

Privatizing education
- Global Trend and Implications in China -

by

Dong Hairong

THESIS

Submitted to

KDI School of Public Policy and Management

In partial fulfillment of the requirements

For the degree of

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Preface and acknowledgement

As people pay more attention to the rapid economic development of China, education should not be neglected, for it is one of the key factors constituting the fast growth of Chinese economy. The paper discusses the present situation of Chinese education, mainly its problems, and the possible way to address these problems. The paper does not go deeply as other economic literatures do mainly because of insufficient knowledge on economics and shallow understanding of it. Therefore, it falls short of suggestive purpose, but to bring some new ideas on educational reform now widely discussed in China.

I am very grateful for the very kind and helpful instruction and comments of Professor Yoon-ha, Yoo. I also thank all the professors in KDI School, for opening a fresh window to me and guiding me to a new field—Economics. I would like to extend my gratitude to Larry, Zhou for his help in collecting materials.

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List of Abbreviations

- NITT The National Institute of Television Technology
EAI Educational Alternatives Inc.
CSF Children's Scholarship Fund
AFT American Federation of Teachers
CS Children's Scholarship Fund

Privatizing Education

-----Global Trend and Implications in China

Introduction

Touted as an unsinkable ship of social progress for more than a century, public schooling is leaking badly. Achievement is stagnant or declining, public opinion is low, and community conflict over what is taught seems to be ever increasing. Some schools, especially in the inner city, have already slid beneath the waves, extinguishing the educational hopes and dreams of countless children. Literally thousands of would-be reformers have suggested patches here and there, but the water just keeps flooding in.

If the education of the next generation is not to be completely forsaken, we need to cast aside our assumptions about how schools should be run, and consider not only major overhauls to the current system but entirely different approaches as well.

Over the past decades, there has been a sweeping trend of privatization undergoing along with economic globalization. The World Trade Organization is not just reducing barriers to international trade. It is also opening up public services to commercial exploitation. Education industry, a long-time state-dominant sector, is no escape from this trend with increasing private, societal and corporate involvement.

For some time I have surveyed the literature on privatisation of education. The literature, inevitably, divides into two groups: those in full supports of the idea, those vehemently opposed. This would not be surprising or even interesting except for one factor. Those in favour invariably argue from the basis of market theory; those opposed tend to argue from the most basic equity concerns or fairness.

While it doesn't make sense to point to any one historical education system and try to copy it, since there are a number of factors that could enable a system to work well in one culture and not in another, it does make sense to compare educational approaches from a variety of times and places, and to identify common elements of the most successful systems. Any approach to schooling that consistently produced good results across many different cultures, regardless of the prevailing social, political, and economic conditions, might have some interesting lessons to teach us, where lies the value of my research.

Before implementing any significant reform it is usually sensible to identify the problems with the current situation, to analyze their causes, and to assess the costs and benefits of the various ways of addressing them. The lack of analytic and research support for these very extensive and interrelated reforms could be disastrous for the future development of education industry.

This paper consists of four parts: first, I examine education both as an economic good and social good; then, I challenge some of the justifications that are given for public provision of education; in doing so, I make the case for markets in education. In the third part, I outline two approaches towards education privatisation, based on the experience of various countries. The implications are explored and recommendations are provided at the end for the future development of China's education industry. Economic approach is utilised throughout the paper here to examine the educational phenomenon, by which I mean my work is strictly descriptive and scientific. It provides no bases for moralizing about what might happen, or what is "good" or "bad"- only a basis for discerning what is.

Section I. Education-Private good? Public good?

Education, as *Longman*¹ explains, is the process by which a person's mind and character are developed through teaching, especially through formal instruction at a school or college. By definition, Education can help broaden our employment horizon and increase our better life opportunities, and thus is needed, or in economic terms, "desired" by

people, so it is a good, economic good to be specific. Since it is a good, like everything else, can be equalled with everything else. To equate things simply put them into the marketplace, where the market will give each of them a price, a monetary or a marketable value. Marketization or privatisation is an inevitable trend in the process of educational development. In the marketplace, the providers supply some service or product and compete with other providers for customers. The buyer exercises free choice; the seller provides incentives and the two interests coincide for their mutual benefit.

Education, pursuant to socialist theory, actually is neither private good nor public good, what we call “Chinese characteristic” these days. It is rivalry. One kid attending school will have to deprive another kid of enjoying school life; one pair of desk and chair taken by one kid will certainly be unavailable to another. On the other hand, it is provided by the state, or in Chinese “public provision”, which, according to the claim of the government, literally means that every child of certain age, 6-7 years old, can go to school if he/she wishes. Clearly, education is desired by many ordinary parents and their children, but there are not many suppliers, unlike other private good with many potential suppliers. The state or the government is the main supplier of education, and only in recent years are private entrepreneurs allowed to establish schools. Therefore, I would rather call it social good, only to distinguish it from private and public good.

It is probably unreasonable to expect anyone to act against their own interest or that of their children. As early as in 1778, Adam Smith argued that parents are in the best position to decide how their children should be educated and that the state should give parents the money to hire suitable teachers. Some twenty years later, a similar view was put forward by Thomas Paine, who suggested that the state should provide poor families with the money needed to secure a basic education for their children. Again, Milton Friedman, of the University of Chicago, strongly advocated such view in 1962, arguing that such a system would promote free choice and competition and so improve the quality of schooling in America. The doctrine of “choice” is compelling here.

¹ LONGMAN, Dictionary of Contemporary English, (NE) published in China

On the other side, some people are arguing that education is not merely a personal good, which gives advantages to the individual but is also a social good which benefits the whole community. As Melvil Dewey, American educationalist and philosopher put it as,

"What the best and wisest parent wants for their child, that the whole community should want for all its children."

----- Melvil Dewey

This contains the essential wisdom, but so often overlooked in these individualistic days. We certainly have an interest in the education of our own children, but we also have an interest in the education of other people's children for they will be our children's friends, neighbors, spouses, partners, business associates and, above all, fellow citizens of a democratic society. So it is eminently reasonable to expect governments to have social policies recognizing the common good², because it is required by any smooth functioning community, as Aristotle recognized so long ago:

...the oversight of education must be a public concern, not the private affair it is now, each person separately bringing up their own children and teaching them just what they think they ought to learn. In all matters that belong to the whole community the learning to do them must also be the concern of the community as a whole. And it is not right either that any of the citizens thinks that he belongs just to himself; all citizens belong to the society for each is part of the society; and the care bestowed on each part naturally looks also towards the care of the whole.

The historical attempt of the state to provide universal, free and compulsory education was based on just such thinking. For this reason, many have argued that market view of education is quite inappropriate for social goods which are needed by everyone and are vitally important for personal and community well being. These goods, it is argued, need to be distributed on some principle of equity or fairness so that there are available provisions of a high standard for everyone.

Whereas it is not clear how extensive public provision can be justified on moral grounds, or how adequate the public provision of education has done on the principle of equity

² Also defined as "quasi-public good" in some economic textbooks.

from the past experience - although it is clear how it can be justified in terms of promoting the power of certain interest groups. However, I can only be sure that the current “two-tier” system, of private schools for some, while the majority remaining in largely inferior public schools, could not be justified under this argument. What the paper argues is “one-tier” system, of private education for all.

In the next part of my paper, I am going to elaborate on why the education system should be privatised and put into the market. The failure of public provision of education and the virtues of the private education will also be addressed.

Section II. Why Education Privatization

Privatization is "the act of reducing the role of government or increasing the role of the private sector in an activity or the ownership of assets." By privatizing education, I don't mean, in its narrow sense, to sell out the state or public education into private ownership. Instead, I mean to break down the long-time state monopoly and bring in competition, to multiply the funding sources and supervising mechanism, etc. In short, privatizing means the increasing role for private sector in education system in terms of provision, funding and/or regulation. By using the resources of corporations, think tanks, community organizations, and vendors of educational products, I firmly believe that the current education system will be comprehensively transformed in the interest of the public.

