

DELIVERING BETTER EDUCATION

Market solutions for educational improvement

James Tooley, Pauline Dixon and James Stanfield



Adam Smith
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1. Three core principles

Despite cross-party enthusiasm for delivering better education, it continues to fall short of public expectations. Recent figures show that, after 11 years of schooling, about seven million adults in England still cannot find the right page for a plumber in the *Yellow Pages*. A fifth of all adults cannot read or write at the level expected of an 11-year old. For numeracy the figures are even worse – with 40% of all adults having numeracy skills lower than that expected for 11 year olds. This leads to a spiral of decline amongst some communities – with high levels of crime and disaffection amongst those with low levels of literacy and numeracy. Business and the economy also suffer, with the Skills Task Force estimating that illiteracy and innumeracy cause a loss to the UK's gross domestic product of £40 billion.

The fundamental problem lies with the way education is delivered. The aim of this short paper is to show that there are tried and tested alternatives around the world. They bring in delivery mechanisms that are responsive to what parents and students require, meet the needs of all, including the most disadvantaged, and succeed in raising educational standards. These are *market approaches* to education. But moving towards these alternatives need not be a party-political issue: the values that underlie them fit in with the emphases of the current Labour government as much as with the Conservatives' concern with freedom and choice.

We can see this clearly by turning to the government's recent setting out of its core principles and values underlying reform, succinctly expressed in the White Paper, *Schools Achieving Success*, (DfES, 2001):

‘Ours is a vision of a school system which values *opportunity for all*, and embraces *diversity* and *autonomy* as the means to achieve it’. (p. 6, emphasis added)’

From this summary of its programme's aims, we can see the core principles or values that are at the heart of Labour's reforms.

1.1 Equality

‘Opportunity for all’ means that no reforms must leave out any groups or individuals in society. If any educational reform is likely to exacerbate social exclusion, to leave disadvantaged groups out of the improvement process, then it cannot be tolerated. Conversely, any educational reform that could be seen to be promoting social inclusion is going to be more desirable than one that doesn't, other things being equal. Part of promoting equity in this way, of course, means that educational standards must be raised in areas where they are currently too low.

1.2 Autonomy

To achieve opportunity for all, and to raise educational standards, the government says that its reforms must promote ‘diversity’ and ‘autonomy’. *Autonomy* is valued ‘so that well-led schools take full responsibility for their mission’. Autonomy is about enhancing

freedom, so that educational entrepreneurs can successfully innovate: 'successful schools' will be given 'the freedom they need to excel and innovate', the White Paper says; 'We want to free the energies, talents and professional creativity of heads, governors and teachers and to create the conditions in which schools are freer to innovate' (5.2). The better schools given such freedom to innovate can 'lead the way in transforming secondary education' (5.16).

Again, these values underlying the desire for autonomy are ones that we can endorse here too. They all add up to allowing freedom for *educational entrepreneurship* to flourish, as a way of discovering new ways of doing things, and through example, leading the way for other schools.

1.3 Diversity

Through *diversity*, the government wants to encourage 'all schools to build a distinct ethos and centre of excellence' (1. 6). And diversity is valued for three distinct reasons:

- *First*, because young people have different needs and ambitions, and schools must reflect these: schools should 'cater significantly better for the diverse requirements and aspirations of today's young people' (1.5). Schools must 'develop the talents of each individual pupil to the full' (2.31).
- *Second*, parents, too, may have different preferences for their children. Through diversity schools can be 'better able to reflect parental preferences' (2.31).
- *Third*, diversity for both young people and parents means greater *choice*. Indeed, one of the four 'key objectives' that the prime minister laid out on 16th July 2001 for reform of the public services, including education, was the need for 'greater *consumer choice*' (1.8). One aspect of this is the need for 'greater choice between worthwhile options at 14' (2.35).

Autonomy and diversity, then, are based on the underlying core values of greater freedom, greater innovation and greater choice. And these values signal something that is implicit throughout the White Paper – that through greater 'consumer choice', schools will compete, and through competition, standards will be raised (Bradley and Taylor, 2002).

In summary, the government's core values that must underlie any educational reform can be set out as the following three core principles:

- Raising standards in education.
- Enhancing opportunity for all.
- Promoting the virtues of choice, diversity and innovation in education.

These core principles provide the foundation for the discussion in this paper. It will be assumed that the reader, like the current authors, agrees that these core values should be the *sine qua non* of any educational reform. Any proposed reform must be judged in terms of the extent to which they promote or detract from these three core principles.

Through reforms that fit with these three core values, we will be in a position to challenge many of the problems that are current within the educational system. Again, the White Paper signals what we can dub the 'Seven Deadly Sins' of state education that need combating:

- Failing schools.
- Low teacher morale and teacher shortages.
- Lack of capital investment.
- The problem of alienated young people, particularly after the age of 14.
- The transition muddle, from primary to secondary schools.
- Over-regulation.
- Acquiescing in mediocrity.

In short, many of the problems within the state system point to the fact that the government has not achieved its goal of what it calls a 'world class' system. 'We will not rest', says the White Paper, 'until we have a truly world class education system that meets the needs of every child' (1.10). This paper is a contribution to achieving that end.

2. Three market approaches

If we want to create a world-class system, then it is to the world that we should turn for possible solutions. There are 'market approaches' found throughout the world, aimed at addressing precisely the kind of problems raised above. These include public funding of private schools; privatisation of state schools; voucher schemes; tax credit schemes; public-private partnerships and contracting out to the private sector. Such approaches, based on global experience, can usefully be classified into three ideal types:

- Alternative funding
- Alternative schools
- Alternative providers

We look at each of these three types below, outlining reforms from around the world that have harnessed the private sector to improve education, before pointing to the evidence that shows the superiority of these approaches to the more traditional 'one-size-fits-all' approach that is letting down children and parents.

2.1 Alternative funding

Education vouchers

An education voucher is a coupon or a cheque provided by government to parents, for them to spend with an education provider of their choice. These can be universal or targeted – that is, for all children, or for particularly targeted groups. The only two countries with universal vouchers are Sweden and Chile, though there are several targeted schemes in countries as diverse as the USA, Bangladesh, New Zealand and Columbia.

Universal vouchers in Sweden

The Swedish voucher scheme is probably the most radical market reform in existence anywhere in the world. The Swedish reforms occurred in 1992, when municipalities were obliged to give 85% of the calculated average cost per student in the municipal schools to any school of parent choice – for all students, not just some targeted groups. Enrolment rules were also opened within the public sector, with money following the pupils into public-sector schools in other municipalities. The figure of 85% was calculated so as to give *equal* funding to the independent schools, with the other 15% accounting for overhead and administration of the municipalities. The figure was reduced to 75% in 1995.

Significantly, as long as schools fulfil certain basic requirements, *any* kind of school is eligible, from religious schools to schools run by for-profit corporations. This is different from the situation in Denmark and the Netherlands, where private schools have had a long tradition of receiving public funding, but only particular kinds of parent-controlled, not-for-profit schools are allowed to receive public funds.

A rapid growth of independent schools has been experienced since the reforms were introduced, although this differs between municipalities (in Sweden, schooling is

primarily the responsibility of the municipalities, the lowest tier of government). We find enrolment in independent schools at the compulsory school level ranging between 0% to nearly 20% in some municipalities, with about 10% in Stockholm. Some municipalities estimate that private school enrolment will grow to 50% in the next few years, such is the rate of growth.

Municipalities are allowed to say whether they consider the establishment of a new independent school would be harmful to existing schools, and their views must be taken into account by the National Agency for Education (NAE). Importantly, however, they have no veto on this, and must, by law, finance any independent school that has been approved by the NAE, which indeed *has* approved schools against the municipality's will.

Targeted vouchers in America

In America there are various schemes of specifically targeted vouchers, most famously those in Milwaukee and Cleveland. Milwaukee's publicly funded voucher scheme – the Milwaukee Parent Choice Program (MPCP) – was introduced in 1990, specifically targeting low-income families to allow them to attend registered private schools. The voucher's value is set at the per-student subsidy rate provided to the government schools by the state. Parents qualify for a voucher only if their family income is no more than 1.75 times the official poverty level. In 1995 the programme was expanded, allowing around 15,000 students to participate. In 1998 the growth of the programme burgeoned when the Wisconsin Supreme Court ruled that religious schools could participate in the programme, a decision endorsed by the US Supreme Court in 2002.

The Cleveland voucher programme is similar, having been enacted in 1995 with legislation modelled on the Milwaukee system. Religious schools could participate in the programme right from the start, and children who were currently attending private schools could apply for the vouchers. Families with incomes below the poverty line received 90% of tuition fees and those above the cut off point 75% of the tuition fees. In its first year, 1996, the programme was limited to 2,000 students and for children who were enrolled in kindergarten to grade 3. By the end of 1996 this target had been met – with around 2,000 children receiving vouchers, enrolled in the 55 private schools operating in the Cleveland voucher scheme.

