

School Autonomy, the Education Cost Disease and Funding Cuts

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Take home messages

Tonight I will make four main points:

- There is little evidence to support claims that increasing school autonomy in staffing and budgeting will improve student outcomes.
- School autonomy is being driven by two agendas – the immediate one is to cut expenditure on education while the long term agenda is to extend the market in education.
- The nature of education is such that costs will continue to rise, but they can be afforded.
- The focus on school autonomy ignores the most pressing fundamental challenge facing Australian and NSW education in particular – this is to reduce the massive gap in school outcomes between rich and poor.

Little evidence to support school autonomy

The Prime Minister, the Federal Minister for Education, and the NSW Minister for Education all claim that that greater school autonomy over budgeting and staffing will increase student results. The evidence for this claim is far from compelling. Some studies show positive effects, but the mass of evidence from recent studies across several countries is that it has little impact [Cobbold 2012].

New Zealand has the most decentralized school system in the OECD with schools exercising full control over budgets and staffing. The head of research at the NZ Council for Educational Research says that there has not been any significant gains in overall student achievement, new approaches to learning, or greater equity in education opportunity since decentralization was implemented in 1989.

Charter schools in the United States are another form of school autonomy. They are independent public schools. The weight of evidence from the most sophisticated studies of charter schools is that there is no difference in results between them and traditional public schools. Indeed, some studies show that charter schools do worse.

Free schools in Sweden are privately-operated schools that receive the same level of government funding as municipal schools. The research evidence on these schools is mixed – some showing better performance by free schools and some showing better performance by municipal public schools.

Academies and foundation schools in England are publicly-funded schools that have greater freedom over how to allocate their budgets and over staffing than other state schools.

Research evidence on foundation schools shows no increase in student achievement while some studies of academies show improvement and others no improvement. A new study published just last month in England shows that academy schools have not increased student achievement and that the results for disadvantaged students in academies are no better than of those in non-academy schools.

Another source of evidence on school autonomy is the OECD's Programme for International Student Assessment (PISA) for 15 year-old students. The OECD's own analysis of the results from PISA 2009 found that in the vast majority of participating countries, including Australia, there was no significant difference in student achievement between schools with a high degree of autonomy in staffing and budgeting and schools with lower autonomy.

It concluded emphatically that "...greater responsibility in managing resources appears to be unrelated to a school system's overall student performance" and that "...school autonomy in resource allocation is not related to performance at the system level".

Australia's PISA results show virtually no statistical difference in student results between NSW, with lower autonomy for government schools, and Victoria which has a higher degree of autonomy. Moreover, achievement by 15 year-olds in private schools in Australia, which generally have a higher degree of school autonomy than government schools, is no higher than in the more centralized government school system when the different socio-economic composition of the sectors is taken into account. In particular, exclusive private schools, which are largely autonomous, do no better than their high socio-economic status government school counterparts which have considerably less autonomy.

The evidence cited by the Federal Government and other Australian governments that greater school autonomy in budgeting and staffing increases student achievement is very weak, highly selective and misleading. For example, the Federal Education Minister cites cross-country evidence from PISA that the combination of greater school autonomy and the publication of individual school results leads to higher student achievement. However, the impact is trivial - amounting to only 2.6 points on the PISA scale where one year's learning is equivalent to 35-40 points.

Although the NSW and Federal ministers for education claim that the NSW school autonomy pilot project showed improvements in student results, the evaluation report on the project clearly states that there is no statistical evidence of such an increase.

In summary, while there are positive findings in some studies, the mass of evidence across several countries suggests that school autonomy over budgeting and staffing has very little or no impact. The most positive statement that can be made is that the evidence is mixed as the Productivity Commission report on the schools workforce published earlier this year concluded [Productivity Commission 2012].

School autonomy is a way of cutting expenditure on schools

Given that the evidence for school autonomy is so slight, the question has to be asked as to why governments are so intent on adopting it.

The answer is clear. It is another way of justifying cuts to government expenditure on education. The former general manager of finance and administration in the NSW Department of Education, Ken Dixon, said a couple of months ago that giving principals

more autonomy over school budgets was driven by cost savings. He said: “The Local Schools, Local Decisions policy is just a formula to pull funding from schools over time” [*Sydney Morning Herald*, 14 September 2012].

School autonomy over budgets and staffing puts much more pressure on individual schools to reduce expenditure. One response is to employ less expensive, less experienced staff by replacing teachers at the top of the scale with teachers at the bottom. Another response is to reduce school administration staff.

School autonomy is also a way of cutting central office staff. This has happens without school autonomy, but extending school autonomy provides a new justification. For example, central office curriculum development and support, professional development, learning support services and student welfare support have been decimated over the last 15 years in Victoria, and to a lesser extent in the ACT. As Marilyn Parker, columnist for the *Daily Telegraph*, said of the proposed NSW Government cuts: “...it is a dumping of the front line support for public school teachers” [*Daily Telegraph*, 12 September 2012].

It is no accident that the NSW Government recently announced that the Department of Education and Training would reduce central office and regional office staff numbers by 1800 over the next four years. Such cuts have been on the cards ever since the Boston Consulting Group gave a secret report to the NSW Treasury in 2010 setting out ways to cut more than \$1 billion from the education budget. Greater school autonomy and cutting central office staff were part of the plan.

The Boston Consulting Group report was modelled on the blueprint for cutting government expenditure that it gave to the Kennett Government in Victoria in the 1990s. A key recommendation was to increase devolution of responsibility for staffing and budgets to school principals. An article on the Kennett cuts published on the Group’s website only last month by leaders of its Melbourne office makes this abundantly clear. It says: “Pushing more control to the local level made it possible to reduce central departmental staff from 2,300 to 600” [Kamener & Tan 2012].

