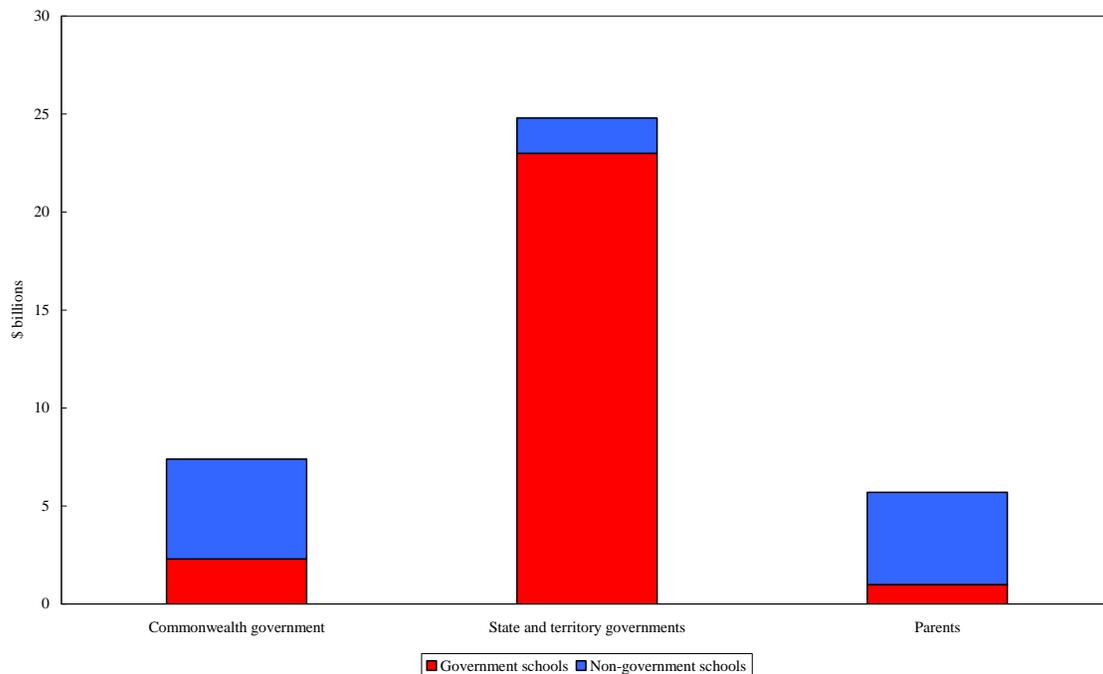
### How will the Commonwealth-state financial dimension affect vouchers?

The state and territory governments are constitutionally responsible for providing education to children of school age. They own and manage government schools, and provide substantial funding to this sector. They also regulate, and provide funds to, non-government schools.

In practice, the state government school funding system is heavily skewed towards their own government schools. In 2005-06, the states injected about \$23 billion in taxpayers' funding into government schools (Figure 2).

By contrast, states provided only \$2 billion to non-government schools. In other words, the states' funding contribution to government schools was almost 13 times that provided to Catholic and independent schools combined.

Figure 2: Recurrent funding for school education, 2005-06



Source: Independent Schools Council of Australia, 'Snapshot 2008.'

Although unilateral commonwealth action in the past has been decisive in promoting choice and quality – for example, the SES model encouraged the growth of low-fee independent schools – the prevailing distribution of funding by the states distorts parental choices in favour of ‘free’ (direct to individuals) government schools. In effect, a ‘choice penalty’ is applied to those parents who prefer to send their children to Catholic or independent schools.

If the full benefits of vouchers are to be realised, it is important that a voucher governs both the commonwealth and state government education funding streams. Indeed, this is the very reason why this paper has examined the financial implications of national schemes.

Clearly, a negotiation process will need to be conducted by governments if a national voucher is to become a reality. For example, one way to parse out a differential voucher model across the levels of government would be for:

- the states to fund a basic voucher amount (per capita entitlement) for all mainstream students, in both government and non-government schools;
- the commonwealth to fund additional voucher amounts for students with identified educational needs, either students with disabilities, indigenous students or students from low income families.<sup>18</sup>

Apart from ameliorating the additional funding burden faced by any one level of government, there could be other advantages in this commonwealth-state voucher split. A basic state voucher for mainstream students would mean that they could no longer discriminate between children in different schooling systems. A voucher mechanism would also modernise the confusing and, at times, archaic funding formulas currently used by the states.

