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Education privatization: causes, consequences and planning implications

Clive R. Belfield, Henry M. Levin

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Henry M. Levin

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Fundamentals of educational planning

The booklets in this series are written primarily for two types of clientele: those engaged in educational planning and administration, in developing as well as developed countries; and others, less specialized, such as senior government officials and policy-makers who seek a more general understanding of educational planning and of how it is related to overall national development. They are intended to be of use either for private study or in formal training programmes.

Since this series was launched in 1967 practices and concepts of educational planning have undergone substantial change. Many of the assumptions which underlay earlier attempts to rationalize the process of educational development have been criticized or abandoned. Even if rigid mandatory centralized planning has now clearly proven to be inappropriate, this does not mean that all forms of planning have been dispensed with. On the contrary, the need for collecting data, evaluating the efficiency of existing programmes, undertaking a wide range of studies, exploring the future and fostering broad debate on these bases to guide educational policy and decision-making has become even more acute than before. One cannot make sensible policy choices without assessing the present situation, specifying the goals to be reached, marshalling the means to attain them and monitoring what has been accomplished. Hence planning is also a way to organize learning: by mapping, targeting, acting and correcting.

The scope of educational planning has been broadened. In addition to the formal system of education, it is now applied to all other important educational efforts in non-formal settings. Attention to the growth and expansion of education systems is being complemented and sometimes even replaced by a growing concern for the quality of the entire educational process and for the control of its results. Finally, planners and administrators have become more and more aware of the importance of implementation strategies and of the role of different regulatory mechanisms in this respect: the choice of

financing methods, the examination and certification procedures or various other regulation and incentive structures. The concern of planners is twofold: to reach a better understanding of the validity of education in its own empirically observed specific dimensions and to help in defining appropriate strategies for change.

The purpose of these booklets includes monitoring the evolution and change in educational policies and their effect upon educational planning requirements; highlighting current issues of educational planning and analyzing them in the context of their historical and societal setting; and disseminating methodologies of planning which can be applied in the context of both the developed and the developing countries.

For policy-making and planning, vicarious experience is a potent source of learning: the problems others face, the objectives they seek, the routes they try, the results they arrive at and the unintended results they produce are worth analysis.

In order to help the Institute identify the real up-to-date issues in educational planning and policy-making in different parts of the world, an Editorial Board has been appointed, composed of two general editors and associate editors from different regions, all professionals of high repute in their own field. At the first meeting of this new Editorial Board in January 1990, its members identified key topics to be covered in the coming issues under the following headings:

1. Education and development.
2. Equity considerations.
3. Quality of education.
4. Structure, administration and management of education.
5. Curriculum.
6. Cost and financing of education.
7. Planning techniques and approaches.
8. Information systems, monitoring and evaluation.

Each heading is covered by one or two associate editors.

The series has been carefully planned but no attempt has been made to avoid differences or even contradictions in the views

expressed by the authors. The Institute itself does not wish to impose any official doctrine. Thus, while the views are the responsibility of the authors and may not always be shared by UNESCO or the IIEP, they warrant attention in the international forum of ideas. Indeed, one of the purposes of this series is to reflect a diversity of experience and opinions by giving different authors from a wide range of backgrounds and disciplines the opportunity of expressing their views on changing theories and practices in educational planning.

Privatization is one of the hottest issues currently being debated in the education sector. It is fast becoming a widespread trend when considering education reform, as it eases the pressure on governments to meet increasing demand and relieves them of excessive costs. In developed countries, the issues at hand are provision and accountability. Here, privatization can be advantageous to parents, who are given more freedom and choice when deciding on schools for their children, and greater control over the way their children are educated.

The different needs present in developed and developing countries mean that the motives for privatization vary and that the form of privatization adopted is also specific to the country and its economic and demographic situation. These different structures of privatization reforms are clearly presented and explored in this booklet.

Privatization programmes are diverse and can be designed to meet several objectives. As the authors demonstrate, private education may promote equity, while not all public funding is equitable. The authors propose to review different privatization programmes according to specific criteria: efficiency, equity, promotion of social cohesion, and freedom of choice.

While analyzing privatization from the points of view of governments, educational institutions, parents and taxpayers alike, the authors, Henry Levin and Clive Belfield, examine the practices that best accommodate the needs of all concerned and which are suitable for a given context, in order to make educational access a possibility and a reality for all children.

Gudmund Hernes
Director, IIEP

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Preface

The privatization of education has occupied a large place in the educational debate over the last years. For many, it simply means increasing the role of parents in the financing of education. This movement has thus rather negative and threatening connotations: it is associated with increased inequalities in access to education and the breaking of social cohesion. For others, privatization is a much more positive move, implying more resources for the education sector, more efficient use of these resources, and more flexibility in education delivery. The debate is loaded with ideological considerations, and little evidence is produced.

In many developing countries, the privatization of education has indeed brought about an increase in the share of private financing, sometimes at the basic education level, but more commonly at the post basic education level. The number of private schools and private universities has increased at the same time as fees have been introduced in some public schools. This trend has emerged largely as a result of the incapacity of the state to satisfy the increasing educational demand at all levels. If an increase in private funding means freeing public resources to support the development of free, quality basic education for all, then it may very well mean a more equitable use of public funds.

The privatization movement is, however, much more complex than a mere increase in private funding. It can take many forms: an increase in the number of fully privately managed and funded schools; privately managed schools financed by public funds; public schools fully or partially financed by private funds; public schools run as private institutions and which compete for public funds; private courses complementing the education provided in public schools or universities; private contracting of certain services; distance courses, etc. New information technology opens the way to many new forms of privately financed education to satisfy many different needs. Indeed in

developed and middle income countries, the privatization movement appears to be an answer to an increasingly diversified demand in terms of content or teaching methods, and to the desire of families to choose the school to which they send their children. The issue is not so much financing, but rather freedom of choice, management flexibility, private regulation and accountability.

In both developed and developing countries, privately managed and regulated schools – whether owned or financed by public authorities – are generally supposed to be more effective, more efficient, and produce better results than schools managed by the state. But is this the case in reality?

The present booklet, written by Clive Belfield and Henry Levin from Teachers College, Columbia University, describes and analyzes privatization reforms which have occurred essentially, but not exclusively, in industrialized Western and Latin American countries. Among such reforms they analyze voucher programmes, the introduction of freedom of choice in the public system, deregulation and private management of largely publicly funded schools – such as in charter schools –, funding of privately provided education services, etc. They discuss the impact of such reforms on a number of criteria: freedom of choice, efficiency, equity and social cohesion; and derive some lessons for educational planners. They refrain from generalizing across the board: they argue convincingly that all depends on the national context and the way in which the reform is designed and implemented. Certain voucher schemes which are targeted at disadvantaged groups end up being more equitable than traditional, often socially segregated, public systems. When designing a reform, educational planners have to clearly define the objectives and take into consideration its design and modalities.

The Editorial Board of the *Fundamentals of Educational Planning* series is extremely grateful to Clive Belfield and Henry Levin for accepting to write this booklet and for summarizing their wealth of experience in such a clear way. The present document, bearing on a controversial topic, is well balanced in its treatment of the subject. It will prove to be most useful for educational planners from developing

and developed countries alike, which are struggling with the need to find additional resources and to make their education systems more efficient, and, at the same time, equitable.

Françoise Caillods
Co-General Editor

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Contents

Preface	9
Acknowledgements	12
Introduction	15
I. What is education privatization?	19
Defining privatization	19
Privatization policies and programmes in education	23
Implementing privatization programmes	27
II. Why is privatization happening?	29
Charting the pressures for privatization	29
Demand-side pressures	29
Supply-side pressures	31
General pressures	32
III. A framework for evaluating privatization programmes	35
Introduction to the evaluative criteria	35
Freedom to choose	36
Productive efficiency	39
Equity	46
Social cohesion	49
IV. International privatization reforms	53
Examples and evidence	53
Universal voucher programme: Chile	53
Large-scale voucher programme: Colombia	54
Small-scale voucher programme: Milwaukee, USA	55
Universal public school choice programme: England	56
Private school management system: the Netherlands	57
Private school liberalization: the Czech Republic	57
Private payments for higher education: international evidence	58

Contents

V.	Implications for educational planning	61
	General implications	61
	Political implications	62
	Economic implications	66
	Legal implications	70
	Suggested source materials	73
	References	75

Introduction

This booklet offers a summary of an important education reform – privatization. For many in the education system, ‘privatization’ has threatening connotations: it conjures up ideas of cost-cutting, making profits from children, and the breakdown of the social ethos of education. This is an unhelpful distortion: privatization programmes are varied, and they can be designed to meet many educational objectives. Private schools may promote the social good, and public subsidies can be inequitable. As this booklet shows, the way in which a privatization initiative is planned, implemented and funded has a critical effect on its outcomes.

We have four principal aims: (a) to describe; (b) to explain; (c) to analyze education privatization reforms; and then (d) to distil this understanding into some implications for educational planning.

In *Chapter I* we describe ‘education privatization’ and outline possible policy reforms that fall within this description. As becomes clear, there are many reforms that could be part of an agenda for privatization; some of these reforms are complementary to each other, but many can be undertaken independently. This gives policy-makers and planners considerable flexibility in introducing and implementing reforms.

In *Chapter II* we identify the reasons why privatization has grown in recent decades, and we speculate about its future development. The factors driving privatization have been strong, largely unchecked by any counter-forces leading to more state involvement (such as a belief that ‘common schooling’ is important, or that government schools best represent society’s preferences). This explains the proliferation of policies and reforms. However, there may be a pendulum swing back to greater government action if citizens and policy-makers see more social problems or inequalities within the education system. This possible swing is not yet on the horizon.

In *Chapter III* we set out a framework which allows us to evaluate each policy reform. The framework has four criteria: (a) freedom of choice; (b) productive efficiency; (c) equity; and (d) social cohesion. These criteria are comprehensive and cover all aspects of an evaluation to allow for all perspectives. Each criterion is defined before the evidence regarding each one is reviewed and applied to each privatization programme.

In *Chapter IV* we give examples of privatization reforms from various countries. We focus on four main reforms for schools: (a) voucher programmes – small-scale, large-scale and universal; (b) large-scale public choice; (c) private school management; and (d) private school liberalization. We also consider privatization of higher education through greater cost-sharing; this is a world-wide trend with profound implications for post-compulsory education.

In *Chapter V* we consider the implications for educational planners of the growth of privatization and of the evidence across various policies and programmes. We identify a set of general implications arising from the review of possible policy reforms and actual experiences, and we also itemize political, economic and legal implications of education privatization.

Throughout the booklet, we draw on evidence from research in economics and education, although technical or theoretical arguments are used sparingly. The evidence comes from a range of countries, but any inferences should be made cautiously. Because education systems – and labour markets – differ substantially across countries, a policy reform undertaken in one country may not have the same effects when tried in another. Nonetheless, it is possible from the evidence to build a reasonably clear picture of what effects should at least be anticipated or not surprising when undertaking privatization reform.

Finally, we should state that it is not our intention to advocate for a particular reform, or for privatization in general. As is emphasized below, privatization programmes can be designed to satisfy many purposes, so a blanket acceptance or rejection of ‘education privatization’ as a reform strategy is narrow-minded and probably

unwise. Rather, we believe that privatization reforms can be valuable if implemented effectively and in the appropriate educational and economic contexts. So in order to ensure effective implementation, it is necessary to fully understand what privatization reforms entail.

