



What Americans Can Learn from School Choice in Other Countries

## **School Choice: Lessons from New Zealand**

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## **SCHOOL CHOICE: LESSONS FROM NEW ZEALAND**

### **Introduction**

Thank you for the opportunity to address this Cato Institute conference *What Americans Can Learn from School Choice in Other Countries*.

My name is Norman LaRocque and I am a policy advisor with the New Zealand Business Roundtable ([www.nzbr.org.nz](http://www.nzbr.org.nz)) and an Advisor to the Education Forum ([www.educationforum.org.nz](http://www.educationforum.org.nz)). The Education Forum is an education policy advocacy group located in Wellington, New Zealand.

Today, I will outline for you what I believe are the important lessons that have come out of the New Zealand experience with school choice. While the focus of the discussion will be on New Zealand's experience with school choice, I will also make some references to worldwide trends in the area.

New Zealand has been a topic of much discussion in educational policy circles since the introduction of the *Tomorrow's Schools* reforms in the late 1980s/early 1990s. The only New Zealand based work was the Smithfield studies, which were conducted during the mid 1990s. Recent years have seen renewed interest in the topic, with a number of books and articles written about the reforms, including *When Schools Compete: A Cautionary Tale* by Edward Fiske and Helen Ladd, a September 2003 *Journal of Economic Literature* article entitled *The Marketization of New Zealand Schools: Assessing Fiske and Ladd*, by Alan Woodfield and Philip Gunby and more recently, the February 2004 Education Forum book entitled *Education Matters: Government, Markets and New Zealand Schools* by Mark Harrison.

I don't intend to address all of the issues raised by those authors or to discuss many of the detailed technical points raised in their books. Such an exercise would take far more time than is available. Instead, my focus will be on extracting what I believe are some of the broader policy lessons that can be drawn from the New Zealand school reform process.

## School Choice in New Zealand

### *A Recent History*

Let me begin by providing a brief overview of New Zealand's experience with school choice, with a focus on the period since the mid-1980s. The *Tomorrow's Schools* reforms ushered in a new era of self-managing schools and increased choice and competition in schooling through changes to school zoning laws and the creation of new avenues for establishing schools.

It is important, however, to emphasise that the *Tomorrow's Schools* reforms are only part of the recent New Zealand school choice story. Subsequent reforms, including the abolition of school zoning laws in 1991, successive changes to government funding of independent schools and the introduction of the Targeted Individual Entitlement (TIE) scheme in 1996 (a small scale voucher scheme targeted at poor families), are an important part of the school choice canvas.

In addition, earlier policy reforms, such as the introduction of the *Private Schools Conditional Integration Act 1975* (which 'integrated' a number of private schools into the state system) and government funding of independent schools, especially from 1970 onward, are also important.

As the paper shows (see Table 1), there have been some significant swings in regulatory and funding policies that have affected the degree of choice available in schooling in New Zealand. School choice policies have had more ups and downs than Disneyland's *Thunder Mountain* rollercoaster. In the case of private school funding, subsidies were increased in the mid-1970s, abolished in the mid-1980s, reintroduced in the early 1990s and capped in 2000. The school zoning story is somewhat different. Although school zoning was abolished in the early 1990s, it has since been gradually re-imposed by successive governments.

Policy support for school choice in New Zealand reached its peak in the mid to late 1990s when private school subsidies were increased and before a mild form of school zoning was re-introduced. Since then, it has all been

downhill, with the progressive tightening of zoning, the capping of independent school subsidies and the abolition of the TIE scheme.

