

**Epsom Business Breakfast Forum**

**Transforming Education:  
The Case for Vouchers**

**Roger Kerr**  
**EXECUTIVE DIRECTOR**  
**NEW ZEALAND BUSINESS ROUNDTABLE**

**AUCKLAND**  
**4 MARCH 1996**

## **TRANSFORMING EDUCATION: TRANSFORMING EDUCATION:THE CASE FOR VOUCHERS**

Fans of the British television comedy *Yes Prime Minister* may recall the episode in which the prime minister is considering ways of improving education. His proposal is to give parents greater power to choose schools for their children. Sir Humphrey Appleby, the bureaucrat, is not at all impressed by this idea. He tells the prime minister:

The fact is that the only people who will like this plan are parents and the children. Everybody who counts will be against it - the teacher unions, the Labour Party, the department of education and the educational press.

The way in which Sir Humphrey's scepticism should certainly strike us is as being funny. But it is all too typical of much of the education debate taking place in Britain, in New Zealand, and indeed in much of the world. So often in this debate we lose sight of the goalposts. In education the people who really should count, without doubt, are parents and their children; they are the only reason for having an education system at all. Yet too often parents - the customers or consumers - are simply ignored.

There is an instructive parallel here. The economies of the recently-collapsed regimes of Eastern Europe were notable for the low priority they placed on the interests of consumers. Competition in these economies was either non-existent or severely restricted. They became notorious for their inefficiency, and for the woeful quality of their goods and services. Consumers faced a very limited range of choices, or no choice at all.

Hardly anyone in this country today would be prepared to defend the way in which the socialist systems operated. Most of us regard choice and competition as fundamental to a healthy economy. The reforms of the last decade, which have so extensively widened choice and competition, have led to abundant benefits for New Zealand consumers - from cheaper cars to telephones that no longer take six weeks to install.

Believe it or not, members of parliament used to get more complaints from their constituents about telephone services than any other subject. Today they get virtually none. By contrast, the issues which most concern people are health and education. You don't have to be a genius to figure out why people are still dissatisfied with these services. The two distinguishing features of health and education in New Zealand today are, first, that they are mostly supplied by government providers and, second, that competition is largely absent. We would never dream of trusting the government to meet our needs for food and clothing, still less to give it a monopoly, but in services which are almost as basic a state-dominated system still operates.

In schooling, the government quasi-monopoly accounts for around 95 percent of the market. The government taxes the general population, and out of that revenue it finances what is essentially a command system of education. Many New Zealand children have no choice but to attend their local state school. If parents don't like the local school, or if they simply don't think it's the right type of school for their child, there is often little they can do. Any alternative is likely to be part of the monolithic state system anyway. If parents opt to send their children to a private school, they

must be prepared to pay twice - once through the tax system and once through private school fees, which include GST into the bargain. Few families are able to make that financial commitment.

The Tomorrow's Schools reforms which followed the Picot report only modestly increased parental choice and the diversity of schooling. They relied too heavily on a flawed idea - that to improve education parents needed to 'get involved' and serve on boards of trustees - rather than on the normal mechanisms of choice and competition which consumers rely on in other markets to deliver the services they want. Possibly the Picot reforms made the disparity between state schools in different areas even greater. Schools in higher-income communities are able to draw upon a wider range of relevant skills for school boards of trustees. Parents in the poorer areas have often struggled, as the periodic horror stories emerging from some South Auckland schools have shown.

As business men and women, few of you will need persuading that our school system is underperforming. A common complaint from business is that many young people are not even gaining basic skills in literacy and numeracy, despite the thousands of hours they spend in school, and despite the efforts of many dedicated and capable teachers.

Yet should anyone really be surprised at this state of affairs? In our state school system, as in other monopolies, the interests of consumers come last. Today the Post Primary Teachers Association and the New Zealand Educational Institute are probably the most powerful unions on the entire industrial relations scene. Because of their power it is virtually impossible to sack teachers. In the last several years there has only been a handful of dismissals for unsatisfactory performance in a workforce of some 40,000 teachers. Differences in pay are not generally based on merit; they are based on length of service. Pay and conditions are centrally negotiated. The private sector has abandoned such antiquated employment arrangements and for good reason. Yet they are still fiercely defended as legitimate by the teacher unions.

