

A CLASS ACT

World lessons for UK education

By

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FOREWORD

By Dr Eamonn Butler

Director of the Adam Smith Institute

The debate on education

Over the coming year, the Adam Smith Institute is engaged on a major project — the *Better Education* project — to raise school standards by bringing new ideas into the organization and delivery of education in the United Kingdom.

The UK's education system was created with the best intentions of promoting equality and excellence through state funding and provision. But in practice it has become too over-centralized to respond to the diverse needs of today's more mobile population. Its uniform approach squeezed out innovative alternatives against which its performance could be judged. Since parents were denied choice, the service came to reflect the opinions of its producers rather than its customers. Better-off families could afford to move into the catchment area of a better state school: but those whom the system was intended to help the most became those most failed by it.

With the hindsight of problems like these, governments and policymakers today are much less committed to the idea that the state should take detailed control of the provision of essential public services. A debate has already opened up in the health sector, to the effect that taxpayers' money might be better spent if some clinical services were actually managed and provided by private or voluntary hospitals and care groups.

The focus of our project

The Adam Smith Institute project examines the scope for such *mixed models of provision* in the education sector. We ask how to *empower parents*, as the users of education, and how to customize individual schools to suit their needs and wants, while still guaranteeing an *equality of opportunity* for all.

Our focus therefore is on *deliverable change*, opening the education system to *innovative approaches* that are more in tune with our post-industrial world, more able to deliver a *customized service* to each child, and under constant incentive adopt *best practice*. We are exploring how to give all

parents a *realistic choice* among schools that are *diverse* in terms of their religious or moral ethos, their curriculum strengths, or their teaching methods; and how the *benefits can be measured*. We are asking what new *provision structures* will work best, such as parent-led collectives, charities, non-profit branded educational companies, or private consortia; and how the market for equipment supply, estate management, administration, personnel, and other back-office services will work. And we seek to develop ideas on the *funding* of education, so as to unite performance with reward, in ways that do not leave poorer families condemned to suffer a second-class service.

The message of this report

This report by Stephen Pollard kicks off our project. It explains how, after years of state control and monopoly in education, the world is now turning instead to the *empowerment of parents and diversity of provision*. After so long, many of the first steps have been small and faltering; but there seems little doubt that *choice* is becoming the increasingly important principle behind the provision of education for the future.

The paper looks in particular at systems where *education is still paid for wholly or largely through taxation*, but where the actual *provision of schools is no longer a public-sector monopoly*. In some countries, this public-funding/private-provision model has been accepted for years, and the competition it engenders keeps all schools, including state schools, up to the highest standards of performance. In other countries, new, publicly-funded but privately-run schools are much more recent and less widespread; and yet there is still strong evidence of their beneficial effect on the whole sector.

The paper reveals that an old idea, the *education voucher*, is also spreading, and can be expected to spread much more. It has been pioneered as a way of giving even the poorest families access to the best of education; and now, new kinds of independent schools are springing up to meet the demands of this new liberalization of taxpayer funding. *Tax incentives*, too, are being used to promote diversity among schools, to allow poorer families to choose, and to induce better-off taxpayers to support philanthropic voucher systems to give choice to those less fortunate.

There are plenty of ideas in this paper to inform and stimulate a UK debate on the future provision of education and the scope for choice and diversity. Our aim in the coming months is to ensure that debate takes place and lays the foundations for *positive, practical change*.

OUR CHANGING WORLD

The priority of reform

Across the world in recent years, *education reform has become an ever-greater priority*. Even in those countries with standards to which we in Britain sometimes look enviously, it is widely recognized that today's school systems can always be improved.

What is particularly striking is that, despite there being almost as many different initiatives as there are countries, *these developments tend to have one over-riding theme: choice*. Each one increases the educational options available to school-aged students and makes it easier for parents to move their children from one school to another. And they expand the numbers of taxpayer-funded schools run, not by politicians, but by teachers, parents and other directly interested parties.

Choice has also become the foundation of education policy in Britain, at least in intent if not reality. For the Conservatives, Free Schools would fashion a system which allowed every school in the land to develop as it saw fit, responding to the demands of parents. For Labour, the combination of Specialist Schools, City Academies, Foundation Schools and — a likely development — a British version of Charter Schools, will lead to the creation of a variety of different schools which together will cater for every possible need.