For its part, the commonwealth can more effectively target its funding toward needs students. This would be consistent with its implied constitutional role of addressing equity concerns more generally.

Other suitable arrangements could be agreed by the commonwealth and states for universal or targeted vouchers respectively.

### **What about distributional issues, or the ‘more money for King’s’ argument?**

Despite the defeat of the Mark Latham-led federal opposition in 2004, and with it its notorious schools ‘hit list’ policy,<sup>19</sup> political controversy remains about the distribution of school funding.

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<sup>18</sup> Appropriate burden sharing may entail the commonwealth dedicating voucher base amounts for needs students in excess of those quantified in this paper.

<sup>19</sup> Mark Latham and Jenny Macklin, 2004, ‘Great Australian Schools’, Australian Labor Party Policy Document for 2004 Federal Election Campaign.

There remain occasional public bouts of antipathy within some segments of the community, including public sector teacher unions and other government school education lobbies, about high-fee independent schools receiving government funding for their enrolled students.

It is quite conceivable that any funding change which could accelerate the enrolment drift from government schools may renew debates about funding to the non-government school sector. The aforementioned vested interests may be particularly vocal in their opposition to change, potentially weakening political support for voucher reform.

The political ramifications of such criticisms could be ameliorated if the voucher was provided directly to parents. This arrangement would underline the fact that it is the exercise of choice by parents on behalf of their children, and not by governments or any other interest, that is paramount under a voucher system.

The amount of government revenues received by schools would become a by-product of parental choice. Therefore, any adverse funding shift felt by government schools, or any other school for that matter, would be directly related to their inability to respond to the demands of ordinary Australians concerning the quality of education.

### **Should school fees and parental contributions still play a role?**

In a number of countries, governments have stipulated conditions to ensure schools are not permitted to charge tuition fees on voucher-carrying students. Similarly, parents are in some instances prevented from topping up government voucher funding with their own contributions.

Such conditions might save parents some of their disposable income (although this could be offset by higher taxes used to fund vouchers). However, there are good arguments for fees and voluntary contributions to remain in a voucher funding environment.

A transparent fee structure, as currently applied by non-government schools, effectively serves as an important signal to consumers of the quality of educational services provided. For example, a higher tuition fee charged by a school is generally a marker of better educational quality that many parents are willing to pay.

Any government ban on charging fees, as part of a voucher system, would effectively remove price signals from school education hampering informed school choices by parents.

Many Australian parents, who send their children to non-government schools and pay taxes to pay for other children to attend government schools, willingly make financial sacrifices reflecting their commitment to their child's future. This behaviour puts in practice the old proverb that 'you do not value anything you do not pay for.'

It can be reasonably argued that the retention of a fee and contributions structure in Australian schooling will ensure that parents maintain a keen level of interest and engagement in student academic performance and school efficiency.

## Do vouchers work in school education?

Milton Friedman's ingenious idea of 1955 still evokes often passionate debate, even in those countries that have embraced voucher-style reforms.

Not surprisingly educational researchers have played a large role in this, as they attempt to tease out some of the effects of voucher funding. This debate is likely to continue for some time, nonetheless there is sufficient evidence to back claims that school vouchers are beneficial in a number of ways.

### Vouchers promote choice in schooling

Vouchers have the potential to dramatically expand the suite of attainable schooling options for children. By promoting school choice, vouchers give parents a greater sense of empowerment over the education system and makes schools more responsive to student learning needs.

In Sweden, the introduction of a universal voucher in 1992 has led to the number of private schools expanding from 70 to about 800 today.<sup>20</sup> The share of students that attend private schools quadrupled in ten years.<sup>21</sup> As noted by UK social policy expert David Green, 'the whole point of the Swedish voucher scheme was to stimulate the opening of new schools so that parents in poor localities had the power to choose.'<sup>22</sup>

There are instances where the relaxation of voucher eligibility constraints has fuelled a spike in demand for this type of school funding. The Milwaukee low-income voucher was subject to a strict cap of one per cent of the city's public school population prior to 1998, which was lifted in 1998 and again in 2006.