2.1 What People Want from Schools

Clearly we need a system that can cater to differences among families, but what about people without school-aged children? To the extent that the general public subsidizes education--by whatever means--it can rightly ask that its needs be met as well. Fortunately, parents and non-parents agree that basic academics and career preparation are key. Any contribution that schooling can make to the harmony of social relations and the productivity of economic ones is also considered desirable by most people. Finally, citizens expect to get their money's worth from the schools. If costs increase, student achievement should go up as well.

That said, we can now ask: Does public schooling have what it takes? There's little question that it is failing to fulfill the goals outlined above, so the question really becomes: Can it be fixed or should we cut our losses and replace it with something fundamentally different?

2.2 Public or Private – Which Serves the Needs Best

2.2.1 State/public failure in the provision of education – China's case

With limited resources and a pressing list of priorities, China's public education system, once hailed by the central government as among the greatest achievements of the 1949 Revolution, is now in chaos and decay due to lack of funding. Not only is the education of millions of children being compromised, their health and even their lives are being placed at risk by crumbling infrastructure, overcrowding and inadequate staffing levels.

Over the past decade, as the government has fought to attract foreign investment with tax concessions and subsidies, the percentage of China's Gross Domestic Product (GDP) devoted to education has fallen to just 2.4 percent, far lower than the average 4.1 percent in other developing countries. The central government's education budget is mainly spent on students in urban universities and colleges, rather than the 204.7 million fellow students attending the country's primary and secondary schools. Since the mid-1990s, lower tiers of government have been expected to shoulder the lion's share of these education costs by using their own locally raised taxes.

Many areas of regional and rural China, however, have been unable to attract investment and have been hit by the closure of state-owned industries, rising unemployment and the fall in farmers' incomes. Local governments are crippled by debt and on the verge of bankruptcy. According to the *Chinese Newsweekly*, a magazine affiliated with the China News Service, the debts of the 50,000 counties and towns amount to 200 billion Yuan (\$US24 billion), affecting economic development and functioning of services like education.

According to Zhou Yuxian, an education expert at Beijing Normal University: “The funding gap [on education] between city and country is huge. In some rural areas the average annual spending per child is less than a dollar.” In poor counties, education can eat up to half the annual budget, most of it going to pay teachers’ salaries. Authorities have responded by neglecting maintenance of classrooms and facilities, employing unqualified teachers on lower rates of pay, increasing class sizes and levying an array of fees. Though education is supposed to be free, parents say they are expected to pay for everything from their children’s paper and report cards through to the electricity bill.

A report issued by the Ministry of Education in June revealed some of the consequences of the deteriorating conditions of China’s schools. On average, 40 students die in school-related accidents every day. Last year, the toll was 14,400 deaths.

Of these, a staggering 1,400 were killed when their school buildings collapsed over their heads. In June, a 16-year-old student was killed and 14 others were injured, when a cement-ceiling beam collapsed at a high school in Ninghai, a city in Zhejiang province. The students were in a third floor classroom of a four-storey building. A local police official blamed shoddy construction and the poor quality of the cement.

Other common causes of death raise questions of understaffing and lack of supervision. Over 3,600 children drowned during school hours, while traffic accidents claimed more than 2,400 children’s lives. Deaths were also caused by food poisoning, the inhalation of carbon monoxide from leaking gas heaters, and fires. In June, 13 toddlers died from kindergarten fire, reportedly because staff placed burning mosquito coils too close to the children’s beds while they were sleeping.

The central government’s strategy for overcoming the chronic underfunding of education has been in line with its drive to restore the capitalist market in every area of Chinese society. It has encouraged schools to go into business. In 1999, school-run businesses raked in \$US15 billion, nearly equal to the state’s entire education budget.

Besides assembling toys and producing small handicrafts, schools in rural areas have been known to put children to work in mines, on pig farms and into other forms of intensive and dangerous labor. In March, the results of this policy were exposed to the world when 50 children and four adults were killed in a catastrophic explosion in Fanglin village, Jiangxi province. The children were assembling fireworks in their classrooms for a local business, in order to raise money for the school.

In the cities, schools are renting out space. In a case reported by state television, a classroom was let out as a gambling den. Many students couldn't enjoy games and sports during the break because playgrounds were rented as parking lots. Other enterprises operating out of schools include restaurants, taxi fleets and markets.

“Sparrow schools”

Yet even as schools hire out their buildings to businesses, many are plagued by massive overcrowding. A report in the *South China Morning Post* detailed the emergence of “sparrow schools”, where students are crammed into classrooms and play areas far too small endangering their safety and health.

At the Peoples Road primary school in Guangzhou, the capital of Guangdong province, 820 children are squeezed into two small buildings with a total area of just 1,700 square metres. The only playground is a small basketball court. The students take turns using it to do morning exercises, while the rest of the students stand behind their desks and are instructed to wiggle to disco music. Seven nearby primary schools are even worse. Children at the Minxingli primary school, for example, do their morning exercise on the pavement.

Of the 323 primary and secondary schools in Guangzhou, 96 are classified as “sparrow schools”, meaning they have an area of less than 2,000 square metres for primary schools and 4,000 square metres for secondary schools. An area of 2,000 square metres is equivalent to a strip of land just 100 metres long and 20 metres wide.

Guangzhou's Number 100 Secondary School is a "super-sparrow school", with 1,000 students sharing just 1,700 square metres of space. The school's running track is just 22 metres long. Foam padding has been placed at the far end of the track to cushion the blow when students crash into a wall at the end of their sprints. The physical and mental costs of these conditions are great. Cai Dachang, the head teacher of a sparrow school in Liwan, told the *South China Morning Post*: "Go to any primary school basketball game, and you will see that players on Liwan district teams are shorter and thinner than those on suburban school teams."

To dodge responsibility for the cutbacks in education funding, authorities blame overcrowding on the massive growth of China's urban population. In one of the largest migrations in history, an estimated 120 million people have moved in the last 20 years from China's rural towns and villages to find work in the cities.

Many schools, however, have been forced to give up ground for municipal works or teachers' housing. In newer districts, real-estate developers have ignored regulations requiring them to build one 6,500 square metre primary school and one 8,000 square metre secondary school once the population of the area reaches 10,000 people. There are no laws to punish developers who violate the regulations.

Furthermore, China's residency system, which strictly limits people to move from their place of birth, has meant that many of those who have moved to the cities have no permanent residency status. With only temporary residence permits, they are not entitled to the services provided by the municipal government, education included.

Because of the residency laws, migrant children are either barred from local schools or kept out by the high fees levied on them. To overcome this discrimination, Li Sumei, a migrant to Beijing from rural Henan province, founded the Xingzhi Migrant School in 1994, initially in a vegetable patch. The school charges fees of between 600 Yuan and 1,000 Yuan (\$US72 to \$120)—less than a third of the fees at regular Beijing schools. The

school has grown from just nine pupils to over 2,000 and is now staffed by 100 teachers. Such migrant schools, totally self-funded by the teachers and parents, have sprung up across China.

Although Beijing is home to at least 100,000 migrant children ranging from 7 to 15 years old, the city government has refused to grant legal status to migrant schools. They are at the mercy of officials, who have the power to close schools if their buildings are needed for other purposes or on any other grounds. According to the *South China Morning Post*, the Xingzhi School has been forced to relocate five times in its seven-year history.

For China's new class of businessmen and managers, the solution to the decay of public education has been to send their children to elite private schools or send them overseas to be educated. For the mass of the country's workers and farmers, who have no such options, it has become another in their steadily mounting list of grievances against the Beijing authorities and their pro-capitalist programs.

2.2.2 Market failure in the provision of education -- Historical evidence

Many people believe that, just as in the days before television, an ordinary family in an ordinary living room, with parent, children and dog all paying rapt attention to ... an empty wall... In the days before state schooling, there was a similar lacuna; that people idly sat around, waiting for the state to step in and fill the gap in their lives.

However, this picture does not tally with the historical evidence, at least as far as England and Wales, Scotland and the USA are concerned. For E. G. West (1965, 1970, 1994 - translated into Spanish) has argued that, before the state got involved in education in England and Wales in 1870, the great majority - perhaps 95 per cent - of young people were in schooling, for an average of almost 6 years, that literacy and numeracy were almost universal, and the greatest proportion of school fees were provided for by parents. A similar phenomenon occurred in America before government involvement in education there (Richman 1994, West 1994) and in Scotland (High and Ellig 1992).