An alternative 'targeted voucher' approach has been tried in Florida, the *Florida A+ Plan for Education*, which targets *failure* of state schools, rather than poverty. The programme provides vouchers when a government school is rated a grade F twice in a period of four years. The grade is determined by the performance of students taking the Florida Comprehensive Assessment Tests (FCAT) in maths, reading, and writing. The A+ Education Plan was introduced in Florida in June 1999 and became the first statewide voucher programme to be implemented in the USA. The idea is that schools will improve their performance owing to the fear of being shamed into closing or losing students and revenue. The value of the voucher received by parents in Florida has a maximum limit of \$4,000 and this may be spent in any independent secular, religious or government school.

Targeted vouchers around the world

Finally, to dispel once and for all the notion that targeted voucher schemes have anything to do with the perpetuation of privilege, we can see that targeted vouchers have been used

in developing countries specifically to target some of the most disadvantaged people on the planet.

In Colombia, a targeted voucher system was introduced in 1992, aimed at providing wider access to private education for poor students, inspired by the realisation that there was a shortage of places offered by state secondary schools. The proposal allowed poor children to benefit from private school provision, moving out of the overcrowded public sector. Central government shares the cost of the vouchers with the local governments participating in the scheme, although the financial burden is not equally distributed between them – 80% of the cost is financed by central government with the remaining 20% being taken up by the municipalities. Importantly, the private schools taking part offer an educational service that had been estimated to be of comparable quality to that found in government schools; and yet the typical cost of sending a pupil to private school, via the voucher scheme, is around *two-thirds* of the per-pupil cost of sending him or her to a government school.

After two years, the programme served 90,807 low-income students in a total of 1,789 schools. By 1997 more than 100,000 students from very low-income families had received subsidies through the programme.

Similarly, in 1982 in Bangladesh, the Female Secondary Education Scholarship Project piloted a targeted voucher scheme. This programme was aimed at girls from low-income families who otherwise would not have been able to obtain a secondary school education; this programme is therefore gender specific. Girls who receive the scholarships are able to attend secondary school at half the tuition cost for the first three grades of the school. Before the scheme was introduced, in areas participating in the project, female enrolment in secondary education hovered at around 27%; by 1987, this figure had risen to almost 44%.

Education tax credits

The second form of alternative funding is the educational tax credit, which can take one of three main forms:

- *Non-refundable* tax credits are where a family pays for its child's education in private school, and then has this cost subtracted from its annual tax payment.
- *Refundable* tax credits are where a sum more than one's tax burden can be claimed, so those who pay little or no tax receive additional funds.
- Tax credits may also be used to allow businesses or philanthropically-minded individuals to fund a disadvantaged child's private education, and for the business or individual to count this contribution against their tax liability.

Educational tax credits in USA and Canada

The first US states to introduce tax credits were Minnesota and Arizona in 1997, followed by Iowa in 1998, Illinois in 1999 and Pennsylvania in 2001. In Illinois and Iowa the state matches 25% of the parental contribution in tax credit, but only up to a maximum of \$500 in Illinois and \$250 in Iowa. In Pennsylvania corporations can receive tax credits to the amount of 75% of their contributions. In Minnesota, the scheme allows a \$1,000 tax credit per student for families with incomes up to \$37,500. These tax credits can be used for private tutoring, textbooks, school transport, computers and instructional

materials, but not for school fees. Families with incomes above this level receive a tax *deduction* of up to \$2,500 for private school fees, as well as the other expenses that are covered under the tax credit.

In all of the states apart from Minnesota and Arizona, tax credits can be set against tuition costs. All states allow the claim to be made against materials and other forms of schooling, apart from Arizona. The majority of the tax credit schemes are not means tested, although the maximum value of the tax credit is prescribed in each state.

In Arizona taxpayers receive a dollar-for-dollar tax credit when they donate to scholarship organisations providing support for students who attend or wish to attend private school. Taxpayers can make individual donation of up to \$500 per year, and a married couple \$625 per year. This has led, between 1998-2000, to donations of approximately \$32 million generated by these educational tax credits, funding 19,000 scholarships.

The Canadian province of Ontario is also introducing a tax credit scheme. The scheme will allow a qualifying taxpayer to claim a tax credit of a certain percentage of eligible tuition fees paid to an eligible independent school. Starting in 2002 taxpayers can claim 10% of fees, rising 10% each year until 50% can be claimed in 2006.

Educational tax relief in Europe

Tax relief of various shapes and sizes are also common in Europe too. In over half of the countries in the European Union, tax relief is available to cover educational expenses. In Germany, for instance, parents who send their children to (subsidised) private schools are eligible for certain allowances against tax including:

- support for a child at boarding school
- 30% of the cost of all school fees
- transport costs.

Tax relief is also available for books, materials and transport costs in France, Greece, Luxembourg, Belgium, Spain, Italy, Portugal and the Netherlands.

2.2 Alternative schools: Public support of private schools

A second market approach to supporting choice, freedom and autonomy in education is through public funding of private schools. This is a model in common currency across the world, in Europe, America and other countries such as Hong Kong.

Interestingly, the British government is also keen to emphasise diversity of provision in state education. It has created its own kind of state-subsidised private school, the 'City Academies' – now 'Academies' – that allow for the creation of new, state-of-the-art independent schools that will get their per capita pupil funding from the state, and which will need private funding for their capital construction. However, it is not envisaged that there will be a large number of these schools – the White Paper envisages 20 by 2005 which is a pretty modest ambition.

However, a global perspective shows that this type of school is rather out of keeping with developments elsewhere. City Academies are huge, capital-rich projects that are unlikely

to be accessible to many promoters. In most of Europe and in America, by contrast, the view is that 'small is beautiful, and grassroots organisations are empowered to open new schools and explore new methods.

The European model

It sometimes seems the accepted wisdom here is that private-sector involvement in education is very much an Anglo-Saxon obsession, confined to those greedy Americans and their British lackeys; and that only in rotten Britain do we have this divisive trend, different from our communitarian neighbours. In fact, widespread private education – and even more remarkably, widespread *government support* of private education – is commonplace throughout the European Union.

Indeed, one might even go so far as to say that the British lag far behind our European colleagues in our attitude to private schools. For as the European Commission noted, while Britain is in a tiny minority as being one of only two countries (with Greece) that does not financially support private education, this 'does not prevent the State from exercising control over private education institutions' (Eurydice, 2000). The British government seems to want to have its cake and eat it – to regulate private education as heavily as other European countries, while at the same time offering no financial support.

The important point is that the principle of support of private education is well established across mainland Europe. Supporting market approaches to education does not put Britain out of step in Europe. It is crucial to emphasise this.

Public subsidy of private schools in the Netherlands

A scheme ensuring freedom of parental choice in education has been in operation for almost 100 years, enshrined in the constitution of 1917 (Justesen, 2002). Altogether about 70% of children attend private schools – the majority of which are church schools, with a total of 7% at non-religious private schools. Schools include Montessori and Steiner, together with Jewish, Islamic, Hindu and humanist schools.

There is ease of entry for new suppliers. Any group of parents or other interested parties can make application to the Ministry of Education, Culture and Science to establish a new school. The number of parents required to open a school varies with the size of the municipality, from 50 parents in small municipalities (fewer than 25,000 people) to 125 in municipalities with more than 100,000 people. If successful in their application, these groups are *guaranteed* to receive state funding to set up and maintain their private school. Capital and recurrent costs for the school are supplied by the state.

All government and private grant aided schools are guaranteed the same financial support. Interestingly, although private schools are not allowed to charge top-up fees, they are allowed to receive contributions from parents to purchase teaching materials, fund extra-curricular activities, employ additional staff or pay teachers a supplement to their regular salaries. These 'fees' range from \$100 to \$200 per year at most primary schools, higher at secondary schools.

Public subsidy of private schools in Denmark

Denmark shares with the Netherlands the key feature that there is a Constitutional right for parents to set up their own schools and receive state funding. Currently, about 12% of primary and lower-secondary students are in the private sector, and 5% of upper secondary students. 21% of schools at the primary and lower-secondary level are in the private sector.

Since the Free School Act of 1855, parents and organisations have been able to set up their own schools. Any private organisation or group of adults or parents can set up a private school for children between 6 and 18 years of age. To receive government funding, the minimum size for a primary or lower secondary private school is only 28 pupils after three years: with at least 12 pupils enrolled in the first year, 20 in the second year and from then on, 28 pupils.

All approved private schools are entitled to receive state subsidies covering about 80% of their operational expenditure on the basis of the number of pupils enrolled at the individual school in a given year, plus a capital allowance, and other special grants. On top of these grants, parents pay a moderate fee – something long accepted in Denmark as an important principle of family responsibility (Justesen, 2002). At primary and lower secondary level, parents pay DKK 8,100 a year per pupil on average (about £700), or about 19% of the total expenditure. At upper secondary level, parents pay on average DKK 10,400 a year per pupil (about £900).

Public subsidy of private schools in Germany

In Germany private education is expanding at a remarkable rate. Growth is fastest in the east German *Länder*, where private schools, first allowed only in 1990, had grown to some 154 by 1998. In the west German *Länder*, growth of around 14% was experienced between 1992 and 1998. At the *Gymnasium*, (lower and upper secondary school), 10.3% of pupils are in the private sector, and there are 11.3% of schools in the private sector at this level. For *Realschule*, the level is 7.1% of pupils (7.7% of schools); special schools are 16.4% in the private sector. So, at certain levels of schooling, private education in Germany is significantly higher than in the UK.