Table 1: School Choice Policies in New Zealand: A Chronology

Year	Description
Pre-1970	Small subsidy provided to independent schools in the form of goods and services and some operational expenses. Subsidy amount varied over time
1970	Independent schools became eligible for a subsidy equal to 20% of teachers' salaries
1975	<i>Private Schools Conditional Integration Act 1975</i> passed. It allowed private schools to 'integrate' into state system. Integrated schools receive higher funding and face more regulation than independent schools (but less than full state schools) Teachers' salary subsidy increased to 50% for independent schools
1985	Private school subsidies gradually reduced to zero by 1990
1989	Tomorrow's Schools reforms introduced self-governing schools and amended school zoning laws. Under the new law, students could attend any school, but students had right to attend their local school
1991	School zoning abolished. Under the new law, students could attend any school and there was no right to attend the local school. Schools were responsible for determining enrolment schemes to limit enrolments in cases where school was at capacity Teacher salary subsidy for independent schools re-introduced (20%)
1996	New formula for calculating subsidy to independent schools introduced. Provided subsidy to independent schools equal to 25% of state school costs. Targeted Individual Entitlement (TIE) scheme introduced. It provided a small number of vouchers for low-income children to attend private schools
1997	Alternative Education program introduced
1998	School zoning rules amended. Under the new law, students could still attend any school, still no right to attend the local school and enrolment schemes continued to be developed by schools. However, enrolment schemes now had to be approved by the Secretary for Education and must have ensured that students could attend a 'reasonably convenient' school Independent school subsidy reached 25% for students in years 1-10 and 40% for upper secondary students
1998	Ministry of Education begins review of the policy and regulatory framework for schools
1999	Independent school subsidy increased from 25% to 30% for year 1-10 students
2000	School zoning rules amended. All discretion removed from schools in setting criteria for enrolment schemes. Right to attend local school re-introduced Independent school subsidies capped at 2000 levels (approximately \$40 million) TIE scheme abolished Review of regulatory framework for schools cancelled

### ***School Choice Today***

Before discussing some of the lessons from New Zealand's experience, it is useful to provide a brief description of the regulatory framework for New Zealand schools (see summary in Table 2).

Today, the New Zealand school system is largely 'public' in nature. Around 86 percent of schools are 'full' state schools that are both publicly owned

and publicly funded. These are governed by parent-run boards. They cannot charge fees but can and do seek donations from parents. These are typically quite low relative to private school fees.

Within the public system, there is some degree of school choice. Although school zoning laws have changed since the mid-1990s, they remain less restrictive than those in the United States. This is because students are not required to attend the local school for which they are zoned. Rather, students may attend out of zone schools if those schools have the capacity to accept them. For most of New Zealand, zoning is not an issue. However, in 2002, more than 40 percent of schools in Auckland (representing a larger proportion of enrolments) had enrolment schemes.

Integrated schools, which represent around 10 percent of enrolments in New Zealand, also provide a degree of choice within the public sector. These are ex private (largely Catholic) schools that have been brought into the state school system. They receive almost the same subsidies as state schools and face different regulation than state schools (and more than independent schools). They can charge attendance dues, which are intended to cover capital financing costs. Attendance dues are typically quite low, although there are some exceptions.

Integrated schools are not subject to geographical zoning restrictions, but they do face restrictions on the proportion of 'non-preference' (ie non-Catholic) students who can enrol. As a result, Catholic schools may have lengthy waiting lists even though the school itself may not be full. They are also subject to the national teachers' contract and the must follow the national curriculum.

There is also some further diversity introduced into the public system through the creation of Kura Kaupapa Maori schools and designated character schools. There are, however, only a relatively small number of such schools.

New Zealand has a very small independent school sector. In 2002, only around 4 percent of enrolments were in independent schools (although enrolments have been growing in recent years). Independent schools are

privately owned and largely privately funded, but do receive government subsidies (equal to between 25 and 35 percent of the per-student cost of provision at state schools). They are the least regulated of all schools as they can charge whatever fees the market will bear, are not part of the national teachers' contract and do not need to follow the national curriculum (though most do).

