

How to get school competition right

Injecting choice into our education system has raised standards in our schools. More radical reforms would improve them further

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One of the most important lessons from the past decade of public service reform is that poorly performing institutions do not reform on their own. Faced with a failing school, hospital, or children's social care department, it is tempting for the government to throw resources at it (if it can find them) and hope that these, coupled with the intrinsic motivation of staff, and their public service ethos, are enough to drive improvements.

But we now know that extra resources on their own are insufficient to turn around the vast majority of failing institutions. Cultural and organisational barriers mean that some form of external challenge or pressure is needed to create improvement. This challenge can come from a variety of sources: from government departments themselves through the setting of targets and the direct management of providers; from regulators such as Ofsted in education or Monitor in the NHS; from the various forms of what Albert Hirschman called the users' "voice", such as complaints procedures or public meetings; or from user choice and provider competition.

In education, successive UK governments have used all four methods to challenge poor performance, but with an increasing emphasis on user choice and provider competition—often from non-traditional providers. In the previous government Andrew Adonis initiated the academies programme to challenge local authorities' monopolies in schools. Michael Gove has extended it while also stimulating competition further by supporting parents, teachers and other groups who set up free schools from scratch.

Does competition from non-traditional providers improve outcomes? In the heated debate about this issue, proponents and opponents alike often back up their arguments with research that is far from easy to interpret. It is notoriously difficult to evaluate the effects of market-based reforms, which means that good methodology is necessary for drawing persuasive conclusions. All research is not equal, which generally is not acknowledged outside academia.

In particular, the role of system design is rarely emphasised. All markets have rules that determine the playing field, which in turn impacts on outcomes. This is especially true in education, which is a "quasi-market", characterised by parental choice and school competition but with public funding. The regulatory framework of such markets is crucial—but it differs substantially worldwide and even within countries. It is therefore difficult to make sweeping statements regarding the efficacy or inefficacy of school competition without analysing the overall structure in which it operates. In other words, all competition is not equal either.

The importance of separating good and bad research is clearly shown in the discussion regarding the impact of competition on countries' performances in international tests, such as PISA and TIMSS, which have become increasingly important in education debates worldwide. The conclusion from much of that discussion appears to be that competition from autonomous providers is irrelevant. When the latest PISA results were released last December, Andreas Schleicher, deputy education director at the OECD, claimed there was no evidence that competition raised pupil achievement. So did researchers of the Institute for Public Policy Research, who



Scandinavian success story: Banning academic selection in Sweden has allowed competition between schools to improve results

argued that this finding demands an answer from advocates of independent providers in the state-funded education system.

They are not alone. Commentators have lined up to denounce the supposed failure of increased competition to produce higher international test scores. The claims are usually based on the latest PISA report's fourth chapter, which analyses what makes schools successful, and for this reason has become popular among politicians looking to improve their country's performance in international tests. But is its popularity warranted?

Unfortunately, the answer is a resounding No. The chapter amounts to little more than a firework display of correlations—and, as any social scientist can point out, simple correlations tell us nothing about the underlying causal relationships. A positive association between a policy and achievement could mask a zero or even negative causal effect (and vice versa). This means that pursuing reforms based on the chapter's conclusions could in fact be harmful.

In order to understand the effect of competition from independent providers on international test scores, we must therefore look beyond the OECD's correlations and consult the economic literature. And the contrast could not be starker. The strongest study available, published in the *Economic Journal* by Martin West and Ludger Woessmann, finds that competition from autonomous providers improves countries' performance in PISA in the long run, benefiting pupils in state and non-traditional schools equally, while also driving down costs. The positive impact on achievement is not an isolated finding; all available economic research analysing inter-

national test score differences between countries backs it up.

So far, so good. Absolute performance levels in international tests, however, are not everything. Does not competition from new types of schools at least reduce equity, as commonly feared? Well, no. While the PISA report finds no statistically significant relationship between such competition and equity, the available economic literature—as reviewed by Eric Hanushek and Ludger Woessmann in the *Handbook of the Economics of Education*—shows that it actually decreases the impact of pupil background on test scores. The research methods utilised are not ideal, but they are way ahead of the OECD’s correlation analyses.

Yet the same research also indicates that private funding decreases equity in international tests. This is not surprising since it is likely to reflect greater choice opportunities for the rich compared to the poor. Private funding is not necessarily always bad, but this illustrates our point: good policy design is crucial for the effects of competition.

Similarly, differential system design partly explains the more mixed within-country research analysing the impact of choice and competition on various domestic achievement measures. For example, under certain conditions, allowing academic selection may incentivise schools to compete by cream skimming rather than by raising quality. This helps explain why competition has had mixed effects in Chile, where academic selection has been permitted, but a more consistently positive impact in Sweden, where it is banned.

