



AUSTRALIAN CATHOLIC UNIVERSITY



ISSUES PAPER: PARENTAL CONTRIBUTIONS TO EDUCATION

Prepared by the Public Policy Institute of the Australian Catholic University for
the Independent Schools Council of Australia

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Professor Greg Craven, Vice Chancellor, Australian Catholic University

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ISSUES PAPER: PARENTAL CONTRIBUTIONS TO EDUCATION

1. Background

The Public Policy Institute (PPI) of the Australian Catholic University has been commissioned by the Independent Schools Council of Australia to prepare a series of papers to inform discussion about schooling policies in Australia, as a contribution to the Australian Government's Review of Funding for Schooling (Gonski Review).

The previous papers prepared by the Public Policy Institute were:

- **Equity and Education** released in April, 2011;
- **Choice and Values** released in May, 2011

Copies of these papers are available from www.acu.edu.au/ppi or by contacting the Public Policy Institute.

This third paper discusses the issue of parental contributions to education and the implications for equity, choice and future school funding policy.

The analysis of current research evidence and policy options in these key areas of public debate is the independent work of the PPI. The views in the papers are not necessarily the views of the independent schools sector.

2. Why focus on parental contribution?

Parents make a substantial contribution to the costs of non-government schooling – in total, 43 per cent of the operating income of non-government schools (2008-09) comes from fees and other private income. This pattern of combined public and private funding, and service delivery freed from full government control, is becoming more common in the provision of high cost public services such as health and education. Public subsidies to privately operated schools serve to widen access and leverage greater private investment, resulting in both cost efficiencies for government and greater returns in terms of education achievement.

As a result of the combination of private investment and public funding, the average level of per student funding in non-government schools is marginally higher than in government schools, although the difference varies between high and low fee schools. While low fee independent schools operate at per student resource levels well below the average government school, the level of resources available to the small number of long established high fee independent schools is more frequently the focus of attention. It is also the basis of decades of concerted public campaigns seeking to reduce the flow of public resources to non-government schools and limit

parental contribution, so that their “total level of funding and resources do not exceed funding and resources of public schools” (AEU 2011:11).

This paper analyses the impact of public support for non-government schooling and the creation of incentives for private investment, in terms of effectiveness, equity and efficiency. It also explores the reasons why families are increasingly prepared to make a significant private investment in schooling when the alternative of free public education is available.

3. The current funding context

Although considerable data on the funding of government and non-government schools is now available as a result of recent COAG developments and the publication of school financial data on the *My School* website, there remains considerable scope for confusion and misinformation in the presentation and use of the data. The present funding arrangements have been described as unsustainable, opaque and confusing, allowing protagonists on all sides to use data partially and selectively to support entrenched positions. This complexity fuels many misconceptions and distortions in the school funding debate and makes it easy to overlook the substantial private investment in non-government schools.

School funding arrangements in Australia are highly politicised, in part because both Commonwealth and state and territory governments are involved and there is a great deal of overlap and duplication in their roles. Most public funding for schools comes from state and territory governments (78 per cent) and the remainder from the Commonwealth. State governments are the main providers of public recurrent funds for government schools, representing the majority of school enrolments (66 per cent). The Commonwealth Government is the main provider of public recurrent funds for non-government schools, which cater for 34 per cent of students.

This overlap of roles and responsibilities makes it difficult to apportion credit or blame to the appropriate level of government. In the past, the Commonwealth and states have been observed to “ritualistically allocate blame to each other using different sets of data, (ignoring any) private contribution” (Dowling 2007:2) and to oversee a set of arrangements that are “riddled with anomalies, clumsy overlaps, unnecessary duplication, buck-passing and unhelpful politicking and point-scoring” (Marginson 2001).

Adding to confusion about the source of funds are the many different approaches adopted for their distribution, depending on the nature of the funding program (recurrent, capital or targeted), whether schools are government or non-government, and for non-government schools, whether schools are systemic or independent. Overlaying these differences is the fact that no two states adopt the same approach to the allocation of recurrent funds to non-government schools.

The initial Commonwealth recurrent grants to non-government schools in 1974 were designed to raise the standards of those schools to an acceptable level, so that parents had a viable choice. This policy rationale remains in place. The Commonwealth's funding is allocated as a combination of a base per capita grant, set as a proportion of average government school costs, in recognition of a community obligation to support the education of all children, and an additional needs-based component, which varies according to the needs of the school.

School income and expenditure

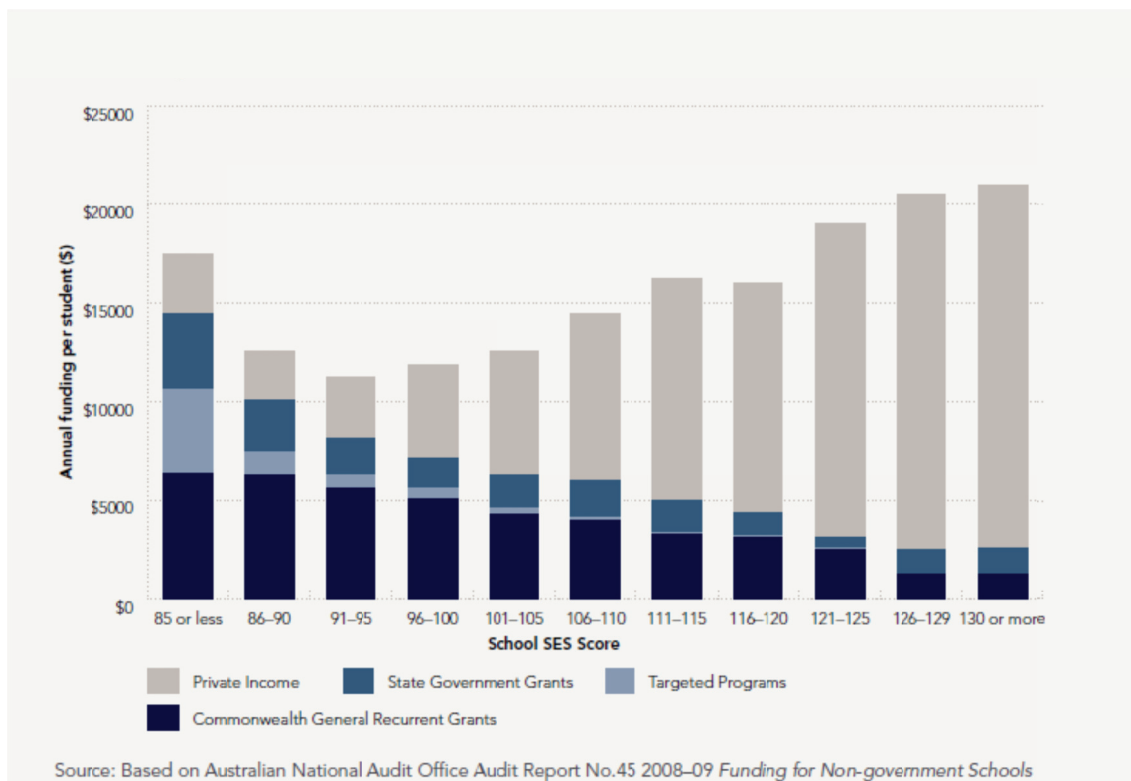
The private contribution of parents is the most significant source of funding for independent school students – 58 per cent – and a significant source of funding for Catholic school students – 28 per cent. This compares with a contribution of around 6 per cent from parents and communities for government schools (ISCA 2011:28). The proportion of private investment in non-government schools has increased from about 34 per cent twenty years ago to 43 per cent in 2008-09.