Table 2: Key Features of the Regulatory Framework for New Zealand Schools

	State Schools	Integrated Schools	Independent Schools
Size of sector	86% of enrolments	10% of enrolments	4% of enrolments
Private financing	Donations	Attendance dues and donations	Fees and donations
Government funding	'Fully' subsidised. Funding covers: <ul style="list-style-type: none"> <li>• teacher salaries</li> <li>• operating costs</li> <li>• capital works</li> </ul>	'Fully' subsidised. Funding covers: <ul style="list-style-type: none"> <li>• teacher salaries</li> <li>• operating costs</li> </ul>	Subsidy equal to 25-35% of cost of state school provision. Proportion is reducing. Paid as a per-student subsidy
Equity funding for poor students?	Yes	Yes	No
Geographical zoning?	Yes, but only when the school is at maximum enrolment	No	No
Other enrolment restrictions?	Maximum school roll	Restrictions on non-preference students	No
Subject to National Curriculum?	Yes	Yes	No
Subject to national teacher contract?	Yes	Yes	No
Subject to teacher registration requirements?	Yes	Yes	Yes

## Lessons from New Zealand

New Zealand is often held up – by both proponents and opponents of school choice – as an example of the large scale introduction of market competition in education which is said to hold many lessons for other countries, thinking of pursuing a similar path. On the one hand, proponents argue that New Zealand's market reforms have led to improved educational performance and lower costs, while opponents argue that it has led to a running down of the school system and increased segregation between the rich and poor.

If I can make one enduring contribution to the discussion here today, it is that we should be careful about making such claims either way. The New Zealand reform experience is neither a ringing endorsement of market competition, nor is it a 'cautionary tale' for countries considering vouchers. I believe the *Tomorrow's Schools* and subsequent reforms did a number of things right and were a significant advance on the centralised system that existed until the late 1980s. In the words of Mark Harrison:

The reforms introduced competition between government schools, increased parental voice, gave many parents (particularly the poor) increased choice and gave schools more autonomy. Substantial numbers of parents gained from being able to move their children to good schools ...<sup>1</sup>

New Zealand families have shown there is a clear demand for school choice in New Zealand. For example:

- Catholic and other integrated schools are expanding, new ones have been built, and many have waiting lists;
- independent school rolls are expanding rapidly;
- the TIE scheme was seen as highly successful by parents and students and was over-subscribed; and
- Maori and Pacific Island families made the greatest use of choice when zoning was removed. In 1990, only 21 percent of Maori and 18 percent of Pacific Island families attended 'non-local' schools. By 1995, these figures had increased to 39 percent and 38 percent respectively for Maori and Pacific Island families.

Not only did choice increase following the market reforms of the 1990s, but research carried out by opponents of school choice showed that income segregation in state schools *fell* when zoning was abolished in the early 1990s. The reforms have also provided considerable scope for the Ministry of Education to enter into innovative educational partnerships with local iwi (Maori tribes).

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<sup>1</sup> Harrison, Mark (2004) *Education Matters: Government, Markets and New Zealand Schools*, Education Forum, p 233.

The creation of the Education Review Office (ERO), whose role was to undertake (and report on) regular reviews of school performance, was a useful complement to the introduction of school choice. Despite lacking some of the tools needed to properly carry out its task – such as nationally benchmarked assessment data – the ERO nonetheless played an important role in highlighting widespread failure in areas such as South Auckland, the Far North and the East Coast – all areas with high concentrations of Maori and/or Pacific Island families.

The ability of parents to vote with their feet and the work of the ERO were instrumental in bringing to light educational under-performance that had heretofore remained hidden and played a key role in motivating action to address this under-performance. One ERO report noted that “Schooling in Mangere and Otara [South Auckland] has long been a cause for concern”, yet decisive measures to address this underperformance were not taken until the mid 1990s – after choice was introduced and large numbers of parents were moving their kids out of failing schools.

Little data are available on educational performance (there is no system of national testing in New Zealand). As a result, it is unclear what impact they had on student performance – either in aggregate or for those at the bottom end of the performance scale.