But for all the energies now (at last) being directed towards refashioning the state sector, the debate is bedevilled by a widespread ignorance of what is actually happening elsewhere. Caricature — that, for instance, all American inner city schools are violent — takes precedence over fact. *This short paper aims to provide policymakers with some specifics: information about some of the basic educational models which other countries are adopting.*

Diverse examples

In *Denmark*, for example, *parental choice and control* has always been a foundation of policy. And now, the Danish government provides vouchers to all students who wish to attend independent schools, which has led to the emergence of a significant, diverse and accessible independent-school sector helping the system to cater for the wide variety of different needs among the school-age population.

Similarly, since 1991 the *Swedish* Ministry of Education has offered *vouchers* to all students, subject to the availability of places in independent schools.

In 1988, *New Zealand's government* undertook a dramatic reform of its education system. Nationwide, it replaced the old system of district school boards and student catchment areas with *autonomous Charter Schools*, an Educational Review Office (similar to Ofsted) and a voucher programme for low-income students.

The United States has been home to many of the most interesting developments in recent years, prompted by grass-roots movements and politicians from both political parties: developments that include *Charter Schools, public vouchers, private vouchers, educational savings accounts and tax credits*.

The following section looks at all these initiatives in more detail.

CHARTER SCHOOLS

America's grass-roots movement

In the United States, changes in public policy have generally been instigated by the popular support of grass-roots activists for education reform. The continuous growth of these movements has been fostered by concerned business people, charitable foundations and non-profit groups, teachers, civil rights activists, politicians, and hundreds of thousands of parents.

Support for school choice in the United States is not linked to any social or demographic group — its proponents are poor, middle-class, and rich; black, white, and Hispanic; Republican, Democrat, and independent.

School choice is manifested in the Charter Schools, public vouchers, private vouchers, education accounts and education tax incentives that are springing up in state after state. The drive behind it has been the common recognition that the management of education by municipal monopolies is deeply flawed: the centralization of authority was associated with increasingly rigid and detailed regulations, which cost ever more but did little to increase standards — and often produced even worse results.

There are today some 2000 Charter Schools in the US, where they first took off as a means of encouraging diversity and choice within the state school system, based on the principle that state education needed to be expanded to offer more choices to pupils and parents.

Originally a New Democrat idea, they were intended, as the book *Charter Schools — A Plan for Action* put it, to free innovators from “the bureaucratic restrictions of traditional schools. In return, these innovators must be held accountable for results and required to measure up to the standards they set for themselves. These new schools will be schools of choice; they must attract and hold students or go out of business”.

A *public sponsor* (usually the state board of education or the local school board) grants a *charter* to an organization (of parents, charities, or sometimes business) to supply a *clearly defined educational programme*. Tax funded, these schools *cannot charge for tuition*, and their charters are subject to periodic renewal — usually every five years — by the public sponsor.

The best Charter Schools are thus much like tuition-free independent schools: they have the same pressures to succeed (the knowledge that if they don't, they will not have their charter renewed) without restricting their entry to the well-off. Crucially, they are *exempt from many of the local and state regulations governing municipal schools*; they have financial and legal autonomy; and they can hire and fire teachers as they see fit.

Because of local politics, however, they often have to operate with a smaller per capita funding level than the municipal schools, and are subject to far more onerous operating conditions than traditional tax-funded schools. The laws governing their establishment vary: some US states provide start-up grants, on-going technical assistance, or both; but many do not. In some states, existing non-sectarian independent schools have been allowed to convert to charter status.

The educational establishment in the United States initially resisted the concept of Charter Schools, arguing that they would become schools for the social and economic elite and would cherry-pick the best students, leaving only the most difficult pupils behind: the slow learners, those with behavioural problems, and the underachievers. But that was fundamentally to misunderstand the point of Charter Schools. *Almost all the mainstream Charter Schools are non-selective*, and have no say whatsoever in which pupils are admitted. Those that do select tend to the opposite of cherry-picking: they *specialize in precisely those failing students* whose parents want an alternative to their being left behind.