I. What is education privatization?

Defining privatization

The term ‘privatization’ is an umbrella term referring to many different educational programmes and policies. As an overall definition, ‘privatization is the transfer of activities, assets and responsibilities from government/public institutions and organizations to private individuals and agencies’. Also, privatization is often thought of as ‘liberalization’ – where agents are freed from government regulations, or as ‘marketization’ – where new markets are created as alternatives to government services or state allocation systems (Levin, 2001).

The trend towards privatization is strong: it is taking place in many countries and within many sectors of the economy. The education sector – because it is a large expenditure item in government budgets – often faces pressure to privatize. This pressure comes in many forms. For example, education can be privatized if: (a) students enrol at private schools; or (b) if higher education is privately funded. In the first case, schooling is no longer provided by the government; in the second case, the government is no longer funding education through taxpayers’ money or loans. So private school students’ parents may press for privatization, as may the taxpayers who fund higher education. In general, it is helpful to think of privatization in three forms.

Private provision

Education can be provided by private agencies, such as privately owned and managed schools or universities. It need not be provided through government-run institutions; instead, private schools could be operated by religious groups, for-profit entrepreneurs, charities, or other interested parties. Indeed, many families already prefer the private option and choose to forgo the free, public education systems. Internationally, the proportion of students who are educated by private providers varies substantially. In the United States, approximately

11 per cent of school-age children are in private schools, mostly at the elementary level. In the Netherlands, the proportion of schools administered by private school boards is approximately 70 per cent. However, these schools in the Netherlands are privately operated, although they do receive public funds. Similarly, Denmark has a system of publicly funded private schools that enrol about two-thirds of all students, most of which are religiously affiliated. In Belgium, around 50 per cent of all student enrolments are in private schools. There is an equally broad mix of public-private provision in higher education: in the Philippines, over 75 per cent of students are enrolled in private universities; in the United Kingdom and much of continental Europe, the proportion is almost zero.

Private funding

Education can be funded by private individuals rather than through government subsidies. Privatization may therefore mean that parents pay for schooling rather than the government (via tax revenues). Often, private schools are supported directly through tuition fees paid by students' families, but in many cases, both families and governments contribute funds in a cost-sharing approach. Public universities in the United States charge tuition fees, but these only cover approximately half of the total costs, the remainder being covered by government subsidies. In the Republic of Korea, private education spending on schooling and on additional tutoring in subjects not covered in school amounts to approximately the same total as that of government expenditures; families pay directly as much for their children's education as they receive in subsidies. Bray (1999) (*Table 1*) lists 19 countries where at least a quarter of the total students are enrolled in private tutoring programmes. In many developing countries, families must pay additional 'top-up' fees to the local state-funded schools (e.g. for textbooks or classroom materials). So privatization occurs when a portion of the total funding is paid by families instead of by the government (Tsang, 2002).

Table 1 Design features for three voucher programmes

<i>Design feature</i>	<i>'Generous' voucher programme (Option 1)</i>	<i>'Incentive-based' voucher programme (Option 2)</i>	<i>'Accountability-centred' voucher programme (Option 3)</i>
Eligibility			
Students	Universal: available to all students	Means-tested: only students from low-income families are eligible	Criterion-tested: only students in failing schools are eligible
Schools	Religious schools, home-schoolers, cyber-schools, distance learning	Independent (non-religious) schools only	Religious schools, faith-based organizations included
Admissions regulations	Schools can choose students based on independent criteria	Schools must give preference to families of a certain type or location	Places allocated by lottery
Finance			
Subsidy level	High: voucher amount equal to per-pupil expenditures in public sector	Low: voucher amount below average private school fees	Low: voucher amount less than per-pupil spending in public sector
Subsidy formula	Per student	Incentive-based: per student performance	Per student, with adjustments for socio-economic status
Private funding	Can top up voucher with family funds	Use less than the value of the voucher and redeem remaining funds	Cannot redeem more education than the amount of the voucher funds
Support services			
Transportation	Transportation to any school	Transportation to local school included	Transportation not included
Information services	No independent information mandated by the state	No independent information collected by the state	Full information disclosure to parents, as mandated by the state
School standards	Schools must meet basic regulations	Schools must meet basic regulations and follow specific curriculum	Schools must maintain test scores at a pre-specified level

Note: See Sawhill and Smith, 1999: 369; Levin, H.M., 2002.

Private regulation, decision-making and accountability

Education services can be monitored by those who receive the services directly, i.e. the students and their families. They will make sure that the education is of satisfactory standard – either by refusing to enrol at poor quality schools (‘exit’) or by demanding a better service (‘voice’). Thus, privatization can include giving parents more choice over what goes on in schools, or what types of school are available, even where all these choices are within the public sector. Also, governments can regulate education: states often set compulsory schooling laws and monitor schools’ performance through inspection systems, audits and accountability frameworks. In England and Wales, schools are inspected by the Office for Standards in Education (OFSTED), a government agency that monitors educational quality. In Denmark, all schools – whether they be privately operated or run by the state – must meet state accountability requirements with regard to teacher licensing, a core curriculum, and academic standards for the students. The alternative to these government-run information systems is a private market in information, where parents make their own school-choice decisions based on their personal preferences.

Privatization in many forms

Most privatization policies fall into one of the above three forms. So, education privatization can be undertaken by either: (a) increasing the number and proportion of private providers; (b) raising the amount of funds contributed directly by the users of the services (i.e. students and their families) and lowering the amount contributed through subsidies; or (c) enhancing parental monitoring of schools and school choice over government rules and regulations.

Each of these approaches may be taken simultaneously, but they can also be balanced against each other. In the Netherlands, for example, the majority of schools are privately run, but government regulation of these schools is strict: the state specifies the curriculum and the use of materials (as is also the case in Denmark). This balancing allows for schools to be set up by any group (either in the public or in the private sector) that is motivated and sufficiently competent; but it also ensures that schools meet certain educational standards. In other

circumstances, privatization may occur in just one of these forms. While many of these reforms are independent, some are clearly complementary: one example is in allowing more private schools to enter a market at the same time as giving students more choice regarding enrolment in these schools. Other reforms may be substitutes: e.g. offering vouchers to attend private schools, or offering parents tax credits to offset against private school fees. In many cases, particularly in Europe, privatization is mainly seen to be offering more choice between government schools, rather than encouraging a private sector.

It is unlikely that an educational planner would go to the extent of full privatization, but he or she may seek to balance education provision to establish a 'quasi-market'. A quasi-market has several characteristics which blend the public sector and the private sector: (a) suppliers of educational services (whether private or public) are in competition with each other, but they are not profit-making; (b) entry into, and exit from the schooling market is regulated; and (c) demand by parents and students is partly expressed in terms of an educational voucher or allocated funds. In a quasi-market, the government also maintains an important role in terms of accountability for educational standards. This quasi-market blend can be obtained through a range of specific policies and programmes in education.

Privatization policies and programmes in education

Privatization trends are developing as education policies across each of the three sectors of primary, secondary and tertiary education. The main policies and programmes are reviewed below (Levin, 1992). Specific detailed examples for various countries are given in *Chapter IV*.

Educational vouchers

Vouchers are educational coupons that entitle each student to a prescribed amount of schooling (Levin, H.M., 2002). Historically, schools have been funded through taxes paid by local communities, by regions, or by the national government; the total funds are then

divided amongst the students living in that community. A voucher system would be very different: Each student would be allocated an annual amount of funding that could be used to enrol in any eligible school. The schools would obtain revenues based on the number of students who enrolled: if not enough students enrolled in a particular school, that school would have to cut its costs or close. Education under a voucher system would still involve government funding, but it need not involve government provision of schools. By giving parents the power of being able to freely use the voucher, private choices – and therefore private accountability – would be significantly expanded. Vouchers need not cover all the costs of schooling, but may simply serve as an incremental inducement to enrolment. In Guatemala, for example, scholarships are targeted at female students, whose enrolment rates are typically low.

Public school choice

To maintain control over the provision and funding of education, government agencies may allow parents to make choices between public schools (Henig and Sugarman, 1999). Historically, in many countries enrolment in a school has been determined by residential location: children were expected to attend their local or neighbourhood school. In many situations, this is still the case. However, where there is adequate transportation and a sufficient number of schools, it may be feasible to allow enrolment in any public school. These policies are often called ‘open enrolment’ or ‘school choice’ programmes. These programmes create greater choice for parents, although these choices remain limited to include public schools only.

Public school liberalization

Public schools are managed through laws and government rules. However, the danger is that these schools may become overly bound by rules, regulations, traditions and bureaucratic practices that lead to rigidities and inefficiencies. Liberalization would involve reducing the ‘red tape’ and bureaucracy that public schools face, making them more efficient and more flexible. With fewer regulations, public schools may be better able to respond to changes in students’ needs, and in the prices of key inputs, such as teachers. One way to reduce the

number of rules is to create new schools that are clearly exempt from them. During the 1990s, many states in the United States passed laws permitting charter schools; these are government-funded schools, but they are subject to fewer regulations than regular public schools. By 2002, there were over 2,700 charter schools in about 37 states, catering to students of various socio-economic groups and with different educational preferences.

Private contracting of specific services

Schools provide a range of services under the title 'education'. These include instruction, but they also provide food, sports facilities and welfare counselling. Many of these ancillary services could be provided by private firms under contract rather than by government agencies. Ultimately, students and their families are concerned with the quality of the education they receive, not with who has supplied that service. If private contractors are more efficient at delivery, then governments may seek to encourage more contracting of educational services. This may be the most common approach to privatization, and politically the least contentious when reduced to specific services. Given this large number of services that schools provide that are not directly educational, numerous companies have emerged as contractors to the schools for textbooks, food, transport and cleaning services. In the United States in the 1990s, a new niche opened up in the form of Educational Management Organizations (EMOs): these companies supply management services to schools (i.e. student assessment, budgeting and administration). Private contracting may therefore allow a school district to concentrate on education without also having to operate a cafeteria or transport service.

Tuition tax credits and deductions for parents

One way to encourage private expenditures on education is to make those expenditures exempt from taxes. A tax credit is where either the total amount or some portion of the permissible expenditure is subtracted from the amount of tax that is owed by the individual. A tax deduction is where the permissible amount is deducted from the gross taxable assets of the individual. If families benefit from either type of tax advantage from the purchase of education-related services,

they are likely to buy more of them. These services can be provided either by public schools or private companies. Either way, privatization is being encouraged.

Subsidies and assistance grants to private schools

One way to foster competition between public and private schools – in a form similar to that of an educational voucher – is to give subsidies or assistance grants directly to private schools. These grants are made available in many countries (Australia, England and Wales, France, Germany, Holland, Hungary, Japan, Poland and Sweden). Where these grants reduce the fees that private schools charge, families will be attracted to the private sector. These grants may reduce the financial burden on the public sector (net of the subsidy, and also if the grant is accurately targeted to families who are on the verge of switching to the private sector).