In terms of financing, the *Land* governments are required to ensure private schools' existence under constitutional entitlements. In practice, all of the *Länder* provide subsidies to private schools, provided that they are non-profit bodies. Such financial support includes subsidies for staffing costs, and is usually a lump sum comparable to that in the state schools. In addition, there are subsidies to cover construction costs, textbooks and teachers' pension funds.

Importantly, private schools are allowed to charge fees to cover their extra costs. They are also not required to follow the same timetables or curricula as public sector schools, and are also free to choose their textbooks. They are free to promote religious or philosophical views, and use teaching methods of their own choice. Moreover, private schools have complete freedom to hire and fire teaching staff, and inspection is fairly minimal.

Public subsidy of private schools in Hong Kong

In Hong Kong an interesting form of state subsidy has emerged, reinforced and extended since the colony reverted to China. Here, fee-paying school places are provided for about 85% of the 15-year-old cohort. Importantly, publicly funded private schools are permitted to charge fees. And to counteract the argument that the introduction of school fees will exclude children from low-income families, the Hong Kong government introduced a *Fee Remission Policy*. This is designed to channel a percentage of funds collected from fees into subsidised places to the poor.

While for-profit companies are allowed to operate schools, the majority of publicly funded schools in Hong Kong are owned and managed by churches, trusts and private organisations. Private schools that receive public funds are defined as Aided Schools and receive specific grants from the Department of Education for staff costs and all operating expenses. Grants that cover operating costs are calculated depending on the number of classes, students and subjects taught.

Charter schools in North America

Perhaps the best known (in Britain) kind of public subsidy of private schools are the *charter schools* in the USA. Charter schools are free from direct administrative government control and are under fewer regulatory constraints than state schools. They must, however, meet the performance standards set by their charter. This freedom allows charter schools to have more control over their curriculum, hours of operation, the staff they employ, budget and internal organisation, and schedule. The funding they receive is based upon the number of pupils in attendance – so fewer pupils means less funding. The concept was first introduced in 1991, in Minnesota, and by January 2000, there was charter legislation in 36 states, plus the District of Columbia, with over 500,000 students enrolled in charter schools. During the 2000-01 school year there were 2,069 charter schools operating in America.

Charter schools can be converted state schools, converted private schools, or new schools. In fact, about 70% of charter schools are brand-new schools. Charter schools are not allowed to charge tuition fees in any state, although it is possible to invite voluntary contributions from parents for building projects. In general, too, charter schools can – and do – go bankrupt: they are not protected by the state from this happening, and will do so if they have not been able to attract sufficient students, or have poorly managed their budgets. In all states too, if there is excess demand for places – as there is in some 70% of charter schools – places are allocated by ‘equitable means’ such as a lottery. Three types of organisation are attracted to the charter school market:

- Charities seeking to promote a particular way of life, such as Heritage Academies promoting ‘American values and civic pride’.
- Charities promoting improved education for disadvantaged or ignored groups.
- For-profit companies, which are allowed to manage charter schools in 21 of the 36 states – including Arizona, Massachusetts and Michigan.

2.3 Alternative providers

The final type of alternative delivery mechanism is to allow ‘alternative providers’, for-profit education companies, to bring the disciplines of the private sector to the state

education sector. Sometimes, alternative providers arise naturally in response to market reforms – in Sweden, for example, where the rise of for-profit education companies followed the wide availability of vouchers. In other places, they arise through for-profit companies themselves seeing the opportunity and creating the mechanisms to contract with local education authorities to manage state schools. Such is the case with Edison Schools in the USA. Finally, we can see how alternative providers arise at the margins of state education, where entrepreneurs have seen the potential to offer opportunities to supplement what is provided in the schools – with radical implications, we believe, for future provision. This is the case with the supplementary provider Explore Learning in the UK.

For-profit education chains in Sweden

Perhaps most significantly of all, there are currently (at least) three chains of for-profit private schools operating in Sweden. One of these is Kunskapsskolan (which translates as 'The Knowledge School'). This company currently operates 12 schools, with 2,800 students, and another seven schools will start this year, taking the number of pupils to 6,000. Within the next five years, Kunskapsskolan is expected to operate 50 schools with 20,000 students all over Sweden.

The company was founded in 1999, and started its first five schools in August 2000. Another seven schools were started in August 2001. Kunskapsskolan operates both Compulsory Schools for students between the ages of 12 and 15 and High Schools for 16- to 19-year-olds. The company provides all students with an individualised educational programme. It provides an analysis of each student's abilities, and creates a learning profile for him or her. Pupils do not pay any fees; all the schools' income comes from the national voucher system.

Kunskapsskolan was asked what benefits the company expects to gain from managing a chain of 50 schools. The company pointed to the benefits of sharing common costs: 'We spend resources on developing learning methods and materials; for example we have an intranet-based site where the students and teachers find all information, courses and learning materials. By running many schools we are also able to develop efficient systems for recruiting teachers and students, teacher training, information and much more. By handling as much administration as possible, the HQ enables the schools to focus on the core – educating the students.'

It was also asked about the for-profit motive in their schools. This was imperative, we were told: the company would not have existed were it not for its investors. It can only provide the high quality inputs that it does – such as employing the school managers many months before the school starts, and supplying additional equipment – with that investment. The profit motive allows it to bring additional investment into schools, something that parents welcome.

Edison Schools in the USA

Contracting out of usually failing state schools to private education management organisations (EMOs) is a growing trend in the USA. Here we take the largest American operator as an exemplar of this trend, namely Edison Schools (www.edisonschools.com). The company is significant in the British context: its interest in the UK market led to Surrey County Council's decision to contract out King's Manor School, the first school

‘privatisation’ here. Edison is again exploring the possibilities of entering the British market – although its recent sharp fall in share price may delay this process.

After spending three years on research and development, drawing on best practice and ideas from around the world on curriculum, technology and school organisation, Edison created its own educational model, which was brought into its first four schools in 1995. It is now the USA’s leading private manager of state schools – and the 60th largest ‘school district’, albeit the only national one. In the 2000-2001 school year, Edison operated 108 schools in 21 states, with about 58,000 students. About one-third of Edison’s schools are charter schools, while the other two-thirds are under contract with the school districts. All Edison schools are schools of choice – that is, no parents are forced to send their children to them, and all parents can opt out of a school that becomes an Edison school.

In its contract schools, Edison negotiates with school districts to take over the management of schools (usually, failing schools). It takes only the funding that would otherwise be available for these schools, on a per capita basis, and commits itself to implementing in full its comprehensive school design. This includes, amongst other elements:

- Schools have a longer day and year, adding the equivalent of more than six years of curriculum time for the typical American student.
- Teachers receive four weeks of training, and there is ongoing professional development.
- Assessment and monitoring of students is a priority, to ensure clear accountability to families and to the public, using state and district tests, benchmark assessments, structured portfolios, and quarterly learning contracts with parents.

There have been detailed and technical criticisms levelled against the Edison model, in particular by the National Educational Association (NEA) and the American Federation of Teachers (AFT). However, when examined in detail, these criticisms are not found to undermine Edison’s claims that it serves a largely disadvantaged intake, but achieves usually better than schools serving similarly disadvantaged populations.

Some might balk at allowing a for-profit company in to run state schools – thinking that this is bound to siphon profits away from money that could otherwise be spent on children. However, this is not the way the model works in the USA. The following table shows what the company is achieving in its longest-running schools¹:

Table 1: Edison costs and profit

| | Edison school | District school |
|-----------------------|---------------|-----------------|
| Administration | 7% | 27% |
| Depreciation | 6% | 3% |
| Devolved to classroom | 79% | 70% |
| Profit | 8% | 0% |

¹ Personal communication from Benno C. Schmidt, Chairman, Edison Schools.