To summarise – there were many positives to the New Zealand school reforms. This assessment contrasts with the often gloomy assessments dished out by opponents of the reforms.

At the same time, the New Zealand reforms were – at best – only a partial reform. While New Zealand gave parents choice by removing zoning, it did little to create the conditions under which market competition could work. As a result, it provides few lessons on the desirability of choice, but many on how to do it better. For example:

- New Zealand never had a voucher system *per se*. The state continued to fund inputs such as property, teacher salaries, operating costs, etc rather than funding outputs;

- the accountability measures included in the *Tomorrow's Schools* reforms had only limited effect. In that sense, they differ from Charter Schools;
- 'real' choice was limited to state-owned schools because private schools received a much lower subsidy level than state schools. This provided little incentive for private schools to enter the market or expand;
- teacher pay and conditions continued to be set centrally through negotiations between the Ministry of Education and teacher unions;
- legislative restrictions limited the degree to which schools could be restructured, merged or taken over by other schools;
- the Ministry of Education retained control of the allocation of school property and, beyond a certain point, refused to allocate new classrooms to expanding schools when neighbouring schools were sitting half empty;
- it proved difficult to close schools whose rolls were falling. School closures consumed significant amounts of bureaucratic effort and took a long time to carry out;
- school governance structures were centrally determined, although the government has introduced greater flexibility in recent years;
- a new centrally determined national curriculum was introduced; and
- the vast majority of new teachers were taught at a small number of state-owned colleges of education.

A key weakness was that New Zealand did little to open up the supply side of the education market as part of its reforms. The centre retained control over virtually all supply side decisions in the public school sector, including the creation of new schools and the expansion or restructuring of existing ones. School choice policies are a demand side reform and must be accompanied by the freeing up of the supply side if they are to succeed.

In many cases, the tools were there to allow for more diversity in the provision of schooling but they went un-used. For example, the *Tomorrow's Schools* reforms provided an avenue for the creation of designated character schools (so-called section 156 schools). Although the legislative requirements to establish such schools are not onerous, the first one was not approved by the Minister of Education until 1999 – fully 10 years after the legislation came into effect. Even now, there are only a small number of such schools.

Despite its failings, no one wants to turn the clock back on the New Zealand school reforms. Even Ted Fiske and Helen Ladd recognise this in their book *When Schools Compete: A Cautionary Tale*. For example, they argue that:

- “there is little doubt that parental choice made it possible for many students to escape from low-performing schools and thereby improve their educational experiences” (p 288);
- “one potential benefit of the new governance arrangement is that the failures of such schools are more visible and less easily ignored than under the old system” (p 288);
- “the country’s experience with *Tomorrow's Schools* provides considerable vindication for the notion of self-governance in and of itself” (p 292);
- “such dramatic transformations of whole schools would not have been possible under the system that *Tomorrow's Schools* replaced” (p 292); and
- “we have little doubt that the system has been beneficial for many students and schools” (p 304).

To be sure, they did qualify some of these statements – for example by arguing that the positive and negative benefits of self-governance are amplified by choice and competition.

Nonetheless, it is instructive to note that many, if not most of Ladd and Fiske's 'cautionary tales' are not criticisms of school choice, but rather about other elements of the New Zealand policy environment, including:

- the reluctance to close failing schools (p 288);
- the failure of the Ministry of Education to address the problems of failing schools (p 289);
- the failure to retain some operational functions, such as combating truancy, at the centre (p 295);
- the one-size-fits-all governance structure (p 295); and
- limits on the supply of schools (p 303).

Criticising school choice for weaknesses in other aspects of the policy framework is like blaming your car's brakes because the clutch is not working.

In my view, the cautionary tale from New Zealand's experience is that the introduction of school choice needs to be done right. Half measures won't work. That would appear to be consistent with the work that John Merrifield is carrying out on the experience of a range of countries and jurisdictions with school choice.

