

Macquarie Bank invests in NZ early childhood education

Australia's Macquarie Bank has recently bought 20 North Island early childhood education centres. Therese Sayers looks at why the bank is becoming a teacher of preschoolers and what it means for families using the centres.

When Macquarie Bank made the decision this year to invest in early childhood education (ECE) in New Zealand, it decided to provide only quality and affordable centres where parents could confidently leave their children knowing they would be nurtured and cared for well.

It follows on from Macquarie's first move into ECE just over two

years ago in Australia.

With the move into quality ECE proving successful in Australia, Macquarie has now formed a new business, Forward Steps, to operate and manage childcare centres throughout New Zealand.

In the last few months, Forward Steps has taken over 20 North Island ECE centres, including six operating

under the popular Strawberry Fields banner in Auckland.

Growth in the ECE chains the 'start of an ongoing development'

The arrival of Macquarie Bank's Forward Steps group in New Zealand brings to five the number of early childhood education (ECE) chains in the country, and is likely the start of an ongoing development in the sector, says Early Childhood Council chief executive Sue Thorne.

Mrs Thorne said many small, stand-alone centres had been approached recently about selling up to larger chains.

The rise of the larger ownership structures provided another type of centre for the sector and so was a

positive move to broaden the ECE choices available to families.

"The chains add another dimension to ECE in New Zealand and so give more choice to parents," Mrs Thorne said.

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Skills shortages are industry's biggest problem but solutions complex

The *New Zealand Herald* has ranked skill shortages as the biggest problem for business and a recent Business New Zealand survey also showed skill shortages to be its members' biggest problem – but the solution is not so easily identified.



Roger Kerr

could not be addressed in isolation from other growth policies such as lower taxes and less business regulation.

And the Education Forum argues that increased skills are no “economic Viagra”.

The OECD's recently released *Education at a Glance* publication says that post-school education and training opportunities in OECD countries are generally less frequent for those who need them most, such as people who are unemployed

Business Roundtable executive director Roger Kerr said there were complex reasons behind the skills shortage.

Mr Kerr said it

or in low-skilled jobs.

Participation rates for those who have not completed upper secondary education are less than half of those with upper secondary education and only around a quarter of those with tertiary education.

Darel Hall, the executive director of the Industry Training Federation, said more industry training was needed and 82 percent of chief executives and company chairs wanted an increase, but government funding restrictions meant that industry training organisations could not keep up with demand.

Mr Hall said the *Herald* and Business NZ surveys' findings tallied with other recent, business-focused research, including a Department of Labour set of reports released earlier this year that

found ‘genuine skill shortages’ in 15 of 16 trade occupations.

The *New Zealand Herald's* article on skills shortages is at http://www.nzherald.co.nz/feature/story.cfm?c_id=602&ObjectID=10344124

Education at a Glance is at www.oecd.org/edu/eag2005

The Department of Labour surveys are at <http://www.dol.govt.nz/publications/jvm/job-ad-trades.asp>

The *New Zealand Herald's* Mood of the Boardroom survey is at <http://www.nzherald.co.nz/boardroom>

Education Forum search engine – improved and stronger

The Education Forum website now has an updated search engine that brings to the surface all its hidden depths.

Over the past few months the search engine has only had very restricted abilities. The new version will reach places the old engine could not even dream about.

The website is packed with news, research and commentary on education policy topics from early childhood education to schools to tertiary to vocational training – and our greatly improved search engine will hunt it all out for you.

Recent hot topics on the Education Forum website

No-interest student loans - how much will it cost? (26 September 2005):

http://educationforum.org.nz/text-hot_topic_26-27

Private after-school tuition - a big growth industry,

(19 September 2005): http://educationforum.org.nz/text-hot_topic_25-26

Interest-free student loans: when good policy goes bad, (03

August 2005): http://educationforum.org.nz/text-hot_topic_24-25

Putting Children First - a major new report, (02 August 2005):

http://educationforum.org.nz/text-hot_topic_23-24



Macquarie Bank invests in NZ early childhood education

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It was, in fact, a New Zealand mum who originally led the investment bank to get into the ECE sector.

Leslie Wait has worked for Macquarie for around a decade, and after returning to work from maternity leave, she identified childcare as an area the bank could contribute to in Australia. Then, on a holiday home to New Zealand, Ms Wait noted room for more first-class quality ECE centres here.

And now Ms Wait, passionate about quality childcare, has been appointed director of the New Zealand business.

The Strawberry Fields group is at the high end of quality early childhood education, and Macquarie Bank sees that platform as a good base for

“Macquarie has shown an approach of not dictating how things should happen, but rather helping the local management team achieve what it wants to achieve.”