These arrangements are not even in the interests of teachers. They have lost the professional status they once enjoyed. The spectacles at schools like Onehunga and Waimea colleges make them look more like boilermakers or watersiders from the 1970s. The only interests really served are those of the union officials. Their power depends on having rigid national awards, and even teachers' pay increases have been sacrificed to retain them.

This dominant union role lends an air of unreality to the whole education debate. For instance, there are constant calls from the teacher unions for higher spending on schooling as the only way to improve educational performance. Lower class sizes are a favourite aim of the unions. The ideal student teacher ratio is always about five students lower than the current one - although not, of course, for the reason that it increases their members and their union dues. No level of spending on education has ever satisfied them; they always see the state system as "underfunded". Here also our system resembles the former Soviet Union: the prime concern of its bureaucratic managers was not to serve consumers but to maximise the inputs of their particular plant or industry.

The education media too often allows the agenda of the teacher unions to set the terms of the wider debate. The current situation is a good example. The government has increased the staff:student ratio, contributing to the present teacher 'shortage'. The

teacher unions and the media are spreading the message that there is severe underfunding, and the outcome is an across-the-board 21 percent pay claim!

There is no excuse for this superficial level of debate about education standards. By now we know quite a lot about the factors that do *not* improve student outcomes. At least since the 1960s, when a classic study by sociologist James Coleman appeared, we have known that hardly any of the factors claimed to be so important by the education lobby are actually of much importance at all. Research repeatedly finds that, within broad ranges, per pupil expenditure has little or nothing to do with pupil achievement. Nor does the size of classes except for the teaching of younger children - indeed really gifted teachers will do far better with a very large class than an unfit teacher with a very small one. Nor do the paper qualifications of teachers and their length of service. Nor does the quality of school buildings. Almost everything that, according to the education lobby, is crucial to student outcomes turns out not to be crucial at all when you actually look at the data.

This should tell us that simply pouring more money into the present school system, and hoping that it comes right, would be Micawberish in the extreme. Instead, we should be thinking about what makes a good school, and how we can create an environment in which good schools flourish.

An excellent starting point is the highly praised study of over 400 American high schools by John Chubb and Terry Moe, *Politics, Markets and America's Schools*. It found school organisation to be *the* major factor in student achievement, after the basic aptitude of the students themselves.

The organisational characteristics that make a school successful are unsurprising. One important characteristic is goals: successful schools have goals that are clear, ambitious and consistently pursued. Another important element is the quality of educational leadership by school principals. A third factor is the general professionalism of the staff: schools where there is greater mutual respect among the staff, good teamwork, and a higher degree of teacher autonomy achieve better educational performance. This may seem obvious to anyone in business. Yet it is the fate of participants in the education debate to have to go on repeating the obvious.

The most interesting part of the Chubb and Moe study is that it went on to ask the question: what determines good school organisation? It found that the single biggest factor was the degree of autonomy of the school. American schools, like ours, face outside pressures from two main sources: the education bureaucracy and the teacher unions. Chubb and Moe found that the weaker these outside pressures, the more effective was school organisation - and consequently the greater was student achievement.

Thus virtually all the relevant research on education, and all that we know about the value of choice and competition, suggests that New Zealand's existing centralised, union-controlled and monopolistic school system will not produce high class results, and that we should instead be making that system less bureaucratic, less in thrall to organised labour, more competitive, more flexible, and more responsive to the requirements of parents.

We have made some progress. The move toward direct resourcing is welcome, since it gives principals and boards much greater autonomy to manage school resources. So far only a small but growing minority of schools are bulk funded, reflecting the bitter opposition this initiative has struck from teacher unions.

The abolition of zoning was also a welcome, though limited step. What it really did was show up the underlying contradictions in the school system. Not surprisingly, good schools have ended up with more applicants than they can accommodate. The resulting waiting lists have put the zoning issue back into public debate. Yet here is the rub: the successful and highly-sought-after schools are unable to expand to meet the demand from parents. Why? Because there are other state schools, less liked by parents, that *do* have places available.