Looking internationally, school choice policies differ markedly across countries.<sup>2</sup> For example, the Netherlands provides equivalent funding to state and non-state schools, whereas Denmark funds private schools at around 80 percent of state school levels and New Zealand at 25-35 percent. The degree of regulation of private schools also differs markedly across countries, with some placing a significant amount of regulation on schools and others less. For example, some countries regulate fees that schools can charge, others do not.

Despite these differences, one stylised fact emerges – higher funding of private schools tends to be associated with increased regulation of private

schools (see Figure 1). Or, as Mark Harrison put it in his recent Education Forum book *Education Matters: Government, Markets and New Zealand Schools* – government shekels bring government shackles.

Figure 1: Degree of regulation and funding of private schools, various countries, 1999

		Degree of Regulation		
		Low	Medium	High
Level of Public Funding	High	Australia	Denmark	Austria, Belgium, France, Germany, Luxembourg, Netherlands, Norway, Portugal, Spain
	Medium	New Zealand		British Columbia (Canada)
	Low	United Kingdom		Greece Italy

Source: Adapted from Kober (1999) *Lessons from other countries about private school aid*, pp 10-11.

Not all school choice policy frameworks are created equal. Like your own Charter school laws, there are good and bad regulatory frameworks. In my view, any school reform plan should include a number of critical elements:

- low formal barriers to entry and exit for schools;
- absence of price controls; and
- funding neutrality between public and private schools.

I recognise that the issue of funding for private schools is controversial among supporters of freedom in education because of the concern about the over-regulation that might accompany government assistance. But it need not be that way – funding and regulation are two separate policy instruments and there is no reason why a well-designed neutral funding policy needs to be accompanied by bad regulation.

Two recent documents from the Education Forum – *A New Deal: Making Education Work for all New Zealanders* and Mark Harrison's *Education*

<sup>2</sup> Nesdale, Pauline (2003) *International perspectives on government funding of non-government schools*, Education Forum Briefing Paper No 7, March.

*Matters: Government, Schools and New Zealand Schools* put forward a range of market-based reforms for New Zealand education.

In the case of *A New Deal*, the report's recommendations reflect the Education Forum's principles of excellence, choice, self-management and accountability. The key recommendations in the report include:

- giving parents greater freedom to determine what school will best suit their children and, more importantly, backing up that choice with real dollars;
- trusting teachers and principals to determine the best way of organising themselves to meet the needs of an increasingly diverse student population in New Zealand;
- building a culture of professionalism in the teaching sector;
- providing parents, teachers, principals and the government with the information required to determine how well the education system is serving New Zealand children; and
- ensuring that students, parents and teachers have access to world class curricula and qualifications.

## **Conclusion**

So what is the outlook for the global school choice movement? I believe there is reason to be optimistic. The movement, for want of a better word, is large when measured on a global scale.

It comprises a range of policies that includes the removal of school zoning restrictions, Charter schools, demand side financing initiatives such as student-based funding, scholarships and vouchers, contracting out the management of public schools to the private sector and home schooling.

While much of the discussion of school choice has focused on developments in the United States, the reality is that school choice policies exist in many countries – often with far less fanfare and far less controversy than in countries such as the United States or New Zealand.

For example:

- demand side financing mechanisms operate in a wide variety of countries, including Denmark, Sweden, the Netherlands, Canada, Australia, New Zealand, Ireland, the United States, Bangladesh, the Philippines, Chile, Côte d'Ivoire and Senegal;
- school contracting models exist in a number of countries. Examples include Educational Management Organisations such as Edison Schools in the United States, Transformed Schools in the Haidian District of Beijing, China and the Fé y Alegría network of schools in Latin America; and
- public school choice models include Charter schools in the United States, Beacon schools in the United Kingdom, integrated schools in New Zealand and grant-aided schools in India and The Gambia.