The main point to note about Charter Schools is that they *open up the tax-funded sector to a whole new variety of providers*. They allow *innovation* to come into the system, and introduce the ethos of the independent sector of *success* as the sole criteria of existence. According to research conducted by the Center for School Change at the University of Minnesota, students at the twenty Charter Schools in Minnesota made performance gains of 1.3 to 2 years in various subjects.

There is now a critical mass behind Charter Schools, such that in the District of Columbia one in ten of all pupils attends a Charter School; in Kansas City, Missouri it is nearly one in seven; and in Arizona one in five of all schools are Charter Schools.

The figures will become a lot higher as time goes on. Serious policymakers are now wondering what an all-Charter system would look like.

Transforming New Zealand's education

New Zealand has also introduced Charter Schools, to great effect. The restructuring of public education began in 1988 based upon the transformation of government-administered schools into *locally-managed Charter Schools*, the creation of an autonomous Ofsted-style agency to assess the schools, and the establishment of a small *voucher* programme for low-income students.

These changes have resulted in the *devolution of power, responsibility, and information to parents, communities and teachers*. A seven-year study of the reforms concludes that they have brought “new energy and focus” to schools. Self-managed Charter Schools have “increased the local financial and human resources available to schools. Teachers and principals have paid more attention to what they do. Many principals and teachers...see positive gains for children”. *An astonishing 82 percent of parents now claim to be satisfied with their children's education*. Among parents of voucher students, 97 percent are satisfied or very satisfied with the education their children are receiving at an independent school.

The New Zealand experience shows just how Charter Schools work to benefit the less well-off. For years, strict zoning legislation bolstered inequities as the higher-income and predominantly pakeha (white) communities benefited from better municipal schools, whilst lower-income Maori and Pacific Island families had no choice but to attend local schools that were caught in a spiral of failure.

New Zealand's education system was transformed almost overnight. To improve “the effectiveness and efficiency of resource use in education”, as an official policy document put it, the then Labour government *shifted authority from the central Department of Education to individual schools*. The Department of Education and its 4000 employees were replaced by a Ministry of Education with a staff of only 400. *A board of trustees for each school replaced the existing district school boards* so that “the running of the institutions [became] a partnership between the [education] professionals and the particular community”. At the same time, the government *removed school zoning*. This measure was designed to *improve equity* in enrolment, to give families a *choice of educational alternatives*, to encourage *healthy competition among schools* for students, and to promote *better educational practices*.

De-zoning has provided a majority of families with a choice of schools: 85 percent of parents surveyed said their child was attending their first choice of school. The choices of the remaining 15 percent of parents have been limited by transportation, the school's enrolment, and cost.

Unlike US-style Charter Schools however, the New Zealand reforms miss out on one crucial tool: the flexibility for public-sector schools to open and close according to their ability to attract students. The equivalent of the British “surplus places rule” is as great an obstacle to progress in New Zealand as it is here: no new schools may be opened if there is space for students in existing schools. Students and teachers can thus be stuck in failing schools simply because the popular schools are filled to capacity.

Allowing schools to open and close according to parental demand is critical to competitiveness and accountability: Unfortunately, New Zealand's best Charter Schools have waiting lists, while some students, often from low-income Maori families, are still trapped in failing schools.

SCHOOL VOUCHERS

The rationale behind the education voucher is straightforward: Why should those parents and children who can't afford school fees (or the cost of a house in a decent catchment area) be the only ones who are denied a real choice? And is it not a very positive incentive on schools to perform, if dissatisfied parents can realistically move their children elsewhere?

Although the various voucher programmes which have been established vary in their details, their fundamental workings are the same. To give parents real power – the power of the chequebook — those who want it are *credited with a sum equivalent to the money spent on sending their child to a state-run school*. That credit can then be *spent at an existing independent school* — or, more probably, *at one of the new schools that emerge* to cater for these voucher-enabled pupils.

Enfranchising poor students in the US

As Robert Reich, the former Secretary of Labor under President Clinton, put it in the *Wall Street Journal* recently: “The only way to begin to decouple poor kids from lousy schools is to give poor kids additional resources, along with vouchers enabling them and their parents to choose how to use them”.