Extrapolating from these findings, we could reasonably argue that, had the state not intervened, and had the wealth of people continued to increase, then state intervention in these states to ensure an adequate supply of educational opportunities would not be needed, at least for the great majority. I will come back to the position of the small minority later shortly.

The dispute concerns the quality of schooling. Now, given the poverty of the Victorian period, it would be surprising if schooling then matched our expectations now. But, more significantly, the sources which are typically used to show the poor quality schooling are suspect. Her Majesty's inspectors, for example, complained about the quality of working class schooling - but only to bemoan that schools were not inculcating religious values (the parents wanted Sunday Schools to do that) and increasing the supply of subservient workers. One, Lord Tremehere, proclaimed that working class education enabled ordinary people to read 'seditious literature without having the moral or intellectual strength to discern its falseness', literature which was 'exaggerating the principle of equality before God and the law' (quoted Stephens 1987 p. 133). With prejudices like this, we need to be skeptical about such criticisms of educational quality.

Another criticism of quality concerned trained teachers, or the lack of them in the private schools. However, West points out that the teacher training at the time consisted overwhelmingly of rote learning and that it 'seems at least arguable that the communication of adults from varied occupations might, on average, have been more useful and inspiring to children in school rooms than parroting of English Literature before young school teachers who, in their own lives, had had little time to do anything else', (West 1994 p. 210).

One final complaint of the nineteenth century reformers worth noting is that pupil-teacher ratios were too high. In the 1830s, there were 26.8 pupils per teacher. In 1967 there were 29.7 pupils per teacher in English primary schools; last year the figure was 22.2, lower, true, but not by very much. We conclude that, given the poverty of the period, the quality

of schooling in the market may not have been as bad as was suggested by contemporary observers, and reinforced by those modern historians who seek to challenge West. Given an increase in the wealth of the nation, all the improvements noted by the historians were likely to have occurred anyway without state intervention (Tooley 1996 ch.3)

Even so, no one denies that there wasn't universal provision in England and Wales without government. Perhaps this brings in at least a residual role for government to intervene to ensure universal provision? This brings us to the second objection to markets in education, the need for equality of opportunity.

2.2.3 Equality and markets

It seems intuitively obvious that markets will not be able to provide educational equality of opportunity. Writers have focused on this: markets “unashamedly” exacerbate inequalities and hierarchies (Clay and Cole 1992 p. 1); markets, would “of course, lead to far greater inequalities of opportunity within the education system”(Levitas 1986 p. 84).

Does this undermine our attempt to construct a moral argument for markets in education?

No, for two reasons. Firstly, many of those writing against markets seem to conveniently forget that there were widespread concerns about inequality over the last thirty or forty years, well before there were any purported market reforms on the agenda. In the USA, for example, the seminal studies showing widespread inequality within the state schooling system were Coleman et al (1966) and Jencks et al (1971). In the UK, similar inequalities were found by Rutter et al (1979). Throughout the world, under state control of schooling, middle-class parents have always been able to buy in to better school districts and hence reinforce social inequality.

There seem to be powerful arguments that perhaps public education could be made more equitable, including those from public choice and social choice theory, to suggest that this is not likely: Democracies work by giving power to those who are able to become organized and use their political 'voice', and this necessarily means that the less advantaged will be marginalized.

One well-known argument suggests, for example, that the welfare state “actually benefit[s] the middle classes at least as much as the poor, and in many cases more than the poor” (Goodin and Le Grand 1987 p. 91); they give examples of the gross inequalities in public education in England and Wales - with much higher amounts spent on the middle classes than the working classes, particularly because of high expenditure on higher education. They suggest that this is an inevitable consequence of the middle-classes “muscling in” on welfare, using the state to provide for their needs, at the expense of the poor.

In any case, we need to know what it is about equality or equity which makes it a desideratum for educationists. What emerges strongly from an analysis of their arguments is that, when philosophers and economists argue for “equality” or “equity”, it is a level of “adequacy” with which they are chiefly concerned, a “priority” principle which ensures that only the needs of the under-privileged are met through the state. Rawls, for example, created his elaborate system of the original position and the “veil of ignorance” explicitly to guarantee a “satisfactory minimum” standard of living for all (Rawls 1972 p. 156).

Similarly, Dworkin's detailed and complex arguments reveal again that it is not inequality as such that Dworkin is actually worried about, but “adequacy”. He writes:

A substantial minority of Americans are chronically unemployed or earn wages below any realistic 'poverty line' or are handicapped in various ways or burdened with special needs (Dworkin 1985 p. 208)

Here his problem is not that this minority earns less than others, that there is inequality, but that they live in poverty, that they do not have enough. So he has illegitimately jumped from showing that it is important that everyone has the 'means to lead a life with choice and value' (p. 212) to arguing that everyone should have equality of resources. This is clearly too big a jump, one not afforded by his arguments. The issue is that there is a respectable tradition in moral philosophy which points to an interpretation of equality, or equity, as meaning 'adequate opportunities for all'. Moreover, even when this is not the intention, supposedly egalitarian philosophers can be seen as in fact arguing for this.

Now, with this interpretation to hand, we can translate the issue into the educational context. When we come to assess the ethics of markets in education, we find the goal posts have moved. The question now should be, not whether markets exacerbate inequality, but whether or not markets could ensure adequate educational opportunities for all.

This issue can usefully be spelled out as three sub-questions:

- ❖ Can markets ensure educational opportunities?
- ❖ Can markets ensure educational opportunities for all?
- ❖ Can markets ensure adequate educational opportunities for all?

The historical evidence outlined above suggests that without the state, educational opportunities were promoted; moreover, we see where state education is failing today around the world, entrepreneurs seize the opportunity to develop appropriate educational markets. The historical evidence, moreover, suggests that markets could go a long way towards catering for all, although there was a small minority who escaped private provision.

This is where some role is conceded for the state: just as in the case of food or clothing it is argued that, while the great majority will be able to flourish in the market, a small

minority will need state help, so it is argued that there is need for a funding safety-net³ to ensure that all can partake of the market in educational opportunities. There may also be need for some small amount of selective compulsion for those who refuse to partake of educational opportunities. Although this is no longer the “pure” market, the “market-with-a-safety-net’ can provide educational opportunities for all.

Finally, would the educational opportunities be adequate? Educationists would be most concerned about the curriculum here, and the informational requirements for the “consumer” of education. Both of these issues are of fundamental importance. Both bring in the fundamental issue of the “epistemic” or knowledge problem. This brings us to the third justification for state intervention in education, and correspondingly my third defense of markets in education.

2.2.4 The Information Asymmetry

The economist Nicolas Barr argues that the case for public provision of education for reasons of equality (as well as efficiency) rests largely on the information problem:

Private consumption decisions [in education] are likely to be efficient and equitable only if families have sufficient information, and if they use it in the child's best interest. ... Some parents, maybe disproportionately in the higher socioeconomic groups, are capable of more informed decisions than the state; others make poorer decisions. If the quality of parental choice is systematically related to socioeconomic status and the effect is strong, then private allocation can be argued to be less equitable than state allocation, irrespective of the balance of argument about efficiency.

(Barr 1993 p. 349).

Of course, this raises the genuine difficulty that it is more difficult to obtain information about schooling than about, say, whether a pair of shoes fits a child. But the market-oriented approach to this is to ask: if not the parent, then who? For the alternative is the

³ As explained later in part III, such as Vouchers system.

state, which has to obtain and use the information about the child's performance and the school's effectiveness. But this brings us to a crucial part of the neo-liberal critique of state intervention in education, the “epistemic problem”, that it is very difficult, if not impossible, for the state to obtain this necessary information.

Still, we can not be misled by the notion that there need be perfect information in the market, as many critics claim: e.g. Winch, criticizing the very notion of an educational market, argues that “the operation of an educational marketplace is likely to differ from the perfect market described by economists” (Winch 1996 p. 99). This is indeed true. But it is true of all other markets - for “perfect information” is a fiction of the neo-classical economists, which they find more or less useful in constructing their mathematical models, but to which, they will be the first to admit, no market in the real world corresponds.