Many of these school choice programmes are large relative to current US initiatives. They are not simply voucher 'trials'. For example, while the total number of students on voucher schemes in the USA is small, the Education Service Contracting Scheme and Tuition Fee Supplement schemes in the Philippines finance the education of some 400,000 students attending private schools. In Côte d'Ivoire in the late 1990s, more than 40 percent of all students in private schools (some 160,000 students) were there under a government sponsorship scheme that pays for them to attend private schools.<sup>3</sup> A national voucher programme operates in Chile. More than 70 percent of Dutch children and 30 percent of Australian children attend non-state schools.

Necessity, it seems, is the mother of invention.

There have also been many positive developments on the school choice front in recent years – both in the United States and elsewhere. The sustained efforts of a small band of researchers, think tanks and policy makers have paid and are paying dividends. And choice-based reforms are spreading:

- a recent report found that over 400 public schools in the United States were being managed by private, for-profit management companies – more than triple the number from four years earlier;
- the Philippines recently expanded its Education Service Contracting scheme;
- the UK is taking steps to increase choice in education. Education services in some parts of the United Kingdom are contracted out to private companies;
- the June 2002 US Supreme Court decision on school vouchers has given new impetus to vouchers at the state level; and
- forty states in the United States have enacted Charter school laws – there are now some 2,700 such schools.

Support for choice-based reforms spans the political spectrum, including ‘third way’ Democrats in the United States and the ‘new’ Labour Party in the United Kingdom.

As Tony Blair stated recently: “It’s not reform that is the enemy of public services. It’s the status quo.”

The road to school choice is, and no doubt will continue to be, marked by setbacks. Choice-based reform efforts will need to be sustained if they are to overcome the class-based, agenda driven ‘No Teacher Union Left Behind’ policies favoured by many of its opponents. The changes to zoning and the abolition of the TIE scheme in New Zealand and the abolition of the private school tax credit in Ontario, are good examples of that.

What of the future for New Zealand? The future may be uncertain, but we remain optimistic that we can make progress in moving forward with a market-based policy agenda. There are several reasons for this.

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<sup>3</sup> LaRocque, Norman (1999) *Private Education in Côte d’Ivoire*, Unpublished paper prepared for the World Bank, Washington DC.

First, there was no policy or research basis for the post-1999 reversals of market-based policies in New Zealand. They have simply been a sop to the teacher unions who fed and clothed the current government during its decade in the political wilderness. Second, the need for reform has not gone away. While the school system delivers a good education to many in New Zealand, it continues to fail far too many families – especially those in lower socioeconomic groups. A 2002 UNESCO report showed that New Zealand has one of the poorest rankings for ‘bottom end inequality’ – a measure of the extent of the difference in achievement between children at the bottom and at the middle of each country’s achievement range.

Thirdly, the school sector in New Zealand remains the ‘outlier’, with both the early childhood sector and the tertiary education sectors recognising to a much greater degree the benefits of choice-based systems.

Fourthly, those in New Zealand who oppose school choice policies – well-funded teacher unions, much of the education academic community and the government – are finding themselves increasingly isolated from the mainstream of thinking on school reform policy – even among the so-called political ‘left’. When ex-Clinton Labor Secretary Robert Reich was invited to New Zealand in 1999 by the New Zealand Labour Party, he no doubt disappointed his hosts by expressing support for education vouchers at a Labour Party organised forum. He was soon whisked off to the South Island for a fishing expedition, if I recall correctly.

So, hope springs eternal. And my hopes were lifted the other day by a small article in a Ministry of Education newsletter that reported on celebrations organised to mark Teacher Appreciation Week in New Zealand. A number of activities were planned to show appreciation for teachers’ efforts. One activity particularly caught my eye – namely that teachers at all schools were to receive surprises in their ‘pigeonholes’ each day, including chocolates, pens and lollipops and ... wait for it ... *coffee vouchers*.

If the education community in New Zealand has embraced the concept of vouchers for coffee, can vouchers for education be far behind?