Forward Steps in New Zealand.

“Strawberry Fields is already well established here with a philosophy of creating a ‘home away from home’ nurturing environment for children, helping them to learn with quality resources, programmes, and caring and qualified staff,” Ms Wait said.

Strawberry Fields’ strong management team was part of the attraction for the bank and that team has now become the core of its New

Zealand management group.

It includes Aucklander Tony Jones, who continues his role as general manager of operations. He’s a man happy with the Macquarie approach



to its investment, pointing out that the bank allows the experts to get on with their job, while providing support to them.

“Macquarie has shown an approach of not dictating how things should happen, but rather helping the local management team achieve what it wants to achieve,” Mr Jones said.

Ms Wait said Forward Steps aimed to provide centres where staff could focus on spending more quality time with children.

She planned to achieve this by making the centres more efficient through centralising administrative, regulatory and financing activities.

The new business would also invest in improvements to many of the centres.

“We will look at adding further centres to the group, but our first priority is to consolidate the centres that we have brought into the Forward Steps family and to deliver quality education

and care at a competitive price.

“Our centres will, of course, meet or exceed Ministry of Education standards, including teacher-to-child ratios,” Ms Wait said.

Re-branding the centres was not a current priority, and they would continue to operate under their existing day-to-day management, she said.

There is a perception among opponents of corporate influence in early childhood centres that children may end up as nothing but numbers in a financial spreadsheet.

Macquarie’s approach, working alongside experienced and well-known ECE providers in New Zealand, is likely to put those sorts of worries at ease.

A successful investment means successful centres that New Zealand families like and patronise. That can only happen if families are happy with the quality of services provided for their children. The Forward Steps team is aiming for just that.

Macquarie Bank has operated in New Zealand since 1985, and has over 100 staff in offices in Auckland, Christchurch and Wellington.

Taking on debt an increasing practice for universities in global marketplace

More universities around the world will take on debt to meet increasing infrastructure requirements because of higher international participation rates and rising enrolments, a new report argues.

The report, from credit rating agency Standard & Poor's, says that as global competition among tertiary institutions intensifies more will seek credit ratings; thereby making them more exposed to market forces.

'Report Card: International Higher Education Sector' looks at credit quality, and trends and challenges facing 35 universities in the US, Canada, the UK, Australia and Japan.

Higher education sectors in the surveyed countries had strong government funding support but public funding sources were becoming less able to support investment in infrastructure

and staff in an increasingly competitive national and international market. This had resulted in universities seeking to diversify revenue sources.

More exposure to market forces, nationally and internationally, and growing levels of debt and deregulation would increase credit diversity within and across different higher education markets, the credit agency reported.

While there were several hundred higher education institutions in the US that had been regular users of debt financing for many years, it was less common elsewhere.

Standard & Poor's also noted the

increasing use of off-balance-sheet financing, in particular for university accommodation programmes, and the impact of pension deficits on the credit standing of universities.

A further review of the report is at <http://insidehighered.com/news/2005/09/08/debt>

The report can be found at a link from this webpage: <http://www2.standardandpoors.com/servlet/Satellite?pagename=sp%2FPage%2FSiteSearchResultsPg&l=EN&r=3&b=10&search=site&vqt=Report+Card%3A+International+Higher+Education+Sector&submit.x=6&submit.y=6>

Growth in ECE chains the 'start of an ongoing development'

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"One of the interesting things is that they often haven't changed the names of many of the centres they have purchased and you wouldn't actually know they are all one in the same; so it will be interesting to see if they keep the cottagey-feel of many of their acquired centres.

"It is often quite an intimate relationship that parents have with their child's ECE centre, so with centres' identities still intact parents can still have confidence that the centres they know and trust are to keep going."

Mrs Thorne said that with the growing bureaucratic demands from government and administrative burdens that small centres faced, larger ownership structures could have advantages in reducing costs.

"It is ironic that the government

ECE chains in New Zealand

- Forward Steps (Macquarie, Australian investment bank) – 20 centres
- First Steps (Palmerston North-based community centres) – 23 centres
- ABC (Australian public company) – 25 centres
- Kindercare (privately owned family company) – 50 centres
- Kidicorp (New Zealand public company) – 69 centres

has made it clear they don't like having corporates in the sector and don't mind so much the small stand-alone owners but they are pushing many of the smaller ones out with their bureaucratic demands, and in doing so are opening the door for large corporate ownership."

Mrs Thorne said large organisations could be good for staff who wanted a more structured career path – "it's something that has been missing from the sector".