On average, in 2008-09 a government school student received \$13,544 in public funding and a non-government school student received marginally more than half this amount – \$6,850. The average independent school student received \$6,100.

The average funding amounts are a sound measure of relative public and private contributions across the sectors but conceal the considerable variations among schools which result from differences in enrolment numbers, level of schooling (primary or secondary) and assessed levels of need. Currently, for Commonwealth grants, need is determined by the SES funding model, a measure of the relative capacity of the school community to make a private contribution, based on the socio-economic status of the student population, and assessed by linking the home addresses of students with Census data. In its implementation, the SES model is affected by political agreements protecting schools from losing funding relative to their subsidy level in 2001, when the model was introduced. The large number of schools not actually funded on a needs basis – 17 per cent of independent schools and 55 per cent of Catholic systemic schools – adds to the confusion and complexity of the funding arrangements.

Under this needs-based approach, the per student amount non-government schools receive from the Commonwealth is set between 13.7 and 70 per cent of the agreed measure of average government school costs, the AGSRC (which may significantly underestimate real costs). Once state and territory funding is added to the Commonwealth's investment, a student in the highest SES school (above 130) in 2008-09 would have attracted total public funding as low as \$1,750 (ISCA 2011). As **Chart 1** shows, public funding accounts for between 15 to 80 per cent of the income of independent schools. Catholic schools receive between 75 and 80 per cent of their income from government.

Chart 1: Distribution of funding to non-systemic schools by school SES score, 2006



The combination of public resourcing and private investment adds up to the income per student. The 2008 *National Report on Schooling* compares the average spending on a government school student of \$10,760 with expenditure of \$9,410 on a Catholic school student and \$13,081 on an independent school student (see Tables 23 and 27). Slightly different figures come from the *My School 2.0* website which shows the differences in average expenditure in 2008-09 as \$11,100 for government school students, \$10,000 for a Catholic school student and \$13,700 for an independent school student.

As noted, these average figures conceal wide differences between schools in both the government and non-government sector, depending on whether they are at the low or high end of the SES spectrum, whether they are primary or secondary schools, and whether they have small or large enrolments. The average figure for independent schools is inflated by the high proportion of secondary enrolments in the sector – 53 per cent of independent school enrolments are secondary students, compared with 39 per cent of government school enrolments. The long established high fee independent schools which are often used as examples of generous public funding to the non-government sector tend to have large enrolments, weighted in favour of secondary students, and therefore attract a large amount of public funding in total although, as is evident from **Chart 1**, 90 per cent of their resources come

from private income. Government schools which attract the highest levels of per student income are virtually fully publicly funded.

Capital funding

Private contribution is also the main funding source for buildings and equipment in the independent sector. While the *Building the Education Revolution* program altered the balance in 2009 and 2010, historically parents have contributed more than 80 per cent of the cost of buildings, mainly through school fees but also through contributions from families, former students and other donors. Debt servicing for capital is built into school fees.

The public funding that is available for capital works from the Commonwealth and state governments goes mainly to those school communities with the least capacity to raise funds. Many long-established independent schools receive no public funding for capital works.

Australia in the international context

Among OECD countries, Australia has a high share of private investment in total school funding (primary, secondary and post-secondary non-tertiary education); the fourth highest after Korea, United Kingdom and Chile. In a recent analysis of public and private investment in education, OECD points to the increased share of private funding at all levels of education and to the move by governments to forge:

new partnerships to mobilise the necessary resources and to share costs and benefits more equitably. As a result, public funding more often provides only a part (albeit a very large part) of the investment in education, while the role of private sources of funding has become more important. (OECD 2011:232-233)

The increase in private spending has tended to complement, not replace public investment. Individual households are the major source of private expenditure.

POLICY IMPLICATIONS

The complexity of school funding arrangements can distort the funding debate, if account is not taken of the:

- **Differences in the source of funding** (Commonwealth, State or private contribution);
- **Level of education** – primary or secondary;
- **Level of per student grant according to need;**
- **Size of a school;**
- **Rate of increase in enrolments.**

Private contributions account for the majority of the recurrent income of independent schools (58 per cent), and with the exception of the period of the *Building the Education Revolution* program, most of their capital income (80 per cent).

The average independent school student receives less than half the amount of public funding (\$6,100) allocated to the average government school student (\$13,544). Income from fees raises the average income per student in independent schools to \$13,081, compared with \$10,760 for a government school student.

Public funding for non-government schools has led to the expansion and diversification of the sector, increasing access and acting as an incentive for greater private investment. This private investment has greatly increased the total resources committed to education.