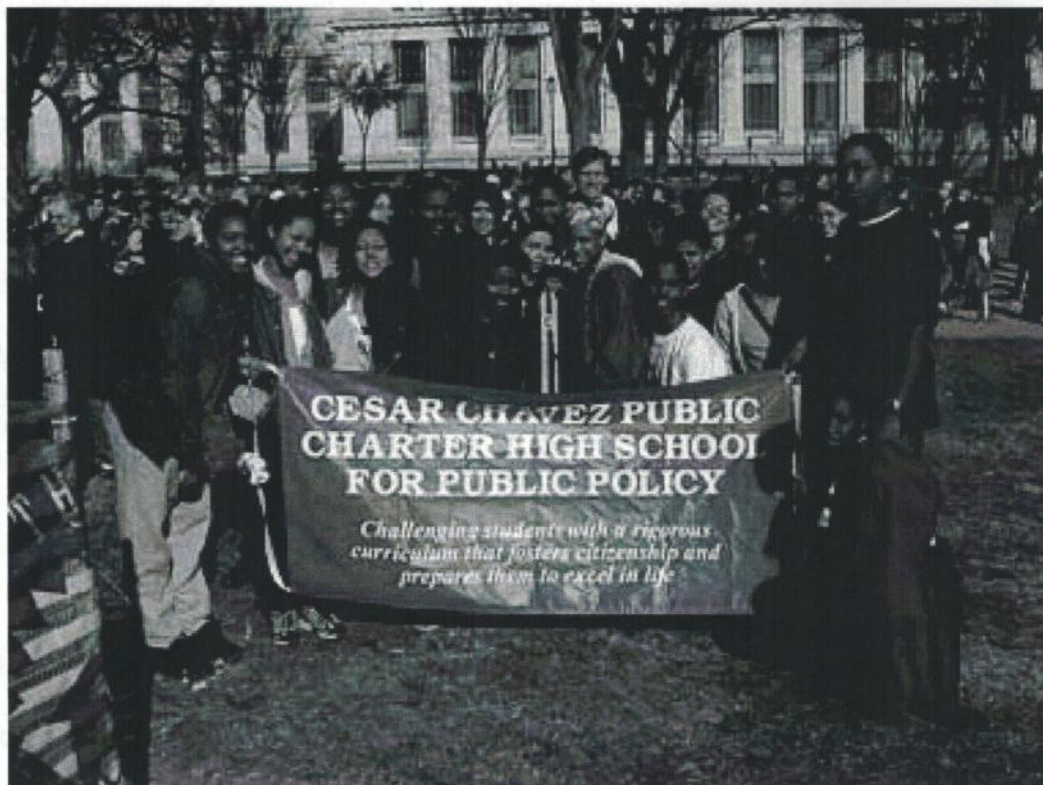
Yes, Edison hopes to achieve an 8% profit from each school. But no, this does not come from funds that would otherwise be spent at the chalk-face. Rather it is siphoned away from funds that would otherwise be spent on administration at the school district level. Indeed, a much higher percentage of funding is devolved to the classroom level in Edison schools than in district schools, even though a profit is made.

Explore Learning in the UK

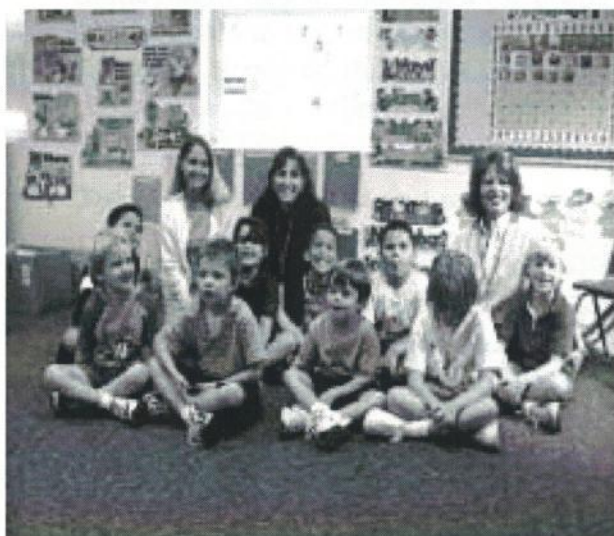
An interesting development is taking place in a Sainsbury's supermarket in Chelmsford. A for-profit education company, Explore Learning (www.explorelearning.org.uk), run by Bill Mills, a 35-year old educational entrepreneur, is running a learning centre, and aiming to roll out the business model to supermarkets across the country. The centre offers supplementary learning to six to 13-year olds, to help them improve in mathematics, English, science and ICT. The key to the attractiveness of the project is that it uses innovative educational software, including *Success Maker*, which adjusts to the achievement level of the child, rather than assuming the child has to progress at the same level as a mixed-ability class. The first classroom – in space rented from the supermarket chain – has around 24 workstations that are run by a rotating team of young graduates, who work with children in groups of about six, are paid at teaching levels, (perhaps £20,000 per annum) but are not necessarily qualified as teachers. The key is that they must be enthused with a love of learning and want to share this with children.

Significantly, the centre costs about £50 per month, for a maximum of 10 hours per student. So when mum and dad are shopping, the child can spend an hour in the learning centres. Those who are doing well at school are challenged to extend their skills and knowledge. Most importantly, those who find school difficult are encouraged to focus on where their difficulties lie, being given help that is often singularly lacking at school. Importantly, these high quality educational opportunities, with one to one learning, are offered for only about £5 per hour. This makes it very competitive with the costs of what is offered in state schools.

Charter schools in the USA: Pupils from the Cesar Chávez Public Charter High School in Washington DC: 'Challenging students with a rigorous curriculum that fosters citizenship and prepares them to excel in life' (Photo: www.cesarchavezhs.org).



Below left: First-grade pupils and teachers at the Princeton House charter school in Florida (Photo: www.princeton-house.org). Below right: Party time at the Black Forest Academy. In Germany, private education is expanding fast thanks to voucher-style funding (Photo: www.bfacademy.com).

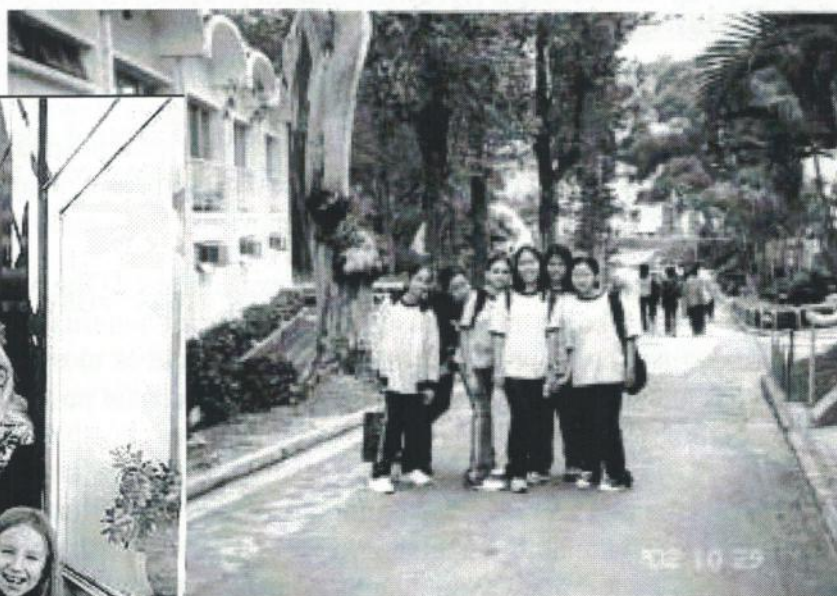
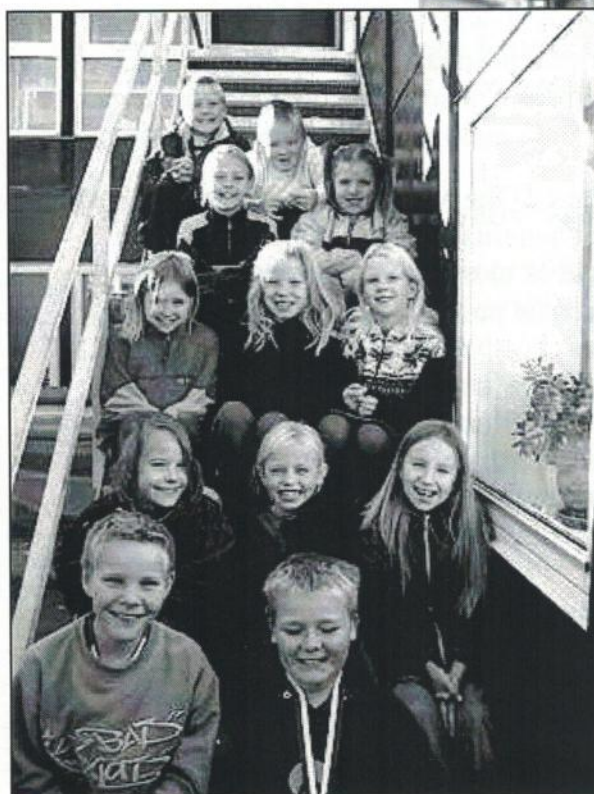


Below left: Roberta Kitchen and her children deAntye, Tiarra, Tatiana, and Toshika – all beneficiaries of Cleveland’s education voucher programme. *Below right:* Tannie Lewis with her grandchildren Allison and Alicia – more beneficiaries of the voucher programme (Photos: www.schoolchoiceinfo.org).



Below right: Pupils at the Delia Memorial School in Hong Kong, where publicly-funded private schools charge lower fees to poorer families (Photo: www.deliabw.edu.hk).

Below left: Danish pupils at the Aalborg Friskole. In Denmark, voucher-style funding makes non-state education accessible to all (Photo: www.aalborg-friskole.dk).



3. The evidence

Market approaches are being used across the world, in Europe and America and elsewhere. But how successful are they? And do they satisfy the three core principles we set out at the beginning of this paper? These principles are:

- Raising standards in education.
- Enhancing opportunity for all.
- Promoting the virtues of choice, diversity and innovation in education.

In fact, the evidence from around the world shows that market approaches satisfy all three of these principles. Indeed, on the basis of this evidence, we can say that:

- Market approaches raise standards in education, better than non-market approaches and often at a lower cost.
- Market approaches are more equitable, helping extend access and opportunity to the most disadvantaged in society, better than non-market alternatives.
- Market approaches ensure choice, diversity, and innovation, as well as increased investment, in education, better than non-market approaches.

In the next sections we outline some of the growing body of evidence that points to the superiority of market approaches in education.

3.1 Raising standards in education: the evidence

Alternative funding benefits poor families

The evidence on voucher schemes is very strong. Targeted vouchers succeed in raising the achievement levels of poor families, over and above what would normally be expected of them.