If this does not strike you as incongruous, I suggest that it should. In what other part of the economy would we put up with a such a situation? Would we be very impressed if the government said to a manufacturer or a retailer or a health care centre or a professional firm that it could not expand its operations because there was a competing supplier down the road that might lose customers? I suggest not. We would think that the customers were probably right, and that the government had no business imposing its own preferences over theirs. Yet in education that is effectively what it does, every day of the year.

Many of you will be correctly anticipating where the logic of my argument is leading. It is to the idea that we should fund schools, whether state or private, on an equal basis according to the number of children enrolled in them. Parents would make their choice of school, and funding would follow the child. The amount of funding could be augmented for children with special needs.

Such a scheme is sometimes called a voucher system and I will stick with that term even though its very utterance brings allergic and revealing reactions of explosive proportions from teacher unions. The term can be misleading: it has the connotations of a piece of paper which parents would be given by the government to 'spend' on education. In practice the funding would not be administered that way; in fact it would not mean a radical shift from present arrangements. Right now directly resourced schools are funded on a broadly equal per pupil basis according to enrolments. All that would be involved would be two further steps: putting all state schools on the same basis, and extending the same funding arrangements to independent schools. Indeed we have the makings of the latter step in the TIE (Targeted Individual Entitlement) scheme announced in the last budget to allow children from low income families to attend private schools.

This seems to me to be the more logical way to think about the idea of vouchers. Analytically we are talking about two separate roles for the government in education. One role is to provide educational services by owning and operating schools, and the other is to fund education on behalf of the community. Viewed in terms of these two roles, the present system effectively has taxpayers giving a 100 percent subsidy to students enrolled at state schools and a much smaller subsidy to those enrolled in the independent sector. But the prime role of the government is arguably to purchase the best education it can - on behalf of parents, and as determined by them - regardless of who provides it. A voucher scheme just amounts to a familiar funder/provider split applied to education, with all schools operating on a level playing field and attracting equal funding for each child they enrol regardless of their ownership.

Extending recent developments to full voucher funding would, purely by itself, provide a new injection of choice and competition into the school system. We would expect to see an expansion in private education, as private schools became affordable to a much wider range of parents. However, to get the greatest benefits from voucher funding, the operating environment for state schools should be made far more flexible

than at present. High-performing schools need to be able to respond to market signals, expand their own operations to meet parent demand, establish satellite campuses, take over unsuccessful schools and so on. Schools that lost pupils would have to adjust. In all probability, most would correct their problems long before they faced the risk of closure, but the threat of closure would be an effective discipline in a well-functioning system.

The advantages of expanding choice and competition would be numerous. As we know from every other service activity, competition invariably improves performance. Parents would have more scope to choose schools to match the particular needs of their own children. Children differ in their ability, in their temperaments, in their interests and in their post-school aspirations. Pointing this out is another of those exercises in stating the obvious because the one-size-fits-all syndrome in education is so deeply entrenched.

A more diverse system would provide a better environment for testing competing ideas in education. Bad ideas do not usually last long in competitive markets; good ones spread as their success is rewarded, recognised and imitated. By contrast, under the current state school system bad ideas can wreak havoc on a whole generation of children. Indeed they often do. One thinks of 'new maths', now rightly consigned to the dustbin by educators, or the 'whole language' reading approach, which still dominates in our primary schools.

With a voucher system, the biggest change would almost certainly be in the quality of education available to families on the lowest incomes. They fare worst under the current system. The children of high income families would probably not benefit a lot from vouchers; typically they already attend the best schools. Middle income groups would see more substantial gains. But the largest gains would go to the poorest New Zealanders because their power to choose would be greatly enhanced and their children would benefit from the general increase in school quality that a more open, parent-oriented system would bring about. There would be less risk of so-called 'sink' schools than under the present system.

A great variety of objections to vouchers has been put forward by opponents of school choice. None of them has substance. Many are manifestly absurd. As any logician will tell you, a dozen fallacious arguments do not add up to a good one. But the sheer number of criticisms put forward by voucher opponents has, I believe, clouded the debate and raised doubts in the minds of many people. For that reason, it is worth going through them in some detail.