4. The impact of private investment in education

Growth in national productivity and greater equity are the twin objectives governments are pursuing through the investment of public funds in education. National productivity is dependent on the skills and knowledge of the population – quality education outcomes – and equity involves overcoming disadvantage and providing opportunities for all students to achieve their potential.

Impact on education outcomes

There is considerable evidence that private schools make a significant contribution to national productivity, directly, by raising the academic achievement of their own students, and instrumentally, through the competitive effect on public schools which respond to competition by raising quality. The benefits of higher education achievement are not only private, accruing to the students themselves, but are also public, enjoyed by society as a whole through positive externalities, affecting national economic growth and social well-being. Higher education achievement has positive effects on the whole population (OECD 2006; Hoxby 2003; Robson and Hepburn 2002).

Explanations vary for why non-government schools have better education outcomes. Generally they are attributed to the effects of the higher socio-economic background of the student population. Several recent research studies, based on analysis of PISA results, have found that the achievement advantage of students in private schools is either reduced or reversed after accounting for socio-economic background (OECD 2011). There is however a substantial body of research evidence coming to the opposite conclusion, that the achievement differences remain significant, after controlling for socio-economic background and that these differences are the result of the more effective operation of private schools.

Gary Marks (2009), using data from tertiary entry scores and PISA results, found evidence that, after taking account of SES background, prior achievement and various aspects of student learning, non-government schools “add value” to student performance in the final years of school – by approximately 9 per cent for independent schools and 5 per cent for Catholic schools. The reasons for this better performance seemed to lie in the quality of teachers, better discipline, a more academic environment and different ways of learning. These are among the most important factors influencing parents’ choice of independent school. Hanushek and Woessman (2010) for the OECD found that, after controlling for socioeconomic intake, certain attributes in a schooling system – accountability, autonomy and choice – contribute to greater equity, higher achievement and higher outcomes in terms of non-cognitive skills, and reduce the dependence of student achievement on SES.

The evidence is clear that better education outcomes do not necessarily flow from higher resourcing levels. In the independent sector, higher average per student resourcing levels which result from the combination of government support and uncapped parental contribution, combined with school autonomy, enable schools to respond to parental demand for educational excellence, good teachers, a breadth of opportunities, a supportive learning environment and good facilities.

An increased interest in OECD countries in the privatisation of school education has been attributed to frustration that substantial increases in public investment have not led to improved performance.

A study by Toma (1996:123) of the impact of publicly funded private schooling in five countries with different institutional arrangements, found that the higher achievement levels of private schools, independent of family socioeconomic status, were mainly the result of private control and the absence of political control. Once public subsidies were made available to expand the enrolment base, Toma established that this would “not erase the superior performance of private schools relative to public ones.”

Private contribution allows non-government schools to operate with a degree of autonomy, outside large monolithic and bureaucratic state systems, with the ability to respond more flexibly and innovatively to their local community. This flexibility and responsiveness is what parents are seeking in making their considerable investment in school fees. In a public system, the large degree of influence exerted by the bureaucracy over the operation of schools can limit their ability to tailor delivery in the face of competing preferences, yet in an ever more diverse society, such flexibility is important in ensuring the best education outcomes. Self-governing schools are more accountable to their immediate communities than is possible for schools that are part of large centralised systems. Free of some of the constraints of the public system, they are able to innovate, cater for diversity and respond to identified student and community needs and preferences.

Toma (1996:146) and others have highlighted the importance of this governance difference, suggesting that “the absence of political control over schools is a determining factor in private school effectiveness.” A comprehensive study of autonomy, accountability and choice by the OECD confirmed that these interrelated factors, together with a system of per student funding, are the explanation for the greater effectiveness of privately operated schools (Woessmann *et al* 2007).

Parental contributions give schools greater autonomy, increase their accountability to parents and provide a performance-conducive incentive. Once parents pay fees, an implicit contractual arrangement is created between families and the school, committing the school to do the best by each student. Choosing to pay fees has been seen to change the relationship between parents and school, giving parents a stronger sense of engagement in the school’s operation and outcomes.

The OECD noted that to benefit from the characteristics of autonomy, flexibility and responsiveness, an appropriate balance needs to be struck between autonomy and accountability. While accountability properly accompanies public funding, regulatory requirements need to be in proportion to the level and purpose of the funding provided. Toma (1996:146) found that the performance advantages of private schools are negated if governments restrict schools' decision-making powers:

It is not the source of funding that is important; it is whether the funding carries political restrictions on the decision-making powers of the private schools that matters.

Impact on equity and choice

Allowing choice of school has been shown to be the best approach to improving education outcomes and raising the performance of all students. The additional choice created by public funding for private schools is associated with a strong reduction in the dependence of student achievement on socioeconomic background (Hoxby 2003; Schutz *et al* 2007; PPI 2011a).

The main constraint on individuals exercising choice between government and non-government schools is affordability. The OECD found that this constraint should be relaxed with generous public funding:

*As long as there are credit constraints that prevent poor families from borrowing against possible future income gains of their children due to improved educational performance, poor families' choices of schools that require private funding will be constrained. Generous public funding of privately operated schools can relax such credit constraints, thereby allowing greater choice for all families and increasing schools' incentives to behave efficiently. (Woessmann *et al* 2007:42)*

Public funding increases access to non-government schools and avoids their being exclusive and accessible only to the wealthy. Evidence from Finland, Korea (both with a small share of government-dependent private schools) and the Netherlands (with a large share of government-dependent private schools), where privately operated schools receive about the same share of government funding as publicly operated schools on average, shows that:

*school systems based on public-private partnerships in which the government finances schools but contracts their operation out to the private sector are the most effective in terms of fostering students' educational achievement. (Woessmann *et al* 2007:43)*

Evidence from Canada shows the same effect:

Canadian provinces that provide public funding to private, independent schools tend to have higher average achievement scores and better scores for less advantaged students. (Robson and Hepburn 2002:1)

The trend in OECD countries is towards supporting more choice in schooling, including through providing public funds for private schools (see also PPI 2011b). Typically in many countries, funding comes with restrictions on fees and enrolment practices. For example, in Belgium, all schools that receive government funding are prohibited from charging for tuition. In Spain and Finland, private schools are financed by the state and are not allowed to charge fees. In other countries (England and Poland) private schools are largely financed through fees.