For instance, there have been three major evaluations of the Milwaukee programme. Each concluded that 'choice has at least some significant benefits for its participants', while none finds that choice harms students. 'This is about as close as one gets to a positive consensus among researchers examining a controversial policy', according to the investigators (Greene 2000).

Some research has found quite dramatic increases. In Milwaukee, standardised test scores showed voucher students enrolled in private schools for three or more years performing substantially better, on average, than a control group of state school students (Greene, Peterson and Du, 1996).

Even those who are less enthusiastic about the achievement increases concede that improvement is taking place. While scores always remain 'below national norms', the disadvantaged students enrolled in the voucher programme do not see their scores 'substantially decline as the students enter higher grades' – which would be the normal

pattern, where 'inner-city student average scores decline relative to national norms in higher grades' (Witte 1999).

Improved achievement has been found across a range of subjects. In mathematics, for instance, students participating on the voucher programme scored 1.5-2.3 normal curve equivalent (NCE) points per year higher than those who were not participating in the programme (Rouse 1998). In reading too, those participating in the choice programme had a 6 NCE point reading advantage, over a period of four years, over those not participating in the program. In short, 'the evidence supports the conclusion that school choice in Milwaukee was academically positive for the families offered the choice to attend a private school' (Greene, 2000).

Privately-funded voucher schemes in America also show clear evidence on raising standards. In three voucher programmes in New York City, Dayton Ohio, and Washington DC, the average 'voucher effect' for African-Americans who switched from public to private schools was to raise their achievement 6.3 percentile points higher on reading and 6.2 points higher on maths, than the African-American students in the control group who had not switched (Peterson *et al.*, 2001).

Alternative schools outperform state schools

In the Netherlands, the evidence points to the greater success of the publicly-funded private schools than their public counterparts. On standardised achievement measures, 'independent schools outperform the public schools in terms of test scores, drop out rates and academic achievements, even after controlling for differences in student intake' (Dronkers 2001, Karsten 1999).

Concerning charter schools, the evidence is mixed. However, there are few useful studies to go on. For instance, Florida, with 152 charter schools in 2000, has no documentation available that indicates any analysis of student outcomes and charter schools. This is also the position in Delaware, Hawaii, Kansas, New Mexico, and South Carolina. So the inconclusive findings concerning charter schools mean that we can make no judgement about academic improvement – although we can point to their superiority over traditional approaches in terms of the other core principles, as we shall see below.

Alternative providers show early gains

As an alternative provider, since 1995, some 43 of the Edison Schools have been in operation for long enough to establish achievement trends. For these 43 schools, during the 1999-2000 school year, Edison posted 390 one-year trends in the core subjects of reading, writing, language arts, spelling and mathematics. Of these, 85% are positive achievement trends. In the core areas of reading, language arts, spelling, writing and mathematics, the average gain for Edison students was 5 percentiles on national norm-referenced tests, and 7 percentage points on criterion-referenced tests, significantly higher than what would be expected in terms of the cohorts of children taught.

Competition raises standards in state schools

Perhaps the most dramatic results show how competition from the private sector helps improve standards in state schools. This effect has been demonstrated whether one looks

at universal vouchers, targeted vouchers, charter schools or publicly-funded private schools.

- In the universal voucher system of Sweden, research has found that competition from independent schools improves test results and final grades *in the state schools*. The higher the proportion of students in private schools, when controlled for the normal factors, the higher the grades in the state schools (Sandstrom and Bergstrom, 2002).
- The Florida A+ Plan, the voucher scheme that targets failing state schools, has succeeded in stimulating school improvement in state schools. As one commentator put it, the A+ Plan instilled in the state schools 'a sense of urgency and zeal for reform not seen in the past when a school's failure was rewarded only with the money that reinforced failure' (Innerst, 2000). Research has shown that schools awarded an F grade one year – meaning that they would lose pupils through the voucher scheme if they failed a second year – were achieving the largest improvement gains in the state (Greene 2001).
- From Milwaukee, too, there is some evidence of government schools being stimulated into improvement. As one commentator put it: the state system 'realises that it can no longer take parents for granted' (Fuller, 2000).
- Finally, Charter schools have also been shown to have a similar impact. One study (Hess *et al.* 1999) found that, when schools and school districts were faced with competition from charter schools, they responded with changes in district and school-level behaviour, in terms of the promotion of pedagogical experimentation, increasing technology in the school, introducing new programmes, supporting teacher efforts to upgrade curriculum, and introducing in-service training. They found that the greatest effects were in the 'more troubled school districts', and that the changes were more marked when the competition was higher (i.e., when there were more charter schools in the district). The effects were modest in size – but then the changes had only been running for three years.

Private education is more cost-effective than state

An important finding is that in some countries, improvements are obtained at a lower per capita cost than is found in the state sector. In Denmark, for instance, independent schools operate at a per pupil cost that is *roughly 90-96%* of the per pupil cost in public schools (Christensen 2001), although they deliver higher achievement. Nor are private schools in Britain as costly than their much lower pupil:staff ratios might suggest (Pollard, 2002). Worldwide, competition seems to have the effect of reducing the costs of education in the private sector – even though independent schools typically are much smaller and so cannot have economies of scale.

3.2 Enhancing opportunity for all: the evidence

Our second core principle is that of enhancing opportunity for all. The evidence here is very strong too. Market approaches that have been tried around the world have been found to have a very beneficial impact on the most disadvantaged of communities.

Alternative funding benefits target groups

First, the evidence unequivocally shows that targeted vouchers do reach the intended disadvantaged families. Dr John Witte summarised the impact of the Milwaukee voucher

programme (MPCP) as targeting 'exactly the types of families that should have access to an alternative source of education' (Witte 2000).

- In Milwaukee, the average income of families participating in the programme was \$10,860, with 76% of choice students from single, female-headed households. The standardised tests of choice students before they began in private school showed that they averaged below the 31st percentile. African-American students made up 73% of those enrolling in the programme between 1990-1994, while Hispanic students accounted for 21% in the same period (Greene 2000).
- Similarly, the Cleveland scheme also has been found to 'effectively serve' the population of families and children 'for which it was intended and developed'. In Cleveland 70% of participating students were from single, female-headed households (Greene 2000)
- Research on the universal voucher system in Sweden has shown that the share of students attending private schools is larger, the worst performing are the state schools. In other words, there is no evidence that 'independent schools are more likely to be established in municipalities with "easy customers"', but rather that they are established often to serve disadvantaged young people (Sandstrom and Bergstrom, 2002). Moreover, there is no evidence that 'low-achievers are adversely affected by increased competition from independent schools'.

Alternative schools address disadvantage

Charter schools in America demonstrate the same beneficial impact on disadvantaged groups:

- The Hudson Institute shows that 63% of charter school students are non-white, with nearly 20% African-American and 30% Hispanic. Moreover, 19% of all charter school students have limited English proficiency and 20% a learning disability.
- The Education Commission of States found fully 50% of all charter schools serving 'at-risk' students. The racial make-up of 60% of the schools is roughly that of the surrounding districts, although 35% of the schools have a higher concentration of minority students.
- Charter schools, in many states, have been created with the specific purpose of serving populations that are traditionally under-served. In fact, eight states' charter school laws require the targeting of ethnic minorities in admissions. Seven states require that charter schools target low-income students and 12 states make charter schools target academically at-risk students (Goldwater Institute, 2001).
- In Arizona, examination of charter schools and district schools in the Phoenix Union High School District (PUHSD) area shows more than four times as many minority students as white students seeking to attend charter schools – 81% against 19% (Gifford et al, 1998).
- Some 19% of children enrolled in charter schools in the 1996-1997 school year had not been part of the public education system the year before. Between 37-41% of pupils attending charter schools are from low-income families and between 8-11% are special needs children (Finn *et al.*, 2000b).

In the publicly-funded state schools in the Netherlands, moreover, research shows that 'the social composition of pupils' does not differ significantly between independent and public schools (Justesen, 2002).

Alternative providers enrol more minorities

Finally, concerning alternative providers, Edison Schools has increasingly enrolled higher percentages of economically-disadvantaged students. In 1999-2000, 65% of its roll (increasing to 70% for the 2000-2001 school year) were eligible for free or reduced school meals – a commonly-used indicator of social disadvantage – compared with the figure of 33% nationally. Moreover, the largest group of students (55%) is African-American, with another 17% Latino or Hispanic, both proxy measures for disadvantage in America. For these populations, student mobility at Edison schools is 13%, well below the national average of 17%: Attendance rates are high at 94% – compared to a national average of 92%, but Edison serves a much more disadvantaged population with typically lower attendance rates.

3.3 Promoting choice, diversity and innovation

All the alternative approaches above increase parental and student choice, and promote diversity. Parents value this choice and have greater satisfaction with the schools that are chosen. There is also evidence to show such schools improving innovation and raising increased investment in the state sector.

