

**AUSTRALIAN COUNCIL FOR THE DEFENCE OF GOVERNMENT
SCHOOLS
PRESS RELEASE 819**

The Real Cost of Private Education

By

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In Episode 10 of the second series of Ahn Do's 'Brush with Fame', he painted and interviewed the wonderful plastic surgeon Fiona Wood. When talking about her early life, Ahn pointed out that Woods' mother had enrolled her in a private school, because she said she wanted her to have the, "best education possible."

It was a throw away line, almost a cliché these days: the 'best education possible'. You hear it so often that many people accept that it must be true. Do's choice of words probably had something to do with the school his mother sent him to (via a scholarship), St Aloysius College, a wealthy Catholic school in the prestigious Sydney suburb of Kirribilli.

Those words may not have meant much to Ahn (or to Fiona for that matter) but they did to me. You see, according to Ahn, I didn't get the 'best education possible' because I went to a public school, and neither did my kids, and neither will my grandchildren.

I'm certain that neither Ahn Do nor Fiona Wood had any desire to belittle me or my kids, and I am equally certain that neither would want to see any child disadvantaged as a result of their personal views. Nor do I think that the various religions that operate private schools have any desire to harm students in public schools but the truth is, they are.

Public school students are the inadvertent victims of the subsidisation of private schools.

More and more people are perceiving that the only way to get the 'best education possible' is to send their kids to a private school, and that can mean only one thing, that the government is failing to provide public schools with the resources they need to give their students the 'best education possible'. In short, there is something wrong with the system.

But Private Schools Save Money, Don't They?

Many people think that, because private school parents foot some (or even much) of the bill for educating their children, they must be saving the government a lot of money. But is this so? Prior to 1973, the Commonwealth spent very little on primary and secondary education and prior to the 1960s they spent virtually nothing. But in 2019-20, "... funding for schools

will reach \$19.9 billion ... with average Commonwealth funding per student having increased from \$3,755 in 2014 to \$5,097..."

The vast majority of those funds go to private schools.¹ In 2014-15, 63.8% of Commonwealth education funding went to private schools, while only 36.2% went to public schools², a situation which has become even more lop-sided after subsequent budgets.

The subsidisation of private schools since the 1960s represents a significant addition to Commonwealth expenditures but, more importantly, it is contributing to a gap between the amount that is spent to educate a public school student and that being

spent on their private school peers. It does this in two ways. Firstly, Commonwealth subsidisation provides the cream on the cake for many private schools and, secondly, subsidisation contributes to growth of the private education in general, which spends more per child than the public system. When funding from fees is included, this gap becomes a chasm.

This subsidisation has had a two-pronged effect on Australian taxpayers. The first is the direct cost to taxpayers of subsidising private education and the second are the fees that many parents now feel obliged to pay in order to access the 'best education possible'. Ironically, while the push to privatise education is part of a global movement for 'smaller government' and 'lower taxes', any potential savings in taxes are more than offset by the extra fees that parents have to pay.

Moreover, if the intention of privatised education was to improve education overall, the decline in educational standards since subsidies were introduced indicates that it has been an abject failure. By diverting funding from public schools, at a time when they need more support than ever, it has restricted access to much-needed support by troubled and disadvantaged students.

It has even been suggested that the current State-Commonwealth funding arrangements make it in the best interests of state governments to neglect public education, because state coffers benefit as more parents send their children to private schools. Every time a child moves from a public school to a private one, the state government pays a little less towards their education and the Commonwealth government is forced to pay a little more. So, in effect, running down public schools becomes a budget saving measure for state treasurers.

But the subsidisation of private education has had an even more insidious effect. Funds that should be going to support students in public schools are being diverted into religious institutions. This occurs in two ways. While money that has been earmarked for education cannot be used to promote religion, the public subsidisation of religious schools saves churches having to pay the entire cost of operating schools, which releases funds for other purposes. The second way that churches benefit is via the real estate they acquire for the purposes of education. In many cases, these assets are acquired via (state-based) subsidised loans or, if not, they are financed as part of the cost of providing education. But in either case, the assets become the sole property of the institutions concerned, which can then sell them off at a later date.

However, the subsidisation of private education creates some other, less obvious, costs as well - costs that society will have to pay for in the years to come.