Impact on school resources and the public purse

Parental contribution has enabled independent schools to operate on average at a higher per student resource level. Unlike the previous non-government school resourcing mechanism, the Education Resource Index (ERI), the SES funding model does not impose restrictions on the level of private income non-government schools can raise. The ERI acted as a disincentive to private investment as Commonwealth payments were reduced once private resources increased.

The higher level of resources of independent schools and the seemingly greater wealth of selected private schools, in terms of buildings and endowments, is used as a basis for demanding that public funding be reduced for those schools able to attract the highest level of private investment by charging high fees. This would have the perverse effect of limiting private investment. As Cardak and Hone (2003:142-3) argue, scrapping government funding for private schools and limiting private investment could have serious financial implications for the whole of society:

Not only will families with students in non-government schools be adversely affected, public school students may suffer from overcrowding and taxes would have to be higher in order to fund the greater public expenditures.

Governments are constantly under pressure to improve the provision of public services, while there are also strong expectations that they will exercise budgetary restraint. The main avenues for providing better services without greater costs to the public purse are through a more efficient use of the existing revenue base and the use of government subsidies to encourage private investment. Education and health tend to be two of the highest priority spending areas for government and in both these areas policies have been designed to use some public funds to leverage greater private contributions.

In the delivery of government services, “public funding and service supply are increasingly being de-coupled in the interests of improving service provision and cost efficiency” (Lundsgaard 2002:117). Governments encourage, and sometimes

mandate, private contributions from those who can afford it to alleviate pressures on government outlays. In health, for example, people are encouraged to use the private rather than the public hospital system by subsidies to private health insurance, and through the levy imposed on higher income earners if they do not take out private health insurance.

Outside any education policy motivation in pursuit of better outcomes and greater equity, the provision of public funds to non-government schools serves the purpose of reducing demand on public resources. The budgetary objective is for individuals to contribute to education so that the sum of the public and private contributions exceeds the sum that would be spent if education were provided completely from public resources.

Based on average government school costs and taking account of the current public resourcing for students in non-government schools, ISCA has estimated that the total savings in government recurrent expenditure from students attending non-government schools in 2008-09 was \$7.9 billion. If all students in non-government schools were to enrol in government schools, it would spread public funding more thinly and decrease the average public funding for each student from \$13,544 to \$11,250.

The study for the OECD by West and Woessman (2008: 5 & 21) confirms the saving to the public purse of education policies supporting privatisation, along with the positive effects on student achievement across the board:

private competition reduces (public) expenditure per student in the system, so that better educational outcomes are achieved at lower cost (to governments).

and

competition from private schools therefore appears to increase educational productivity not only by improving student achievement, but also by decreasing the total inputs devoted to education. The productivity of the school system measured by the ratio between output and input increases by even more than is suggested by looking at educational outcomes alone.

By offering an alternative to the public system, non-government schooling frees up resources that are then available for public education. A reduction of public funding to schools that exceed a pre-determined limit on private income would have the undesirable effect of acting as a disincentive for schools to raise funds where they can. For a variety of reasons, parents in all income brackets have chosen to give priority in their expenditure decisions to investment in education. Discouraging this voluntary commitment would run counter to the fiscal imperative of governments to maximise private investment.

An alternative way of increasing the incentive for private investment is to offer tax credits to individuals who spend money on education services. Evaluations of this

approach have shown that while it would serve the purposes of reducing the personal cost to individuals, increasing private investment, encouraging competition and expanding the private education market, these benefits would be outweighed by the cost to state revenues. Such a policy would mostly benefit families who already have children in private schools (Belfield 2001).

POLICY IMPLICATIONS

Encouraging private investment in schooling has benefits for society, beyond the benefits to individual students.

The net results of publicly funded private schooling are:

- **Higher academic achievement**, contributing to national economic growth and social well-being;
- **Greater equity**, reducing the dependence of student achievement on social background and expanding choice;
- **Higher resource levels for schools**, for investment in quality teaching and learning;
- **More efficient use of public revenue.**

By creating incentives for private investment in schooling, governments increase the total pool of resources available for education and free up public funds for other purposes. Private funding enables schools to operate more autonomously and be responsive to community demands. The evidence shows that policies of school choice, autonomy and accountability lead to better education outcomes. Public subsidies ensure accountability and increase the accessibility of private schooling.

5. Incentives for private investment

A major reason for government support for non-government schools is to extend choice to more families. Without public support, private education would remain exclusive to the wealthiest sections of society. Reducing the effective price of private education through public funding raises private demand and makes schooling more affordable. The result is that non-government schooling is within the reach of more families and this in turn brings more private investment into school education.

Families at all income levels choose to make this investment. Although it remains the case that the majority of independent school students come from families in the two highest income brackets, non-government schooling is by no means only the preserve of the wealthy.

Family resources, it is clear, are only one of the factors influencing the decision of parents to send their child to a non-government school:

The decision that a child attends a private rather than a government school is made on the basis of a comparison of the educational services provided by the two systems, the price of private services, and the financial resources of the family. (Williams 1985: 622)

Family spending decisions

The spending patterns of families depend on a number of factors, including income levels, type of household, size of household and family values and preferences. For all families, expenditure decisions are a matter of allocating limited resources among competing priorities. The spending patterns of most households are dominated by five main types of spending: taxation, food, transport, housing, and recreation and health. For families with school aged children, the biggest items are taxation, food, transport and housing. For many families, education is a high priority in their spending decisions.

The previous ABS survey of household expenditure (ABS 2006) calculated that Australian families spent \$3.6 billion on their children's education in 2003-04, and 95 per cent of this expenditure was on school fees. The average annual expenditure on fees (for households with children at school) was \$2,040 (see **Table 1**). The most recent survey (ABS 2011) showed a substantial increase (107 per cent) in average weekly household expenditure on school fees between the 2003-04 survey and 2009-10.