Home-schooling and private payments for schooling

Some families believe that neither existing public nor private schools can deliver an appropriate or desirable education for their children. These families may opt out of the education system entirely and school their children at home. In the United States, home-schooling is a legitimate way of meeting the compulsory schooling laws, and over 800,000 students (1.7 per cent of all school-age children) are estimated to spend at least two years as home-schoolers (Baumann, 2002). This is the ultimate form of education privatization: privately funded, privately provided, and monitored only very lightly by government agencies.

More common, however, is the partial step towards such home-sourced privatization through payments by families for supplementary schooling. In many countries, poor households directly contribute a large share of their household income to education through private tutoring or exam preparation. These payments are used to augment the schooling provided by the government. Countries where private payments constitute a large proportion of total expenditures include Cambodia, China, Indonesia, the Republic of Korea, the Philippines, Thailand and Viet Nam. Finally, in almost all countries there are some

private payments for higher education: both families and governments contribute to the cost of higher education instruction. Typically, this cost-sharing is highest for private education, although it takes place at most levels of education. As these payments overwhelm the subsidies that governments offer for education, the schooling system is, in effect, being privatized.

Competition between schools and between education agencies

One way of creating an education market is to encourage schools – or agencies at other levels – to compete with each other. Where a school has a captive market or monopoly, it is less likely that it will respond to students' needs. In contrast, where families have a choice of schools, they will select the one that best meets their needs. Therefore, one privatization reform would involve creating systems wherein schools compete with each other to offer the highest quality education. Competition might be promoted by: (a) allowing new schools to enter the market; (b) decentralizing power from high-level ministries of education to school sites; or (c) breaking up large regional education directorates into smaller units.

Implementing privatization programmes

Overall, there are many opportunities to privatize the provision, funding and accountability of educational services. Indeed, international reviews of the demand-side and supply-side policies show that many countries have implemented some form of privatization (Patrinos, 2000). Similar grant schemes for students in private schools, for example, have been tried in Brazil, Botswana, China, Ghana, India, Mauritius and the United Republic of Tanzania. Bursaries and targeted scholarships in private schools have been implemented in Bangladesh, Brazil, China, Colombia, Gambia, Guatemala, Indonesia, Mexico, Morocco, Mozambique, Senegal and the United Republic of Tanzania. These countries, which span the continents, have different education systems, as well as different labour markets. The multitude of these programmes suggests that education privatization – at least as small-scale reforms rather than systemic re-organization – is a practicable

possibility (West, 1997). Furthermore, there are many experiences across different countries at different stages in the process of privatization, from which general lessons can be drawn.

Planners and policy-makers must decide which of these reforms is appropriate, and which would have the greatest impact in raising the quality of educational services, allocating resources fairly, and meeting the needs of society. *Chapter II* explains why many policy-makers choose to create quasi-markets in the privatization of educational services, and in *Chapter III* a comprehensive framework is set out to evaluate any decision taken to move towards privatization.

II. Why is privatization happening?

Charting the pressures for privatization

There are many factors driving privatization in education. These factors differ in intensity between countries and across the three sectors of primary, secondary and tertiary education. However, when combined, they represent a powerful force that may increase privatization, even when government officials are resistant to change. Before listing these factors, it is worth noting that some advocates of privatization are motivated by an ideological commitment to individual rights over government intervention. These advocates believe that a family's right to choose its own education is paramount, and that the burden of proof should be on governments to explain why they would deprive parents of this right. Other advocates may stress efficiency; detractors may argue that any private education system based on ability-to-pay is inequitable. The conventional view, more than likely, is to see privatization as a way of redressing the balance from government involvement to greater autonomy for families. Both government and family are important, and privatization shifts emphasis on to the latter relative to the former.

Demand-side pressures

The first factor that can be cited to explain privatization in education is simple: many parents want it. In many countries, education is viewed as an important way to gain social and economic advancement. Therefore, the demand for education is high (James, 1987), and if governments cannot afford to provide and fund all the education that parents expect for their children, then those parents will seek private suppliers. This type of demand is 'excess demand', over and above what is provided by the government. Typically, this will encourage privatization at the secondary and tertiary levels, as parents seek to give their children more years of education than may be available in government schools. In addition, many parents want for their children an education different from that offered in public schools. In many countries, the state education system reflects a

particular religion, ideology or morality; in other countries, the education system is avowedly secular. Whichever is the case, some parents will be dissatisfied and seek an alternative type of education. This is 'differentiated demand' and it may encourage privatization across all three sectors.

Both excess and differentiated demand have increased in recent decades. Excess demand has grown because education has become more important for social and economic betterment: to get high-paying jobs, for example, workers must have a high level of skill, therefore supplementary vocational education is required; other workers may need credentials that are only available from universities. Much economic evidence has documented that the monetary returns to education have risen over the period since 1980. As the returns to education have risen, so will enrolments.

Government systems may be unable to cope with increases in enrolments because they must raise money from taxpayers who may be unwilling to pay. For many developing countries and economies undergoing transition where state finance and taxation systems are not fully set up, private provision may be the only way in which the education system can grow in response to increased demand.

Differentiated demand has grown for two reasons. One is that many public schools offer education that is standardized or uniform (often because the rules are set at higher levels, such as the ministry of education in the country's capital city). The greater the uniformity in the public schools, the larger the number of parents who will seek differentiated demand. This contrasts with increasing trends of immigration and ethnic sensitivities. The other reason is that economies and societies have become much more specialized. Many more trades and occupations have developed, and the education system must cater to these. For this reason there are schools that offer a strong arts curriculum or a strong science curriculum; there are university courses in information technology, cybernetics and bio-engineering, as well as traditional disciplines. Also, there are schools that offer instruction in indigenous languages, or that uphold alternative religious beliefs; some schools, for example, may serve parents who wish the media of instruction to be both French and English.

Supply-side pressures

The second factor that motivates privatization is the decline in the quality of, and in some cases the reductions in funds available to, the public sector (Murphy, 1996). Many parents may feel that the local public school is inefficient in providing education of the type that is most needed; this dissatisfaction can be seen across many nations (Hanushek, 1998; Rauch and Evans, 2000) and is often reported by parents in very basic terms (such as the inability of the school to guarantee their children's safety). These parents consequently seek alternatives, often in the private sector.

In some cases enrolments have expanded much faster than funding, resulting in overcrowding, large classes, and double or triple shifts for delivery of instruction. Part of the perceived decline in quality may be a consequence of a fall in per-student funding. Voters who are not parents may refuse to fund education for other families, or funds for educational provision may be diverted to alternative public sector investments (e.g. defence, health or welfare) to meet more urgent demands. If the advantages from education primarily accrue to the individual and not to society, voters may legitimately ask why they should pay for someone else to gain an economic advantage. Politicians will follow this voting preference and allocate less funds to public schooling. As a consequence, parents – who must by law educate their children – are more likely to choose private schools.

Similar pressures are felt in higher education. Because higher education often has a high cost per unit (student/teacher ratios are lower, and the instructional resources required are greater compared to schooling), governments expect students to bear an increasing financial burden for their higher education. These pressures have thus prompted a number of privatization-type reforms to include private payments by students, the creation of private institutions, and resource allocation based on performance (for Europe, see Weiler, 2001).

Another explanation for the perceived decline in quality may be that the public school system has reached a capacity constraint. With rapid population growth, government schools may be overcrowded,

therefore private school providers are needed. In the Dominican Republic, for instance, private schools are subsidized if they enrol low-income students where the public schools are at excess capacity. Similarly, since 1992 and the introduction of elite private schools in China, there has been rapid growth across the various types of private schools (Xu, 2002).

General pressures

As well as these push-and-pull factors, there are general pressures to privatize education systems. One such factor is global economic and social change. Globalization, linked with market liberalization, has both pressured and encouraged governments to seek more efficient, more flexible, and more expansive education systems. Privatization may be one response to these changes. For example, there is a great international demand for higher education instruction in the English language. (Over one-third of Ph.D. students in the United States higher education system are international students, many of whom are not eligible for government funds, and so must pay fees directly to the universities.)

Another factor that explains some of the growth in privatization is the encouragement of world aid agencies, such as the World Bank. Within the last decade, for example, the World Bank has given assistance to the following countries: (a) El Salvador, for private banks to operate as financiers for student scholarships; (b) Indonesia, to encourage competition between public and private institutions; (c) Mali, for formal private-sector participation in vocational training programmes; and (d) the Dominican Republic, for the training of teachers for the private sector, and for better management of private contractors by the public sector. EdInvest and the International Finance Corporation (<http://www.ifc.org/edinvest>) provide financing opportunities for public/private partnerships in education. In general, the World Bank (and other supranational agencies) has encouraged reforms which lean towards privatization of the education system; for some countries, this institutional support may be a strong motivation.

Finally, privatization of education may be seen as an effort to reduce the inequities in current public schooling. In countries such as the United States, wealthy families exercise school choice, either through their residential decisions or through opting out of the public school system. They can also mobilize political support to avoid low-quality public schools. Low-income families who are allocated places in urban schools may seek privatization through targeted voucher programmes, allowing them to exercise school choice. Such programmes are in place in some urban areas in the United States, such as Milwaukee and Cleveland.

III. A framework for evaluating privatization programmes

Introduction to the evaluative criteria

This chapter sets out a framework for evaluating the many education reforms described and catalogued above. These privatization reforms may have far-reaching consequences on education systems, and planners need to be able to evaluate these reforms fully. Our framework for evaluation – set out in detail in Levin, H.M. (2002) – applies four basic criteria which can be phrased as a set of questions. First, will the reform give freedom of choice to those demanding education? Such freedom is highly valued by parents. Second, will the reform be efficient? Schooling is expensive – in terms of time and resources – and so any costs or financial savings from privatization reforms must be assessed. Third, will the reform be equitable, i.e. fair to all students and their communities? Fourth, will the reform generate the social cohesion that an education system is expected to contribute to an effectively functioning society with common values and institutions?

Below, each criterion is discussed in detail, along with the relevant evidence (see also Gill, Timpane, Ross and Brewer, 2001). Each one needs to be considered, and any reform is likely to require a trade-off among them: greater freedom of choice may come at the expense of social cohesion, for example. Unfortunately, many advocates of privatization emphasize particular aspects of a reform proposal: for example, voucher proponents stress the advantages of allowing parents freedom of choice. Likewise, opponents select other aspects for criticism: for instance, tax credits are considered to be inequitable. As a result, debates between the two groups are often inconclusive and only cover a few of the key issues that need to be addressed.

On initial examination, it may appear that advocates of privatization emphasize efficiency over the other criteria. Indeed, many of the pressures for privatization can be seen as pressures for a more efficient education system. However, both advocates and

detractors should draw on all four of these criteria to make their arguments.

Therefore, these four criteria deliberately represent a comprehensive framework for evaluation, allowing the many effects of a policy reform to be understood and assessed. Thus it is revealed that one-sided, partial arguments are insufficient for policy-makers, who must balance conflicting interests. As difficult as it may be to derive precise consequences of privatization for all criteria, it is proposed that each should be weighted and considered according to the objectives of policy-makers and planners.