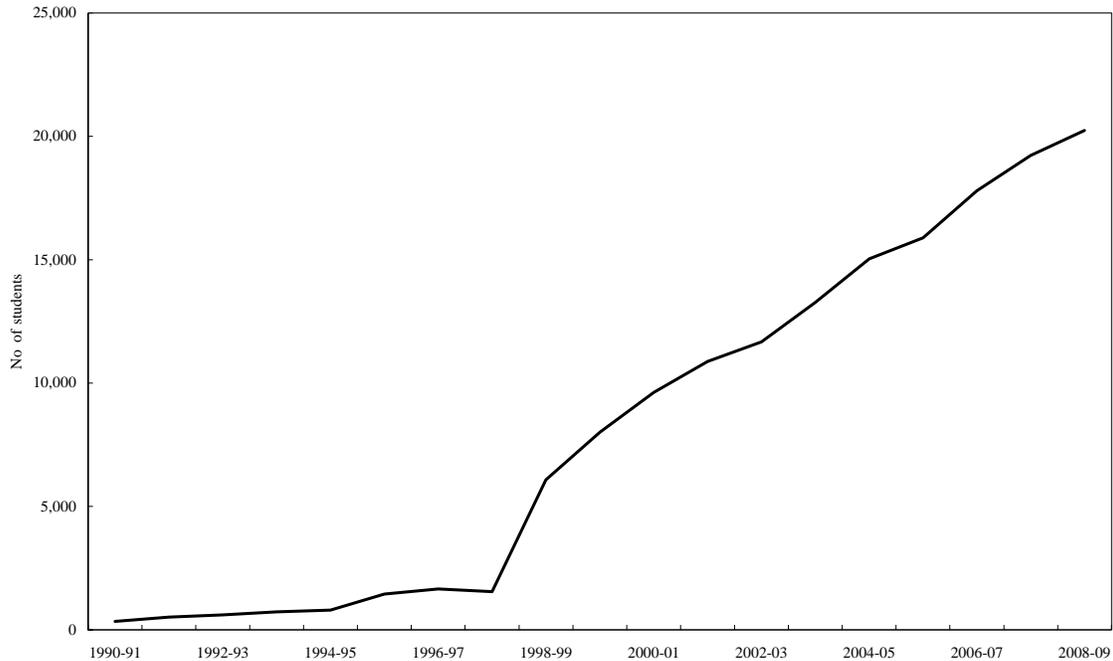
The lifting of the Milwaukee voucher cap helped to raise the numbers of students benefitting from the program (Figure 3), in turn increasing enrolments in private schools.

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<sup>20</sup> Michael Sandström, 2006, 'School choice reforms in Sweden', in James Stanfield, ed., *The Right to Choose? – Yes, Prime Minister!*, Adam Smith Institute, London.

<sup>21</sup> Johnny Munkhammar, 2007, 'How choice has transformed education in Sweden', *The Telegraph*, 25 May.

<sup>22</sup> David Green, 2007, 'Enhancing education vouchers', *Prospect Magazine* 140.

**Figure 3: Milwaukee Parental Choice Program recipients, 1990-91 to 2008-09**

Data based on headcounts as at September of each year.

**Source:** Wisconsin Department of Public Instruction, [dpi.wi.gov/sms/xls/mpcp\\_histnum\\_2008\\_11.xls](http://dpi.wi.gov/sms/xls/mpcp_histnum_2008_11.xls) (accessed 19 June 2009).

### Vouchers improve educational outcomes

Voucher programs around the world have been shown to improve the academic performance of students. This is because vouchers give parents the freedom to choose schools that work best for their children, and creates incentives for schools to improve their educational performance.