**Objection 1: Vouchers would destroy the state school system.**

This objection hardly shows much confidence in our state schools. If most parents really did want to leave the state school system, it would suggest that system was serving their children extremely badly, and we would be fully justified in allowing them to go elsewhere. In reality, mass exit would not occur because the state sector would have a strong incentive to improve its performance. That was certainly the case in Sweden, which has recently introduced the world's most comprehensive voucher system.

**Objection 2: Parents are not sophisticated enough to choose schools.**

Apparently parents are sophisticated enough to vote, get married, have children, drive cars, and buy all sorts of elaborate goods and services, yet are not sophisticated

enough to choose schools for their children. Such an argument is patronising nonsense. Not only are the great majority of parents quite able to make such decisions but they are in a better position to do so than third parties. They care far more about their children's welfare than any bureaucrat, and they can monitor their child's progress on virtually a daily basis. Greater choice will encourage parents to become more knowledgeable about, and involved in, local schools. There will always be a small percentage of parents who, under any system, are neglectful of their children's interests, but even in these cases the children will benefit from the improvement in the system as a whole.

**Objection 3: Poorer parents are not capable of making good choices.**

This objection is even more patronising than objection 2. Polly Williams, the feisty black representative in the Wisconsin state legislature who brought about school choice in Milwaukee, has given the best response. Nothing infuriates her more than the claim that poor parents are too dumb to determine their children's schooling:

People often fall into the habit of saying "How do you get the poor involved in the education of their children? They just don't care, or they don't know enough to make intelligent choices." But, in reality, if you give them a sense that they can make a difference in the lives of their children, if you give them some power, you'll find out that poor parents can care more than anyone else. They don't take education for granted. They know that education is the only way out of poverty. And when you empower people and give them a sense of ownership, they become responsible, and they learn how to make decisions. And when they are treated with dignity and respect, they respond to it.

There is another reason why the 'unsophisticated parents' objection is without foundation: it completely misunderstands the nature of markets. In a competitive marketplace you don't have to become a highly informed consumer if you don't want to; you can free ride on the skills of others. Suppose I was buying a CD-player and I walked into the first shop on Queen Street selling CD-players that I came to, and bought one purely at random. Perhaps I could have done a bit better by taking the trouble to shop around. But I know I will have got a reasonable deal because there are plenty of competing retailers around and plenty of more informed consumers to keep them honest. I will certainly have done better than if there were only one type of CD-player available, and it was produced by the government. Can that seriously be doubted?

**Objection 4: Everyone would want to send their children to certain schools, which would not be able to accept them.**

This overlooks the different preferences parents have for education, even for children within a single family. Some will look for traditional education, some will put weight on subjects such as science, art or music, some will value sport, some religion, and so on.

To the extent that some schools were especially popular, this would only be a problem in the short run or if the system is inflexible. In a competitive market, strong demand for a good or service in short supply soon brings forth a response from new or existing suppliers. Popular schools are popular because they have attributes that are desired by parents. Under vouchers, new and existing schools would have every incentive to replicate those characteristics. This problem is dealt with routinely in the

markets operating in other service industries: no one suggests restaurants, cinemas or law firms should be forced to take clients or be zoned.

**Objection 5: Children with special needs would not be catered for.**

Not true. It is likely that children with special needs would be better catered for under vouchers than under the existing bureaucratic system. The parents of these children would all possess purchasing power. Schools specialising in catering for their needs would develop. The government could, if it wanted, add to the value of the voucher for these children.

**Objection 6: The brightest and best motivated students would go to private schools.**

Because of the dynamics of competition, it is not at all clear that this would happen. Private schools in New Zealand are by no means uniformly better than state schools. Large numbers of bright and motivated students would probably remain in the state school system because the vast majority are there already, and under the pressure of competition the performance of state schools would improve. But suppose that the objection *is* true, and the best students were found to be leaving the state system. Do we really want to deny these children choice? As another black advocate of school choice in the United States has put it, this virtually amounts to saying that "parents who want better education prospects and a brighter future for their children must be held hostage until some indefinite period in the future when government schools have improved". Is that really justice for these parents, and their children? I suggest not.