Freedom to choose

This criterion refers to the rights of families to choose schools for their children that are premised on their values, educational philosophies, religious teachings and political outlooks. Freedom of choice is considered to be a value in itself, independent of other goals for an education system (Friedman, 1993). It places a heavy emphasis on the private benefits of education and the liberty to ensure that schools are chosen that are consistent with the child-rearing practices of families. Advocates of privatization typically place great weight on this criterion relative to detractors. Stressing that parents should have freedom of choice may be a way for educational planners and managers to exert pressure for reform and to gain community support for changes to the education system.

Advocates argue in favour of increasing opportunities for parents to choose their education for two reasons. First, and clearly a priority, parents have a fundamental right to decide what is in the best interest of their children. Parents are likely to have greater incentives to sustain and improve their children's welfare than would a government agent. Parents have a better idea of the educational needs of their children and of which educational styles they prefer. Although some parents may be derelict in their obligations to their children, this is likely to be the exception rather than the norm. Where there are varied preferences and/or abilities among students, freedom of choice becomes especially important. This may be the case in countries where there are different religious traditions, alternative

cultural groups, and where multiple languages are spoken. Each variant is unlikely to be well served by an education system that offers one mode of education to all.

A second motivation for greater freedom of choice is to make the education system more accountable. Where the responsibility is on parents to choose the type of education they desire for their children, they will be more concerned with the education offered. Parents will hold schools accountable by their choice of school. If a school offers poor quality education, parents will not choose it, enrolments will decline, and some organizational change (e.g. closure or restructuring) will be necessary. Parents can exercise such choice at many levels: they can choose which school district they wish to live in, they can choose which school within a district they wish their children to attend, and/or they can choose to enrol their children in a private school outside the government system (if this option is made available).

However, two possible concerns arise as a result of greater freedom of choice for parents. The most important is the possibility that some choices are socially, culturally, or politically unacceptable. A family may choose to educate its children in a manner intolerant to others in society, or it may choose an education that is segregated from other groups (e.g. by race, religion or income). At issue is which choices are indeed unacceptable, and how governments can proscribe such choices. Yet it is worth asserting that choice and segregation are not synonymous. Open enrolment or voucher schemes may have beneficial effects through a more liberal allocation of students. Greater choice may result in enhanced student performance, even if the new allocation is no more, or no less segregated, or socially divisive. Vouchers may allow students to choose a school that suits their preferences regarding other socially benign matters such as locality, safety, sporting excellence, or curriculum availability.

The other concern is that, even for those who value freedom of choice, the costs of deciding which school to go to – or to change to – may be high. Before selecting a school, parents might want to observe a class, identify the composition of the school, assess the quality of the teaching, and estimate the expected grades for their

children, as well as itemize any additional fees and costs incurred after enrolment. If this information is costly to obtain, and if schools do not differ that much in the quality of the education they provide, then giving people freedom to choose will simply mean passing on additional costs without any increased satisfaction. A similar argument can be applied when parents decide to switch from a less-preferred school that is currently providing the child's education to one that is more preferred; except in this case, the parents must anticipate what adjustment or transitional disruption the child may suffer when changing schools.

The evidence from the United States strongly supports the conclusion that parents do value freedom of choice (Peterson and Hassel, 1998). Many families report being more satisfied as a result of participating in voucher programmes and from being able to choose charter schools over regular public schools. Indeed, the very fact that parents in large numbers choose different types of schools when given various options is *prima facie* evidence of their value. Guaranteeing freedom of choice is an important way to raise satisfaction levels within the education system (Teske and Schneider, 2001).

But there are three caveats to bear in mind when depending on increased choice to improve substantially the quality of education. One (discussed below in more detail) is that some families may choose schools that will lead to *de facto* segregation of groups. Another is that there may only be limited options to increase the range of choices offered to some families. Many families consider that the number of choices available to them is already adequate; in the United States, three-quarters of families are fully satisfied with their choice of school, even when they feel that in general the quality of education offered in schools is low (Henig and Sugarman, 1999). Other families do not wish to disrupt their child's education by often changing schools. Many families may prefer to exercise choice only a few times during their child's schooling, so as to avoid such disruptions. The third caveat is that private schools themselves might not be eager to offer education to all. A religious private school is likely to bar enrolment to students with atheist beliefs, for example. (There are very few reasons for which public schools can refuse access to students.) This means that

parents may well be ‘free to choose’ in principle, but not in practice. These factors suggest that the advantages gained from enhanced freedom of choice are not all that significant, at least this is the case in the United States education system. Only a modest proportion of families would fully appreciate more freedom of choice.

Productive efficiency

This criterion refers to the maximization of educational results for any given resource constraint. It is important that any activity be conducted efficiently, because the resources used for it could be used for other activities (for example educational spending could be redirected to health care or defence budgets). Because education constitutes a large proportion of a government’s total expenditures, the need for efficiency is heightened.

Education privatization may be an important way to enhance efficiency: economists have given many reasons as to why private agents use resources in a more efficient manner than government agencies. (It is necessary here to distinguish efficient resource usage from efficient goal setting: doing something efficiently may not mean one is doing the right thing efficiently.) Many of these arguments about the relative efficiency of private schools over public schools can be applied to the education sector.

First, in order to run education systems effectively, governments would need to gather huge amounts of information (Hoxby, 2000). Government agents would need to be aware of the educational preferences of parents, the effort levels of students, the costs of managing a school, and the prices of key inputs such as teachers, materials and buildings. Governments would need to continuously update this information as circumstances change. Collecting, understanding and using this information absorbs a vast amount of resources. It may be more efficient for parents to procure the information themselves and contract directly with a school. The school and the parent would have a mutual incentive to share the information they have in the absence of a government intermediary: parents would declare the educational services and styles they prefer; and schools would indicate what resources and funds are needed to meet these

demands. One of the reasons why government school systems do not appear to be efficient is that they must gather all this information themselves, and then translate it into an effective educational service that parents want.

Secondly, any agency will be inefficient if it does not have clear objectives and a budget constraint which is imposed from the outside (Chubb and Moe, 1988). This idea is often called 'x-inefficiency'. Because schools have to satisfy many educational goals – teaching various subjects, socialization skills, civic values, etc. – it may be difficult to identify how efficient they really are. Consequently, it would be difficult to encourage them to be efficient. Also, many education systems employ only 'soft' budget constraints: there is very little pressure to close or reorganize schools that do not offer satisfactory standards of education or that operate at low capacity. If there are no penalties when standards are low, schools will have no incentive to maintain high standards of provision. (The possible adverse consequences of 'hard' budget constraints are discussed below.) In contrast, private companies are faced with both clear objectives – i.e. to make profits for their owners, and strong budget constraints – i.e. if they do not make profits they will close. The pressures for such companies to be efficient may be greater than for government-run enterprises. (Yet many private education providers are non-profit or have a religious affiliation; it is not clear whether these types of schools will feel the same pressures as a for-profit company.)

Thirdly, an open market encourages the development of new services and products. A government provider must write new laws and rules when it needs to introduce new or additional services. These laws take time to be approved and implemented. There is therefore greater opportunity for innovation in an open market of private providers than under a government monopoly. This idea is often called 'y-inefficiency'. Private providers may be more innovative, and such innovation may be important should educational technologies change rapidly.

Fourthly, private ownership and private management are considered to be more efficient than government ownership and management (Shleifer and Vishny, 1998). Public sector schools may

be constrained either by more rules (e.g. on staffing), or by general rules applied to all schools within a given region. In contrast, private owners have incentives to closely monitor their companies to make sure that they are meeting their objectives. Also, private managers may write complex contracts with incentives for employees to work hard, as well as use different input combinations (e.g. more teachers, fewer administrators) and respond to local circumstances. Following this line of reasoning, costs may be inflated when enterprises are under political control.

These economic ideas and models of privatization have been substantiated in many industries across many countries, showing substantial efficiency gains following privatization. These gains are evident across a number of domains (such as profitability, labour productivity and workplace performance) in industries such as mining, telecommunications and utilities. There is also evidence of the efficiency of privatization in the education sector, although much of the evidence testifies to effectiveness, not efficiency. The evidence cited here concerns mainly the United States, where much of the empirical research has been conducted. (In *Chapter IV* we focus on reforms in other countries, including Chile, Colombia and the Netherlands.)

The strong argument for privatization rests mainly on productive efficiency. We note here that this argument refers to *internal* efficiency, i.e. how efficiently a chosen output is performed. Strictly speaking, it does not refer to *external* efficiency, i.e. whether or not the most valuable outputs are produced. Educational planners, of course, must direct both types of efficiency. This stimulus to internal efficiency is expected to come from three sources: (a) greater competition; (b) superior ownership and managerial structures within the enterprises; and (c) enhanced accountability/incentive systems. These are the arguments used to justify privatization of education just as they are used to justify privatization in other industrial sectors. Although the evidence in favour of privatization in education seems consistent with that of other sectors, the beneficial effects of privatization are perhaps more modest in education.

Competition between private and public schools within a given neighbourhood should make both sets of schools more effective in delivering education to families. To go a step further, one could say that the more choices available to a family, the more effective all the schools should be within that neighbourhood. A thorough review of the effects of competitive pressures on improving the United States education sector (based on over 40 empirical studies) shows this to be the case (Belfield and Levin, 2002). There are positive effects from an increase in competition (measured by the number of schooling options available to a student) on a range of educational outcomes, including test scores and attainment. But the effects are substantively modest: a one standard deviation in competitive pressure (which would require a large-scale reform) would probably only boost outcomes by 0.1 standard deviations. Specifically, with a one standard deviation increase in competition, academic outcomes are on average about 0.1 standard deviations higher; graduation rates are between 0.08 and 0.18 standard deviations higher; school efficiency is higher by approximately 0.2 standard deviations; and students' wages are higher by 0.1 standard deviations. Thus, the effects of competition are in the 'right direction' as it were, but about two-thirds of the studies show no significant change as a result of competition.

Other studies report the positive effects that being offered an educational voucher can have on the academic achievement of students (Howell and Peterson, 2002). These studies were small-scale experiments involving approximately 2000 students across three sites in the United States where low-income families were randomly allocated a voucher of US\$1,400 (equivalent to approximately 25 per cent of public school expenditure). These experiments showed that educational vouchers do raise achievement levels, although the effect is generally modest and only evident in African American students in a single location. Switching from a public to a private school raised the test scores of African American students in New York City after two years by 6.3 national percentile rankings (the rankings have a median of 50 and range from 0 to 100). 'Competition and choice' between schools appear to have a beneficial impact on schools' academic performance. (In addition, many commentators have noted a correlation between competition in the higher education sector and performance.)

The second component of any gain in efficiency would emerge if schools were to have better managers or superior ownership. There are many ways in which such privatization can be brought about. A privatization reform that enables more schools to enter the market, or that devolves more power to school sites, would encourage only those individuals with above-average managerial competence. With more market freedom, private schools could take over, or merge with, public schools, or a for-profit company could franchise its schooling technology. With more liberalization, school principals could have a greater role in the running of the school. Ministries of education may adopt a supervisory rather than a direct managerial role.