Contrary to the arguments of their opponents, *vouchers are most popular amongst the poor and those who feel disenfranchised from state-run schools*. The Joint Center for Economic and Political Studies, an African-American think tank, released a poll at the end of last year showing that 60 per cent of African-Americans support vouchers, (a figure which rises to over 75 per cent among those under 35). Last autumn, the Black Alliance for Educational Options, an umbrella group for black poverty groups, began a pro-voucher campaign.

Support for voucher programmes grows daily, and they are springing up all the time. It would be wrong to overstate the numbers — the idea is still in its infancy. But already some 50,000 children benefit from voucher schemes funded by philanthropists; and although the number of state-funded voucher pupils is less than 20,000, there may soon be hundreds of thousands, given that President Bush a big supporter of the voucher principle.

It is true that President Bush has backed away from his original large-scale voucher proposals. Nevertheless, the Bill currently going through Congress marks an important introduction of the principle of taxpayers' money being used to purchase education services from non-state providers, introducing voucher-type funding for out-of-school education (such as extra-curricula lessons and remedial classes).

Where vouchers have been introduced, *the results have been beneficial in terms of student performance*. A recent study by researchers at Harvard, Georgetown and the University of Wisconsin found that poor black students in Dayton, Ohio, Washington D.C., and New York City have used their \$1700 voucher to outperform their peers by an average of 7 per cent in reading and maths.

In Florida, another pioneering scheme offers a “money back guarantee” to children in failing schools. If they have been stuck there for at least two years, then they are given a voucher to spend where they like. In this academic year, some 50 schools have been forced to offer a voucher — and 95 percent of pupils taking advantage of it are black, ninety per cent of them being poor enough to qualify for free school lunches. School standards are now rising across the board in Florida.

Modest but popular reforms in New Zealand

New Zealand has also experimented with vouchers, beginning in 1996 with a small, pilot programme for children from low-income families. The aim of the Targeted Individual Entitlement Scheme (TIE) was to “lift the educational achievement” of low-income families and make “it more likely that these families [would] get the kind of education that they want for their children”.

The TIE programme provides 160 students with *funding for the independent school of their parents' choice*. It also provides the student's family with an allowance of NZ\$900 (about £275) for primary students and NZ\$1,100 (£335) for secondary students to cover additional expenses such as uniforms, books, and extra-curricular activities.

Primary and secondary school students qualify to apply if their family income is less than NZ\$25,000 (£7,800). The voucher is an all-or-nothing

entitlement and parents are required to contribute only to extra-curricular expenses that exceed the allowance.

Surveys revealed that *97 percent of parents whose children were selected by TIE rated themselves as either satisfied or very satisfied with their child's progress. Teachers and principals were also enthusiastic* about the benefits of the scheme for the pupils, who were thought to be progressing as well or better than fee-paying students. They hoped to see the voucher programme continued and expanded to benefit more students. The nearly unanimous enthusiasm of principals is remarkable, considering that many schools admitted TIE students ahead of long waiting lists of fee-paying students, while the majority of schools absorbed expenses that the TIE families could not afford. But because the scheme remains tiny – 160 new students per year — no alternative marketplace of independent schools has yet arisen to cater for the demand.

Denmark's long tradition of choice

Denmark, on the other hand, has a *long tradition of a large, publicly supported independent sector, with vouchers supported by all parties*. This public funding of private choice has produced a diversity of educational alternatives in Denmark that is unparalleled in the Western world.

The Danish concept of public education differs fundamentally from that established by Luther and Calvin in the first European “public” school systems and imitated by the Puritans who established the first American “public” schools. The religious founders of “public education” in most Western countries sought to remove parental control from the education process in order to propagate adherence to a single system of beliefs. The notion that children's education should be determined not by their parents but by the state is still held by the educational establishment in most Western countries.

The Danish educational system, however, developed from the belief that *parental authority over education should be paramount* and that a truly democratic system of government-run education would be impossible without a *range of independent, publicly funded, alternatives*. The Danes believe, as an OECD report on school choice put it in 1995, that: “the free choice of school and education is of central importance to a well-functioning education system. Apart from the fact that it is a goal in itself to give the students a free choice, a free choice of school and education will also further the schools' initiative and industry”.

Approximately **75 percent of the Danish education budget supports pupils at independent schools**. The Ministry of Education pays a per capita sum to each independent school, the exact amount varying depending upon the size of the school, the age of the students, and the age of the teachers.