Alternative systems generate greater satisfaction

- In Milwaukee, research reveals that parents are much more satisfied with the school when they can choose the education provider for their children (Witte 1999). In Cleveland, 'across the range of school elements, parents of scholarship students tend to be much more satisfied with their child's school than other parents... scholarship recipient parents are more satisfied with the child's teachers, more satisfied with the academic standards at the child's school, more satisfied with order and discipline, [and] more satisfied with social activities at the school' (Metcalf 1999).
- Surveys from the Danish Ministry of Finance show parents with children in independent schools are, on average, more satisfied with their schools than parents in public schools: 86% of parents are satisfied or very satisfied with their school (Danish Ministry of Finance 2000). And comparing parent satisfaction on issues such as teacher skills and parent influence on schools, private school parents are more satisfied on almost all issues than public school parents.
- Parental satisfaction is very high in Edison schools, with 54% grading their schools 'A' (the top grade), and 33% grading 'B' (above averages). This works out to a score of 3.4 on a 4-point scale, as typically used by the Americans. Compared with Gallup polls of parents nation-wide, this is very good – with parents nationally grading schools at 2.6. Parents are not the only ones satisfied. About 76% of students awarded their school an 'A' or 'B'. Meanwhile, the average waiting list at an Edison school is 140 families – another sign of market satisfaction with Edison's model.

Alternative systems generate greater satisfaction

Examples of diversity and innovation can be found in all of the 'alternative schools' and 'alternative providers' outlined above. Some examples include:

- In California 78% of charter schools are experimenting with new pedagogical practices, 72% are implementing site-based governance, and 66% have increased parental participation practices. (Finn *et al.*, 2000).
- Curriculum developments have taken place in Arizona charter schools. The schools also have diverse curricula, which are constantly evolving. 'Most charter schools said they use a team approach in developing new curriculum and purchasing curricular materials. Nearly all of the schools involve parents and teachers in this process' (Gifford *et al.*, 2000). The diversity of schools is also noted – back-to-basic schools, schools for at-risk pupils, computerised high schools and art schools are just some examples of the range currently available. New academic standards have been approved with a new, highly competitive exam, the Arizona Instrument to Measure Standards (AIMS).
- In Alberta, there is a diverse range of education programmes offered via the charter school movement. In order to satisfy consumer tastes and requirements, entrepreneurs have been innovative in their provision – back-to-basic education programmes, specific schools designed to cater for the needs of 'street-involved' youth and those expelled from the government education sector, and schools catering for recent immigrants specialising in learning English (Bosetti, 2001).
- Finally, it is clear that the market approaches often lead to increased investment. For instance, the alternative provider, Edison Schools, has raised over \$300 million additional investment for state schools, and invests \$3,000 per student in each school it takes over in terms of capital expenditure, and about \$500 per student on instructional materials.

4. Proposals for reform

Market approaches to education – voucher schemes, tax credits, public subsidy of non-public schools and contracting out to private sector providers – are in common currency around the world. In North America, these reforms range from the targeted vouchers of Milwaukee, Cleveland and Florida, through for-profit education companies managing state schools, to the burgeoning independent and innovative publicly-funded charter schools. But this is certainly not just an American phenomenon. Probably the most radical voucher scheme in the world – offered universally to all children – is found in Sweden, leading to the growth of chains of for-profit private education providers. And public subsidies to private schools are commonplace across the European Union, to the extent that, in countries such as Germany, subsidised private schools can charge top-up fees, and parents can claim tax allowances against these fees.

And these market approaches have been shown to benefit children and parents – leading to improvement in educational standards, enhanced access to disadvantaged groups and a healthy growth in choice, diversity and innovation, as well as greater investment in the education system.

Meanwhile, Britain lags behind, apparently content to allow others the benefits of these proven approaches. It is time we moved on, to liberalise the education system in England and Wales so as to take advantage of these innovative systems. Some of the approaches need no new reforms: there is nothing significant to stop education companies such as Edison Schools coming into the British market, and negotiating with LEAs to contract out their failing schools. But there are reforms that can be brought in that would lead to the enhanced growth of the private sector in education, stimulating competition and raising standards, while still ameliorating social disadvantage. In this final section, we sketch out three proposals that could act as the building blocks of the new revolution in educational reform in England and Wales.

The reforms outlined here have three key aims, linking in with the three core principles outlined in the first chapter:

- *To ensure that those who are in failing or coasting schools can 'escape' – to satisfy the core principle of equality/opportunity for all.*
- *To ensure that the mechanism for 'escape' encourages state schools to improve – to satisfy the core principle of raising educational standards.*
- *To stimulate the non-state education sector, so that new suppliers are encouraged to enter – to satisfy the core principle of ensuring choice, diversity and innovation, as well as encouraging further competition to raise standards in the state sector.*

Three reforms are suggested:

- The A+ Plan: A targeted voucher scheme, trialled in one or more LEAs.
- The Education Fund: A universal voucher scheme, also trialled in one or more LEAs.
- The Education Tax Credit: A non-refundable tax credit scheme.

Bringing the world's diversity agenda to Britain

It is important to realise that these reforms are *not* just about money. Underlying each is the creating of a diversity agenda in *provision* of educational opportunities. At the root of each reform is the key assumption that there is no reason why government and local-authority bodies should deliver education – even if it is assumed that the government should fund it. We have social benefits so that people can afford food and clothing, but the government does not run food and clothing stores; and indeed everyone benefits from having a large and diverse number of outlets providing these goods.

As we have seen, the overwhelming majority of European governments adopt this same strategy in education, giving at least some measure of support to non-state education providers – often small, parent-led learning initiatives. In England and Wales the proposals here will help to:

- Break down the social apartheid between state and private sectors,
- Expand the diversity agenda more rapidly than might be possible by attempts at state-sector reform alone (witness the growth of new schools in Sweden and Germany),
- Provide innovative approaches that in turn will stimulate state schools to adopt new ideas more quickly, and to become more responsive to parents' wishes.

4.1 The A+ Plan: tackling failing schools

The first proposal addresses those young people who are currently trapped in failing state schools, giving them a route out, to new and existing private schools that can offer them hope of improvement – while giving the failing state schools they have left behind some incentives to improve. The proposal also brings a new stimulus to the educational market, encouraging new suppliers to enter, and offering imaginative ways of serving the educational needs of the disadvantaged. It is aimed at pilot LEAs, but there is no reason why it cannot be offered more widely, once it has been shown to work.

The scheme is based on the proven Florida A+ Plan, a targeted voucher system (aimed specifically at benefiting pupils in failing schools), combined with elements of the European and Hong Kong subsidised school models, making it flexible enough to ensure the growth of alternative providers.

As we have noted, the Florida scheme works on two axes at once: it allows parents whose children are stuck in failing schools to remove them and send them to private schools of their choice. And, equally important, it provides huge incentives to state schools to improve. We suggest that many of the mechanisms can be considered to be already in place, through Ofsted inspections and league tables of performance, to allow us already to make judgements about failing schools. But we suggest that, rather than targeting just *failing* schools, the scheme should allow parents with children in schools that are also *not improving* – schools that are trundling along without significant improvements – to take their children out.

A good way for the scheme to begin would be by piloting it in two or three LEAs. These could be LEAs that are forward-looking and want to explore ways of improving what they offer to children and parents. Or they could be LEAs that the government has identified as not doing well, through their Ofsted inspections, where one requirement for

improvement would be to implement this scheme. Or it could be a combination of both these approaches. Whichever approach is adopted, it would be desirable if there was more than one LEA starting the project, so that there could be competition between the LEAs to find the most appropriate way forward.

As in the Florida approach, there would need to be some mechanism for locating schools that are failing or 'acquiescing in mediocrity'. Ofsted inspections and league tables of performance, as measured by GCSE and SAT results and truancy rates, would be the obvious mechanism to use initially, although some LEAs may also be inclined to introduce other measures of school performance, such as achievement on a range of objective tests. The Florida plan targets schools that are failing in any two out of four years. This seems too leisurely an approach given the seriousness of the problems facing many schools in England & Wales. It is suggested that *any* school which is deemed to have failed in even one year is made open to the scheme. *Parents whose children are in failing schools would be automatically offered a voucher to take their children to a private school of their choice.* The incentive would still be there for the state school to improve – as the vouchers would be offered each year, so the school could still seek to retain students in following years, through improvements that it makes in the course of the year.

The voucher would match the recurrent expenditure in the particular LEA, together with the per capita amount that the LEA holds back for its own administration – which would increase its value by about 15-20% in some LEAs.

What private schools will be eligible to receive the voucher? It is here that the flexibility of the plan is crucial – and it is here that we envisage a diversity of new suppliers.

- First, existing independent schools, registered with the Independent Schools Council (ISC), will of course be eligible.

But we also want to encourage the types of schools that are taken for granted in the Netherlands, Denmark and Sweden too, as well as allowing even more flexibility for good measure:

- Second, the Department for Education and Skills (DfES) will sponsor a new agency –under the Independent Schools Council if it is interested in doing this – to ensure that there is a quick and easy process to register a new school for any group of, say, 20 parents interested in doing so. As in the Netherlands, parent groups will get a small capital grant for setting up the school (which could allow groups of home-educators to share facilities and pool resources, for instance), as well as the full per-capita funding available to comparable state students. Such 'schools' would automatically be exempt from national teachers' pay and conditions, and would be subject only to the same minimal regulations as independent schools are currently.
- As in Sweden, the targeted voucher could be used at *any* educational provider that is registered, including charities, trusts, co-operatives and for-profit providers. It would not matter if the schools were selective.