However, this efficiency gain assumes the existence of superior quality schools and a reform that encourages these schools rather than lowering the quality of their services. A thorough review of the relative effectiveness of private (Catholic) schools and public schools in the United States shows only small gains (see McEwan, 2001). As regards achievement, there appear to be: (a) modest effects in mathematics in poor, minority students in Grades 2 to 5 (but not in Grades 6 to 8 or among non-black students) from attendance at Catholic schools; and (b) no consistent effects in reading. When basic cross-sectional analysis (rather than experimental data) is used, fewer consistent effects are visible. For attainment (i.e. years of schooling), Catholic schools increase the probability of high school completion and of college attendance (particularly for minorities in urban areas). These results do not suggest overwhelming benefits from different ownership structures. Another review of the evidence has compared charter schools to traditional public schools. Although little is known about their efficiency, charter schools are, on average, no more (but also no less) effective than traditional public schools. Studies carried out by the World Bank suggest that in some developing countries, private school pupils do outperform those of public schools (when family background and selection effects are held constant), and that unit costs of private schools are lower (Jimenez, Lockheed and Paqueo, 1991). However, re-analysis by Tsang (2002) found that total unit costs are comparable when full cost measures are included. Also, these studies do not distinguish between newly created schools and those traditional private schools that may have been in operation for several decades before. Overall, educational economists cannot offer

very precise advice about which characteristics schools should possess to make them more efficient, nor can they indicate unambiguously that private schools are more efficient than public schools.

The third strand of the efficiency argument refers to the benefits of greater accountability (Bishop, 1996). On this, there is much less firm evidence: the evidence is equivocal on whether test score accountability, parental accountability, or government accountability is best. There are many reasons for this lack of clarity. In general, there is no clear consensus as to what should be the goals of an education system, and consequently what teachers should be teaching, and what students should have learned by the end of their schooling. Without a clearly agreed set of goals, it is therefore not possible to hold educational professionals – and students – to account.

Furthermore, there are some managerial problems with accountability schemes. It may not be so easy to hold teaching staff accountable for their performance: teaching is often only monitored periodically or on a weekly basis (partly because full monitoring of teaching is almost as expensive as teaching itself). It may also be difficult to hold teachers accountable because they only teach a fraction of that which an individual pupil learns: they cannot, therefore, be responsible for that pupil's all-round performance. Even when academic outcomes are measured in terms of added value to the student's performance, it is still not possible to determine the effectiveness of individual teachers. One form of accountability is within-school accountability – teachers hold each other 'mutually accountable'. However, this is also difficult because teachers do not often work in teams, an easy way to embed accountability. Moreover, current government accountability standards are far from perfect. The United States system is repeatedly criticized for reforms that: (a) lack any credible implementation strategy; (b) are applied in addition to, or in conjunction with, many other reforms; (c) take place in shifting political circumstances; and (d) have no power to be enforced on administrative structures. Last, but not least, much of a child's educational progress is determined by factors outside the school (such as family environment); the school has therefore only limited scope in raising educational achievement and attainment beyond the family's wishes.

Accountability contracts may be hard to set up if there are high transaction costs for education enrollees. Transaction costs are only the costs of conducting business (such as finding enough students); they do not include the costs of the inputs (e.g. teachers and classrooms). They do include: (a) discovering who to deal with; (b) informing people whom one is dealing with; (c) negotiating the bargain; (d) drawing up the contract; and (e) inspecting the service to ensure that the contract is fulfilled. These costs might be high in education, and parents might complain if they now have to bear these costs. However, there are few empirical estimates of these transaction costs, and it has not been established whether these costs are any higher in education than in other (relatively complex and lengthy) trades; or that private providers face higher transaction costs than public enterprises. Privatization may serve to transfer these transaction costs to parents instead of officials; parents would therefore have to shop around for schools. However, parents may prefer to be told which school to send their children to, rather than having to evaluate that and other schools for themselves.

Notwithstanding, the second aim of those who privatize education systems is to provide greater efficiency. There is also some evidence to show that greater efficiency will be obtained. In summary, therefore, the effects of competition seem to be positive, although modest; as do those of private ownership. However, even where there is greater efficiency at the school site, there may be losses in efficiency at higher administrative levels (as additional expenditures are incurred (see Levin, 1998). Moreover, in terms of accountability, the evidence is much less clear.

Finally, there is a big caveat to be applied to almost all this research. Strictly speaking, most of it is focused on effectiveness, not on efficiency. The research shows where some practices and organizations are an improvement on the status quo, but it does not tell us whether this improvement is worth the costs incurred. Many privatization reforms require additional funding, and so should only be implemented if the expected improvements outweigh these extra expenditures.

Equity

This criterion refers to a universally accepted goal of schooling: the quest for fairness in access to educational opportunities, resources and outcomes by gender, social class, race, language origins and geographical location of students. Equity can be assessed in terms of inputs – do all students receive an appropriate amount of funding and resources from the state, commensurate with their needs? Do students with special needs get appropriate schooling? Equity can also be assessed in terms of outcomes – do all students finish their schooling with sufficient skills and a fair opportunity to progress in life?

Those who challenge privatization argue that it will produce greater social inequities (although, to repeat what was said previously, this depends on how the reform is implemented). Parents with higher incomes may often benefit from privatization in several ways. First, those families already paying for private schooling may receive a government subsidy for an activity that they were willing to pay for themselves. The subsidy will offset the tuition fees that they were previously paying to the private school. This windfall is possible in most voucher programmes, and probable with the introduction of a tax credit or deduction. Secondly, these families will have the most resources to purchase educational services in a private market. So, if a voucher programme is introduced, and parents can pay more than the value of the voucher, wealthier parents will then be able to buy considerably more education. This will result in inequities in inputs. If the voucher does not cover transportation, for example, families without a car (or those living in rural areas) will suffer most. This may be a very important factor in countries that have large rural populations. Similarly, highly educated parents may gain extra benefits from privatization programmes. These parents are probably better informed about the choices available to them, and so they will be the best placed to take advantage of new school services. The likely result is that children from wealthy families will be more able and likely to take advantage of, and benefit from, school choice.

The fairness of the education system may also be affected by the enrolment patterns of students. Indeed, much of the political argument over the equity of reforms has focused on which schools

students are enrolled in, i.e. whether students are grouped according to socio-economic status, or according to characteristics which closely correlate to such status, such as race or ability. An education system that is partitioned or segregated might be inequitable. For those committed to an idea of common schooling, polarizing students according to ability or race undermines the public school system. It may also produce schools that are in spirals of decline.

There is some evidence that – where given more choices over their schools – families prefer to opt for enrolment in schools that are of the same racial group as their own. Also, many families wish to enrol their children with peers of the highest possible ability and social backgrounds. To the degree that democracy depends on experience within diverse situations and populations, such stratification might be viewed as socially undesirable.

International evidence on the effects of privatization reforms on partitioning shows reasonably consistent results on this. For New Zealand, there is some evidence of ethnic partitioning with greater privatization through decentralization: the proportion of (disadvantaged and) minority students increased by between 4 and 6 percentage points in the lower performing schools, and fell by 2 percentage points in the higher performing schools (Fiske and Ladd, 2000). But at the same time, the absolute numbers of minority students in the highest performing schools rose by 1.3 percentage points; minority students were actually spreading out across the schools. For the United Kingdom, there is some evidence that families – given new options for choosing schools – selected schools with similar socio-economic status to their own (Gorard, Taylor and Fitz, 2002). However, the overall effect on the socio-economic partitioning of the system was slight and subject to cyclical variation with little systematic trend. Similar evidence has been found in studies of schools in Scotland; in Belgium, more competition among schools led to more ability dissimilarities between schools and across grades; and in the Netherlands, existing schools became more polarized, and new start-up schools were more likely to be ethnically homogeneous (typically with a religious orientation). To reinforce this conclusion, there is also evidence from voucher programmes that families that are able to take advantage of these are more highly educated and have higher

incomes than the average family (Witte, 1999). These families are then abandoning their poor-performing public schools.

However, even where there is greater partitioning, it is necessary to establish why this is a 'problem'. Partitioning may be more efficient and, if it is along innocuous lines, unobjectionable. The effect of partitioning may be traced through several routes. One is through peer learning – students learn from their peers, and how much they learn will depend on who their peers are. Another is through instruction: this may be more efficiently delivered if the pupils in any one class have similar characteristics (e.g. as a result of tracking or streaming). The efficiency gains from tracking are debatable, however. A third way is through the labour market signalling the value of different schools. Families will obviously seek to enrol their children in schools that are likely to lead to more success in the labour market. If a student is enrolled at a high quality school (i.e. a school that has a strong labour market signal), employers may be more willing to offer that student a job. However, where all the schools are the same, there is no signalling value attached to enrolment. Thus, there is no incentive to enrol in a particular school and for students to be partitioned in this way. However, the relative importance of these factors is not easily identified. It may be that the peer effects are slight, differences in instructional efficiency are slight, and labour market signalling values are not especially strong. If so, it may not matter – in efficiency terms – which schools students attend.

Moreover, there are three important potential palliatives to the concern over social partitioning. The first is that the effects of partitioning can be offset if funding is allocated on a discretionary basis. So, in New Zealand, students in the lowest performing schools were allocated more funds. This could be a way to alleviate inequities. Schools may seek to enrol students who generate the highest academic achievement per dollar of funding. This need not mean that the more able students are preferred; this would only be the case if the students of higher ability attracted the same amount of funding as not-so-able students, and yet incur the same costs. By setting fixed amounts of funds per student, it is possible to plan a voucher programme that redistributes funds to those least well-served in the current system.

The second caveat is that privatization programmes can be designed in such a way that low-income families or students in failing schools are eligible. Many voucher programmes – particularly the small-scale programmes – have an income threshold applied to them. Only families below a certain income level are eligible for a voucher. Similarly, tuition tax credits can be allocated on a merit-based or income-based criterion. The design of the programme has a significant impact on the evaluation of its equity.

Finally, privatization may make the education system more equitable through open enrolment (Godwin and Kemerer, 2002). Advocates argue that the ability to choose schools will open up possibilities for students who are locked in inferior neighbourhood schools, and that the competitive marketplace will have great incentives to meet the needs of all students more fully than existing schools. Many parents already exercise free choice, and many families are satisfied with the schools they currently use. Programmes to promote choice or raise the quality of schools would therefore benefit those who do not have choice or who have poor options; these are likely to be low-income families. So, advocates for privatization assert that many reforms – such as open enrolment programmes – will mainly benefit those who previously had only low quality educational services available to them. Thus, privatization could help those who are least well served in the current system, without necessarily benefiting those who are better off and who may not require better alternatives.

Social cohesion

Schools should promote the social good; this is the main reason why they are publicly funded. What constitutes the ‘social good’ will vary from one society to another: in a democracy, this social good is reflected in the provision of a common educational experience that will give students the start that they need to become full participants in the social, political and economic institutions of our society. In a theocracy, the social good may emphasize the inculcation of a particular religious belief or adherence. In general, the democratic purpose of schooling is usually interpreted as necessitating common

elements of schooling with regard to curriculum, values, goals, language and political orientation. A democracy requires that its members master the skills and knowledge necessary for civic and economic participation, including one's rights and responsibilities under the law, the principles of democratic government, and an understanding of the overall economy and preparation to take on productive roles.