Indeed, it is precisely because of the imperfect information that we value markets - as mechanisms which economize and utilize the “scarce resource” of human knowledge, dispersed amongst people at large, in a way that central planning cannot (see Hayek 1982, and for a useful introduction, Reekie 1984).

We can gain an idea of how markets come closer to solving the epistemic problem than governments, if we consider the difficulty of collecting reliable and valid information about school effectiveness: Parents, for example, can ask children how they get on at school today, or why they are crying when they come home, or whether they have homework, and if not, why not. They can see the appearance of students at the school; gauge the noise from the playground, and a multiplicity of other such factors. Governments can't do any of these.

To make judgments about “education”, governments depend on quantitative information concerning such things as exam results, truancy rates, and teacher qualifications. These have the virtues of, well measurability, and that is all about it. They do not capture what is important in the educational process, and a reliance on them leads to its distortion.

There are difficulties not only with quantifying such measures, but also, even if this quantification were accomplished, with interpreting the data - because of difficulties with social sciences methodology, e.g. with linear or multiple regression analysis (Winch 1996 p. 79), or scaling techniques and production functions (p. 80). Even more difficult to measure is the source of the school's "added value": perhaps it has been added by contributions out of school, through homework or coursework help, or Saturday schools (p. 81); parents are in a position to know this, the state not.

Similarly, Winch points out the epistemic dangers of audit inspection, as being "mechanistic" and "in danger of missing out vital features of the ethos, and the teaching and learning experiences, that are offered by schools" (p. 131). All of this is grist to the mill of those in favor of markets in education; all of this is used by them precisely to argue that, however, imperfect parental information about schooling is, it is a whole lot better than that which can be obtained by government.

Hence, the information problem is not enough to rule out - indeed, strengthens the case for - markets in education. There will be resistance to this conclusion from some quarters. Surely it can't be argued, to put the matter in terms of Barr's question, that all parents would make better decisions than a government taking decisions in loco parents?

Presumably the small number of poor or educationally irresponsible parents would need to attend educational settings with prescribed curricula, as the parents are likely to be ill-informed? But here the power of the market emerges again. For these children can attend - if necessary through selective compulsion - educational settings which are part of the mainstream educational opportunities available, and hence will have curricula which concerned parents are keeping tabs on.

Markets do not need everyone to be informed, in order for high quality to be ensured. Barr puts the matter in the form of a moral, and for him, perplexing question:

'If the quality of parental choice varies systematically with socioeconomic status, how do we weigh the relative claims of middle-class children and their parents to be allowed private choice, against those of children in lower socioeconomic groups, whose interests might be served better by the state?' (Barr 1993 p. 349).

Ignoring the questionable assumption that the lower socio-economic groups would necessarily be ill-informed, we can put the question in the context of the discussion here, and find the answer is easy. All should be allowed to exercise choice. For if all have access to the “one-tier” market system, then the choices of those who are better informed will help raise the quality of the choices of all.

Indeed, this is precisely the argument that is raised for encouraging middle-class parents to remain within the state system, rather than opt-out to private schools, that they will help raise standards for all. That argument has the weakness that the politically inarticulate, those not good at using the “voice” option, have to rely entirely on the politically adept to raise standards, which has not been noticeably successful for the less advantaged.

The educational markets capitalize on the power of common access, so that the better informed keep standards high, while simultaneously giving the additional power of “exit” to all, which in itself is a powerful mechanism for raising standards.

2.3 Virtues of Private Education

2.3.1 Efficiency and Cost-Effectiveness

World Bank studies show the proportional gain in achievement score if a randomly selected student, with the characteristics of an average public school student, attends a private rather than a public school, holding constant that student’s background.

Country	Achievement indicator	Relative advantage of	SD units (effect size)
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		private school	versus public
Colombia	Ave. math and verbal	1.13	0.55
Dominican Republic	Mathematics	1.47	2.16
Philippines	Mathematics	1.00	-0.09
	English	1.18	0.33
Tanzania	Ave. math and verbal	1.16	0.97
Thailand	Mathematics	2.63	1.69

Country	Ratio of private to public cost	For the same unit cost, how much more achievement in private schools	For the same amount of achievement, how much less cost in private schools
Colombia	0.69	1.64	0.61
Dominican Republic	0.65	2.02	0.50
Philippines	0.83	1.20	
Tanzania	0.69	1.68	0.59
Thailand	0.39	6.74	0.17

2.3.2 Investment and Innovation

Private education companies can attract investment by getting listed in stock exchanges. Since taking over the first school, Edison school had raised \$120 million for R&D and investing in schools by 1998. On Nov. 11, 1999, Edison launched on Nasdaq, raising \$122.4 million with steady uprising share price. Educor, in South Africa, listed on the Johannesburg Stock Exchange, raised funds for more than 300,000 students. With the money raised, they can find finance from financial institutions, and fund student loan programs. Working with Citibank, NIIT, an Indian education company, provides loan schemes to students.

Private education companies can benefit from economies of scale, with chains of schools and universities. Indonesia has a massive 94 percent of its students in private higher education schools, with over 1,000 private universities registered. The education sector also features companies that manage “chains” of schools and universities, sometimes on a franchise basis, able to benefit from economies of scale. The largest of these, Objetivo/UNIP, is one of several competing chains of schools in Brazil. It has over 500,000 students — from kindergarten to university — in nearly 500 campuses. Educor has over 300,000 students: from high school to professional and vocational students. India-based NIIT has 400,000 vocational and academic students in India and 20 other countries, including the USA.

2.3.3 Brand Name to Solve Information Asymmetry

These education companies overcome the objection that consumers of education suffer from an “information” problem, allowing devious business people to take advantage of their ignorance. On the contrary, brand name works here as it does for other consumer services, reassuring parents and students that high quality is being offered and maintained. Just as I know little about computers, but confidently purchased my laptop because I am aware that the need to maintain the brand name will keep Toshiba “on its toes,” so educational consumers attending an Objetivo School in Brazil or a DPS school in India are confident that strict quality control is in place to keep standards consistently high.

Companies take the promotion of brand name seriously. In Zimbabwe, the Speciss College chain sponsors a national basketball team, as well as running a high profile Mr. Speciss Personality and Miss Speciss contest. NIIT runs its own 24-hour television show, advertised as a free computer literacy program for the masses. NIIT's brand-building seems to be highly successful; recent Gallup research shows that, just as people say "making a Xerox" instead of "making a photocopy," in India, "doing an NIIT" is synonymous with "studying a computer course." Not only is the private sector large, but it is also, in places, strikingly innovative. Many of the companies have research and development departments dedicated to the state of the art in teaching and learning methods. They are also concerned with efficiency, given the scarcity of such resources as space, technology and teacher time. NIIT has developed an educational model that enables a center with only 30 computers to accommodate 1,260 students per day!

Section III Two Approaches

The historical and modern evidence indicates that free educational markets, in which parents have been able to choose any school for their children and schools have been forced to compete with one another to attract students, have consistently done a better job of serving families and nations than state-run systems such as we have today.

The superiority of market school systems has gone beyond immediate benefits to students, extending to communal effects such as increased social harmony and protection of minority rights. So my position is very clear: Gradually phasing out government involvement in education, and moving towards a competitive educational marketplace; and the creation of a subsidy system to enable low-income families to participate effectively in that marketplace.

Here come the fundamental questions. Can the virtues of private education be replicated in the state sector? Can access to the virtues of private education be extended to those currently within the state sector? Hence I would suggest one guiding principle in and two approaches to privatization, which will be addressed in this chapter.

3.1 Liberation of Demand –guiding principle in education privatization

Before touching on this, let's have a look at an interesting and self-contradictory scenario in the current "nine-year compulsory schooling system" in China. By law, all children are required, literally, to attend school for at least nine years. During the period, students are supposed to finish both the primary school program and the junior middle-school program. Meanwhile, high dropout rate has long been a headache for governments at lowers in China. Once there is a drive for the policy implementation of nine-year compulsory schooling, dropouts are invited back to the classroom, merely to fool the inspectors. How to solve this problem? Pupils drop out of school simply because of unaffordability? That is not true, because primary schools are supposed to be financed by governments in order to carry out the free education policy. Then who should be responsible for the high dropout rate? Parent? School?

