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Extra money won't fix schools

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THE Gonski Review of Funding for Schooling is right: our schools should provide better and more equitable outcomes. Unfortunately, the funding model it recommends is unlikely to achieve those goals.

That is because the review's preferred funding model constrains choice rather than promoting it. But the key to addressing our schools' problems lies in empowering competition to lift all ships, including those of the truly disadvantaged.

This is not to downplay the difficulties inherent in the review's task. State schools are effectively prohibited from charging fees. Independent schools, which receive far smaller subsidies than their state counterparts, virtually have to. That distorts choice between them, and especially restricts the options poorer families face. Aggravating those restrictions are constraints on families' ability to select among state schools: even where catchment areas are not limited by regulation, getting children to and from distant schools is costly and moving closer to the better schools often even more so.

All that gives state schools monopoly power over the supply of education to disadvantaged families and to many others, weakening the incentives for quality teaching. To make matters worse, those schools are stuck with the bad apples that disrupt learning, and they are increasingly reluctant to (or prevented from) disciplining them. State and commonwealth governments' genius in inventing stifling forms of bureaucracy then add to the problems, as do the myriad constraints imposed by the teachers' unions.

There is therefore plenty of room to improve, not only with the children who struggle but also, and perhaps especially, with the medium to high performers. To finance that improvement, the review recommends a move to a new schooling resource standard. That standard would set the recurrent funding state schools receive for each child, with top-ups for disadvantage. These would be significantly above current payments and would be paralleled by a new mechanism funding capital costs. Total government spending on schools would therefore increase by at least \$5 billion.

But, as the report itself recognises, there is little evidence that greater spending leads to better outcomes.

That is unsurprising for, though the review seems unaware of it, the principle of diminishing marginal returns also applies to education. Learning requires not only the inputs schools provide but also student effort, parental assistance and peer pressure. Increasing one of those inputs without increasing the others does not get you very far.

But diminishing returns are not solely to blame. Rather, with so many public schools and especially those that poor children attend facing little competition, greater spending too readily vanishes into higher salaries for teachers and administrators, rather than leading to increased educational output.

The review should therefore have sought to make choice more powerful, giving all parents an opportunity to compare schools and demand improvements with a credible threat of pulling their children out if those improvements don't materialise.

Providing parents with an entitlement equally redeemable in the public and private sectors would be the most effective way of achieving that goal. Instead, under the review's proposed approach, independent schools would receive less public funding than state schools. And they would do so even if they charged no fees at all and hence provided direct competition to the state system.

Moreover, the funding independent schools receive would be means-tested. That already happens, with a school's funding being reduced as the overall socioeconomic status (SES) of the areas in which its students reside increases. But the review proposes making that link tighter, including through the development of "a direct measure of parental socio-economic status".

Each family's access to public education funding would then decline steeply as its own income rose, rather than depending on the averaged SES of its children's school. The funding claw-back would therefore amount to a supplementary income tax on families with school-aged children, levied through charges for using independent schools.

Such a tax is doubly inefficient. It would raise effective marginal tax rates, to likely over 60 per cent for families with

several children, significantly discouraging female labour-force participation. And by distorting the choice between state and independent schools, it would perpetuate the monopoly problem, particularly at low to middle incomes.

Nor do the anticompetitive elements in the review end there, for it proposes a new planning system in which school planning authorities, in examining applications for new schools, would be "required to consider whether the new school would undermine neighbouring schools". Whatever the review may claim, this is a throwback to the discredited New Schools policy of the Hawke-Keating era.

These restrictions on competition appear to derive from the review's misguided assessment of educational equity.

Like the teachers' unions, the review exaggerates the problems, claiming, for example, that "the impact of student background on educational outcomes is stronger in Australia" than in other advanced economies. In reality, the effects of parents' SES on children's educational outcomes in Australia are similar to those in Sweden and Norway, which are hardly brutopias of inequality.

But even more important, the review ignores the fact that greater choice would promote both equity and efficiency. Rather, it claims, there is "compelling" evidence that "concentrations of students from certain socioeconomic groups within a school has (sic) a strong impact on the educational outcomes achieved by all students at the school", so that discouraging opting out by better-off students could improve public schools' performances.

Yet far from creating ghettos, fully portable subsidies would help all students lift themselves out of them. And what the studies actually show is that regardless of socio-economic background, well-performing students benefit most greatly from being with their peers. Subsidies that could be freely transferred between schools would promote that sorting, giving every bright child the best chance of success.

Overall, moving to a more transparent method of school funding makes sense. But the review's preferred system provides too little assurance the greatly increased spending it recommends would be used wisely. And, by entrenching barriers to entry into the education marketplace, it would discourage experimentation and limit the power to choose. That harms both quality and equality. It can hardly be what our children deserve. And it is certainly not what our schools so badly need.

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