Inefficiency

The first of these costs is reduced economic efficiency: that is, using more resources than necessary to achieve a certain outcome. The privatisation of education is based on the philosophy that privatisation results in greater efficiency however, this is not always the case.

Three of the hallmarks of capitalism are oversupply, redundancy and waste, which are anything but efficient ways to use resources. Moreover, the growth of subsidies for private schools, in the name of greater freedom of choice, is forcing many parents to pay for what was once a free service. This is inefficient by any measure.

The Cost of Excess Capacity, Redundancy, Under-capacity and Underutilisation

A major cost of funding private schools is the opportunity cost of creating a dual system of education, which results in excess capacity and redundancy. The resources that have gone into creating this dual system could have been put to better use elsewhere.

While some excess capacity is necessary to cater for unforeseen demand, too much is a waste of resources. In education, overcapacity means that some schools have too many unused rooms, while redundancy means having more schools, buildings, rooms, desks and staff than are actually required. But while an education system needs some spare capacity to cater for unexpected enrolments, the problem is amplified in a dual, public-private system. A single, public system has more ability to plan for an efficient distribution of schools, and thereby avoid unnecessary redundancy, overcapacity and overcrowding. Economies of scale and various operational advantages mean that it is easier to maximise efficiency in a single, public system than in a dual public-private system.

By definition, the private system is uncoordinated. Private schools are free to build new schools, of any capacity, in any locations they like. Therefore, redundancy will always be greater in both a mixed public-private system and in a fully-privatised system. Not only that, but a free, public education would relieve many parents of the burden of paying private school fees, an opportunity cost that is often overlooked. It would have the same economic impact as a massive tax cut, the savings from which could be redirected towards other, more productive, or beneficial, pursuits. As long as overall standards can be maintained, a society can only benefit from increasing the efficiency of spending on education. Because all citizens need education equally, they should all have access to the ‘best education possible’ which means that all schools should be of equal calibre.

The External Costs of Privatised Education?

Costs such as labour, energy and marketing are called ‘internal’ costs, however industries and business can also create ‘external’ costs that have to be borne by individuals or groups outside the industry or business that creates them. For example, lung cancer is an external cost of smoking. It is created by the tobacco industry but it is borne by individuals and society.

The External Cost of Social Disadvantage

The external costs associated with not providing universal access to the ‘best education possible’ are well documented. They include: disenchantment with learning, low self esteem, depression, low workplace productivity, increased reliance on welfare services and, in the worst cases, higher crime rates and social degradation.

When combined, these subtract significantly from the benefits that freedom of choice is supposed to provide. Those who attend the wealthiest private schools will suffer from social degradation along with everybody else. A student may be isolated from social disadvantage while at an exclusive private school but they cannot be removed from a society that is ridden with the consequences of educational disadvantage. A tragic example of this was the death of Thomas Kelly in 2001. He was a student from a wealthy family who attended the prestigious Kings School in Sydney, but was killed in a cowardly, one-punch attack in King’s

Cross. His death highlights the greatest, single cost of underfunding public education: the potential to create an underclass that will undermine social stability.

The External Cost of Demoralisation

Between the fees they charge and the generous public funding they receive, wealthy private schools can provide superior facilities and resources to those available in most public schools: including swimming pools, theatres, country retreats and dedicated sports grounds. This allows wealthy private schools to claim superior resources however, even the poorest private school, can claim exclusivity because the fees they charge exclude those who cannot afford them.

Claims of superiority and exclusivity are essential for the marketing private schools. If not, “nobody in their right mind³,” would pay to send their child to one. The mere perception of superiority can create a psychological effect known as ‘priming’: an advantage, or disadvantage, created by giving someone the impression (either implicitly or explicitly, intentionally or inadvertently) that they are favoured or disfavoured. Telling a student that they are receiving a superior education will prime them to perform better.

However if private school students gain the impression that they are advantaged, privileged, or even superior, to their public school counterparts, it creates an unintended side-effect. Public school students are given the antithetical impression. They gain the impression that they are inferior, which may prime them to underperform. This is a very real cost to society.

