Competition and choice in education

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Motivation

• Education comprises a large proportion of GDP and government spending.

• Yet the scope for competition and choice in this sector is often limited or deliberately restricted.

• Can we use choice and competition to improve outcomes in education?
The overall question:

To what extent can we harness the forces of competition to deliver greater efficiency and better outcomes for consumers and users of education, while preserving (or better promoting) the underlying public policy objectives in the sectors?
Introductory comments

• This is not an ideological exercise but an assessment of whether there is scope for better outcomes while not sacrificing key policy objectives.

• The focus is not on contracting out or competitive tendering – rather on choice and competition “in the market”.

• There is a large literature on these issues, including work by the OECD which we can draw on...
Methodology

For this sector we follow a three-step approach

1. What is the underlying rationale for government action?
2. What are the barriers to effective choice and competition?
3. What might a framework of effective choice and competition look like?
Education is heavily government subsidised.

The manner in which those subsidies are paid strongly affects the scope for choice and competition.

If the subsidy is paid as a “fixed price”, this is compatible with choice and competition, but may give rise to problems, such as **cream-skimming**.

**Pros**: Strong incentives for suppliers to compete to best meet the needs of the customers

**Cons**: Suppliers have a strong incentive to identify and refuse to serve some higher-cost customers...
Education: The rationale for intervention?

There are many rationales for public provision of education, such as:

- Productivity externalities
- Citizenship (democracy) benefits
- Credit market failures

In our view, the primary rationale for government subsidization of education is to ensure that a functional level of education is available to all citizens regardless of family background.

- An equality-of-opportunity argument

Stiglitz (Nobel prizewinner): “There is a widespread believe that the life chances of a child should not depend on the wealth of his parents or the happenstance of the community in which his parents live”
Education: The scope for competition

• There is scope for competition between rival schools especially in larger urban areas.
  • Some assistance with transportation may be required.
  • Competition may not be feasible in rural areas, or for specialist schools.

• Some parents may not be willing or able to make effective choice and may require assistance.

• Schools must have the freedom to compete and must be free to enter and exit the market.
Education: Pro-competition reforms?

• We must not ration access to education on the basis of ability to pay.
  • No “topping up” allowed?

• The setting of the fixed fee or payment is very important to prevent schools competing vigorously for the low cost-to-serve students while rejecting higher-cost students.
  • “Cream-skimming” must be prevented.

Will Bartlett (1993)

• The pressures from marketisation have lead to schools…
• Cream-skimming – selecting higher ability students who gain the best results and cost less to teach.
• Silt-shifting – offloading students with learning difficulties who are expensive and get poor results.
Choice and competition in education

• Many countries have experience with competition in the education sector.

• This experience has been surveyed, e.g., in works by Julian Le Grand and by the OECD.

Is it possible to design a system which encourages choice and competition, promoting efficiency and effectiveness in education, and greater responsiveness to customers’ needs without increasing stratification or segregation in the school system? We remain hopeful!
Conclusion

• It is important to ensure that education is delivered as efficiently as possible, consistent with government objectives.

• Choice and competition may have a role to play in enhancing incentives.

• Pro-competitive reforms have to be done in a way which does not undermine the underlying social problem.

• With appropriate safeguards there is some scope for pro-competitive reform in education.

• Careful attention must be paid to ensuring customers are willing and able to make an effective choice, and that effective competition can be sustained.