One feasible way forward can link in with the notion of the "learning society", the advocacy of life-long learning. No one, however, seems to question how the forced schooling of young adults fits into this liberating vision of society dedicated to learning.

Those academically inclined could easily do their schoolwork in three years, but are compelled to breeding laziness and frustration. Less academic young people find unappetising the diet of quasi-academic subjects and artificial vocational lessons. Most seriously, those who fail school gain only negative lessons about the value of learning in their demoralising years.

The key to challenging this unsatisfactory or even poignant situation would be to break the fetters of compulsion. Goodwill can often pave the way to hell. Instead, young people who want to leave school would be given funds equivalent to the remaining years education funding in the present compulsory system to be invested in their lifelong education fund. These funds could be drawn upon at any time for approved educational use.

Such a proposal would enhance the learning society by reducing young people's resistance to learning, and by providing them with funds to use when they see the need. It would also enhance the educational market, by liberating demand, and, if the “approved educational use” was defined liberally enough, ensure a diverse and vibrant supply side. For example, an academic young person could do schoolwork in six years, then engage in hobby service to further develop their talent in certain area. Less academic young people might shop around to find something that really suits them, perhaps in a further education college, or in a work-based apprenticeship, and not feel compelled to accept the school's watered-down curriculum. This would encourage educational suppliers, including innovative public schools, to think more creatively about what they can offer.

Moreover, young people will exert market pressure on schools to get the best value for money, for it is their funds which are being used up, funds which could be used for other educational ventures later in life. Finally, low-achievers can leave the inhospitable environment of school that has done nothing for them. But instead of leaving without qualifications and without hope, having used up all their government support, they at least have the consolation of incompleteness funds to take with them. Perhaps they will still hang around on street corners. If so, that would be no worse than now. But with time on their hands, and with educational entrepreneurs eager for their funds, many will decide that courses in literacy, numeracy, employability, technical or small business skills are a far more attractive alternative.

Perhaps, without any compulsion to be in school, they might even find it desirable to go back, particularly if school realizes that it now has a real incentive to respond to their needs. As a first step towards markets in education, letting young people go - if they want - signal a shift to a more humane society that was genuinely appreciative of the joys and benefits of learning. For only such a society would be prepared to take the risk of wooing people to discover these for themselves, rather than compelling them to partake whether they want or not. Linking this to the lifelong learning program account will bring market disciplines to bear on the schooling system.

3.2 Public-private partnerships

3.2.2 Contracting out

Here, contracting out is not privatization in its strict sense, which often involves the transfer of ownership from public to private. It is a form of public-private partnership, in which the public school contracts out its management services with its employees remaining as public sector employees, while private contractors managing the employees and the services they provide. Wages, benefits, and employee rights are still obtained under public sector collective bargaining laws.

Management services contracts are considerably more involved than paying a consulting fee for technical expertise. These management service contracts usually include labor costs as well as significant amounts of other public sector expenditures in the contract. Furthermore, the contractors often obtain considerable control over parts of the public budget outside the contract such as supply purchases for custodial work, or gasoline for transportation contracts. Private contractors avoid paying taxes on these commodities.

In some respects, contracted management appears to be a modest step on the privatization continuum because jobs, wages, fringe benefits and unions appear unaffected by private managers. However, the mixture of profit-seeking private sector managers, public employees and contractor power over public monies offers substantial profit-making opportunities for small firms with few capital resources.

Management service contracts often masquerade as management consulting contracts. If a local jurisdiction wants to improve management, it should hire a management-consulting firm, not contract out with a management services firm. EAI's contract with Dade County to run the South Pointe School was a consulting contract paying a little more than \$1 million over the five-year period (EAI Annual Report, 1994). Although the contract was not renewed, most parties--including the union--were happy with the arrangement.

Some with good will may again argue that how private managers could make money while public not. They should have succeeded in undermining the public interest. As a matter of fact, profits and the public interest overlap the most in a competitive market. Contractors can surely improve efficiency and provide the same services at the same or better quality without sacrificing responsiveness and accountability. Following text explores the sources of profit of private firms in managing a public school.

Fixed-fee consulting contracts. Fixed-fee contracts offer the least opportunity for abuse. EAI received a fixed consulting fee in Dade County--and it lost money there. Public Strategies Inc., the small management-consulting firm doing the work of the superintendent in Minneapolis receives a basic fee plus bonuses related to contract implementation. One part of the Public Strategies bonus system--raising student achievement--has not been successfully completed.

Contracts that give all costs savings to contractors. EAI in Baltimore, the Edison schools and APS make money by spending less than the revenue they collect. Many contracts of SeviceMaster, Marriott, and other companies providing noninstructional services also work this way. The major source of corporate profits in management services contracts is obtained by reducing labor costs. Contracts typically reserve control over staffing levels to the contractor. This profit-making opportunity is usually disguised by the contractor's focus on a cap or guarantee--the promise to absorb labor cost overruns.

Vendors's fee misrepresented because labor and materials provided by the district are included in the contract. Contracts often contain a seemingly small vendor's fee or a "contribution to profit". This profit is net or "pure" profit if overhead and administrative costs are specifically cost elsewhere in the proposals. In Hernando County, Florida, for example, ServiceMaster calculated its vendor's fee as a modest 2.7 percent of the contract, but after subtracting school district labor costs included in the contract amount, the profit percentage rose to 11.8 percent. In a Marriott contract, profit of 3.5 percent of the

contract increased to 13.2 percent after subtracting school district labor. EAI engaged in this same strategy by booking a school or district's entire budget as company revenue.

Profit built into markup on equipment and supplies. Most supplies and equipment such as gasoline, toilet paper or paper plates are purchased by or on behalf of the local jurisdiction and are not included in the contract. Some contractors, however, specify that they will use some of their own products and purchase some of their own equipment. Even if the supply costs do not change substantially, or if the title to the equipments is turned over to the local jurisdiction, part of the purchase price of the supplies and equipment may contain a markup for corporate profit. Both EAI and Edison buy instructional materials from themselves.

Profit built into computer software and training programs. Management service contracts often include expensive computer software to calculate staffing levels, determine bus routing, or manage inventory. Moneymaking opportunities exist in the software charge. Similarly, training programs and materials can hide profit centers. EAI's commitment to teacher training and instructional supplies provided one more way to make money since EAI frequently bought training and supplies from itself. While EAI spent impressive amounts on staff development, EAI's staff development differed little from a control group of schools either in scope or effectiveness (UMBC, 1995). Some of the high-priced in-service consultants were school officials from districts in which EAI was seeking business.

Inflate first year costs. In multi-year contract situations, contractors may seek to inflate first year costs with implementation charges and special equipment purchases in subsequent years they charge the same price, or an even higher one. EAI's experience in Baltimore partly fits this approach. Capital improvement costs were heavier in the first year of the contract, and earnings from the Baltimore contract more than doubled in the second and third years.

Investment earnings. Another source of earnings for private management firms is the investment income generated from the proceeds of stock sales. For example, EAI sold stock allegedly to fund working capital requirements, product development and potential acquisitions. Investment income of \$2.8 million in 1993-94 made EAI profitable even with a net operating loss of \$300,000. The securities portfolio also collateralized lease obligations and letters of credit in Baltimore and Hartford. Until used, proceeds of the stock sales were supposed to be invested in short-term government securities (Form S-1 filed with Securities and Exchange Commission). Such publicly traded firms as Sylvan Learning Systems Inc, and the Edison Project (if current plans for the limited partnership to go public reach fruition) could also make money for their owners in this way.

EAI engaged in high risk investments with little diversification and its investment portfolio, composed almost entirely of financial derivatives, suffered stunning losses during 1994. In percentage terms, the losses dwarf Orange County, California losses (Minneapolis Star-Tribune, December 18, 1994). Based on the purchase cost of \$36.7 million, the September 30, 1994 value of EAI's marketable securities of \$23.5 million represented a paper loss of 36 percent. EAI's derivatives crisis locked up its investment portfolio. The value of EAI's investment portfolio improved substantially when interest rates declined during 1995.