"It allows people who want to, to move into management. It also means people who want to specialise in certain roles can do so, rather than having to have a hand in everything, as they do in smaller centres."

Mrs Thorne said that in Australia, ECE chains often looked to set up centres in female-dominated workplaces such as banks and hospitals and that might be a development in New Zealand.

"Overall, it is good to have another layer of ECE provider in New Zealand, and we look forward to seeing what impact they have here."

Spending ‘no guarantee of higher quality education’

Spending is no guarantee of higher quality education, with New Zealand an example of moderate expenditure getting strong results, the OECD says.

In its renowned annual publication, *Education at a Glance 2005*, released this month, the OECD says New Zealand, Australia, Belgium, the Czech Republic, Finland, Japan, Korea and the Netherlands all have moderate expenditure on education per student at the primary and lower secondary levels but are among the countries where 15-year-olds perform strongest in key subject areas.

The publication also says that in many countries the ways in which the costs of education are shared between

public and private stakeholders are changing.

Tertiary institutions in many countries now rely more heavily on private sources of funding, such as fees, than they did in the mid-1990s. But the public and private shares in the funding of education are often still not in line with the public and private benefits.

Most notably in Denmark, Norway, Germany, Austria and Finland, private sources contribute a much larger share of the costs of early childhood education

than for tertiary education, where the private benefits dominate.

The OECD's 2005 Education at a Glance, a "widely-quoted compendium of comparative education statistics that provide the basis for policy debate and decisions in the world's most developed countries", is now available at www.oecd.org/edu/eag2005

A press release summarising its main themes is at http://www.oecd.org/document/13/0,2340,en_2649_201185_35341645_1_1_1_1,00.html

Australian govt's Labor opposition drops support for student unions

The main Australian opposition party – Labor – has dumped its long-standing policy of supporting compulsory student unionism at universities in favor of a fee for non-academic services. But an education researcher argues that a market-based system with on fee covering all a student's costs would be more effective.

The move by Labor is a significant departure from traditional policy and has brought it under fire from some of its traditional allies, student unions.

Labor has offered to back the Australian government's legislation to abolish compulsory student unionism but only if the government agrees to a services fee at universities to pay for facilities like sporting facilities and child care.

Andrew Norton, from the Sydney-based Centre for Independent Studies, argues that a more effective scheme

would be to combine non-academic and academic services in the same package, and remove or cut per-use charges. This would reduce the cost of participating in campus activities and strengthen the 'campus experience'.

A range of packages could be offered depending on the services a student wanted.

Further fee deregulation and market pressure would encourage universities to offer a greater variety of bundled academic and non-academic services and students could pay a single

fee through the government-backed loan system.

A transcript of an ABC radio interview looking at non-compulsory student unionism – with the Education Minister and the opposition's education spokesperson – is at <http://www.abc.net.au/pm/content/2005/s1445299.htm>

A paper, 'The Free Market Case Against Voluntary Student Unionism (But for Voluntary Student Representation)', by Andrew Norton, is at <http://www.cis.org.au/IssueAnalysis/ia62/IA62.pdf>

Private schooling a significant educator of the world's poor

The accepted wisdom that poor people need good state schools is wrong, says a leading British academic, following two years of research in Africa, China and India.

Newcastle University professor James Tooley has found that private schools for the poor have emerged in huge numbers in some of the most impoverished slums and villages in Africa and other countries – and they cater for a majority of poor children and outperform government schools for a fraction of the cost.

“Indeed, in those areas where we were able to adequately compare public and private provision, a large majority of schoolchildren are in private school, and a significant number of them in unrecognised schools and are not on the state’s radar at all,” Professor Tooley said.

“Ironically, perhaps, the accepted wisdom does seem to be right on one point: private is better than public but no one suspected that private slum schools would be better.”

Professor Tooley’s research suggests that children in private slum schools outperform similar

students in government schools in key school subjects. This is true even of the private schools that are unrecognised by governments and dismissed by development experts, if they acknowledge their existence at all, as being of poor quality.

Professor Tooley argues that there is no global crisis in education because the

private sector is supplying higher standards at a fraction of the cost of state education.

“The remarkable reality [is] that the poor in Africa have not been waiting, helplessly, for the munificence of pop stars and western chancellors to ensure that their children get a decent education.”

Though elite private schools do exist in impoverished regions of the world, Professor Tooley’s research found that private schools were not only for the

privileged classes. In a wide range of settings, from “deepest rural China, through the slums of urban India and Kenya, to the urban periphery areas of Ghana”, private education served huge numbers of poor children.