**Objection 7: Private schools will only admit the easy-to-teach children.**

The reality is that there are many types of private school, and under a voucher system more would develop. The Chubb and Moe study of American schools found that private schools outperform state schools because they are better organised, not because they usually weed out the less able students. Moreover, there ought to be mutual obligations between schools and those attending them. Why shouldn't schools have the right to refuse ill-disciplined, lazy and disruptive pupils, and parents and students be given the message that attitude counts?

**Objection 8: Fringe schools would start up offering outlandish courses.**

We seem to have some of these in the state system at present, judging by Education Review Office reports about a school offering courses in beer-making, massage and shopping. However, there would still be a national curriculum establishing core requirements in basic subjects such as English, maths, science and the humanities, which schools eligible for voucher funding would be bound to teach. No system can completely eradicate the bizarre without an enormous investment in censorship and thought control. Arguably a much greater worry is the kind of mush that has turned up in the new English curriculum and the draft social studies curriculum. Our 'one big system' is very prone to capture by those with a social or political agenda. A more diverse system in which parents have the power of both 'voice' and 'exit' is more immune to contagious educational diseases.

**Objection 9: There would be greater segregation by race or socio-economic background.**

The existing school system is highly segregated by both race and socio-economic group, because it is based on geographical area. The current system forces parents

who cannot afford to pay twice for schools to conform to this segregation. Vouchers would increase their options. Some parents might prefer options like total immersion schools - and why should we not respect their decisions? - but it is by no means clear that minority groups would generally opt for segregation, given more choice. It is sheer arrogance to assert that most parents do not want their children to mix with others from a wide range of backgrounds, and to learn to cope in a multicultural society.

**Objection 10: Because of distances between schools, most children do not have a choice of school to attend.**

This argument still occasionally gets an airing, despite being patently untrue. It may have been true last century, but it scarcely describes the situation today. The vast majority of the population lives in cities or towns. Many children have feasible choices of school, or could have if the 'supply side' were freed up. Certainly in more remote areas there are fewer options, but even in these cases vouchers could open up possibilities such as boarding for students whose parents cannot now afford it, or private competitors to the Correspondence School. There is no logic in constraining the choices of all children simply because some may not be able to benefit. Choice is never unlimited, but the aim of policy should be to widen, not restrict it.

**Objection 11: Vouchers would lead to a small number of very large schools, perhaps one per city, with the rest lying empty.**

If there were a competition for the best 'no-brainer' among the objections to vouchers, this would be one of my favourites. It was offered by the *Otago Daily Times*, or the 'The Oddity' as I gather it is sometimes fondly called. It directly contradicts what can be observed of private sector education. Private schools come in all shapes and sizes, for good reason. As noted, the preferences of parents differ, and children differ. It is possible for a school to get 'too big', and competitors can copy the characteristics of successful schools. In other services, competitive markets hardly ever lead to one monopoly player emerging. Education would be no different.

**Objection 12: Too much would be spent on school advertising.**

Another 'no-brainer' from the *Otago Daily Times*. I doubt if it has expressed similar concerns about other advertising in its columns. With any product or service, information is necessary to allow informed choices to be made. Why take a different view about education?

**Objection 13: Choice would be unfair because wealthier parents could 'top up' their vouchers.**

This objection seems to be founded on envy rather than logic. Parents buy all sorts of things for their children, including educational goods and services. Would we want to stop them spending more on education, and how in practice could we do so? The role of the state should be to underwrite a decent education for all; its job is not to tell people how to use their resources.

**Objection 14: Vouchers are a 'far right' (or 'new right') idea.**

This objection is name-calling rather than rational debate, but I list it because it is worth a response. All sorts of people have advocated vouchers, or have advocated confining the role of the state merely to funding education. John Stuart Mill did not

believe the state should run schools, but then neither - for what it is worth - did his contemporary Karl Marx. I do not think Marx can be described as far right, new right or any sort of right.

The Chubb and Moe study was undertaken by the left-leaning Brookings Institution. Polly Williams is a Democrat, female, black, a former welfare mother, and everything that should appeal to the politically correct. A 1991 poll commissioned by the Education Forum found that 48 percent of respondents supported the concept of education vouchers while only 30 percent opposed it, and the remainder were unsure, or were neither for nor against. If vouchers are a 'far right' idea, there has clearly been a shift of electorate sentiment that has gone completely unnoticed by political scientists in New Zealand.