These measure would encourage the growth of 'alternative schools', as in the Dutch and Danish models, created by parents and/or entrepreneurs responding to niche demands, religious, philosophical or educational (Lambert, 2002). They would also encourage the

growth of 'alternative providers' to enter the market, such as Edison Schools and the Swedish chains. (As we have noted already, there are no real legal obstacles to such chains entering the market now, but the presence of these automatic funding arrangements would manifestly increase the attractiveness for them.)

4.2 The Education Fund: a trial universal choice plan

The second market approach is more radical. We propose a Swedish-style universal voucher plan, to be trialled in one or more LEAs in England & Wales. The elements are as follows:

- The basic model is that of Sweden. That is, the voucher can be used at any public or private school of the families' choice.
- As in Sweden, any school provider will be allowed to participate in the voucher scheme, that is, including for-profit providers.
- As in Denmark, however, the state subsidy will not be 100%, but set at a lower rate, at 70% of state expenditure.
- As in Germany and Hong Kong, those schools in receipt of the voucher will be allowed to charge top-up fees.
- As in Hong Kong, a special scholarship system will be constructed to allow the poorest to attend the private school of their choice.

Again, the LEAs involved in this trail could be those that are deemed to have failed by Ofsted, or they could be forward-looking LEAs that want to do the best for their children. The key point is: how much would such a proposal cost the Treasury? Would it lead to an increase in costs, undermining its political viability?

The main issue to be decided is whether the voucher will go to parents who currently send their children to private schools. If it does, then it will necessarily lead to increased costs for the Treasury, which is unattractive to the government, and possibly a political liability. If it does not, then this will seem unfair (Sexton, 2002). The obvious way around this problem (although it doesn't mitigate it entirely of course) is to offer the voucher only to those who are not in the highest tax bracket.

In fact, using certain assumptions, we can see that the Treasury could actually succeed in making a net *saving*. The assumptions are worked out in the Appendix below.

Suppose that the voucher (passport, cheque, learning credit, etc.) is set on average at 70% of current state school expenditure, that is, at £2,583. With certain assumptions we can see that it could lead to almost a 50% increase in private school enrolment in the LEAs in question. But because of the savings from these children no longer being educated in the state system, we have a significant net saving to the Treasury.

In the LEAs that are using the Education Plan, educational entrepreneurs would be stimulated to open new schools – as we have seen happening in Sweden. Some suppliers would establish chains of schools, aiming to use economies of scale to bring the cost of schooling down, making high quality private education accessible to a wider audience. And, with increased competition, again as in the Swedish model, we could see standards rising across the board, in state schools as well as in the private sector.

Once again, as for our targeted voucher proposal above, the new agency sponsored by the DfES would seek new suppliers, in the form of groups of parents wanting to set up new educational provision, and will offer small capital grants to facilitate this process.

4.3 Educational Tax credits: extending current systems

The third proposal addresses the wider audience of parents and children throughout the country. Building on the success of the American and Canadian models, and noting the ubiquity of tax allowances for education in European countries, the proposal is for a non-refundable education tax credit that would provide parents with a pound-for-pound reduction in their income tax liability up to the sum allowed for each child they have in private education.

This would seem to fit in rather neatly with schemes currently in use by the British government. Indeed, tax credits have been called one of the Chancellor of the Exchequer's pet themes to help overcome social disadvantage; and tax credits, it is said, 'are a central plank of Labour's welfare policy' (BBC News, Friday 20 July 2001). In the Chancellor's current armoury is the non-refundable children's tax credit. This was introduced in April 2001, replacing the universal benefit, the married couple's allowance. It is income tax relief for people with children. It can reduce the amount of income tax paid by a family by up to £520 a year, i.e., £10 a week. If a person pays tax under PAYE, a simple claim form has to be filled in by February to receive the extra credit by April. Self-employed people make a claim on their self-assessment tax return. It is available to any parents (married, unmarried, single parents) who have at least one child under the age of 16 at the start of the tax year who lives with them for at least part of the year.

The practical implementation of the new Educational Tax Credit would not be onerous. Individual tax forms could be modified to take into account the new credit, and, just as for the children's tax credit, a simple form given out to taxpayers before the tax year begins could allow the tax credit to be deducted from PAYE during the next tax year. The Independent Schools Council could also help design standard receipts that schools could issue to facilitate these tax claims.

What are the advantages of the tax credit? The main point is that it will encourage a greater number of parents to be able to opt for private education, thus stimulating the growth of a larger number of suppliers, with an expected growth in competition amongst private-sector suppliers and hence a lowering of costs and an increase in innovation. Crucially, we also wish to allow such a tax credit to be used against the costs of supplementary schooling – so that companies such as Explore Learning could also experience a growth in demand, and hence an encouragement to innovate and cater for the needs of even more children.

How much would such a proposal cost the Treasury? As with the universal voucher scheme, the reliability of any estimate will depend on how we can judge the numbers of taxpayers who will use the credit.

Clearly, every pound spent on the tax credit will result in direct revenue loss to the Treasury. However, because the tax credit will encourage some parents to transfer their children to private schools, this will reduce the government's costs in funding of those particular children, so there will be savings to be used against this.

With reasonable assumptions, outlined in the Appendix below, we can see that even a £500 tuition tax credit for private schools will have a quite dramatic impact, both on the growth of private schools and in terms of *savings* to the Treasury. For allowing parents to deduct £500 from their tax liability for that amount paid in school fees could bring about an increase of about 55,000 new students in private school – or about 10% of the existing number – perhaps enough to create one hundred or so new schools. And the net savings to the Treasury could be over £115 million.

With a tuition tax credit of £1,000, the increase in demand could be as high as nearly 110,000 new students in private education, an increase of about 20% from those currently, and projected savings to the Treasury could be as high as £177 million.

4.4 To boldly go...

The three proposals – for targeted vouchers, trial universal vouchers, and tax credits – would be controversial. Regarding vouchers in particular, some might say that there would be much political antagonism to the concept in this country. The Thatcher government considered a voucher proposal in the 1980s, but eventually rejected it: so if even Thatcher dared not go there, is there any point in re-visiting the idea? And while the Conservatives did introduce the Assisted Places Scheme (a kind of targeted voucher to enable some young people to attend private schools) the incoming New Labour administration quickly abolished it: does this not confirm that there is no political appetite for such proposals?

We think neither objection is valid, for many reasons: here are five:

- First, there is much more evidence from around the world now, some of which is summarised above, that, if examined dispassionately, reveals the potentially positive impact of vouchers
- Second, there is much more of an open, pragmatic approach to education policy here now – in particular involving private sector options – than there was in the 1980s. Labour has crossed Rubicon after Rubicon in its acceptance of various private-sector initiatives in education: its recent White Paper and subsequent Education Act makes it clear that it will explore any option that can be shown to help the disadvantage and raise standards towards its goal of a ‘world class’ education system. And the Opposition, too, seems more willing to stand on these broad, pragmatic shoulders and move forward with its own variations on the theme.
- Third, we can indicate that these proposals are genuinely new approaches which take account of the past debates in Britain and the growing evidence from around the world by describing them not as ‘vouchers’ (a term loaded with yesteryear’s baggage) but in some new way, such as ‘learning accounts’, or ‘passports’ (Institute of Directors, 2002).
- Fourth, we can go back to the debates of 20 years ago, to explore whether the same kinds of objections that were raised then could stymie their introduction now. Why was it that the voucher scheme was rejected in 1983? Of course, the acceptance or rejection of any policy is not decided in terms of reasoned argument alone: there are likely to be many *political* considerations that do not depend up the pros and cons of the argument, but more on the judgement of ministers as to public priorities and reaction, and the timing of general or local elections. But when all the arguments are

examined about why the voucher was not introduced, it would seem that only one substantial reason is left that has not been covered by our review of the evidence already: the argument that *a voucher system would increase public expenditure*. It was this that was seen as the major ‘nails in the coffin’ of the voucher programme in the early 1980s. At the time some who were opposed to the introduction of the voucher, (such as Shirley Williams writing in *The Times Educational Supplement* in July 1982), stated that the cost of voucher implementation would be ‘astronomical’. But against this:

- For a *targeted* voucher scheme, cost would not be a major consideration. The findings from the Milwaukee and Cleveland examples are unequivocal: they did not result in any drain on the government finances (Greene 2001). Indeed, as we show in the Appendix, a targeted voucher scheme could even produce a net *saving* for the Treasury.
 - Moreover, the argument of costs assumes that the price of schooling is fixed. However, proponents of markets in education would point out that, in the long run, costs could be *reduced* as competition brought in greater incentives for efficiency savings. Importantly, the evidence from Denmark already shows this happening.
 - And as for universal vouchers – which could be trialled in one or more LEAs – if these are set at some proportion of current public expenditure on education (say 70%), then they do not have to lead to a net increase in cost to the Treasury. This main objection fails.
- Fifth and finally, rather than the negative attitude that prevailed towards these alternative funding mechanisms in the 1980s, we can instead take comfort in the findings of recent MORI polling, conducted for the Independent Schools Council. In September 2000, it was found that 62% of the public approved of the use of public funds to help children from low-income families attend independent schools – in other words, supported targeted voucher schemes or refundable tax credits. Moreover, the figure was more or less the same for each major political party, with 61% of Labour voters supporting such an initiative. By March 2001, the support for the idea had grown, with 64% of British adults in favour of it (including 62% of Labour supporters, 69% of Conservative and 66% of Liberal Democrats).