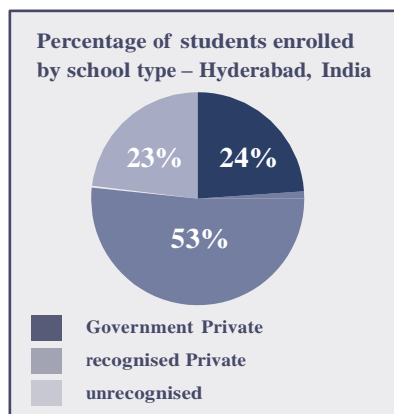
Professor Tooley said the accepted wisdom was that private schools served the privileged; everyone else, especially the poor, required public schools. The poor, according to this logic, needed government assistance if they were to get a good education.

This helped explain why, in the United States, many school choice



enthusiasts believed that the only way the poor could get good education was through vouchers or charter schools, which were, in effect, proxies for those better private or independent schools, paid for with public funds.

“But these assumptions are lacking if we reflect on these beliefs in a foreign context and observe low-income families in underprivileged and developing countries. The poor have found remarkably innovative ways of helping themselves, educationally, and – in some of the most destitute places on Earth – have managed to nurture a large and growing industry of private schools for themselves.”



A Hoover Institute article by Professor Tooley summarising his research is at <http://www.educationnext.org/20054/22.html>

An article in the Sunday Times by Professor Tooley is at <http://www.timesonline.co.uk/article/0,,2092-1669110,00.html>

Private tutoring takes off in New Zealand

Private tutoring companies are changing the face of education in New Zealand, with tutoring services mushrooming as more families turn to after-school tuition for their primary and secondary school children.

The phone book shows pages full of private tuition advertisers, with some of the biggest tuition companies in the world now working in New Zealand.

The largest tutoring group in the country, Kip McGrath Education Centres, sees its tutors as complementing the good work done by schools.

Kip McGrath started in Australia 25 years ago, and now operates as a franchise business in 18 countries. It has 97 centres in New Zealand, employing 600 tutors – all of them qualified teachers. Each year it tutors approximately 15,000 students.

Kip McGrath's New Zealand managing director David Wardell said families turned to tutoring organisations for a range of reasons. Children might be behind because of illness, changing schools, or simply not flourishing in the classroom situation.

"There have always been people who offer tutoring. I think that what families see with Kip McGrath, however, is a nationwide network of centres and they know that the standards are high throughout all our centres. Parents like that," Mr Wardell said.

An increasing number of students – currently about 13 percent – also received help with 'extension work' (more advanced studies).

Mr Wardell said tuition assistance was also helping students in rural districts.

"Many of our rural students are staying at home, attending Kip McGrath centres and their local school, whereas in the past they may have well have gone to a boarding school," he said.

Kip McGrath anticipated annual growth of three to four percent for its centres in New Zealand.

"Growth so far has been healthy, and it amazes me that every year is up on the year before, and that is likely to continue," Mr Wardell said.



"The systems we have set up, the monitoring of what goes on, our code of ethics – all of those sort of things, ensure that parents get that professional service that they are looking for."

Mr Wardell said Kip McGrath's services in New Zealand were used mainly by six-year-olds to 15-year-olds for tuition in reading, spelling, English and maths, and it was not restricted to higher income groups.

"We try to keep our tuition fees

Private tutoring – a global snapshot

Hundreds of companies, hundreds of thousands of students, annual global turnover of many billions of dollars – private tuition is a rapidly growing global industry.

- One estimate says 27 percent of UK state pupils receive after-school tuition.
- Tuition company numbers increased by 200–500 percent in major Canadian cities during the 1990s.
- In Korea, families spend nearly as much on private tuition as the state does on public education.
- In Turkey, there are nearly as many after-school tuition centres as there are public schools.

The sources for these snapshots, as well as a hot topic looking in detail at private after-school tutoring around the world, are at http://educationforum.org.nz/text-hot_topic_25-26

down to a reasonable level so that it can be accessed by virtually all families. We have students attending from right across the socio-economic spectrum."

Private tutoring takes off in New Zealand Continued from page 7

While there was no assistance from government, there was help from some iwi for Maori children.

“We have had [government help] previously, when schools were bulk-funded. Schools had the ability then to contract to organisations such as Kip McGrath to provide additional assistance to students during the school day. If bulk funding comes back into schools, then that opportunity may present itself again.”

Kumon, the world’s largest tuition group, has been operating here since 1994 and is currently helping to educate close to 3,000 children in 36 centres around New Zealand.

Communications manager Allan Menagh said New Zealand families seemed to love the Kumon study method.