Independent schools are required to charge all parents except those for whom it would cause undue financial hardship. The Danes believe that a family's commitment to independent education should be substantiated by a financial contribution, and that parental interest and control would be diminished if independent schools were financed entirely by the public purse. The extent of competition between schools prevents tuition fees from escalating.

The Danish voucher system is a classic demonstration of how **the merits of such reforms extend not just to those pupils whose parents take advantage of the voucher but to the majority who attend government-run schools**. State-run schools are not regarded as being inferior to independent schools, as they often are in countries without school choice. Parents do not choose an independent school for the usual, British reasons — so that their children associate with a more affluent peer group, or because of better facilities or a more rigorously academic approach. They select their school for its pedagogical approach, for its principal and teachers, or because they feel their child would benefit more from an alternative educational environment. Danish municipal schools are successful because, if they are not, they face the threat of a mass exodus. The number of parents choosing independent schools grew by 50 percent in the course of a few years during the 1980s. The municipal schools responded when it became clear that they were losing students.

In order **to establish a school and receive public vouchers**, a parent or educator needs only to gather a few willing families and establish a board of governors. Smaller schools receive an allocation per pupil that is up to 1.45 times that of larger schools. **Schools are free to determine their own student enrolment; and they may select or expel students on whatever grounds they choose**, reflecting a belief that such freedom is necessary both to attract innovative and visionary educators and to provide schools that can cater to diverse student bodies.

The autonomy of independent schools is curtailed only by the regulation that they must pay teachers the same as municipal schools. However, this seemingly minor restriction means schools have little control over 63

percent of their budgets. As Charter Schools in the United States and New Zealand have proven, freeing schools to make their own salary decisions has proven to be beneficial for the teachers as well as for the educational achievement of the students.

A beneficial influence in Sweden

If Denmark has a long history of choice, the situation in Sweden could not have been more different. High tax rates meant that school fees were unaffordable to all but a tiny number of parents; so as recently as 1990 less than one per cent of pupils attended independent schools — the lowest proportion in the Western world. But far from Swedish schools providing a model education, standards were low and the schools paid no attention to parental concerns. They didn't need to – their funding would remain intact however bad their results.

By 1991, popular dissatisfaction had grown to such an extent that the new right-of-centre government had made education reform one of its key pledges. The 1991 legislation *devolved power from the central government to parents, municipalities and independent schools*. Crucially, the reforms also introduced an element of parental choice in education. For the first time, *parents were free to send their children to any government school within their municipality — or to an independent school, with public funding following the child* to the school chosen. Independent schools approved by the new National Agency for Education would receive 85 percent of the cost of educating a student in the municipal school system. Within a year, *the number of independent schools doubled*.

Swedish governments have changed the voucher amount twice since 1991, first reducing it from 85 to 75 percent and, then, in 1997 raising it to (in theory) 100 percent of municipal schools' funding per student. The National Agency for Education now receives *hundreds of applications each year from parents and educators hoping to start their own schools*. In 1999 it received 195 applications and in 2000 the number increased to 269, due largely to the increased demand for independent secondary schools.

Though they began as a tiny minority of the education supply, independent education is *a growing and diversifying sector whose influence for good on Swedish education is out of all proportion* to the current proportion of the student population — 3.6 percent in 1999 — that it serves. The number of independent schools is growing by between 0.5-1% and educating

approximately 3500 more students every year, at a time when the school-age population in Sweden is declining.

The fastest-growing schools are those started by *teachers, parents and educators who were dissatisfied with the education provided by their local government schools*. Each new school offers students an educational alternative in response to a local demand and is paid for by the public voucher.

Sweden's voucher system has been an enormous step toward decentralization, but all schools are still heavily regulated by central government. Both independent and municipal schools must follow curricula imposed by the government, which stipulates the exact number of hours each mandatory subject must be taught, and all students must sit local government tests four times in their academic careers.

A recent report by the OECD recommended that Sweden should continue to improve the effectiveness and efficiency of its education system by pursuing further the decentralization process started in 1991. It recommended *more explicit independence for school administrators* and *greater parental influence on schools*. In return for increased local control, the Ministry could demand *greater accountability and quality controls from the municipalities*, as New Zealand has done.