In other words, the very existence of private schools may degrade the self-esteem, and the progress of public school students, which must also have a demoralising effect on their teachers. The effect of this on education generally and, ultimately, the nation’s productivity cannot be underestimated.

The External Cost of Poor Mental Health

Another cost of underfunding public schools is the consequence of not providing adequate support to students with physical, social, behavioral, emotional or mental problems. Public schools are expected to do much of the heavy lifting of juvenile ‘social work’ and mental health support in society, but their budgets are barely adequate to educate. While there is some funding available to deal with these issues (and some wonderful work is being done), it is nowhere near enough to deal with them adequately. This is a lost opportunity.

According to Nobel prize-winning Economist James Heckman, the best time (and the most cost-effective way) to deal with physical, social, behavioral, emotional and mental problems is as early as possible. Every adult who suffers from mental illness was once a student in a classroom, who probably caused concerns for their teacher. Underfunding mental support in public schools means that many such concerns go unheeded, a cost that society will have to pay in the future, as more children with treatable problem become adults with major, unresolved issues.

The Loss of Political Will to Support Public Education

There is another, largely unrecognised, external cost of the subsidisation of private schools: the loss of political will to make public schools the ‘best schools possible’.

For one thing, many politicians are products of the private system and, if not, most send their children or grand children to private schools. The result is a network within our parliaments that has a vested interest in subsidising private education. I often wonder how much better off public schools would be if public schools were compulsory for all parliamentarians.

On the other side of the debate, the parents of public school students are far less likely and able to lobby on behalf of public education. Not only do they lack the skills, resources and time to do so but many simply assume that their politicians are looking after their interests, rather than their own.

The default solution for many citizens (and politicians) who are not satisfied with public education is not to improve the public system, but to 'escape' it. Subsidisation allows some parents (including many politicians) to do just this and these people no longer have a vested interest in improving the public system.

While this may make some parents happy, we must also consider the effect it has on the parents of the children who remain in public schools. The public system is left facing a 'Catch 22': a higher proportion of disadvantaged students (who need a higher proportion of funding and support) but with proportionally less funding to support them.

This leaves our public schools having to carry out more work with less money, and little political will to improve the situation, which leaves students, parents and teachers feeling vulnerable and powerless.

The External Cost of Lost Talent and Opportunity

If private education is indeed superior to public education, it means that there is a massive pool of talent that is waiting to be tapped. This pool is a valuable resource that is being underutilised, akin to leaving a rich seam of gold in the ground. The simplest way to use this resource is to tap into it to ensure that all students get the 'best education possible'.

This means diverting more funds in to public schools where the Law of Diminishing Marginal Returns assures us that they will do the most good. The potential benefit of tapping into this resource is enormous. A society can only benefit from making the, 'best education possible' available to all citizens.

The Cost of Allocative Inefficiency and the Law of Diminishing Marginal Utility

Whenever a dollar of public money could achieve more benefit in one school than another, it should be used there. The economic principle of diminishing marginal returns states that allocating more resources to an activity will eventually result in diminishing benefits. In education, this means that allocating funds to students who already have the greatest advantage will create less benefit than allocating them to students who are disadvantaged.

But while students from low, socio-economic backgrounds will benefit more from a dollar of funding than those from wealthy backgrounds, our current system of funding does just the opposite. By allocating billions of dollars in subsidies per year, to students who are already advantaged, the students who really need the funds are left

even more disadvantaged. Simply put, every public dollar spent in a moderately wealthy private school is doing less good than it could do in a public school and society has to bear the cost of this lost potential.

The fees required to enrol in private schools, denies access to them by the majority of Australian students and, as a result, they cannot access the highest levels of 'per-capita' in the country and therefore cannot receive the 'best education possible'.

Conclusion

When Ahn Do implied that the only way to get the 'best education possible' was at a private school, I'm sure he didn't mean to imply that some students did

not deserve the 'best education possible' but, in effect, that is exactly what happens.

If private schools are to continue to be subsidised, it must be in a way that does not disadvantage public school students, and that is for public schools to receive the same amount of funding, per-capita, as moderately wealthy private schools... PLUS a 10% loading to cater for the extra disadvantaged students they have to deal with.

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ⁱ Tom Orren is a retired public school teacher who wants to see public education receive the funding it deserves.