“I think parents are surprised about what their children are capable of, so we’re fortunate to have many families stay with us for years.”

Kumon sees its programmes as complementary to the education provided by New Zealand schools. It focused on developing life skills and daily study habits, especially among younger children.

“What we’ve discovered with New Zealand parents is that while initially the majority came to us with children who were struggling, nowadays we have a high percentage of younger students.

“Parents are increasingly realising the benefits of a solid knowledge of the basics early in a child’s life, covering any learning gaps and really increasing their child’s confidence,” Mr Menagh said.

As well as remedial studies, Kumon also offered tuition in high-

Vouchers for tuition – suggested for NZ, piloted in Australia, big in the US

In Australia, the government has put AU\$20 million into a ‘vouchers for reading tutors’ pilot.

New Zealand’s National Party has proposed a similar scheme.

In the US, government-funded tuition vouchers (known as supplemental education services – SES) must be offered by any school that has not performed satisfactorily for three years in a row. The scheme is helping drive big demand for tuition vouchers.

National’s voucher proposal is at <http://www.national.org.nz/Article.aspx?ArticleID=4621#2>

An article looking at the US SES situation is at <http://www.educationnext.org/20043/32.html>

level maths and English, as well as “important life skills”.

Kumon’s \$90 monthly fee kept it affordable for most family budgets – more affordable, said Mr Menagh, than an individual private tutor.

Overseas, Kumon has some 22,000 centres and provides discounted programmes in lower socio-economic areas. It also provides free services in some areas with volunteer tutors. Similar schemes were being looked at for New Zealand.

A Kumon supervisor in Auckland,

Chai Ko-quek, has seen some remarkable changes in the behaviour of students who study with Kumon.

She talked of one nine-year-old from a migrant family who came to her with low self-esteem and very poor maths skills. The girl could not do one-digit sums and was extremely shy.

A year later she is now doing fractions and is much more confident. She topped her class in maths, and had been identified by her school as a possible student leader.

“I had to take her back to the basics, and build a good foundation with her maths,” said Ms Ko-quek. Kumon had also encouraged her migrant parents to have greater communication with her teachers at school.

According to Education Forum policy advisor Norman LaRocque, private tutoring reflected, to some degree, a concern with the performance of the school sector.

“Parents may not be happy with the progress their child is making and may not be in a position to exercise choice – because of zoning or for other reasons. We know from a 2004 New Zealand Council for Educational Research study that the learning experiences across schools of different deciles are not the same.

“At the same time, the growth of tutoring is not necessarily a negative indicator and should be seen as a legitimate part of a healthy education sector. Tutoring allows students to develop particular competencies.

“A number of factors can explain its growth beyond simply dissatisfaction with the existing education system. They include IT developments, rising incomes and legislative change such as the No Child

Hurricane Katrina: after disaster a silver lining for New Orleans schools?

As devastating as Hurricane Katrina was, New Orleans officials not have a good opportunity to fix the public school system - one of the worst in the US – according to commentators.

New Orleans public schools account for 55 of Louisiana's 78 worst schools and more than two-thirds of the school system's fourth-graders do not have basic competence in maths. The school system's finances were in such disarray that some teachers have not received pay cheques on time. The Associated Press has reported.

And this year, the city led state figures in students cheating on Louisiana's standardised tests, with more than half of all of those caught in the state enrolled in New Orleans public schools.

According to an article from *Wall St Journal* commentator Brendan Minitier, the city's 60,000 public school students have been trapped in a failing system for decades and there is no reason why the public education bureaucracy and other obstacles to real reform should follow them as they move temporarily to schools in other areas.

Bush proposes US's largest voucher programme for Gulf Coast

The Bush administration has proposed nearly US\$500 million in funding to help displaced school students from the Gulf Coast enrol in schools of their choice elsewhere, following Hurricane Katrina.

Under the plan, parents can enrol their children at a school of their choice – including private or religious – at federal expense, even if they had gone to public schools back home.

The plan will create the largest federal school voucher programme ever, if enacted, dwarfing the current largest of US\$14 million in Washington DC.

Two Washington Post stories on the issue are at <http://www.washingtonpost.com/wp-dyn/content/article/2005/09/16/AR2005091601723.html> and <http://www.washingtonpost.com/wp-dyn/content/article/2005/09/19/AR2005091901428.html>

“With New Orleans schools under water and a pressing need to get students back into school immediately, ... officials now have an opportunity to construct an educational system from the ground up.

“As schools expand to accommodate the influx in this emergency, union demands should be secondary. So should certification requirements that focus on education degrees instead of an ability to teach,” Mr Minitier wrote.