In a non-randomised study of the impact of the Cleveland voucher scheme, Metcalf found that recipients had significantly higher test scores than public school students in reading, writing and science.<sup>23</sup>

Peterson, Howell and Greene found that voucher students 'had gains of 7.5 national percentile points in reading and 15.6 NPR in math. These gains were achieved even through the students ... were among the most disadvantaged students in Cleveland.'<sup>24</sup>

<sup>23</sup> Kim K. Metcalf, 1999, 'Evaluation of the Cleveland Scholarship and Tutoring Program, 1996-1999', cited in Herbert J. Walberg, *School Choice*, Cato Institute, Washington DC.

<sup>24</sup> Paul E. Peterson, William G. Howell and Jay P. Greene, 1998, 'An Evaluation of the Cleveland Voucher Program After Two Years', Harvard University Program on Education Policy and Governance, Working Paper. This study was based on a small sample of two private schools, even though they represented 25 per cent of voucher students who transferred from public schools.

Similar test score gains by voucher recipients were found in Milwaukee.<sup>25</sup> In addition, a study by Warren found that students participating in the voucher program enjoyed better school completion rates than those in public schools.<sup>26</sup> It is estimated that if the graduation rates in public schools equaled that of voucher students from 2003 to 2007, the number of public school students graduating during that period would have been about 20 per cent higher.

An important finding in the literature is that vouchers also tend to improve the academic performance of students that remain in public schools. In the words of American education economist, Caroline Hoxby, vouchers are a policy akin to a tide that raises all boats.<sup>27</sup>

In 2005, the US state of Ohio introduced the EdChoice Scholarship Program that offers vouchers to students in underperforming public schools across the state (excluding Cleveland, which has its own voucher). A recent study by the Friedman Foundation for Educational Choice found that this voucher has improved the performance of failing schools, with reading and mathematics scores all improving due to voucher competition.<sup>28</sup>

Before being struck down by a court, Florida provided a voucher to students in failing schools.<sup>29</sup> A number of studies have backed the proposition that this performance-based scheme improved outcomes in public schools. For example, Greene found that student achievement improved at a faster rate in schools that received the lowest F rating.<sup>30</sup>

### Vouchers tackle educational disadvantage

Apart from facilitating greater choice in schooling, there has been growing recognition that vouchers present a powerful tool to redress various dimensions of educational disadvantage affecting young people.

Many of the American public voucher programs are specifically designed to target disadvantaged groups in the community. For example, in 2004 the US federal education department established a voucher scheme for low-income students in the Washington DC

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<sup>25</sup> Jay P. Greene, Paul E. Peterson and Jiangtao Du, 1998, 'School Choice in Milwaukee: A Randomized Experiment', in Paul E. Peterson and Bryan C. Hassel, eds., *Learning from School Choice*, Brookings Press, Washington DC; Cecelia Elena Rouse, 1998, 'Private School Vouchers and Student Achievement: An Evaluation of the Milwaukee Parental Choice Program', *Quarterly Journal of Economics* 113 (May): 553-602; Caroline M. Hoxby, 2006, *School Choice: The Three Essential Elements and Several Policy Options*, New Zealand Education Forum, Wellington; Rajashri Chakrabarti, 2007, 'Can Increasing Private School Participation and Monetary Loss in a Voucher Program Affect Public School Performance? Evidence from Milwaukee', Federal Reserve Bank of New York Staff Report.

<sup>26</sup> John R. Warren, 2008, 'Graduation Rates for Choice and Public School Students in Milwaukee, 2003-2007', School Choice Wisconsin.

<sup>27</sup> Caroline Minter Hoxby, 2001, 'Rising Tide', *Education Next* 1 (4): 69-74.

<sup>28</sup> Greg Forster, 2008, 'Promising Start: An Empirical Analysis of How EdChoice Vouchers Affect Ohio Public Schools', Friedman Foundation for Educational Choice.

<sup>29</sup> Under the former statewide 'A+ program,' the overall achievement levels of schools were graded from A to F. Students in schools that received two F ratings in any four-year period would be offered a voucher to use at any other public or private school.