EDUCATION TAX INCENTIVES

The power to focus your taxes

The American public has clearly become steadily less satisfied with the government's management of education and is devising ways to regain control of schooling. Charter Schools and voucher programmes reflect this inclination, as does the development of the United States' newest education policy instrument: tax credits.

Tax credits for educational spending developed from the premise that *taxpayers and parents should have some power to direct their taxes to their preferred system of education*. Tax incentives can be designed either to reduce the barrier to independent schooling for middle-income and lower-income students, or to provide the families at the very bottom of the socio-economic ladder with the option of independent schooling for their children.

Growing numbers of politicians and groups that support citizens' rights are advocating tax credits as an alternative to public vouchers. In Minnesota, Iowa and Louisiana, tax incentives have been enacted to reduce the financial barrier to independent school enrolment, making it possible for a greater proportion of the population to afford independent schooling for their children. There are also tax-credit schemes of more limited scope in Colorado, Idaho, Virginia, Georgia, New York, Michigan and Idaho.

Arizona takes the idea of supporting the educational expenses of one's own children a step further, encouraging taxpayers to expand the educational options of other peoples' children. Since January 1999, the state's residents have been able to claim an income-tax credit worth up to US\$500 for donations to private voucher programs based in Arizona — helping lower-income families to expand their educational choice. If an Arizona taxpayer donates up to US\$500 to a private voucher programme, the full amount may be subtracted from the donor's state income-tax bill. Parents may not claim the credit for tuition paid for their own dependents.

CONCLUSION AND SUMMARY

An idea whose time has come

As we said at the outset there are almost as many education reform programmes as there are countries, even states. In his IFC study, *The Global Education Industry* (IEA, 1999), Professor James Tooley has provided a very comprehensive guide to the various projects and education companies that are springing up across the world.

From a British perspective, however *it is the numerous choice initiatives that seem to cut with the grain of public opinion*. Although, compared with the examples cited, it might seem as if we are still trapped educationally in the Twentieth Century, it is clear that the undercurrents for change are propitious. Those who advocate choice are no longer shouted down as lunatics — indeed, both parties now profess to embrace choice (or variety, as they put it) as their guiding philosophy.

It is clear that *choice— and the opportunities for innovation and opening up of supply — is an idea whose time has come*. And as other countries show, there is no *shortage of practical ways* of achieving it.

Typically, *the demand for choice does not come from the well-off* — who can afford to pay for private schooling or for a house in the catchment area of one of the better state schools — but from the poorest, who find themselves shortchanged by an unresponsive, centralized and bureaucratic system.

Charter Schools provide one route to education choice. The education authorities grant a charter to private, charitable, or parent-led groups to provide a specified standard of education, and pay a per-capita fee roughly equal to the spending in the public sector.

This principle immediately brings innovation, parent-focused management, and diversity into the *provision* of taxpayer-funded education. There are *no tuition fees*, so they are available even to the very poorest. They *do not typically operate a selection policy*, except sometimes to select students with special needs.

Charter Schools are *popular, and growing in number*. They seem to work best when they are freed from as much state regulation as possible, such as in the recruitment, retention and remuneration of teachers. Essential for

success is that there should be no “surplus places rule” — in other words, that *Charter Schools which are performing well should be able to expand and attract students from schools that are failing.*

The *non-public provision of taxpayer-funded education* is the norm in some countries such as Denmark, where 75% of the county’s education budget is used to buy education from independent schools. Many of these schools are small and have been set up by parents and teachers in order to provide for specific local needs. But *the principle of choice has a beneficial influence on the quality of the whole education sector*, keeping the public-sector schools up to high standards too.

The education voucher is also growing in many countries, again as a way of helping the least advantaged families to express a choice in the education of their children. Indeed, they can be targeted specifically at these groups.

The idea of the voucher is that parents who wish to move their child from a state school and into an independent school are given a credit equal to the cost of the state education, which they can put towards the cost of the independent schooling. Where it has been tried, new independent schools have sprung up, often at the initiative of teachers or parents, to make use of this new freedom in how taxpayers’ money is spent.

Incentives such as tax credits are another way of spreading choice by enabling more people to afford independent education. The incentives can be focused on the poorest families or those with particular needs. They can even be used to encourage contributions to philanthropic voucher schemes that target their help on the most needy groups.