“Indeed, if tens of thousands of New Orleans students find themselves in what are essentially charter schools, they will be better off – education-wise – than they were before the flood.”

The Associated Press report is at http://seattletimes.nwsource.com/html/education/2002245573_schools19.html

Brendan Minitier's Wall St Journal article is at <http://www.opinionjournal.com/columnists/bminiter/?id=110007212>

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Left Behind Act in the United States.

“Schools should be looking at a variety of ways of delivering education to get the best results that they can for their pupils. If tutoring services offer a more targeted and flexible means of improving the performance of some

students in some areas, then schools should welcome such an innovation.”

In Australia, the government had invested AU\$20 million in a ‘vouchers for reading tuition’ programme.

Mr LaRocque said a tuition voucher scheme in the United States appears to have driven strong growth in tuition services as parents looked to take advantage of the free service.

A similar scheme had been

suggested for New Zealand by the National Party.

The Kip McGrath (New Zealand) website is at <http://www.kipmcgrath.co.nz/default.aspx>

The Kumon (Australia and New Zealand) website is at <http://www.kumon.co.nz/>

Another tuition firm, NumberWorks, has a website at <http://www.numberworks.co.nz/>

Why subsidised borrowing?

New Zealand once had the world's best student loan scheme but, since the late 1990s, the loan scheme has been transformed from a model of sensible student financing to a political football, and in the recent election campaign both parties gave it a good kicking, argues Mark Harrison.



New Zealand was one of the first countries to offer tertiary students an income contingent loan (ICL), where annual repayments

are related to graduates' income in that year. It allows graduates to make low and irregular payments when their incomes are low and irregular – for example, when they are starting out, are unemployed or take time out of the workforce for childcare or other reasons.

In 1999, though, taxpayers took a real hit when the interest rate was frozen, interest was written off for full-time and low-income students, and half of loan repayments were credited to principal with the remaining interest due written off. In 2004, more than half of the interest accrued was written off. Although the nominal interest rate was 7 percent in 2004/05, the effective rate was only 2.8 percent. Now the Labour government has pledged to abolish interest entirely for all borrowers resident in New Zealand.

With close to \$1 billion borrowed this year, and an accumulated debt of \$6.7 billion, the policy would be expensive. According to Westpac economists, the cost could range from \$270 million to \$1.1 billion per year. These are on top of the one-off write-

down of the value of student loans on the Crown balance sheet – reportedly calculated at \$1.7 billion.

An ICL scheme is good for graduates on all levels of income; and it neatly targets subsidies at borrowers with low lifetime incomes. These borrowers never fully repay the loan and eventually it is forgiven (your family or estate is not responsible for your loan). Their education is subsidised by a greater amount than those who pay off their loans earlier.

Of course, borrowers are better off [with interest subsidies] since they get to keep more of their earnings. But, taxpayers will be worse off since they must pick up the tab. Because taxes change behaviour and distort decisions, they impose a cost on taxpayers greater than the amount of revenue needed to pay the interest subsidies.

The income contingent nature of the scheme protects borrowers who would have defaulted because of low income, something that is particularly attractive to those from poor backgrounds, who tend to be more prone to default in traditional loan programmes. Under an ICL scheme, low income in any given year simply extends the period over which the loan is repaid.

The loan scheme takes advantage of the Inland Revenue Department's ability to measure an individual's income and collect payments from borrowers, and, in effect, allows those benefiting from a tertiary education to pay for a portion of their education costs through

a targeted income tax, that is capped at the amount borrowed, plus interest.

Subsidising interest is costly. And the cost increases with the general level of interest rates, the length of repayment times and the degree to which repayments are tilted towards the end of the loan. For example, with a zero interest rate, if a loan is repaid at an even rate over 9.3 years (the current average), and the relevant interest rate is 7 percent, the cost of the subsidy is around 25 percent of the loan. It is greater for loans to students who do not start repaying for a few years and for students who never repay their debt. Further, interest subsidies encourage more borrowing and slower repayment.

Interest subsidies do not affect required annual payments, which are set at 10 percent of income over an income threshold (currently \$16,588 per annum). All they do is reduce the repayment period. The benefits of interest subsidies, therefore, go to high earning graduates in mid-career, with the biggest benefits going to those who borrow the most.

Interest subsidies do not help graduates early in their career (since they pay the same amount each year) and make no difference to those who never repay the loan because of low lifetime incomes. They make the same payments and have the balance of their debt forgiven upon retirement. Interest subsidies add nothing to resources

Are charter schools effective? – new studies unravel the facts

US charter schools now number around 3,400, serve approximately 1 million students and are continuing to grow – some new studies help give a clearer picture of their effectiveness.