**Objection 15: A voucher scheme would be an 'experiment' - the idea is completely untried.**

Even this objection is no longer true. There have always been sound logical reasons for supporting the idea of vouchers. Now there are also solid success stories to point to. Besides the schemes in Wisconsin and Sweden, the education policies of Denmark, Holland and Japan involve comparable levels of funding to state and private schools. Even Australia veers in this direction: there is much higher government funding of private schools in Australia than in New Zealand, and some 30 percent of Australian children are enrolled in non-state secondary schools compared with some 5 percent in New Zealand.

Sweden provides an ideal case study of whether the dire consequences predicted for vouchers are likely to come to pass. A prime motivation was to introduce diversity into a state-dominated system in which private schools had been virtually driven out. What happened was that the state school system was not decimated, although the private sector did expand. State schools were found to be capable of responding to the challenge. There was no flight by higher socio-economic groups out of the state system. If anything, the opposite happened: on average, children attending private schools in Sweden now come from families with lower incomes than those attending state schools. There is strong public support for vouchers in Sweden. Fewer than 10 percent of parents have actually used their voucher, in the sense of choosing a different school from the one their child would have been assigned to under the old system. However, 85 percent of parents regard the right to choose as very important.

Both Odd Eiken - one of the architects of the Swedish reforms - and Polly Williams have visited New Zealand in the last few years at the invitation of the Business Roundtable. Interestingly, neither were attacked by any of the educational commentators who are normally so vocal on the subject of vouchers. Instead, each met with an all-but-complete wall of silence. Social-democratic Sweden and Jesse Jackson supporter Williams are difficult cases for the critics to cope with; they do not fit their ideological stereotypes.

**Objection 16: Vouchers are a plot.**

The plot might be to reduce funding on education, or to create a low wage economy, or to sell all schools off to big business. There is a rich array of possibilities, and most conspiracy theories cannot strictly be proved wrong. Perhaps there is a conspiracy between some politicians, the Treasury, the Business Roundtable and foreign multinationals to turn New Zealand into a third world country. I leave you to judge for yourselves the likelihood of that. A moment's reflection will suggest that

businesses prefer to operate in well-educated communities with high incomes and sophisticated tastes - not in the world's economic basket cases.

I would not want to end without acknowledging that there are some real problems associated with vouchers, as opposed to these largely imaginary ones. It is not altogether sensible to raise large amounts of tax from middle and higher income taxpayers, only to give most of it back to the same people either by way of fully subsidised state education or as vouchers. Raising the amount of tax needed to finance education causes so-called deadweight losses which reduce total national income, probably by several hundred million dollars annually. A combination of lower taxes and some element of fee-paying by these taxpayers would reduce those economic losses, and introduce some stronger price signals and consumer disciplines into the system. A straightforward voucher system would be a useful step, but it might be possible to do better.

There are also dangers of making a voucher system overly complicated, involving a range of different entitlements and a costly administrative apparatus. Another concern is that governments, under pressure from interest groups, would start imposing detailed and intrusive rules on schools qualifying for voucher funding. This would pose a particular threat to private schools, but all schools would risk losing the autonomy which is one of the chief educational advantages of the concept. These dangers would need to be guarded against or we could end up where we started, namely with a bureaucratic and monolithic system. I have also stressed the need for a considerable freeing up of the 'supply side' of the system and there would be a need for high quality information - on academic results and other measures of performance - to be available to parents for a voucher system to work well.

If these conditions were met, I believe the potential benefits of greater choice and competition in education far outweigh the dangers. The strongest argument for such a reform is that it would start to take education out of the political domain and restore it to civil society - to parents and communities. It would help cut through the nonsense over bulk funding and teacher pay claims and the perennial conflicts between big unions and big government. We have it even on President Clinton's authority that the era of big government is over; people are rightly wanting to decide how to run their own lives. Some of our political parties and politicians have been moving in the direction of parental choice. Those of us who agree with the idea should be giving them all the support we can. It is an idea whose time has come.