The average figure conceals wide variations between families. In 2003-04, expenditure on secondary school fees was between 2.0 and 2.6 times more than expenditure on primary school fees, and expenditure on non-government school fees was around 14 times more than on government school fees. The average annual household expenditure on Catholic secondary school fees was \$3,600, nine times

more than the \$390 expended on government school fees. Independent secondary school fees (\$8,690) were twenty two times higher than government secondary fees. Expenditure on fees was highest in the households in the top 20 per cent of income, and had increased over time as a proportion of household expenditure.

Data from the 2003-04 survey show a differential between high and low income households in their spending on school fees. The difference, at a ratio of 2.1, is lower than the differential in spending on a number of other discretionary items, including wine (6.2), holidays (4.1) and sport and culture (4.0) (De Vaus, 2004:267).

Table 1: Average annual household expenditure on education fees by sector and level of schooling 2003-04*

	Primary	Secondary	Total
School sector	\$	\$	\$
Government	190	390	330
Non-government	2 490	5 680	4 720
Catholic	1 400	3 600	2 870
Independent	4 380	8 690	7 260
Total	1 020	2 490	2 040

*Includes only those households that had expenditure on school education and persons attending school

Source: ABS 4102.0 – *Australian Social Trends* 2006

An analysis of the costs of raising children undertaken by the National Centre for Social and Economic Modelling (NATSEM) estimates the cost for a typical middle income family of raising two children from birth to leaving home as \$537,000. The analysis shows that the greatest costs are typically food, housing, recreation and transport and that the combined expenditure on these items differs according to income level. These four items represent 16 per cent of the total cost of children for high income families, 20 per cent for middle income families and 23 per cent for low income families. Education expenditure however is an exception to this pattern, with the family's investment increasing as a proportion of income as family income increases:

Expenditure on education takes up 21 per cent of Family C's (highest income) child costs, while it makes up 9 per cent of Family B's (middle income) and just 6 per cent of Family A's (low income). This is due to the assumption that the children of Family C attend private schools, and then go on to university... in 2003-2004 parents of children attending independent (private) schools spent an average of \$130 a week on fees, compared to an average of \$5 a week for government schools and \$54 a week for Catholic school fees. (NATSEM 2007:18)

Given the substantially different expenditures at different family income levels, it is not surprising that household income is a major influence on choice of schools. The importance of income as a consideration in choosing a non-government school is apparent in the consistently high preference expressed by Australians for non-government schooling if money were no object. In the 1990s, a national poll found that 45 per cent of families with children at a government school would opt for the non-government sector if money were no object. A 2004 survey found that 34 per cent of parents with children in public secondary schools would change to a non-government school if there were no extra cost. A 2009 survey for ISCA found that 40 per cent of government school parents would prefer to send their child to an independent school if fees were not an issue.

For many families however, school choice is relatively independent of their level of income. As Watson and Ryan (2010:103) point out in their study of the impact of government subsidies on secondary school choice:

to suggest that the act of choosing a child's school is purely an economic decision (that is, everyone buys the best that they can afford and those who can't afford anything simply choose the public system) is too simplistic.

Watson and Ryan (2010:102) draw on international evidence to show that parents with higher education qualifications themselves and from higher socio-economic groups are more likely to exercise school choice:

even when subsidies are restricted to families of low socio-economic status, the families who exercise choice are more likely to be of higher SES than those who do not choose.

The income distribution

Table 2 makes it clear that the distribution of families between government and non-government schools is not solely linked to income levels. Each school sector caters for families from all income levels. A higher proportion of independent school students (43 per cent) come from families with incomes over \$104,000, compared with 31 per cent of students in Catholic systemic schools and 18 per cent of students in government schools, but nearly half of independent school students come from middle and low income groups.

An Australian National Audit Office (ANAO) analysis of non-government school enrolments shows that the proportion of students attending non-government schools rises with the socio-economic status of communities – in 2006, around one-fifth of students living in low SES communities accessed non-government schools, compared with almost two-thirds of students living in high SES communities. In nearly all metropolitan areas, with more access to non-government schools and higher income levels, the proportion of students in non-government secondary schools is over 50 per cent.

The income data in **Table 2**, however, show that even at the lowest income levels, families earning less than \$25,999, 22 per cent of families choose non-government schools, and at the highest income level, over \$104,000, choice between non-government and government schooling is evenly balanced, with 49 per cent choosing government schools, 27 per cent choosing Catholic schools and 24 per cent choosing independent schools.

Schools Students by Family Income - Australia - Australia, 2006

FAMILY INCOME	INDEPENDENT		CATHOLIC		GOVERNMENT		ALL SECTORS	
	NO.	%	NO.	%	NO.	%	NO.	%
< \$25,999	20,178	6.1%	31,828	6.1%	183,544	11.2%	235,550	9.4%
\$26,000 – \$33,799	19,808	5.9%	35,039	6.8%	200,698	12.2%	255,545	10.3%
\$33,800 – \$62,399	63,787	19.1%	121,082	23.4%	492,787	30.0%	677,656	27.2%
\$62,400 – \$88,399	53,529	16.1%	109,599	21.1%	325,416	19.8%	488,544	19.6%
\$88,400 – \$103,999	31,149	9.4%	59,419	11.5%	140,676	8.6%	231,244	9.3%
\$104,000+	144,671	43.4%	161,412	31.1%	298,249	18.2%	604,332	24.2%
Total	333,122	100.0%	518,379	100.0%	1,641,370	100.0%	2,492,871	100.0%

Note: Excludes other territories, educational institution attended not stated, income not applicable, partial income and income not stated

Source: ABS Census of Population and Housing 2006

The ICSEA 2009 scores (see **Chart 2**) used on the My School website provide another indication of the spread of social groups across government and non-government schools. While a larger proportion of independent schools has higher ICSEA scores, the distribution of scores in each sector is not greatly dissimilar. The average ICSEA value is 1000 and most schools have an ICSEA score between 900 and 1100. For the government sector, the average is 988.16; for non-government schools, the average score is 1027.93.