Caroline Hoxby

Some of California's charter schools, often serving low-income regions, are producing remarkable gains in student achievement. According to a new book, the reasons for these schools' success are simple – proven curriculum, student testing, discipline, teacher accountability and high expectations.

More information on *Free to Learn: Lessons from Model Charter Schools*, by the Pacific Research Institute is at http://www.pacificresearch.org/pub/sab/educat/2005/free_to_learn/charterschool.html

Focusing on three charter schools in Chicago, researchers Caroline Hoxby and Jonah Rockoff present evidence from the first randomised evaluation of charter schools.

“Our results demonstrate that, among students who enter in a typical grade, attending a charter school improves reading and math scores by an amount that is both statistically and substantively significant,” the Hoxby study says.

“... the results are most useful for understanding the effects of charter schools run by education-management organisations on student populations that comprise largely low-income and racial/ethnic minorities.”

Information on the Hoxby Rockoff study is at <http://www.educationnext.org/20054/52.html>

Robert Bifulco and Helen Ladd examine charter schools in North Carolina, concentrating on those students whose progress can be compared in both charter and traditional public schools. Their research is at

<http://www.educationnext.org/20054/60.html>

In a *Centre for Education Reform* feature, Massachusetts charter school teachers and unionisation is looked at. The feature is at

<http://www.edreform.com/index.cfm?fuseAction=document&documentID=2153>

Why subsidise borrowing?

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available to current students.

Of course, borrowers are better off since they get to keep more of their earnings. But, taxpayers will be worse off since they must pick up the tab. Because taxes change behaviour and distort decisions, they impose a cost on taxpayers greater than the amount of revenue needed to pay the interest subsidies.

The student loan scheme is a poor policy mechanism for subsidising students. Taxpayers already subsidise tertiary education directly (equal to about 70 percent of the costs of tuition). These subsidies and the cap on student fees determine the student's contribution to the costs of tertiary education. The student loan scheme

allows students to spread the cost of their contribution over time. Why give a further subsidy to those who decide to finance this through borrowing?

If a further subsidy is desirable, and can be afforded, it should be done transparently by increasing the per-student subsidy. Interest subsidies are a poorly targeted way of achieving public policy objectives. Although interest subsidies are expensive, students do not receive the benefits until years in the future. If they discount what happens in the future heavily, they do not value these subsidies much, and the subsidies would have little effect on behaviour.

Clearly, abolishing interest payments for existing graduates cannot affect their behaviour as students. The subsidies do little to promote access or achieve efficiency gains to offset

the costs imposed on other taxpayers. Further, to transfer money from the average taxpayer to high earning graduates is inequitable.

The existing policy of writing off interest for students while they are studying has been rightly criticised. Even the government-appointed Tertiary Education Advisory Commission joined in, arguing it “does not represent an efficient allocation of public resources and is not in the best interests of either students or the government”. It recommended the policy be discontinued.

To abolish all interest on student loans pushes current interest subsidies even higher. There is no sound policy basis for subsidising borrowing.

Mark Harrison is an economic consultant based in Canberra, Australia.

briefs

Quote of the month:



“We really need to get over the bias against apprenticeships. When I go down to the beach on Saturday morning, the biggest boats on the ramps belong to carpenters and plumbers.”

Business New Zealand chief executive Phil O'Reilly quoted in the New Zealand Herald (6 September) at http://www.nzherald.co.nz/feature/story.cfm?c_id=602&ObjectID=10344124

A Subtext story on skills shortages is on page 2.

Australian childcare fees in steep rise

The cost of Australian early childhood education (ECE) is rising steeply, with community centre costs rising as sharply as their private counterparts.

The average weekly fee paid by parents using private long-day-care centres is now \$208, up from \$154 in 1997. For community-run centres, the average weekly cost has jumped from \$162 to \$211.

Although the Australian government has substantially increased funding for childcare, the growth in places has not kept up with demand. This gap will widen next year when single parents move into jobs following the proposed welfare-to-work programme.

The number of children in ECE in Australia has risen from 544,700 in 1997 to 752,800 last year.

New Zealand's Early Childhood Council chief executive Sue Thorne said the big increases in Australian community centre fees “rather puts paid to the notion that community centres are run better and pass more of the subsidy on to parents, as we hear so often from opponents to commercially run ECE in New Zealand”.