At the same time, while it is clear that some countries have better systems than others, none has been good enough. For example, despite the positive effects found in recent research, the Swedish system is plagued by a mishmash of centralisation and decentralisation that has failed to target quality deficiencies specifically. This means that a lack of joined-up thinking regarding the overall incentive structure produced by the reforms has probably prevented stronger gains. Indeed, given the existing system design, it is quite remarkable that there have been any gains at all.

But all this just makes the positive effects in international tests more noteworthy—we can only speculate about what could be achieved if countries took system design seriously. And in terms of system design, English politicians have a lot to think about. Here, we only focus on a couple of the most salient points.

First, in order to have strong competition that targets quality deficiencies, schools must face the threat of potential pupil migration to other providers. In theory, this should have introduced by the 1988 Education Reform Act, which established the right of parents to apply to any school in England. But neither this piece of legislation nor subsequent education reforms have adequately addressed a key hurdle to expanding choice: the crucial role that proximity to residence still plays in pupil allocation. Indeed, most publicly-funded schools still use proximity as their main tiebreak device in the case of oversubscription.

Why is this a problem? Because when sought-after schools use proximity as their oversubscription admissions criterion, wealthier parents move closer to them in order to secure a place for their children. This also means that people who cannot afford to move are often left with whatever schools are not oversubscribed, diluting their right to choose schools to a theoretical concern. Indeed, a vast amount of research in England and abroad identifies a link between school quality and house prices, which decreases in importance (or is obliterated entirely) as proximity becomes less important for admissions. By reducing the link between residential location and school choice, the latter can be expanded among the large part of the population who cannot afford to move.

But what is the alternative to the proximity rule? All publicly-funded schools should utilise lotteries in the case of oversubscription. This is the tiebreak device used in the American charter school sector, and an approach that is becoming more popular among English academies and free schools. By using lotteries, the premium of living close to schools disappears, the choice set for the less wealthy is consequently increased, and de facto market areas expand significantly. It therefore also sharpens competitive incentives to raise

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achievement for all pupils, as popular schools will no longer be able to rest on the laurels of having an advantaged intake as the result of residential sorting.

Of course, in the long run the solution is to improve the supply-side dynamic in the schools market. If it is relatively easy to start new schools and expand existing good ones, the tiebreak device becomes

much less important. But despite the free schools programme, this is clearly not the case in England. This is because the approval process for new schools still involves some bureaucracy, and since the government commits itself to finance upfront capital costs, it is also forced to reject applications from perfectly good providers simply because it would cost too much to approve them.

Moving towards a system that stipulates minimum requirements for free schools, while liberalising ownership as well as building requirements, would increase the number of new providers and incentivise existing providers to scale up as a response to demand—which would enable more pupils to attend better schools.

Naturally, this framework would force the government to abandon its commitment to cover upfront capital costs for new schools and converter academies. But this would be a good thing. Being able to find capital is part of the market test—if providers are not willing to invest their own money, or cannot find people who are willing to back them, they probably would not start or expand their places in the first place.

While profit-making providers have an advantage here because of their access to capital markets, PFI schemes—in which private contractors pay upfront for schools and then lease them back to providers—could be used to enable non-profit and state providers to get access to capital.

In general, it would be advisable to revamp the capital-funding regime entirely. Rather than having a separate system, an allowance for capital funding could be included in the per-pupil funding system. Indeed, all funding for schools should be paid on a per-pupil basis. Both state and non-traditional providers would then have to use their total revenues for whatever expenses they incur, including repayments on loans. Autonomous budget decision-making is a necessary element in any functioning market, although transparency regarding what schools spend their money on must be upheld.

Some of the phased-out upfront capital funding could be spent on paying for transportation costs for children from poor families, to enable them to attend schools farther afield. This may be important since research from the voucher programme in Milwaukee, published in the *Economics of Education Review* by Rajashri Chakrabarti, suggests that lotteries in combination with the covering of transportation costs can stem school sorting by income. Again, by expanding the size of market areas, such subsidies would also sharpen competitive incentives among all schools.

As well as reforming the state-funded education sector, we could also utilise the independent sector to expand choice and competition further, especially at sixth-form level. Well-endowed independent schools could follow the example of private American universities and make their admissions need-blind: that is, admission to the sixth form should be independent of the level of parental income. Fees for sixth formers from disadvantaged backgrounds could be paid out of a combination of endowment income and state funding (including the pupil premium). Naturally, enabling disadvantaged pupils to attend independent schools in this way would introduce even stronger competition for the state-funded schools; competition would sharpen especially for the pupils who need it the most.

The question is no longer whether we should have school competition, but rather how competitive systems should be designed to maximise their positive impact. Certainly, governments worldwide have often been too naïve when introducing market incentives in education. Producing functioning quasi-markets demands more than just allowing a theoretical right to choose. It demands a coherent reform package that changes the overall incentive structure. In other words, if the creation of quasi-markets 1.0 involved the establishment of the basic structures, the creation of quasi-markets 2.0 involves a careful crafting of complementing reforms to maximise the positive effects of those structures. ■