This notion of social cohesion may have a profound political impact – prompting ideological opposition to privatization. That said, it is often hard to identify 'social cohesion' and which precise factors bind a nation together. One analytical approach has been to define social cohesion as the extent to which collective action can be undertaken. Such collective action – for national defence and for broad agreement about political systems – will depend on the identification individuals have with each other, the existence of strong leadership, and clear rules over social group membership (i.e. who is a citizen). It may be important that the education system promote – or at least that it does not undermine – the capacity for collective action. Therefore, individuals may find it more difficult to identify with those who have not had the same schooling experiences; strong leaders will be undermined if they have fewer common experiences to draw on. Thus, social norms and citizenship may be impaired.

There are two routes by which an education system can generate social goods. One is by designing the system itself: social goods are created when collective action is undertaken, i.e. when all students are offered the same system of education. This is the idea of 'common schooling': social goods are created through communal activities. Clearly, privatization would undermine this 'common schooling'; where families can opt out of public schools, or when they can provide extra funds for their children's education, they will not be part of this communal activity. Where richer families can buy more elitist and exclusive education for their children, social cohesion may be adversely affected; it might also if students were exposed to an education that conflicted with society's overall purposes. (It is not only parents that may generate social exclusivity: private schools may deliberately restrict enrolments so as to exclude 'undesirable students'.) This is a common argument against privatization, and should be taken seriously.

The second way to produce social goods is through the instruction that students receive in school. If students are taught socialization skills and the importance of civic virtues, this may be an effective way to generate social cohesion. Some schools may include courses such as civics, political science or religious education as part of the curriculum; other schools may encourage charitable acts on the parts of the students, or offer instruction on environmental issues. At issue here is whether private schools can inculcate more of these capacities (or do so more efficiently) than public schools, and whether families would (if schooling was privately funded) demand more of this type of education.

Opponents of privatization (and particularly of educational vouchers) stress that a market of competitive choices will lead to civic strife rather than to social cohesion. Individual families will choose schooling that generates few social benefits, and that instead produces only private advantages. Schools will compete to offer families private benefits, and not social benefits. This may result in a deterioration of civic participation, agreed social norms, and the capacity for social action.

Evidence concerning the first route is speculative. For Europe, the link between private schooling and social cohesion is not straightforward, but depends on the local circumstances, the amount of private schooling available, and the presence of other community forces. The Netherlands, for example, is not considered to be a country that has particularly low social cohesion, yet most of its schools are private. In other countries, private schools are a way to avoid integrating with public school students. In part, social cohesion may be maintained where private schools that accept public funds are under strict public regulations (as is the case in the Netherlands). In recent history, many countries under dictatorships have maintained public education systems, as have countries that have experienced civil war. At this general level, therefore, there is no clear correlation between public schooling and social cohesion. At the micro-level also, the correlation is not immediately obvious. Some religious private schools have a strong civic and missionary role: for example, inner-city Catholic schools in the United States offer subsidized education to students, even when these students are not of Christian faith

(Sander, 2001). Where private schools are actually more inclusive of other social groups, then the notion of 'common schooling' through public provision is undermined; instead, privatization may promote social cohesion. However, it may not be appropriate to relate this evidence to the experiences of many developing countries, or to countries where there are strong social, religious or ethnic divisions. Education provision may need to be closely regulated at the state level to ensure that these divisions are not exacerbated.

Evidence concerning the second route might be more persuasive. For instance, research in the United States found that many Catholic schools are just as effective – if not more so – in communicating political knowledge and tolerance for other groups, and in encouraging community service (Campbell, 2001). Others find that even families on the very fringes of society (in terms of political and social beliefs) expect their children to be educated to understand most social norms. These effects vary from country to country: in some countries (e.g. Germany), parents are expected to socialize their children, and schools should be devoted to teaching subject-specific knowledge. In these cases, the main concern is that schools be efficient in delivering specialized information.

Thus far, evidence concerning the relationship between privatization and social cohesion is unclear. Perhaps societies are sufficiently robust or adaptive that they can withstand changes to the education system, such that decaying social cohesion is unlikely. Of course, this will depend on how drastic the changes are. If the privatization programme is small-scale, or if it only impacts on public provision rather than on public funding, social cohesion may indeed be unaffected (or the changes would be undetectable). Or, indeed, if privatization encourages families to spend more money on education, and some of this generates greater socialization skills, then social cohesion could possibly increase.

IV. International privatization reforms

Examples and evidence

This chapter documents evidence on privatization reforms across a number of different countries. These countries include the United States, where there is a substantial evidence base, but also countries in South America, Europe and Asia. These examples are chosen to illustrate the range of privatization options and the likely impacts of such reforms. These impacts are interpreted with reference to both the motivations for privatization and our four evaluative criteria. However, it is important to caution that the impact of a programme will depend on several factors that are likely to be specific to each country. Also, much research can only illuminate one aspect of the reform process; planners and policy-makers will, when applying the framework, inevitably have to make decisions under conditions of considerable uncertainty.

Universal voucher programme: Chile

In 1980, Chile introduced a universal voucher programme, along with decentralization of the responsibility of education to local municipalities (McEwan, 2001). The universal voucher programme allowed all students to enrol at either a private or a public school, and these schools would receive a monthly payment based on the number of students enrolled. The voucher was therefore a flat amount per student, albeit with some variation for high poverty or geographical isolation.

The immediate impact of the reform was to increase the supply of for-profit private schools and the proportion of enrolments in those schools: between 1981 and 1996, enrolments in the private sector increased from 15 per cent to 33 per cent of all students. Also, the private school sector became more varied: more religious schools grew alongside non-religious for-profit schools. However, there was no evidence that the private schools were any more efficient than the public schools: in test-score comparisons, the for-profit schools

posted equivalent scores to the public schools, but the Catholic schools appeared to score slightly higher than public and for-profit private schools, and the elite private schools (which do not accept vouchers) scored the highest in test score comparisons, but also had the highest costs.

Large-scale voucher programme: Colombia

In 1991, the Programa de Ampliacion de Cobertura de la Educacion Secundaria (PACES) was set up to provide educational vouchers to over 125,000 students in Colombia (see Angrist, Bettinger, Bloom, King and Kremer, 2001). The voucher was set at approximately 50 per cent of the cost of private schooling. Only families residing in low-income neighbourhoods and who had children in public primary schools were eligible for the voucher, which could be used only at not-for-profit schools.

Evaluation of PACES indicates several important findings about large-scale voucher programmes. First, the voucher increased considerably the probability that a student would be offered a private school scholarship (although only half of the private schools accepted vouchers). The voucher funding did influence the enrolment policies of private schools, and parents clearly expressed a preference for a new choice of school. Second, voucher recipients stayed in school for a slightly longer length of time, and fewer of them repeated a grade. The greater availability of choices meant that students found schooling that they preferred. Third, the voucher users reported higher test scores three years after their application: when controlled for other factors, it was found that being offered a voucher had an effect of raising test scores by around 0.2 standard deviations (although the effect was only statistically significant for girls). This is equivalent to approximately one extra year of schooling, which in turn is equivalent to a salary premium of around 10 per cent in Colombia. At least for the participants, therefore, the voucher programme was highly efficient. Finally, the voucher did encourage families to spend more money on their children's education; in part, this was necessary to cover school fees. Of course, only higher-income families would be able to afford increased payments for schooling; therefore there may have been some consequences for social cohesion and social equity.

Small-scale voucher programme: Milwaukee, USA

The Milwaukee Parental Choice Program was begun in 1990 as a small-scale voucher programme for students in Milwaukee public schools. Eligible students – i.e. those from low-income families – could use the voucher at any approved private school. By 2002, the programme had grown to include 103 private schools, with a total of 11,624 students enrolled in the programme, and with religious schools eligible to receive voucher aid. This aid is now worth US\$5,783 per student, which gives students considerable opportunity to choose a fee-paying school without incurring high costs of tuition fees themselves.

Several important aspects of the Milwaukee programme stand out. First, it is a small-scale programme that addresses a specific urban problem: the absence of high quality education for students in the Milwaukee public schools. In this respect, it reduces (or at least it is intended to reduce) the inequities in the quality of education between students in the suburbs and students in the inner cities. Second, the evidence concerning participation in the programme shows that, within the low-income group, it is the relatively more educated and more affluent families who took advantage of the voucher. This effect supports the speculation that the voucher programme does indeed take the more able students out of the public sector. Third, the programme imposes very light regulations on the participating private schools; these schools do not have to report test scores for their students. This means that it is not possible to evaluate the relative efficiency of the schools that the voucher-eligible students choose. Direct evaluations using quasi-experimental approaches find only modest test-score improvements for voucher students: comparing participants with those who were rejected by chance, there is a positive impact of 0.08 to 0.12 standard deviations per year in mathematics, but no effect in reading (Rouse, 1998). Finally, because the programme is small-scale, there appears to have been no adverse consequences for social cohesion. Any shift from education for civic participation to education for personal gain has not been detected.

Universal public school choice programme: England

In 1988, the Education Reform Act gave all families in England and Wales the right to choose any state (government-run) school they wished, even if this school was located outside their tax community or district. In England, the term 'public school' refers to a set of traditional private, independent schools. Schools were funded according to the number of students enrolled (based on a census of the school taken in January of each year); the funding amounts were decided centrally, with only minimal discretion at the local district level (for example, to offer special services), and then allocated directly to the school site. The Act therefore established a comprehensive state school choice programme for families, creating a competitive market in state schooling, and tied school budgets directly to the enrolment decisions of parents. This reform programme is therefore essentially the creation of a quasi-market in education on a large scale.

Several high quality evaluations of this pro-competitive reform have been undertaken, and the conclusions have been almost unequivocally positive. Parents welcomed the freedom of choice: this no longer obliged them to enrol their children in schools to which they were allocated based on their residence, and school officials welcomed the autonomy they had as a result of the direct allocations of funds based on enrolments (Bullock and Thomas, 1997). Schools appear to have become more efficient because of the competitive pressures from schools in other districts (Bradley, Johnes and Millington, 2001). Finally, the reforms appear to have had no effect on equity and social cohesion: schools are neither more nor less segregated according to ability, race or socio-economic status than they were prior to the reforms; and there is no evidence to show that some schools have degenerated substantially (Gorard, Taylor and Fitz, 2002). Thus, some small gains in efficiency, and moderate gains in freedom of choice, appear to have been obtained without a loss in social cohesion or increased inequities.

Private school management system: the Netherlands

The Netherlands has an education system that has a substantial element of privatization (Patrinos, 2002). Almost 70 per cent of students in the Netherlands attend schools run by private education boards. Many of these schools are run by religious foundations (not only Protestant or Catholic – the two dominant religions – but also Jewish and Muslim), but there are also non-denominational schools, and schools with specific pedagogical approaches. Although these schools can impose criteria for admission of students, many adopt an open-enrolment policy. It is also relatively easy to set up a private school: the regulations are simple (based on a request from sufficient members of the community), although schools cannot be ‘for-profit’. State funding covers capital costs, and local municipality funding covers the operating expenses. Thus, the system in the Netherlands has private provision, but public funding. However, it also has strong public-sector accountability through regulations over the curriculum, the number of teaching hours, the subjects, the information reporting, and the assessment methods.