Stock options and insider trading. EAI has experienced a positive net operating income during only one year of its history--about \$700 thousand in 1992-93. As a result of the Baltimore contract and reports of academic success and profitability, the value of the stock rose from about \$5 a share in the initial stock offering in 1991 to a high of nearly \$50 a share during late 1993.

Company officers and executives can profit from even modest swings in stock prices let alone the dramatic gains EAI experienced. Stock options are an important part of the compensation of EAI's Board of Directors and executive officers. Stock options are awarded at an "exercise" price. If the value of the stock climbs, the holder of the stock

option can purchase the stock at the lower exercise price and sell at the higher market price.

Stock sales by directors and executive officers are called insider trading and such transactions must be reported to the Securities and Exchange Commission. Two transactions alone have netted EAI's CEO John Golle at least \$4 million - more than five times the company's net operating income in the only year it did not suffer a loss. The Baltimore Sun (March 6, 1994) reported that Golle sold 100,000 shares in late 1992 at about \$20 a share for a gain of close to \$2 million and 50,000 shares in October 1993 at over \$30 a share for an estimated gain of \$1.5 million. In December 1994, Golle made another \$400,000 off stock options (Finance and Commerce, January 21, 1995). In October 1993, the Tesseract Development Corporation, which manages the two money-losing Tesseract private schools and is half owned by Golle, also sold 50,000 shares for a profit of about \$1.5 million. Even as the Baltimore contract was being canceled in late 1995, Golle once again sold EAI stock for about half a million dollars.

3.2.3 Charter schools

Charter schools are publicly sponsored autonomous schools. They are substantially free of direct administrative control by the government but are held accountable for achieving certain levels of student performance and other specified outcomes. The "charter" establishing each such school is a performance contract detailing the school's mission, program, goals, students served, methods of assessment, and ways to measure success. The length of time for which charters are granted varies, but most are granted for 3-5 years. At the end of the term, the entity granting the charter may renew the school's contract. Charter schools are accountable to their sponsor-- usually a state or local school board-- to produce positive academic results and adhere to the charter contract. The basic concept of charter schools is that they exercise increased autonomy in return for this accountability. They are accountable for both academic results and fiscal practices to several groups: the sponsor that grants them, the parents who choose them, and the public that funds them.

The charter school movement has roots in a number of other reform ideas, from alternative schools, to site-based management, magnet schools, public school choice, privatization, and community-parental empowerment. The term "charter" may have originated in the 1970s when New England educator Ray Budde suggested that small groups of teachers be given contracts or "charters" by their local school boards to explore new approaches. Albert Shanker, former president of the AFT, then publicized the idea, suggesting that local boards could charter an entire school with union and teacher approval. In the late 1980s Philadelphia started a number of schools-within-schools and called them "charters." Some of them were schools of choice. The idea was further refined in Minnesota and based on three basic values: opportunity, choice, and responsibility for results.

In 1991 Minnesota passed the first charter school law, with California following suit in 1992. By 1995, 19 states had signed laws allowing for the creation of charter schools, and by 1999 that number increased to 36 states, Puerto Rico, and the District of Columbia. Charter schools are one of the fastest growing innovations in education policy, enjoying broad bipartisan support from governors, state legislators, and past and present secretaries of education. President Clinton has also supported them, calling in his 1997 State of the Union Address for the creation of 3,000 charter schools by the year 2000 and delivering Remarks for the 1999 Charter Schools National Conference. Since 1994 the federal Department of Education has provided grants to support states' charter school efforts, from \$6 million in fiscal year 1995, to \$100 million in fiscal year 1999.

In general, charter schools increase opportunities for learning and access to quality education for all students. They create choice for parents and students within the public school system, provide a system of accountability for results in public education, and encourage innovative teaching practices. Besides, they can also create new professional opportunities for teachers, encourage community and parent involvement in public education and leverage improved public education broadly.

People establish charter schools for a variety of reasons. The founders generally fall into three groups: grassroots organizations of parents, teachers and community members; entrepreneurs; or existing schools converting to charter status.

3.2.4 Vouchers

The original notion of a voucher system is attributed to Adam Smith who in 1778 argued that parents are in the best position to decide how their children should be educated and that the state should give parents the money to hire suitable teachers. A similar view was put forward some twenty years later by Thomas Paine who suggested that the state should provide poor families with the money needed to secure a basic education for their children. The contemporary development of the voucher is usually attributed to Milton Friedman, of the University of Chicago, who in 1962 argued that such a system would promote free choice and competition and so improve the quality of schooling in America.

Vouchers can be defined as “tuition certificates that are issued by the government and are redeemable at the school of the student's choice”. Or to rephrase it, the voucher is an entitlement which goes to the child's parents to be used to purchase education. As a result, the poor and the powerless will be empowered.

There are many types of vouchers proposals with the same attempt to serve both Choice and equality. Following is a summary of four main schemes with particular exponents.

Friedman (1962) advocated a straight voucher system with every child having an identical entitlement.

Sizer (1968) argued for vouchers for children whose family income fell below a certain average. This is Roger Douglas's scheme: most will pay for their children's education from their own pockets (after income tax is abolished) but the “poor” will be subsidised with vouchers.

Jencks (1827) proposed that all children would receive a voucher sufficient to cover full tuition but in addition schools that enrolled those from disadvantaged backgrounds would receive further income.

Coons (1971) called for four categories of schools in accordance with cost. Parents would be granted access in accordance with the degree of “effort” they expended in relation to their income.

In a voucher system, all schools are funded at the same rate, regardless who owns them, which will transform the education system into a competitive market. Those with money can supplement the voucher out of their own resources, where fees exceeded the value of the voucher and enjoy the education at a private school and their children can escape some of the bad features of some state schools. Parents without financial means can also exercise their choice by using the redeemable vouchers. Realising there is now money to be made from schooling by the combination of state grants and fees, the entrepreneurs get involved and set up schools for profit.

As the flight from public schools accelerated, the quality- or at least the perceived quality- of the students and staff of the public schools generally would further decline, leading to further transfers to the private sector. The government would gradually divest itself of all the schools it owned. So the competition is there between private and public schools for students, the state will gradually divest itself of schooling and “a single market” is created in education.

Some would now argue that, with such a system, the end result would be the demise of public schools and their replacement by private schools operating for profit. To put it another way, there would be a complete privatization of the whole school system. Profit, not educational need, will drive the system.

Such worry is totally groundless and therefore unnecessary. My first response is that why there should be a complete replacement of private schools. Voucher system simply provides a platform for free and fair competition between private and public schools. It doesn't mean that public schools should fail while private should flourish. Such concern

would be the same as admitting that public provision of education is inferior to private provision and will be washed away in the severe competition. If the service of public education is worse or no better than the private one and thus deserted by the consume - parents here, then there is no justification to protect them at the price of the parents, at the price of the nation, since we all admit the educational level is essential to the national development. As for the second concern that profit not educational need will drive the system, the same logic exists in the market economy on other products and services. Is there any businessman who really cares about the consumer' interest? You may answer yes because the ultimate goal of doing business is to make money. But competition forces them to put the consumer's satisfaction/utility level in the first place, the quality of products, services as well. Same logic applies in education industry. The inter-school competition for students, which determines their profits, will pushes them to pay attention to the educational need, and raise the education quality as well.

3.3 Extending access to private education

3.3.4 Private schools for the poor

Under the current public education system, schools in the countryside, or poor schools as a whole have long suffered from plain negligence. There are cases of teachers keeping a school closed for months at a time; a school where the head teacher was drunk, ... a head teacher who comes to school once a week. The tragedy is that this pattern is not confined to a minority of irresponsible teachers – it has become a way of life in the profession. In the earlier part of this paper, I have also given a portrait of the decay of public education in China.

How to solve this problem? India has given us a suggestion. In India, a developing nation, there is a dramatic growth of private schools for the poor. In these private schools, the school fees are of about 20 dollars per year. Besides, the school also offers scholarships for poorest: 15-20% of student places. If India can, why can't we?