<sup>30</sup> Jay P. Greene, 2001, 'An Evaluation of the Florida A-Plus Accountability and School Choice Program', Manhattan Institute.

area. Over 94 per cent of users during its first year of operation were African-American students.<sup>31</sup>

A study of the Milwaukee voucher by Witte found that it serviced disproportionate numbers of students from low-income, African-American, Latin American or single parent families: 'the MPCP ... [Milwaukee Parental Choice Program] ... was established and the statute written explicitly to provide an opportunity for relatively poor families to attend private schools. The program clearly accomplished that goal.'<sup>32</sup>

It is notable that vouchers have been implemented to help the disadvantaged in an increasing number of developing countries around the globe. For example, a targeted voucher has been used in Colombia since 1992 to defray the cost of providing a school education for poor families. Within two years of its introduction nearly 91,000 low-income students were serviced by the program.<sup>33</sup>

As outlined above, vouchers have been associated with an improvement in student academic performance. Such results have not only been detected for students accessing vouchers, but also for disadvantaged students that do not move to another school. This is because all schools must improve their educational services for enrolled students in a voucher funding environment, if they are to avert the threat of exit.

### **Vouchers come with high approval ratings by parents**

It is clear that wherever vouchers have been implemented they have been met with an overwhelmingly positive response from parents. This is not only illustrated by the increasing numbers of students receiving vouchers worldwide, but by surveys of parental satisfaction.

An evaluation of the Milwaukee voucher program indicated that 53 per cent of parents with children enrolled in voucher schools gave the school an 'A' grade, compared to 34 per cent of parents in public schools.<sup>34</sup>

For the Washington DC voucher about 66 per cent of parents who were offered a voucher gave their child's school an 'A' or 'B' grading, compared with 63 per cent of parents who were not offered a voucher.<sup>35</sup>

Closer to home, New Zealand implemented a small, pilot voucher scheme for children from low-income families in the late 1990s. Surveys showed that 97 per cent of parents were either 'satisfied' or 'very satisfied' with their child's progress at the school of choice.

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<sup>31</sup> Patrick J. Wolf, 2008, 'School Voucher Programs: What the Research Says About Parental School Choice', *Brigham Young University Law Review* (July): 415-446.

<sup>32</sup> John F Witte, 2000, *The Market Approach to Education: Evidence from America's First Voucher Program*, cited in *Ibid.*

<sup>33</sup> James Tooley, Pauline Dixon and James Stanfield, 2003, *Delivering Better Education: Market Solutions for Educational Improvement*, Adam Smith Institute, London.

<sup>34</sup> John F. Witte et al., 2008, 'MPCP Longitudinal Educational Growth Study Baseline Report', SCDP Milwaukee Evaluation Report No. 5, February.

<sup>35</sup> Patrick Wolf, Babette Gutmann, Michael Puma, Brian Kisida, Lou Rizzo and Nada Eissa, *Evaluation of the DC Opportunity Scholarship Program: Impacts After Two Years*.

Teachers and principals were also reported to be enthusiastic about the benefits of the scheme for students.

## Conclusion

Access to a quality school education is widely recognised by researchers and policymakers as a vital ingredient for full economic and social participation by young people as they transition into adulthood.

Australia provides a standard of education that is highly regarded around the world. In other words, it makes a good fist of getting towards the world-class system that parents, teachers and school administrators strive to achieve.

Nonetheless, there is scope for improvement. Our school funding systems are a hodge-podge of complexity that effectively discriminate between various groups of students. One only has to appreciate, for example, the funding plight of students with disabilities in non-government schools to know that the way Australia funds its schools needs to change.

Despite many funding streams being badged with the word 'targeted' they merely throw money at problems without addressing their root causes, such as the lack of sufficient incentive for schools to vigorously compete against each other in providing high-quality, tailored education solutions for children.

Current funding models conveniently keep the education bureaucrats at work, but at the cost of greater waste, inefficiency and perverse incentives as currently witnessed by the problems with the federal government's 'education revolution.'

It is for all of these reasons that Australia should seriously investigate the adoption of voucher funding for the school system, taking control out of the hands of distant education officials and back into the hands of parents.

Enabling funds to 'follow the student' to whichever school they end up is a simple, yet powerful, idea that has been shown internationally to promote choice, improve student outcomes, tackle educational disadvantage and improve parental satisfaction in schooling. Voucher experiments around the world have clearly shown that they work, for parents, principals, teachers and students alike.

So, without further ado, let the real education revolution of vouchers begin!