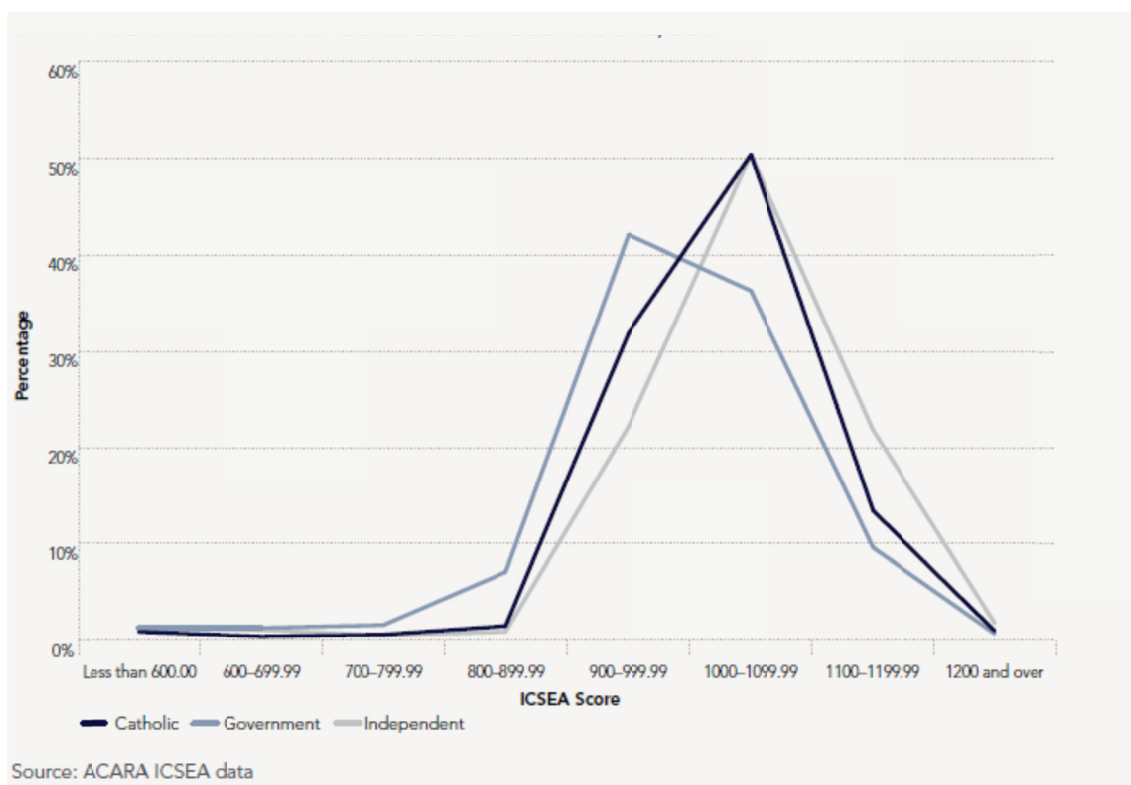
Tracing the flow of enrolments between government and non-government schools since the advent of Commonwealth recurrent funding for non-government schools, Watson and Ryan (2010: 98) found that the public school sector lost students from the middle to top end of its SES distribution to private schools between 1975 and 2006, but these students were generally of lower SES than the private school students of 1975:

Thus the drift of students from public to private schools also had the effect of lowering the average SES of the private school sector . . .

Watson and Ryan also contend however that, by taking higher SES students from the public system, private schools have lowered the average socio-economic status of students in public secondary schools, so that the “majority of students in public secondary schools now attend schools where the average socio-economic status of students is below average” (2010:101).

The major growth in the non-government sector in the last ten years has been in low fee schools. In further analysis, Chris Ryan (2010) has established that these low fee schools attract households across the spectrum, while the high fee schools are concentrated at the top of the income distribution.

Chart 2 Distribution of schools by ICSEA Score, 2009



The steady growth of enrolments in the non-government sector over the last few decades has been attributed in part to rising income levels and in part to private education becoming more affordable because of government subsidies. But most researchers point to another major factor encouraging families to invest in education: a growth in expectations of the public and private returns from schooling.

Jack Keating (2009) examines the factors other than increased average disposable family income and smaller family size that may have led to greater parental investment in schooling and draws attention to:

- A growing expectation that families have to pay for schooling (because of the evolution of voluntary fees in government schools and substantial incidental costs of schooling);
- The increased economic and social risks of educational failure and non-completion; and
- A perception of increased private economic returns from education.

The high stakes attached to education achievement in modern society are also evident in the high demand for selective schools in the government sector and, connected to this, the substantial and growing private expenditure on out-of-school tutoring. Louise Watson (2008:2) points to increases in average household expenditure on private tutoring, which she sees as driven by factors similar to those likely to drive investment in school fees:

International studies suggest that factors driving the demand for private tutoring might include a cultural emphasis on individual educational effort and economic factors such as high and differentiated rates of return for qualifications. It has also been suggested that institutional characteristics of state education systems, such as high-stakes public examinations, intense competition for limited university places and low levels of public spending on schooling, may influence levels of participation in private tutoring.

The existence of high performing academically selective secondary schools in the government sector is an incentive for parents to invest in expensive private tuition, which, conceptually, is no different from a parental decision to support an independent school directly via school fees and contributions (Sanchez 2011).

The basis of choice

While most early studies of choice in Australian schooling make the link between income and choice of non-government schooling, economic factors alone do not explain the steady growth in non-government school enrolments, from a market share of 21 per cent in 1977 to 34 per cent in 2010. Over a similar period, independent school enrolments have grown from a market share of 4 per cent to 14 per cent.

Recent research by Kelley and Evans (2004) comes to the conclusion that the role of family income in school choice is only small. They find that the poor and middle classes are equally likely to send their children to an independent school, the more prosperous to choose a government school, and that school sector choice is more about values and attitudes, community and culture, than about class and wealth. They see that Australian culture embraces a range of attitudes, about individualism vs collectivism, about the importance of academic achievement, about self-mastery, and about many other things including political orientation, and these affect school choice more than income and social class.