3.3.5 Private vouchers

Private vouchers, also known as scholarships, redirect the flow of education funding, channel it directly to individual families rather than to school districts. This allows families to select the public or private schools of their choice and have all or part of the tuition paid. Scholarships are advocated on the grounds that parental choice and competition between public and private schools will improve education for all children. Private vouchers are funded and administered by government, private organizations, or by some combination of both.

Children's Scholarship Fund (CSF) is the most well-known private voucher scheme in the USA, with \$100 million foundation, underwritten by Ted Forstmann and John Walton. It has awarded 40,000 four-year partial scholarships to low-income students to attend private schools. Up till now, CSF has received 1,250,000 applications -- 30 times the number of scholarships available -- from low-income families, all prepared to pay \$1,000 per year.

There are some basic principles for the private voucher scheme.

- I. Vouchers are for half of the private school tuition fee, thus ensuring parents became financial stakeholders in their children's education;
- II. Only low-income families would be eligible, but low-income families who had already made the sacrifice and commitment necessary to get their children into private schools would not be penalised;
- III. Vouchers would be eligible for use at any private school of the parents' choice;
- IV. Low-income families would be granted vouchers on a first-come, first-served basis.

3.3.6 Tax credits and scholarships

A tax credit reduces an individual's (or business's) total tax burden on a dollar for dollar basis. For example, if you owe the state \$1,500 in income tax, but qualify for a \$500 tax credit, you would pay only \$1,000 in taxes. Applied in education, it is a dollar for dollar

reduction in taxes owed for use on schooling, which includes school tuition, textbooks, transport, extracurricular fees. Tax credits constitute a system of funding choice, which allows parents to receive credit against their income tax to subsidize the schooling for their children. Such a system is, by definition, intersectional.

Tax credits have been suggested as an alternative to government-funded scholarship programs. Under education tax credit plans, the credits can be used to defray the cost of tuition and / or other schooling-related expenses. Compared to scholarship programs, tax credits increase the parental choice, control over their children's education, and foster a competitive educational market, thereby encouraging accountability, innovation, and efficiency.

Tax credits can be refundable or non-refundable. Non-refundable credits are only good against your actual tax bill. If, in the previous example, you owed the state only \$400, you could claim only a \$400 tax credit. You could not claim a refund for the additional \$100 difference between the size of the credit and the size of your total state tax burden. Refundable credits, as their name implies, do allow such refunds. Even individuals who paid no taxes could receive a \$500 payment if the aforementioned tax credit was designed to be refundable.

Tax credits practices vary from state to state in the USA. Some are refundable and some not. Arizona allows taxpayers to contribute up to \$500 to a "tuition organization" which gives scholarships for poor people to attend private schools. While in Minnesota, Families with incomes up to \$33,500 can claim a maximum tax credit of \$1,000 per student or \$2,000 per family and the tax credit is refundable. In the State of Iowa, they don't have income ceiling. Tax credit of \$250 on the first \$1,000 of tuition expenses at private school.

Section IV. Implications for China

4.1 Overview of China' Education System

The education system in China is structured such that it parallels the various levels of the current communist government authority, with various degrees of involvement throughout the system. The national Ministry of Education charges virtually all facets of the system. The Ministry of Education (also known as the Education Commission) is the central national authority that holds primary responsibility for formulating the laws that govern the educational establishment and setting policies for fiscal support and government involvement in curriculum. The Ministry coordinates the actions of various levels of government with the intent of integrating the national system, which include the primary years largely executed by local authorities, to the requirements of higher education and education reform managed by national authorities (World Higher Education Database 2000).

Higher education is funded by a combination of government, individual, and employer-based resources. Local governments typically play a more important role in the compulsory and primary education, with central and provincial governments becoming more involved in the management of higher education beyond the first nine years. Funding for the Chinese education system is linked directly to the level of government responsible for execution of those years of education. Local governments supported its primary schools with local finances, and the central resource pool of the national government supported the nationally controlled universities. Often at the lower levels of the education system, local public agencies or “social partners” will sponsor local educational facilities, sharing the costs with the local government. In recent years, local businesses have become social partners, often including a work-study program as part of the local educational system—even in the earlier years. This same concept of cost sharing with the government has been extended to employer-sponsored higher education as discussed below. Even with this increased focus on cost sharing, the national

government's budgetary allocation to the educational fund has increased every year since 1978 (CERNET, p2).

China passed compulsory education laws in 1986, and is phasing in this requirement over time. To meet the compulsory requirement, every child must complete either five years of elementary education, followed by four years of junior middle school, or six years of elementary education, followed by three years of junior middle school. While the Compulsory Education Law calls for each child to have nine years of formal schooling, the law recognizes that immediate implementation is not possible in all areas. The current laws, therefore, include provisions that divide the country into three categories: cities and economically developed areas, towns and villages, and rural undeveloped areas. Each category allows for varying standards to meet the compulsory education requirement. For more developed areas, the nine-year compulsory education standard is commonly achieved. Most estimates conclude that primary education has become universal in areas that capture about 91% of the population. In more rural areas containing anywhere from 10% - 25% of the population, however, the variable timetable for implementation has been tied to the reduced level of economic development in these outlying areas—making compulsory education more a goal than a reality. Education beyond the mandatory period is currently merit based, with the cost shared by the government and private sources (Surowski, 1996).

The Chinese education system is modeled after the Russian education system, and has been a high priority of the Chinese government since the establishment of the People's Republic in 1949. In an attempt to protect the rights of multiple racial, ethnic, and demographic groups within China, a complex system of educational programs has developed over the last 50 years. China's education system currently has four basic components—basic primary education, occupational polytechnic education, common higher education, and adult education.

Basic Education includes pre-school education, six years of primary year education, and three years each of junior and senior middle school. The basic education program

currently extends beyond the compulsory education requirements in China. After initiating compulsory education in 1986, the focus has varied from urban to rural areas—the cities have largely implemented programs that include the junior and middle school level within their programs, while less economically developed areas include the required nine years and typically end at the primary school level. In 1999, China had 582,000 primary schools nationwide, and enrolled roughly 135.5 million students. In this year, enrollment of school-age children was estimated at 99%, with an average retention rate of 92% (CERNET, p3). In the same year, there were significantly fewer middle schools, estimated at 64,400 throughout the country.

Occupational and Polytechnic Education mainly includes some levels of professional schools, and low technical schools, as well as short-term technical vocational training. Due in part to the rapid economic growth in China of the last 20 years, this sector of the educational system has grown rapidly. Polytechnic / occupational schools expanded to 33,464 and enrolled 18 million students nation-wide in 1997, and additionally offered 2,100 pre-employment training centers for short term technical vocational training that currently train about 1 million students every year (CERNET, p4).

Higher education in China is an important focus for the country going forward. In 1995, about 30% of the student population in junior and senior middle schools throughout China selected an academic curriculum, with the remainder focused on vocational studies and coursework. Those students who pursue the academic track in the Chinese system will take the National College Entrance Examination to compete for a place at numerous universities and other higher education alternatives. In earlier years almost all of these students attended the universities on scholarship or grant, most having multiple options to pursue higher education. In recent years, however, the government has shifted to a more sustainable model that expands access to higher education beyond the number that the government could finance on a complete basis. The vast majority of higher education students now share at least some portion of the expense, which has been one factor in the increasing popularity of less expensive, but otherwise equivalent, distance education programs. Since the student uprising in 1989, all students have been required to have one

full year of political education prior to attending college in the hope that greater knowledge of Chinese “politics” can be a proactive approach to avoid similar issues in the future (Hodes 1995).

As discussed above, prior to 1985 virtually all students were completely subsidized by the Chinese government, and the idea of students even partially paying for higher education is relatively new. Since 1985, China has moved slowly to a system where only the top students receive a government scholarship, and the rest pay their own way. Those who do attend college at the government’s expense owe 6 years of government service after they graduate and cannot change their major once enrolled. The Chinese scholarship system is based on merit, and includes evaluations of physical and “moral” fitness of each applicant. Today, almost all Chinese students pay for some portion of their higher education. Interestingly, the government uses a market based solution to help curb demand for popular courses and majors by increasing tuition costs for these courses and programs, helping to influence students’ preferences through a government controlled pricing mechanism (Hodes 1995). A student loan program has also become part of a more open Chinese education system, but usually includes initially borrowing from family and friends prior to taking out institutional loans.