And the poll findings don’t stop there. In addition, the survey shows that 52% of the adult population ‘believe that independent school standards are higher than those in state schools’, and 53% of parents ‘would choose an independent school for their children if they could afford it’ (a rise of 4 percentage points on the previous year, and the highest level recorded). These figures make it clear that there would be widespread public support for any moves, towards targeted and universal vouchers, from supporters of all political parties.

Market approaches to education work. They are not outlandish or extreme ideas, but a normal and successful part of the armoury of approaches to education adopted throughout Europe and the wider world. They are ideas whose time has come, quite unlike in the 1980s. Where Thatcher feared to tread, no government or opposition need fear to tread today.

Appendix

In this Appendix we give brief notes to show how universal vouchers and tax credits could in fact be beneficial to the Treasury, under reasonable assumptions, rather than necessarily a drain on resources.

The Education Fund

First, we have proposed a universal voucher scheme to be used in one or more trial LEAs. For the particular LEA in question, the figures would have to be worked out in detail, so here we will show the results for England and Wales as a whole – on the assumption that if it works for the country at large, then it is likely to be applicable to particular LEAs too.

The first assumption is that the universal voucher would go to all children, even those who currently attend private education, but that it would not be available to those whose parents are in the higher tax bracket. Now, we do not know how many parents who currently send their children to private school are in the higher tax bracket – the Independent Schools Council does not have this information available. However, if we assume some large proportion, say 80% are in this top bracket, then we can work out the possible sums for the Treasury.

Second, we need some estimate of the elasticity of demand for private education. This is the percentage change in the quantity demanded divided by the percentage change in price, or, in other words, the proportionate change in demand given a proportionate change in price. In formula terms this can be expressed as:

$$\text{Elasticity} = (\% \text{ change in demand}) / (\% \text{ change in price}).$$

The price elasticities used in the tables below are those provided by Anderson *et al.* (1997) and Olsen *et al.* (2001) for the US market, which can be taken to be similar in relevant respects to that in England and Wales. More ideally, the price elasticity would have been derived from cross-sectional time series data. The estimate provided by Anderson *et al.* implies that the demand for private schools is far more responsive to a change in price, but close to unitary elasticity. The reason they provide for this estimate is that 'schooling itself is considered an essential service by most parents, and better schools are so desirable to many parents that they undertake considerable sacrifices to send their children to alternative schools. This would tend to produce a highly inelastic demand. However, there is also a widely available substitute for alternative schools, namely the traditional public schools. For most goods and services the availability of substitutes produces a high elastic demand. Given this combination of widely available substitutes and high importance to many parents, it is not surprising that the existing research places the demand elasticity for alternative schools near 1' (p.59).

First, we assume that the voucher (passport, learning credit, etc.) is set on average at 70% of current state school expenditure, that is, at £2,583. However, this voucher is available only to families in lower tax brackets.

If the elasticity of demand of 1.1, we find that this voucher would lead to an increase in private school enrolment of 277,661 – about a 50% increase – from those on the lower tax brackets. But because of the savings on the Treasury from these children no longer being educated in the state system, we have a net saving to the Treasury of £19,612,950. Other elasticities and assumptions about the number of private-school families excluded are also included in Table 2.

However, we can also bring in another assumption. Suppose that private school fees did not stay the same under the proposal but, as in Denmark, actually fell as competition drove prices downwards. Suppose the average fee fell as low as £3,500 (not an unreasonable assumption, according to some independent providers), then under the same assumptions, this would lead to an even greater saving to the Treasury, of around £220,000,000. These details are shown in Table 3.

The elasticity calculations are shown in Tables 4 and 5.

Table 2: Voucher scheme for England & Wales – assuming a voucher valued at 70% of the per-pupil cost of state schools

*Voucher of £2,583 (set at 70% of the state-school average per-pupil cost of £3,690)
Current private school enrolment = 557,022. Average private school tuition fees = £5,700*

| Elasticity of demand | Projected new private school students | Current private school pupils included | Projected government loss of revenue | Projected government savings in revenue | Net government loss/savings |
|----------------------|---------------------------------------|--|--------------------------------------|---|-----------------------------|
| 1.1 | 277661 | 0.20 | 100495544 | 1024568383 | 19612950 |
| 1.1 | 277661 | 1 | 215598564 | 1024568383 | -1131417311 |
| 0.48 | 121161 | 0.20 | 600716635 | 447084386 | -153632250 |
| 0.48 | 121161 | 1 | 17517466 | 447084386 | -1304662510 |

Table 3: Voucher scheme for England & Wales – assuming a voucher valued 70% of state costs and private school fees falling to £3,500

*Voucher of £2,583 (set at 70% of the state-school average per-pupil cost of £3,690)
Current private school enrolment = 557,022. Average private school tuition fees = £3,500*

| Elasticity of demand | Projected new private school students | Current private school pupils included | Projected government loss of revenue | Projected government savings in revenue | Net government loss/savings |
|----------------------|---------------------------------------|--|--------------------------------------|---|-----------------------------|
| 1.1 | 452190 | 0.20 | 1455765522 | 1668582796 | 212817274 |
| 1.1 | 452190 | 1 | 2606795783 | 1668582796 | -938212987 |
| 0.48 | 197319 | 0.2 | 797433765 | 728108856 | -69324908 |
| 0.48 | 197319 | 1 | 1948464025 | 728108856 | -1220355169 |

Table 4: Elasticity calculations for Table 1

| | |
|-------------------|-------|
| %change in price | 45.32 |
| %change in demand | 49.85 |
| %change in price | 45.32 |
| %change in demand | 21.75 |

Table 5: Elasticity calculations for Table 2

| | |
|-------------------|-------|
| %change in price | 73.80 |
| %change in demand | 81.18 |
| %change in price | 73.80 |
| %change in demand | 35.42 |

Educational tax credits

Using the same elasticity assumptions, we can do similar calculations for tax credits.

The first two rows of Table 6 show that, with the assumption of a £500 tuition tax credit, and with the assumption of elastic demand (that is, as the price of private education drops using the tax credit, more people access it), and with 80% of current private school families excluded, the Treasury will save a considerable sum, £115,753,081. This is the sum it will save, as it no longer has to pay for these children in state schools. However, if we drop the assumption of excluding those higher band taxpayers, and allow all those who currently access private education also to receive the voucher, then the Treasury will have a net loss of an almost equivalent amount, £107,055,719.

The last two rows of Table 6 repeat these assumptions, except that now there is relative inelasticity of demand (fewer new parents access private education even though the price drops with the tax credit). Here the saving to the Treasury is less, but the loss is greater.

Table 7 shows the same process for a tuition tax credit of £1,000. Here assuming elastic demand, and excluding the 80% of higher taxpayers who currently are in the private sector, we have a project saving to the Treasury of £177,758,424 and a net loss if these are not excluded of £267,859,176.

Tables 8 and 9 give the workings for elasticity of demand for the tax credit proposals.

Table 6: Projected government revenue for £500 tuition tax credit

Tuition Tax Credit = £500. State school average per-pupil cost = £3,690.

Current private school enrolment = 557,022. Average private school tuition fees = £5,700

| Elasticity of demand | Projected new private school students | Current private school pupils included | Projected government loss of revenue | Projected government savings | Net government loss/savings |
|----------------------|---------------------------------------|--|--------------------------------------|------------------------------|-----------------------------|
| 1.1 | 53748 | 0.20 | 82576068 | 198329149 | 115753081 |
| 1.1 | 53748 | 1 | 305384868 | 198329149 | -107055719 |
| 0.48 | 23454 | 0.2 | 67428979 | 86543629 | 19114650 |
| 0.48 | 23454 | 1 | 290237779 | 86543629 | -203694150 |

Table 7: Projected government revenue for £1000 tuition tax credit

Tuition Tax Credit = £1,000. State school average per-pupil cost = £3,690.

Current private school enrolment = 557,022. Average private school tuition fees = £5,700

| Elasticity of demand | Projected new private school students | Current private school pupils included | Projected government loss of revenue | Projected government savings | Net government loss/savings |
|----------------------|---------------------------------------|--|--------------------------------------|------------------------------|-----------------------------|
| 1.1 | 107495 | 0.20 | 218899874 | 396658298 | 177758424 |
| 1.1 | 107495 | 1 | 664517474 | 396658298 | -267859176 |
| 0.48 | 46907 | 0.2 | 158311516 | 173087257 | 14775741 |
| 0.48 | 46907 | 1 | 603929116 | 173087257 | -430841859 |

Table 8: Elasticity calculations for Table 6

| | |
|-------------------|------|
| %change in price | 8.77 |
| %change in demand | 9.65 |
| %change in price | 8.77 |
| %change in demand | 4.21 |

Table 9: Elasticity calculations for Table 7

| | |
|-------------------|-------|
| %change in price | 17.54 |
| %change in demand | 19.30 |
| %change in price | 17.54 |
| %change in demand | 8.42 |

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