

## ***Incentivising excellence: school choice and education quality***

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### **Executive summary**

#### *The theory*

School choice has in the past decades gone from a fringe academic theory to become a mainstream policy option exercised by governments worldwide. In theory, school choice and competition can increase achievement through facilitating better matches between pupil and school ('choice effects'), allowing the reallocation of pupils to better schools ('school effects'), and forcing schools to compete to attract pupils ('competition effects'). The success of these effects depends on a number of assumptions being met:

First, free entry to and exit from the market are crucial, being a better indication of a competitive market than the size or number of competitors. This also prevents the formation of local monopolies, with education providers responding to potential as well as current competition.

Second, parents must also be provided with accurate performance measures to be able to choose schools on the basis of quality. Education quality has been shown to matter for parents, and improved information supply affects their choices for the better. Both government and independent organisations may be involved in ensuring a good information supply.

Third, schools must also be induced to compete by increasing quality, rather than engaging solely in 'cream-skimming' by selecting only the best pupils in order to boost average test scores.

Finally, schools must operate within an institutional framework that allows the freedom to innovate, specialise and respond to incentives, as well as being held accountable to credible measures of achievement and reputation.

According to these assumptions, school choice and competition have the potential to increase educational achievement significantly. However, the design of the choice programme and institutional framework matter.

#### *The research*

The best cross-national research analysing international test scores indicates that independent school competition and choice have an important role to play in increasing pupil achievement and productivity. This is despite the fact that this research compares countries with no or flawed choice systems in place.

In Sweden, decentralisation and choice have had a small, positive impact on achievement/attainment, despite flaws directing competitive incentives away from quality. The Swedish system requires, among other things, increased competitive incentives, school accountability to credible measures of achievement, and better provision of quality-based information for parents in order to raise achievement significantly.

Chile's school voucher programme, which was implemented in the 1980s, shows little robust evidence of strong gains, again due to design flaws. However, Chilean for-profit franchise schools appear to perform somewhat better than many other voucher school types. The Chilean voucher system requires significant changes in order to raise pupil achievement, since it lacks differentiation of the vouchers according to pupil background and ability; money does not follow the pupil in many schools; and there is insufficient autonomy and information.

The Netherlands' school choice system is much older than those of Sweden and Chile, dating back to 1917, but has been subjected to less scrutiny. The evidence in terms of effects is mixed. In general, the Dutch experience suggests that cumbersome restrictions to market entry can stifle competition, and that legally mandated mergers to create economies of scale are no substitute for allowing competition with for-profit school providers.

Denmark's voucher system has also been subjected to little scrutiny, despite a century-old history. The research that does exist is methodologically weak, but there is still little evidence that choice has had positive effects in Denmark. However, the Danish programme exhibits huge design flaws, with no for-profit schools allowed in the system, restrictions on economies of scale, and a lack of high-quality information to provide accountability and allow parents to make wise school choices. Municipal schools also compete on unequal terms with independent schools.

While the evidence from smaller-scale programmes in the United States and the developing world is somewhat mixed, it clearly suggests that pupils from disadvantaged backgrounds may benefit from choice especially. However, small-scale programmes, often burdened by stifling regulations, cannot tell us much about how large-scale programmes are likely to function.

#### *The English reforms so far*

The evidence on English school reforms since 1988 is also mixed. Grant-maintained and autonomous faith schools have had varying results, but the more autonomous academies appear to have improved exam achievement. Furthermore, competition appears to be especially positive for schools that have the autonomy to react to competitive incentives, and there is virtually no evidence of negative effects.

There are numerous flaws in the English system. Proximity's importance in determining pupil allocation to schools undermines the effectiveness of school choice in increasing education quality. There is no free entry to the market, as new schools are dissuaded by cumbersome regulations and planning restrictions. There is also no free exit, as failing schools are propped up by additional investment, muting competitive incentives. A lack of autonomy for schools to respond to competitive incentives, and a lack of good quality information for parents both remain problematic.

#### *A voucher programme for England*

To remove these flaws, an English voucher system should be both national and universal. However, its introduction should be both gradual and regional in order to conduct strictly randomised trials and evaluate the programmes effectively.

Voucher systems are preferable to tax credits because they exert competitive improvements on government schools as well as independent schools and private alternatives. However, they also need to mimic regular markets as closely as possible, for example engaging parents in the actual financial transaction process, and making choice mandatory, with no default school.

Effective competition also requires a level playing field for competition in terms of equal public funding and regulatory treatment. The voucher should represent all the public funding schools receive, with private providers expected to raise up-front capital, and new state schools set up only under exceptional circumstances.

Schools must be allowed to fail in order for competition to succeed in raising achievement. Minimum income guarantees for schools need to be removed so that funding fully reflects parental choices through vouchers. Research indicates that it is almost impossible to turn around failing schools, so reforms that increase the number of places at good schools are therefore necessary.

While the pupil premium is a step in the right direction, it is not transparent enough. Instead, vouchers should be differentiated in order to reflect the cost of educating pupils, awarding more to pupils from lower socio-economic backgrounds, or with lower ability. It is unclear as to whether top-up fees would improve the functioning of the English education system's market. If they are introduced, then they must be compensated for by other measures designed to prevent cream skimming.

As the effects of selection practices are uncertain, these should only be allowed in experimental form. Instead, lotteries rather than proximity should be introduced as the default tie-break when schools are oversubscribed.

Autonomy is crucial for choice to be successful. Consequently, autonomy should be increased for all schools, and competition between qualifications should also be allowed. Schools should be held accountable for their outputs, not their inputs. This encourages the process of experimentation, and underscores the importance of strong accountability to credible quality measures.

Allowing for-profit schools is crucial to increasing competition. For-profit companies have strong economic incentives to start new schools and capitalise on economies of scale. They have fewer problems raising up-front capital to start new schools, and with differentiated vouchers would be incentivised to expand into less privileged areas.

Supply should be stimulated as much as possible, for example by easing planning restrictions for school building, and accommodating online learning providers as competitors and complements to traditional schooling.

Limits on the market power of schools in particular districts should be avoided, as long as there is free entry and exit to the market. Capping the number of schools held by any given supplier would also reduce the potential for improvements through economies of scale, so should also be avoided.

The national exam system should be reformed to reflect either cohort-referenced grading systems or contextualised systems to help determine performance changes over time.

However, whichever one of these systems is implemented, it should be a complement to a variety of autonomous and competing qualifications systems. Schools should be able to opt for alternative qualifications, and a good start would be to allow all schools to use any EU country's qualification.

Finally, adequate performance measures to achieve accountability and inform parents can be produced by having a number of different sources of information. This would allow competitive improvements in the presentation and quality of information.