Enrollment in higher education more than doubled in the newer and more open system that features less government sponsorship and more distance education - from 1978-1987 Chinese college enrollments grew from roughly 842,000 to over 2 million students. During this period, higher education reforms included the growing popularity of work-sponsored education that coupled practical application of theoretical concepts learned in the classroom, to daily challenges within the workplace experienced by the student’s employer-sponsor—often including thesis work on a particularly vexing problem for the employer at the conclusion of the student’s degree program (Hodes 1995).

The last component of the Chinese education system is adult education. This category of the Chinese system overlaps all of the previous categories. Adult education exists within all levels of education in China, including the primary level with Workers’ Primary Schools, Peasants’ Primary Schools, and Literacy classes. It extends to adult secondary

education, both radio and TV specialized technical schools, and specialized schools for staff and workers, peasants, and in-service teachers. Adult education also extends to continuing education in other occupations, with both long and short-term instruction for adults through workers colleges, peasant colleges, correspondence courses, and educational colleges. Ranging from literacy to technical training for adults, the adult education segment of the Chinese education system is the most varied and comprehensive component of the national education plan.

4.2 Reform Undergoing & Problems Ahead

Over the past two decades, piecemeal reform has been undergoing in China's education industry. Central budgeting in education has been transformed to a share-budgeting between the central and local governments. Private schools are no longer new things to the Chinese people. The overall education has been greatly improved statistically, with striking disparity between urban and rural areas hidden under falsification. The current public education system is still confronted with a lot of problems.

4.2.1 Under-financing

With limited resources and a pressing list of priorities, education in general, and schooling in particular, has long suffered from financial constraints. Though the central budget for education has been increasing, the spending on primary and secondary schooling has seen a decrease, with the government's emphasis shift to tertiary education.

4.2.2 Tuition beyond affordability

A survey was conducted in Beijing, Shanghai and Guangzhou⁴, on the education expenditure. 54.3 per cent of the correspondents thought that the education expenditure was increasing too fast; 26.6 per cent took a moderate view. 13.1 per cent thought it as acceptable. It shows that education expense has been a heavy burden to and thus beyond the affordability of the majority of Chinese people, taking into account that rural income level is far lower than that of the major cities. This status is harmful to the overall

economic situation as well, since education expense accounts for a big proportion of the total consumption with will inevitably undermine the real time consumption.

4.2.3 Unstable teaching force

Private schools increase their attractiveness to teachers by providing better working and living conditions and higher salaries. Still there are some barriers in the way to the further development of private education. Due to the residency laws, migrant children are either barred from local schools or kept out by the high fees levied on them. The future employment of their spouses is also a headache when teachers want to have a shift from a public to a private school.

Besides, the lack of legislation for and social recognition of private education is still limited. It is high time to introduce a piece of legislation to pull private education to the right track of development.

4.3 Remedies

Decentralization or privatization is the only cure to China's education. Government will gradually phase out and meanwhile private involvement will increase as the privatizing process goes on. By this, I am not saying to leave everything to the market. Government surely has a role to play in the whole process, say, in legislation, financial support, supervision and regulation, etc. In this part, I am going to devote a few words on some policy recommendations.

4.3.1 Governance Reform – return management to schools

The current governance system follows the pattern of central planning, under which schools lack the initiative to forge improvements. As a remedy, the decision-making should be transferred to the school level.

School-based Management (hereinafter referred as SBM) is a popular term to describe this transfer. It is a form of decentralization that identifies the individual school as the

⁴ Three major cities in China.

primary unit of improvement and relies on the redistribution of decision-making authority to the school level as the primary means throughout which improvements might be stimulated and sustained.

Local management is more economically effective, because actors who have the most to gain or lose and who have the best information about what actually goes on in schools are best able to make appropriate decisions about how schools should use ever more scarce resources and how students should be taught.

School professionals have the experience and expertise to make the most appropriate educational decisions for the school and students. Professionals will also be able to contribute their educational knowledge related to curriculum, pedagogy, learning and school management processes. In addition, professionals who are involved in the management of their schools may also become more motivated and committed to their teaching.

School management tasks are set according to the characteristics and needs of the school itself and therefore school members (including board of directors, supervisors, principals, teachers, parents and students, etc.) have a much greater autonomy and responsibility for the use of resources to solve problems and carry out effective education activities, for the long-term development of the school.

Administrative efficiency is another merit of school-based management. The rationale underlining is that the school is in the best position to allocate resources effectively to match students' needs. The decrease in the size of the central bureaucracies will lead to greater administrative efficiency⁵ as the functions are decentralized. However, for the overall efficiency and accountability, it is essential to establish arms-length agencies that support monitoring, evaluation and accountability functions to ensure the adequate provision.

⁵ The downsizing of the central administrative or bureaucratic structure creates human resource and capital efficiencies.

4.3.2 Financing Reform – multiply financing sources

Under-financing is the major problem confronted by almost all public schools in China. Continually rising costs, coupled with constraints on revenues, leave many school districts with few options other than to cut back expenditures on classes, teachers, teachers' salaries, and infrastructure; or to raise money through additional taxes.

Gradual approach should be employed to multiply the financing sources in the current socio-economic context. One stop privatization of education is neither politically acceptable nor feasible in practice.

Public-private partnerships are viable options to solve the problem. They will alleviate some of the pressures on school districts, central and local budgets, enabling them to continue to provide vital services and infrastructure.

Through contracting out, schools will be operated by a variety of public and private organizations based on school-specific contracts, channeling private funding to the operation of the school. This arrangement effectively stretches education dollars by reducing spending on school system bureaucracies and directing all the money to the school level. Contract schools would receive funds on a per-student basis, and competition would force them to focus spending on instruction and student services. Schools might have different spending priorities: Some might spend all their money on teachers' salaries and instructional equipment, while others might use parts of their funding to support athletic teams or improved facilities. However, none could afford to short-change instruction, because continuation of their contracts would depend on how much their students learn.

The role of school boards would be transformed. No longer would they be responsible for managing the day-to-day operation of schools--those tasks would be taken over by the contractors. Instead, the school board's job would be to evaluate proposals, let and

manage contracts, and ensure that contractors deliver on their promises. Contracting would also require changes in the roles of central and local government--ranging from the ways schools are financed and teachers are credentialed to state and national testing systems.

Vouchers can give impetus to the expansion private education, but cannot root out the financing problem, because the money to fund vouchers often comes either from central or local budget. But vouchers still have the role to play in vast rural areas of China. Under the principle of “dollar follows students”, vouchers will enhance the competition between public and private schools for the enrollment by providing better educational services, thus pushing up the overall education level. Without vouchers, or subsidy schemes equivalently, the imbalanced private provision of education would further increase the gap between the rich and the poor.

4.3.3 Government’s role to play

Actually, government’s role has been described in the above context, I hereby thin it out for emphasis. When school systems are decentralized and school-based management system is established, there is an increased possibility of increased resource disparities between schools. It is essential for central governments to ensure that resources are equalized across different income levels and that opportunities for equal access are created. Most OECD countries have accessible and reliable data to assist governments in identifying schools and communities in need and targeting resources appropriately. This is not the case in China. We do not have readily available and reliable formal information about school performance.

Even within these constraints, it is essential to for the governments – central and local – to 1) strengthen legislation in private provision of education; 2) acknowledge the need for compensatory schemes, such as vouchers; 3) provide monitoring, evaluation, regulation functions; and 4) establish and design the implementation framework of educational reforms.

Conclusion

Any system for distributing education must involve a large measure of overall planning, overall quality control, and a large amount of co-operation, between “provider” and “client” and between different providers. Competition and co-operation are the virtues here.

Studies that have been cited and the future studies, which may give us more insight, will not really answer the basic policy questions. These remain in the realm of social and political values. In this matter, uncritical support of the public system and enthusiastic commitment to the private school are equally unhelpful.

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