Rising costs are no reason to cut education expenditure

The NSW Government, like the Kennett Government before it, claims that it has to massively reduce expenditure on education and other public services because of continually rising costs.

It is true that education costs, along with those of other government services such as health and law and order, are rising much faster than measured inflation, even putting aside increases associated with improving quality. It is an inevitable outcome of the labour-intensive nature of these services.

This phenomenon is referred to as Baumol’s cost disease, named after Professor William Baumol, the co-discoverer of the trend nearly 50 years ago. I should say here that Baumol is no non-entity in economics. His publications on theoretical and applied economics over 60 years make him a candidate for a Nobel Prize in economics. His work on the cost disease can be found in several publications including a recently published book [Baumol 2012].

The cost disease occurs because of differences in productivity growth rates in different sectors of the economy. Some sectors such as public services show only very slow increases

in productivity while growth in other sectors is much higher over long periods. Wage increases in the high productivity sectors tend to drive wage increases in other sectors.

Education is a classic case of the cost disease as Baumol recognised way back in 1966. Teachers salaries need to increase roughly in line with wages and salaries in the higher productivity growth sectors, otherwise governments will be unable to recruit sufficient teachers. There were few prospects to substitute technology for labour in education – it is almost entirely dependent on professional labour. It is why cars and computers get cheaper to produce and education doesn't.

These continuing cost increases have to be funded, but - and here is the critical point that the Boston Consulting Group, the NSW Treasury, Barry O'Farrell and Adrian Piccoli do not understand – they are affordable, they can be funded. Professor Baumol himself says that the idea that these rising costs cannot be afforded and have to be cut back is a “fiscal illusion”.

Contrary to appearances, we can afford ever more ample medical care, ever more abundant education, ever more adequate support of the indigent, and all along with a growing abundance of private comforts and luxuries. It is an illusion that we cannot do so, and the main step needed to deal effectively with the fiscal problem underlying the growing public squalor is to overcome that illusion.....the conclusion is inescapable, if only our future productivity record bears any resemblance to that of decades past which brought the U.S. and the rest of the industrial world ever-better health care and ever-more education, despite rising costs. [Baumol 1996, p. 200]

They are affordable and can be funded because productivity is increasing in the rest of the economy. In a sense, the cost disease provides its own solution. Increasing productivity makes society wealthier. Increasing productivity automatically increases society's overall purchasing power which provides the revenue base to fund the increasing costs of education and health care. It is only if the well-off insist on tax cuts that these essential services become unaffordable. This is precisely where the pressure for reduced government expenditure on essential services comes from.

Baumol says that cutting back on education and health care because of the cost disease is a “knee-jerk” response. He says that the implication of cutting expenditure on such services is “mind-boggling” because it means denying society essential public services even though it can well afford them.

School autonomy is also about extending the market in education

Another driving force behind greater school autonomy is free market ideology – the desire to extend the market in education. The idea is that giving schools greater powers over budgeting and staffing will enable them to compete more effectively and that competition will drive improvements in student results.

But this claim is simply free market ideology. The lack of evidence to support government faith in school autonomy parallels the lack of evidence that markets in education deliver better results. For example, a recent review of academic research studies published by the OECD found that the introduction of market reforms in education had little positive effects on student achievement, generated little innovation in education and brought greater likelihood of increased segregation by race and class [Waslander et.al. 2010]. Another recent review of the US experience with choice and competition in education concluded that their effect on student achievement is “underwhelming” and that “the evidence of the effects of competition on the school system remains inconclusive” [Loeb et.al. 2011].

The achievement gap between rich and poor is the biggest challenge facing NSW and Australian education

The focus on increasing school autonomy ignores the biggest challenge facing New South Wales education – massive achievement gaps between the top and bottom performing students, between rich and poor and between Indigenous and non-Indigenous students. This is the central message of the Gonski Review of School Funding.

NSW has one of the largest spread of test scores in reading, mathematics and science in Australia. For example, the gap between the highest and lowest 5% of students in reading is 330 points on the PISA scale. This is a huge gap which is equivalent to over eight years of schooling at age 15. It is larger than the average for Australia and much larger than the OECD average.

These differences are strongly associated with student background. NSW has one of the largest achievement gaps in literacy and numeracy between rich and poor students in Australia. For example, the latest NSW NAPLAN results show that:

- Year 9 students of low-educated and low-skilled parents are about four years behind students of high educated and highly skilled parents in reading and numeracy.
- Year 9 students whose parents did not complete Year 12 have similar reading and numeracy levels to Year 5 students whose parents have a university degree.

The cuts to the education budget can only make this situation worse. Adrian Piccoli has admitted that disadvantaged students could be affected by the budget cuts [Sunday Telegraph, 16 September 2012]. If there are efficiency savings to be made in the Education Department they should be used to increase funding for disadvantaged students, not to reduce funding.

It is hard to understand why the NSW Government is cutting education funding when it has publicly supported the recommendation of the Gonski review to increase funding for disadvantaged students. The contradiction is bewildering.

I leave you with the words of the Daily Telegraph columnist, Maralyn Parker [7 September 2012]:

Australian literacy and numeracy standards are falling, the divide between the top and bottom is growing, more and more nations are beating us in educational performance, and the biggest state with the most schools then decides to cut its education funding.... I am dumbfounded.

I think we should all be dumbfounded and outraged. Thank you.

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