Their finding that highly educated, often professional, parents slightly prefer Catholic to government schools, and are strongly attracted to independent schools, accords with OECD research which shows that parents with growing levels of educational attainment increasingly demand more influence over the education their children receive. (OECD 2006) Recent generations of more highly educated parents can therefore be expected to account for a continuing demand for non-government schooling.

Campbell *et al* (2009) have undertaken an intensive study of middle class families “caught up in the regime of school choice.” They describe the anxieties of parents who are concerned to do the best by their children and who see choosing the right school as one of several “danger-alleviating strategies (along with private health insurance).” These parents perceive that being an informed chooser is an important factor in being a good parent, one who is willing to take more control, to be less dependent on government, and to take personal responsibility for the future of their families. Campbell *et al* (2009:3) observe that “the whole process of choosing the right school has become so much part of middle-class family life,” related to middle class aspirations to secure safe futures for their children and to the greater dependency of the middle class on credentials in order to survive in changing labour markets.

This conclusion is supported by research which suggests that middle income families are more likely to turn to private education because they themselves “largely depend upon the credentials bestowed by the education system to acquire or hold on to their position” (Adnett 2002:197). Adnett discusses parental behaviour in the schooling market where education is perceived as a positional good, the value of which is not only absolute, but depends also on whether others are consuming it too. By investing in education, parents are seeking the relative benefits of better education. They are both consumers, choosing a schooling experience that best suits their child, and investors, looking to the future benefits anticipated from higher school achievement, broader school experiences and higher earnings.

The price of services

The price variable for families choosing non-government schooling is the level of fees. In recent years, despite one of the objectives of the SES funding model introduced in 2001 being to lower fees and thus make non-government schools more accessible, fees have been rising faster than overall prices and have exceeded real increases in income. Relatively high tuition fees have however not been a barrier to growth in the sector (Watson & Ryan 2010).

Commonwealth recurrent funding has enabled some schools to keep their fees low in order to remain accessible to students from low and middle income families and has contributed to schools' capacity to maintain the quality of education provision. The economic decision families make in choosing a non-government school, in the face of real cost increases, is that the higher value of real fees buys better service (Williams 1985). As Watson and Ryan conclude, the increased investment in private schooling in Australia, despite increasing prices, is associated with improvements in quality.

The responsiveness of parents to changes in the cost of private education is the price elasticity of demand. A study in the USA of the impact of price discounts for siblings in Catholic elementary schools found that lower income families and less educated parents are more price sensitive, and more likely to respond to a decrease in tuition prices. The researchers reject the assumption that the students who would be induced into private schools by vouchers and public subsidies would look demographically similar to current private school students:

It is families that are least like the current population of private schools that are most sensitive to price – vouchers (or public subsidies) would therefore substantially alter the socioeconomic composition of private schools. (Dynarski et al 2009)

Price elasticity interacts with demand elasticity which is influenced by perceptions of quality. The key elements of demand are how responsive parents are to changes in fee levels and to perceptions of quality. The explanation for continuing high demand for non-government schooling, despite real fee increases, lies in perceptions of the quality and performance of non-government schools. Discerning consumers want more than they see as offered by public education when there is a well-established, even if more expensive alternative. Better schooling is considered so desirable by many parents that they undertake considerable sacrifices to send their children to independent schools.

While most of the enrolment growth in non-government schools has occurred in low fee schools, enrolments have continued to grow in high fee schools, with the result that these schools have resourcing levels well above the average for the sector, and for government schools. Australian National University economist Andrew Leigh, writing in the Australian Financial Review, took exception to the often expressed view that it is wrong to spend personal income on education and that being willing to pay high school fees was a sign of "middle class moral failure." Addressing a proposal that parents should be penalised for spending more on their children's education, Leigh (2008) considers that, to the extent that education investment has 'positive externalities' (higher productivity, more social capital, better civic engagement) we should encourage it as:

there is a real difference between a policy that says ‘the richer you are, the less the government should give to your child’ and one that says ‘the more you spend on your child’s education, the less the government should give you.’ The former targets resources to those who need them most, while the latter operates like an education expenditure tax.

The quality of services

A recent OECD study (2006:71) of demand sensitive schooling canvasses the significant move in many OECD countries away from the fully publicly provided, publicly financed schooling model towards full or part funding of private education, noting that especially in Central European countries, “private education has been defined as a political and civil right and is seen as one means of contributing to a pluralistic society in the post-Soviet era.”

The study examines the shift away from the traditional supply-dominated, state-centred publicly provided schooling model, a construct of the 19th century in most countries, and explores the potential impact of a demand-led system on quality and equity, the twin objectives of public investment in schooling. The OECD study (2006:23) examines demand as expressed in terms of exit (deliberate choice of a school) and voice (influence over school decision-making) and confirms that in a wide variety of national contexts:

better educated middle-class parents are more likely to avail themselves of choice opportunities and send their children to the “best” school they can find.

. . . households have sought to ensure that their own children have privileged access to the best schools and programmes. In some countries this has involved strategic investment in real estate; in others, the purchase of elite private education. In other countries, the demand for schooling has found its expression in the shadow education system of cram schools and supplementary tutoring . . . The lengths people will go to in order to enjoy the advantages associated with education draws attention to the question of why education is so keenly demanded.

In this quest for quality, equity concerns are addressed when there is “transparent choice ... extending to all the same room to choose as privileged parents have always exercised, implicitly or explicitly.” The OECD study found that the more directly parents are involved in their children’s school, especially its governance, the more satisfied they are with it.

6. Objections to private investment in education

Objections to private investment in schooling run parallel to the objections to policies of choice. They are based on opposition to the application of economic free market concepts to education policy, and concern about the impact of allowing private investment on equity, social cohesion and national identity.