Evaluations of the education system in the Netherlands show positive reports both for freedom of choice and academic effectiveness, and without any dramatic inequities or apparent loss in terms of social cohesion (Patrinos, 2002; Walford, 2000). A very high percentage of parents report that they have been able to choose a school that meets their needs. The Netherlands does especially well in international test score comparisons, and there is evidence that the Catholic schools in the Netherlands do add more educational value to their students than do public schools (Levin, J.D., 2002). Moreover, even though the country is divided largely into separate Protestant and Catholic communities, there is little evidence to show that greater social divisiveness is provoked by the existence of separate schooling systems.

Private school liberalization: the Czech Republic

During the early 1990s, the Czech Republic reformed its education system and greatly opened up the education market (Filer and Muenich, 2000). Public funds were allocated according to the number

of students enrolled in the school, and any school that gained accreditation was eligible for government subsidies. Also, schools and teachers were given autonomy over enrolments, curricula and assessments. Academic high schools could also extend their provision to include more school grades. Each private school was to be funded via a two-part tariff: 50 per cent of the total support for a state school is automatically given to a private school; an additional amount – where total funding does not exceed 90 per cent of what is received by a state school – was based on an inspection of the school by state officials. Overall, the policy had a strong effect on freeing up the schooling market.

This liberalization had several effects. First, the supply of private schools did respond to the enhanced opportunities, particularly in urban areas and regions where the quality of public schools was low. By 1996/97, the proportion of primary and secondary school students in private schools was 5 per cent. This development suggests that competition in the education market does encourage high quality schools to compete with those of low quality. Secondly, even as the number of private schools grew from zero to over 440 within a decade, the absorption of students into these schools was not especially high: Most private schools are smaller than public schools. Consistent with evidence from other countries, a competitive market may encourage new schools of high quality to raise educational quality, but a large-scale take-over of public schools by private schools is unlikely. Finally, the private schools did introduce additional fees for supplementary education (although many church-run schools now obtain funds from the local diocese or parish to cover some costs). Thus, schools have developed strategies to charge different students different amounts; this may put low-income families, who may have more educational needs, at a disadvantage in gaining access to private schools.

Private payments for higher education: international evidence

Since 1980, there has been a significant shift in who pays for higher education: from government agencies to students and their families. This shift to ‘cost-sharing’ has taken place in many countries,

despite diverse higher education systems and historical traditions. In part, this shift reflects a global increase in the proportions of students who anticipate attending college and obtaining higher incomes after graduation, despite the fact that the supply of universities is not increasing. Such 'cost-sharing' now occurs through: (a) the introduction of tuition fees for enrollees; (b) more charges for ancillary services (such as room and board); (c) reductions in the financial aid that students can obtain from the government; and/or (d) the encouragement given to private universities to meet excess demand (Johnstone and Shroff-Mehta, 2000). Each of these reforms has the effect of transferring the financial burden of higher education directly onto the enrollee.

Charging university students may be an important way to reveal willingness to pay, and to identify students' preferences. Not only do these fees generate revenue for the institution, but they also serve to ration places at universities and yield valuable information about the aggregate demand for higher education. Notwithstanding, tuition fees and pricing systems vary widely between countries: whereas Canada and the United States allow for fees to vary according to the type of institution attended, fee levels in countries such as Japan and the United Kingdom are flat amounts. In many cases, discretionary funds (or fee remissions) are available for students from low-income families, but the terms on which these are available are becoming more restrictive (although some countries, such as Scotland and Ireland, retracted their fee levies in the 1990s, and Scandinavian countries are reluctant to introduce fees at all). However, flat-fee amounts (even at zero) do not yield much information concerning students' willingness to pay for higher education, so they are unlikely to be efficient.

An alternative approach is to mix cost sharing with more student loans. In Australia, for example, tuition fees were introduced in 1989 to cover approximately 25 per cent of all costs (after 1996, fees were set across three levels, with discretionary payments available to different students). Students can choose to defer payment of these fees until they are earning above a threshold income; the interest rate is extremely low, such that students are still being subsidized.

*Education privatization: causes, consequences
and planning implications*

The introduction of this Higher Education Contribution Scheme does not appear to have had a strong effect in discouraging students from enrolment, or in changing the pattern of enrolments across different income levels (Chapman, 1997). However, the scheme is far from making full cost recovery based on actual expenditures on university courses. It is not, therefore, full-scale privatization.

V. Implications for educational planning

General implications

This final chapter outlines the implications of privatization reforms for educational planning and programme implementation. We separate these implications into several domains: political, legal and economic. Many of these implications overlap.

Clearly, the options for privatization are broad, and this makes for a very flexible reform strategy. Thus it is possible for a privatization reform to be designed by planners to meet any number of objectives. To show how 'design matters', three plans can be compared. For any voucher programme, it is necessary to specify the eligibility criteria, the finance terms for the value of the voucher, and the support services that are available in addition to the voucher. Eligibility terms, voucher amounts, and the extent of support services are all set by the policy-maker.

Table 1 shows three alternatives based on a schema developed from Sawhill and Smith (1999, p.269) and by Levin, H.M. (2002). These three voucher programmes range from being very open to being very restrictive in terms of eligibility, finance, and support services. These three options are chosen purely for illustration and to indicate the possibilities for privatization through education vouchers.

Option 1 is a 'generous' voucher programme. It allows for the provision of vouchers to all students which can be redeemed at all schools, and where the schools can admit any students they wish. Religious schools, distance learning, home schooling and cyber schools are all possible options to a family that receives a voucher. Option 1 is also very generous in terms of financing: the value of the voucher is equivalent to the amount spent in the public sector on education, it is applied to all students at a flat rate regardless of family circumstance, and it can be topped-up with additional payments if the family so desires. With such a voucher, many families will be able to take advantage of private school options and spend as much as

they wish. Finally, Option 1 is 'liberal' in terms of regulations: transportation payments are made for students to attend any school, and yet no school must by law report information about the quality of the education offered, or its curricular focus. The state would therefore control a very small proportion of the education system.

In contrast, Options 2 and 3 are more restrictive in terms of either eligibility, financing or support services. Option 2 is, broadly, an 'incentive-based' voucher programme: eligibility is restricted to low-income families and independent schools only, but the financing is based on a school's performance, and the families have the opportunity to spend less than the value of the voucher and redeem the remaining funds. This feature would place greater pressure on schools to be efficient and to only supply services that families want. In addition, Option 2 specifies that there should be no independent information collected by the state: this places the responsibility on schools and on parents to communicate with each other directly. Option 3 might be thought of as an 'accountability-centred' voucher programme: vouchers are available only when the school fails to satisfy certain standards, full information must be disclosed to parents, and all schools that receive vouchers must maintain students' test scores at a set level. For this programme, privatization ensures that schools do not fall below a specified level.

Table 1 is merely an exemplar of the range of options available across the domains. Policy-makers can choose among each of these domains to design a suitable voucher programme depending on their priorities and financial constraints.

Political implications

Perhaps the most important implication for the planning of privatization reforms is that 'politics matters'. Much of the debate and policy-making in respect to privatization reforms are motivated by ideology and political power. Advocates will cite only the evidence that supports their claim that privatization will have strong benefits for the education system. Opponents, similarly, will only declare that privatization will damage the education system, and produce evidence

to support this. These are strongly held views, against which research evidence is often insufficiently compelling.

Planners must be mindful that privatization programmes will prompt strong political response, both against and in favour, from 'special interest' groups. The main constituency that is typically against privatization is composed of education officials and the teacher unions. These are the better organized of the 'opposition' to privatization, and may be expecting their jobs and working conditions to be threatened. There are others who oppose privatization; some opponents genuinely consider privatization an ineffective reform, others are ideologically motivated to favour government action over private interests (see the discussion in Carnoy, 1997). These groups will suggest that public schooling is being undermined, and that social cohesion is being impaired (or that private schools are less efficient). They will strongly resist any attempts to introduce competition into education markets or to shift the balance of power from professionals to parents. Planners must appreciate that undermining the professionalism of education workers may jeopardize any reform, and privatization falls into this category. In Wales, a series of market-based accountability reforms were introduced in the 1990s, yet many high-ranking officials within the education system sought to sabotage these reforms. In the United States, teacher unions have launched court cases and mobilized grass-roots campaigns against voucher programmes.

In contrast, taxpayers, parents and families who already use private schools may be strongly in favour of privatization. Similarly, many of these will be motivated by self-interest: Taxpayers may hope that any gains in efficiency from privatization will result in lower taxes; parents may believe that privatization will give them more options; families who use private schools may be hoping for a subsidy to offset school fees. Here, too, there will be groups that are in favour of privatization because they believe that it is an effective reform, or because they are ideologically committed to reducing government involvement in people's affairs. All of these groups are likely to emphasize the gains of freedom of choice and productive efficiency from more privatization reforms.

Conventionally, privatization will be opposed by groups that seek greater government intervention in the education system, and it will be supported by groups that seek more individual freedom and lower taxes. This simple political calculus suggests that support for privatization will come from those paying the highest taxes under the current system. However, education reforms – unlike many other public sector reforms – affect certain groups much more than others. Specifically, *families with school-age children are far more concerned with education reforms than the average voter: for these families, the quality of education may be a critical issue in deciding which political or community group to support.* They are likely to be very sceptical of reforms that may reduce the amount of funds that flow into the education system. Also, not all families will be pleased with policies that foster greater choice of schooling. Some families have deliberately sought exclusive schools, and will not welcome ‘choice’ which erodes this exclusivity. Furthermore, some groups will support privatization, despite having different agendas and objectives (e.g. lower taxes on one side, and better schools on the other).

Yet, there are many key constituents in society who do not understand privatization reforms and cannot trace out the effects of these reforms. Ideas such as ‘vouchers’ or (in the case of the United States) ‘charter schools’, are poorly understood by people in the broader society. When reforms are complex and the impact is not easily identified, many people will lose interest and revert to a preference for the status quo (this effect is probable, even before the design of the reform is known). *Educational planners should be mindful that there is considerable doubt, uncertainty, and ignorance about what privatization reforms are and what impact they will have.*

Given the range of privatization reforms that is possible and feasible, some reforms will have general, popular appeal (or will be less contentious). Allowing private companies to supply textbooks, for example, may be politically acceptable; in contrast, allowing private companies to sell instructional services may prompt political opposition from those who do not support privatization. Other ways to improve the appeal of a privatization programme are purely semantic: for

example, the term 'voucher' is rarely used, with a preference to replace it with the term 'scholarship'. Some privatization initiatives have faltered for these reasons. In 1996/97, the British Government introduced a nursery school voucher programme in an attempt to increase the availability of nursery school provision across the country. However, the programme was abandoned due to a change in a government that was no longer politically supportive of privatization and wished to placate educational officials in the local school districts. In 1993/94, Puerto-Rico introduced a comprehensive voucher scheme that was abandoned after political protest from the teacher unions. *The way in which the privatization programme is designed and implemented will make a big difference to its political appeal and success.*

This implication is somewhat general, but it is possible to be more definite, based on the experiences of a number of countries. As noted in *Chapter I*, there are three main forms of privatization: provision, funding and accountability. In general, the latter of the three is probably the least confrontational: Many parents would be pleased to have more choices and more information about the quality of their schools, and it may be difficult for education professionals to resist claims that parents should have more influence over the choice of school (Moe, 2001). The second of the three forms – encouraging more private funding of education – may be less politically attractive. In countries where most of the compulsory years of education for children are spent in public schools, these families will strongly oppose the introduction of, or increase in, fees. In many economies, families co-pay for schooling already; the issue is whether the family's burden should increase. Also, there is very little support for families who can already afford private schooling; in most countries, this group constitutes a very small minority of the electorate. The political acceptance of private provision is more complex, and requires an understanding of legal, cultural, religious and social factors. As noted above, private contracting for services such as capital improvements or food supplies may be politically attractive. Many education professionals welcome the autonomy to decide these contracting issues at the school site, rather than being expected to adhere to contracts set by administrative levels above them in their organization. Privatization of this type – more 'liberalization' of educational

organizations – was found to raise the satisfaction of education workers in both the United Kingdom and New Zealand during the reforms of the early 1990s. Yet private provision of instructional services (i.e. of the teaching that is received by the students) is often highly politically contentious. In the United States, for example, for-profit education providers have provoked considerable antagonism from teacher unions, community groups and political agencies. This form of private provision is much more politically ‘charged’.