Arguments against non-government school funding have been fairly consistent over the decades. Making public funding available to non-government schools is said to reduce the funding available to government schools, denying them the resources they need to provide an adequate education for their students, and to divert millions of dollars to schools least in need, “shoring up privileges for elites” (Reid 2003:17).

Ideological objections

Critics of non-government school funding argue that it is inequitable for schools to benefit from the contribution made by parents. They seek to limit the contribution parents make by reducing or withdrawing government funding from those non-government schools with the capacity to raise high levels of resources. The claim is that investment in private schools lacks a focus on the public purposes of education, that is, those purposes that serve the interests of society as a whole, and takes resources away from the needy government system (AEU 2011).

The counter arguments are that a diverse schooling system is a positive response to social diversity. By accepting public funding, schools are accountable to government for the basic public purposes of all schools. In private schooling that is government funded, neither parents nor the state have sole authority. Parental values shape schooling and the state holds schools accountable for public purposes. While schools have autonomy in their operation, governments retain ultimate responsibility for their outcomes, in the interest of the whole community, as long as they use tax revenues to support them.

Concern with residualisation

Opponents of public funding to non-government schools are also concerned that the larger the market share of the non-government sector, the more government schools will be residualised. As Richard Teese (2010) puts it:

. . . the harder they drive the privatisation agenda, the weaker they make the public sector. The expansion of private schooling drains the public system of cultural and academic resources, makes schools unviable in size and mix, and diverts scarce resources into an over-resourced and predatory sector. Access to demanding courses, to model students, to specialist teachers and to good facilities is being whittled away.

The exercise of choice by the most advantaged families is projected to lead to social segregation and residualisation, taking out the top students and leaving behind a weakened public school system catering only for those students facing the greatest educational challenges and costing the most to teach (AEU 2011).

The residualisation argument ignores the diversity of both the government and non-government school sectors, the size of the government sector (catering for a majority of students), and the attraction of non-government schooling to families from all social groups, with income being only one consideration for families exercising choice, and not necessarily the major one.

The greater socio-economic diversity of non-government schools in Australia as a result of government subsidy since the 1970s is paralleled in Canada. In provinces that fund private schools, children from low income families attend in greater numbers, allaying fears “that a larger independent school sector will skim the more advantaged students from the public system” and contradicting the claim that public funding for private schools “may disproportionately benefit highly educated and upper income families that have the means to take advantage of them” (Robson and Hepburn 2002:2). The suggestion that public funding for independent schools will lead to a mass exodus from public schools is described as an “astonishing attempt to defend the status quo – effectively arguing that the public system is so bad that everyone must be forced to stay in it . . . The truth is more subtle and more positive” (Robson and Hepburn 2003:31).

The argument that government schools are adversely affected by public investment in non-government schools assumes that education is a positional good and that “an increase in the benefits from ‘consumption’ for one individual is entirely at the expense of benefits to others” (Adnett 2002:190). As Adnett (2002:201) and others point out, this does not hold true in education where “an overall increase in educational attainments leads to overall higher economic and social well-being.” In addition, allowing private investment in schooling can also be “a means of making increasingly scarce public funding available for the public school system” (Cardak and Hone 2003:131), thus enhancing the quality of the services on offer in the public sector.

POLICY IMPLICATIONS

- **Public funding for non-government schooling has assured minimum quality standards in the sector and has broadened the social mix** of the student population, extending access to low and middle income families.
- **Private funding**, mainly through fees, added to public subsidies, **has raised the quality of provision** and thereby led to greater demand. This in turn has greatly increased the level of private investment in education.
- **Families at all income levels make the decision to invest in non-government schooling.** Families in the highest income bracket are just as likely to choose a government school as a non-government school.
- **Economic factors – family income and price (fees) – are by no means the only factors influencing school choice.** More important than income and social class are perceptions of quality and opportunity, and values and attitudes, including a focus on the value and importance of education achievement.
- **School fees are a major component of family expenditure.** Expenditure is highest in the top income groups. Unlike other household expenditure, investment in school fees represents a higher proportion of expenditure in high income households.

7. Conclusion

Parental contribution is the major funding source for independent schools, representing 58 per cent of total funding and the most significant single funding source for non-government schools, at 43 per cent of total funding. This private investment in schools has important effects on the quality of schooling, on equity and on the public purse.

The combination of public and private investment enables independent schools to operate at a higher average per student resource level. This additional investment in quality schooling, along with autonomy of operation and responsiveness to the parent community, contributes to the higher education achievement of non-government school students. The benefits of this higher achievement are not only private, accruing to the students themselves, but are also public, enjoyed by society as a whole in national economic growth and social well-being.

Public funding for non-government schools increases access and expands the social mix, allowing greater choice for families and adding to the diversity of the non-government school sector. Arguments that this occurs at the expense of public

education are misplaced, ignoring the size and diversity of public schooling, the positive effects of private investment on education outcomes and on the availability of public resources, and the benefits of school choice. The expansion of choice is associated with better education outcomes and a reduction in the dependence of student achievement on socioeconomic background.

The main beneficiaries of the growth of non-government schools are middle income families who account for 35 per cent of independent school students, 45 per cent of Catholic school students and 47 per cent of government school students. Families from high income groups are equally likely to choose a government school as a non-government school. Most of the recent enrolment growth in the independent sector has been in low fee schools in the mid SES range.

In addition to adding to schools' capacity to invest in quality teaching, including significantly improved student-staff ratios, and wider educational opportunities, private investment reduces the demand on public funds and frees up resources for public education and other public purposes. This kind of public-private partnership is an efficient approach, encouraging private contribution from those who can afford it, and bringing savings to government.

Parents' investment in school fees represents a significant proportion of discretionary household income for families at all income levels. Unlike other family expenditure, the proportion of family income committed to school fees is higher for higher income families. More important than economic factors in influencing parents' choice of non-government schooling are values and attitudes, particularly the valuing of education for its importance in securing safe futures for their children. Parents seek the best schooling experience for their child and invest in the future benefits of higher school achievement, broader school experiences and anticipated higher earnings. In making the choice of non-government school, they are particularly influenced by perceptions of quality.

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