Economic implications

The economic effects of privatization programmes will depend on the scale of the reform. An education voucher programme such as Option 1 above will be considerably more expensive than a targeted programme for low-income families, for example.

The introduction of a voucher programme may result in considerable re-organizational costs. These costs have been investigated for the United States by Levin and Driver (1997) who estimate that the total public sector education costs from a universal voucher system would rise by approximately 27 per cent. These additional costs would be incurred through two major and three minor additional costs. The first major cost is that of accommodating students who were previously in private schools; these private school students would now be eligible for voucher funds. Not all schools would accept the voucher, and not all students would redeem the voucher, but a large proportion of all private school students would. State costs would therefore rise by the number of students who took the voucher, multiplied by the value of the voucher. For many countries, where the proportion of private school students is over 5 per cent, this would be a major cost of introducing a universal voucher scheme. The second major cost is that of transportation: In order to ensure that students are given choices that are feasible, transport to and from various schools would need to be offered. This additional cost arises because students would now be expected, or even encouraged, to choose schools outside their neighbourhood. Of course, in many developing economies, transportation in rural areas is not available and, given the sparse populations, these areas will have very little choice of schools.

The three minor supplementary costs that need to be considered are as follows: One is the additional record-keeping and monitoring to ensure that students who should legitimately receive a voucher do, and that there are no fraudulent claims for the voucher. The second is the need for information about the availability of schools that will accept vouchers. The third extra cost is the adjudication of cases where the voucher terms are unclear, or where there are disputes between schools and between students.

In addition, the cost of a privatization plan should include the costs of meeting the challenges of those who oppose privatization: If there are groups that oppose privatization, then this will raise the costs of effecting privatization (e.g. in delays to the implementation of the programme). Programmes can be temporarily stopped or disrupted by groups who do not want their schools to be privatized. A final cost is the restructuring of the education system prior to privatization. For example, if a private company is contracted to take over the provision of a specific service to the school (such as capital improvements), then it may demand that the in-house resources be reorganized first. One example of this is the aversion that private companies have to taking over staff who work under union contracts: These private companies will want to have full control over who is employed, how many employees there are, and how much these employees should be paid.

Privatization may change the flow of funds to the government, both in the short and long term. In some cases, privatization involves the transfer of assets from government agencies to private companies. In the short run, such transfers may raise revenues for the government. However, these gains in revenues must be balanced by the commitment made by the government to provide free, universal education in subsequent years. Ultimately, privatization is often just an exchange of assets, and not an increase in revenues. Also, the burden of costs and the receipt of revenues may vary between the different levels of the education system: A voucher scheme such as Option 1, for instance, would need to be highly decentralized. Flows of funds would be allocated to lower levels within the education system.

Potential efficiency gains from privatization will depend on how the policy reform is implemented. The important factors here are how the service is ‘priced’ (sold off) and how to sell it. So, for a reform to liberalize the provision of schools, a planner would need to decide what amount of funds would be available to the new providers, and on what terms. In the United States case of charter school reform, new charter schools receive funding per pupil, which covers operating costs and costs that are not fixed; these schools must find additional funds for capital expenses. This puts these charter schools at an economic disadvantage, but it reduces the risk of the public sector having to over-pay for the service. Another low-risk approach is to allow tax credits against educational expenditures, but to make the credits relatively small in value. Also, the planner needs to decide the length of the contract: Whereas public schools are on open contracts, many United States charter schools are on three or five-year contracts. Making the contract time-contingent reduces the risk to the planner – if the private provider is worse than the existing public schools, then the contract can be terminated – but it also raises uncertainty for the private providers. This uncertainty is likely to be reflected partly in the price that the private provider charges the planner. (Other possible offsets against efficiency are the dead-weight loss from encouraging a private sector monopoly, or the development of private sector corruption/cronyism.)

As a general statement, when deciding on the price of privatization, all terms of the ‘social contract’ must be declared simultaneously, so that the service can be appropriately valued. A thorough valuation of the service should be undertaken. In the case of education, schools may be expected to raise test scores, but also inculcate social skills to students. The extent of these expectations needs to be written into the contract. Fundamentally, the economic criterion for deciding on privatization is the present value of aggregate net benefits to consumers. Yet, if there are efficiency gains to be obtained from privatization, it is to be expected that private providers would make a ‘profit’ from entering the schooling market. Although news about these profits may prompt opposition from local community groups, at least some of these profits provide the necessary motivation for starting a new school.

The economic gains from privatization will depend on how many new suppliers there are, or how many existing schools will expand their capacity. Privatization will only be possible if there are new private providers of schooling. Educational planners will have a critical role in the encouragement of new schooling options. One important decision is whether to allow private schools that have a religious orientation to receive public funds. Many families enrol their children in religious schools (at least for elementary or primary schooling), both because education according to their faith is important, but also partly because religious organizations have access to resources that can serve to subsidize the expenses of schooling. So, religious schools are the ones most likely to expand their capacity when more liberal rules are introduced (although in Chile, a sizeable number of for-profit non-religious schools have emerged). Yet many taxpayers may be unwilling to fund religious schools, especially for schools that are of a different religion to their own. In general, the more open the rules are, i.e. to include religious schools, for-profit companies, teacher co-operatives or parent co-operatives, the more likely it is that new supplies of education will be forthcoming.

However, establishing new rules to allow new schools to set up and receive funds will not guarantee that any extra supply will be created. The supply responsiveness of new schooling is quite low: building a new school facility will take several years, for example. Setting up a new school in a small community – especially in rural areas or areas with a poor transport infrastructure – may be risky. Although it may be that in developing economies, the physical resources and infrastructure required to set up a private school (or small-scale tutoring service) are not overly burdensome. It is to be anticipated that supply-side responses will be slower in the short run versus the long run. Plus, private schools will be wary of taking government funds in case such funding is accompanied by intrusive regulations on other school matters, such as the curriculum, the teacher composition or student intake. Where private schools expect additional regulations from the government, they will be less likely to offer new places to students with vouchers. Finally, the benefits of choice and the market may be clearest when there is likely to be a larger population and a greater urban environment so that choices can be more expansive. Urban privatization may be easier than rural

privatization. Planners will need to take these supply-side factors into consideration.

If privatization reforms really do raise efficiency, then the government sector may be able to reduce taxes but maintain educational standards. It is important for planners to make sure that any efficiency gains from privatization are real and that they are used effectively. Therefore, those bearing the costs of privatization should be compensated. If taxpayers fear that the privatized education system now generates less social cohesion, they may demand lower taxation rates. Alternatively, the efficiency gains can be re-invested to improve educational standards. More likely, however, is a scenario whereby education professionals see privatization through cost-sharing as a way of increasing enrolments and serving more students (in either public or private schools). Finally, planners may see privatization in some areas of education as a necessary response to parental pressures, even when there are no state funds available. Rather than preventing education from taking place because there is no government funding, planners may encourage parents to pay for supplementary education themselves.

Legal implications

Changes to the education system will often have legal implications, and privatization reforms are no exception. There are potentially two main concerns regarding the legality of privatization reforms. Both these concerns derive from the facts that in most countries education is compulsory by law until a certain age, and that families' choices may not be legitimate in the realm of law.

First, privatization reforms may allow families greater freedom of choice over which type of schooling is appropriate. Yet, *if families are allowed greater freedom of choice, they may 'choose' not to obey the compulsory schooling laws.* For example, a family may encourage its children to work in the home, or may opt out of sending them to any school, or send them to a school of very poor quality. The state therefore has a duty to enforce the law to ensure that all children have attended school for the requisite number of years, and

to the necessary level. This enforcement may entail monitoring the family's actions, and the costs of so doing may be high.

Second, *some types of education may not be recognized by the law*. In the United States, for example, the public funds made available to families to meet a compulsory schooling requirement cannot – in general – be used at a religious school. This general ruling has some exceptions: In June 2002, the United States Supreme Court declared that vouchers could be used at private religious schools in the Cleveland, Ohio school district; in Milwaukee, Wisconsin, vouchers have been accepted by the State Supreme Court. However, in each case there was a long and costly legal battle to establish that it was lawful to use vouchers in religious schools. Also, this ruling does not apply across all states.

These concerns over the legality of privatization reforms will, of course, depend on the constitutions and laws of each country. But some general conclusions can be drawn. One such generalization is the distinction between compulsory schooling and compulsory education laws. In countries where there is a compulsory schooling law, for instance, home schooling is likely to be unlawful. Home schooling may not be legally 'schooling', even though it is a form of 'education'. Therefore, it probably is legal in countries where there is a compulsory education law. A second general conclusion is that privatization reforms may affect so many aspects of the education system that the legal ramifications of a reform would need to be seriously considered. This re-inspection is made all the more necessary because of the political concerns over privatization. If the experience of the United States is any guide, where the law is ambiguous and where there are motivated political groups, *a legal challenge to such privatization reforms is likely*. These legal challenges – which are possible even where there is no separation between the church and state – may serve as an alternative to political opposition.

Suggested source materials

The following books and monographs provide an overview of education privatization:

Fiske, E.B.; Ladd, H.F. 2000. *When schools compete: a cautionary tale*. Washington, DC: Brookings Institution.

Gill, B.P.; Timpane, P.M.; Ross, K.E.; Brewer, D.J. 2001. *Rhetoric versus reality. What we know and what we need to know about vouchers and charter schools*. Santa Monica, CA: Rand.

Levin, H.M. 2001. *Privatizing education. Can the market deliver freedom of choice, productive efficiency, equity and social cohesion?* Boulder, CO: Westview Press.

Patrinos, H.M. 2000. "Market forces in education". In: *European Journal of Education*, 35, 62-80.

West, E.G. 1997. "Education vouchers in principle and practice: A survey". In: *World Bank Research Observer*, 12, 83-103.

Witte, J. 1999. *The market approach to education*. Princeton, NJ: Princeton University Press.

Interested readers may also wish to consult web sites which undertake research and evaluation of education privatization. The National Center for the Study of Privatization in Education at Teachers College, Columbia University (www.ncspe.org) is a non-partisan research centre devoted to the study of privatization of education. Its web site includes research reports, evaluations, and news items on privatization. It also provides links to other web sites devoted to education privatization. However, readers should be cautioned that many web sites have an ideological position either for or against privatization, and thus the evidence they disclose may be partial.

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