A Sydney Morning Herald story on the price increases is at <http://smh.com.au/news/national/child-care-inflation-shock/2005/08/30/1125302566112.html?oneclick=true>

Vocational training benefits participating school students, report finds

When 14- to 16-year-olds take a vocational course, the majority achieve the qualification, nearly all progress on to further education and training, and many are more positive about school and improve their confidence in their ability, a new British study finds.

Research from the National Foundation for Educational Research into the Increased Flexibility for 14- to 16-year-olds programme is at <http://www.nfer.ac.uk/latest-news/press-releases/the-positive-impact-of-new-forms-of-vocational-education-on-14-16-year-olds.cfm>

Pursuing class-size reduction ‘wastes money’

Canadian provinces that are ardently pursuing class-size reduction to boost student achievement are wasting millions of dollars on an ineffective policy, says a commentary from the Canadian C.D. Howe Institute.

The study, ‘School Class Size: Smaller Isn't Better’, says that “despite the fact that such policies are often sold as moves to help students perform better, there exists no solid base of empirical evidence to show that smaller classes improve student achievement beyond kindergarten and grade one, when pupils are being socialised into the classroom environment.”

The report, by institute policy analyst Yvan Guillemette, is at http://www.cdhowe.org/pdf/commentary_215.pdf

Poland looking to introduce university fees

Poland could introduce fees within eight years, according to a plan unveiled by the government, the *Times Higher Education Supplement* has reported.

Education Minister Anna Radziwill argues that fees and scholarships would increase the prospects for impoverished young people. Less than half of Poland's student population study for free in the country's state universities, and most who do are from better-off families.

Russian interest in setting up private universities off-shore

Russian interest in entering the growing private European university sector is increasing as more Russians look to get their education overseas, the *Times Higher Education Supplement* reported last month.

The *THES* reported that a group of Russian investors who had developed universities in Russia and Finland was now looking to open one in the Czech Republic.

About 5 percent of Czech students are foreign, up 30 percent on the previous year, *THES* reported.

Japan's universities make big profits under new law

Japan's 89 state universities chalked up profits of more than US\$1 billion last year, the first year the universities were allowed to earn and keep profits, the *Chronicle of Higher Education* has reported.

Much of the profit came from government subsidies; and each year for the next five years, it plans to wean universities from reliance on the subsidies by cutting assistance by 1 percent annually.

The universities are free to use the profits in any manner their administrators see fit, such as paying general expenses, raising salaries, putting more money into research, or investing it.

Nepal to allow private universities

A proposed reform of Nepalese tertiary education will allow private universities.

A draft Act proposes three kinds of universities – government-funded, community and private.

Nepal currently has eight universities with 10 more waiting on government approval.

The Rising Nepal *has more information at* <http://www.gorkhapatra.org.np/pageloader.php?file=2005/09/06/topstories/main6>

Markets explain strengths of US universities and weaknesses of its schools

The US has the best universities in the world but its schools do not rate so highly – and much of the explanation can be summarised in two words: “privatisation” and “markets”, writes academic Richard Vedder.

Professor Vedder writes that if schools adopted some of the strengths of American colleges “we might be able to close the quality gap between basic and higher education which threatens American students”.

Even public universities have greater ability to hire and fire staff, pay people on the basis of merit, change curricula, and face far less interference from obstructionist labour unions.

Universities are more subject to the discipline of the market, and if they fail to serve the students well, they may lose tuition revenues or fall in rankings, writes Professor Vedder.

Professor Vedder is Distinguished Professor of Economics at Ohio University. His article at http://www.cato.org/pub_display.php?pub_id=4549

Bi-partisan US taskforce calls for education reform

A bi-partisan US taskforce of policy makers, scholars and business leaders has called for performance pay for teachers and education reforms that include high expectations, standards and accountability; and connecting schools with families and communities.

The National Task Force on Public Education's report, 'Getting Smarter, Becoming Fairer: A Progressive Education Agenda for a Stronger Nation' is at <http://www.americanprogress.org/site/pp.asp?c=biJRJ8OVF&b=994995>

Education entrepreneur details his business and ideas in new book

The founder of Edison Schools, the biggest private manager of public schools in the US, has written a book detailing his ideas on improving education.



Crash Course – Imagining a Better Future for Public Education, by Chris Whittle, calls for radical new curricula, more educational research and development, and better training and pay for teachers and principals; and he imagines students studying independently, freed from the constraints of regimented class schedules.

“I am prouder than ever to be associated with public education – and more hopeful and optimistic than ever about its future. I hope [the book] will help to energize a new conversation to imagine just how great our schools of the future can be,” Mr. Whittle said in a statement.

More information is at <http://www.edisonschools.com/news/news.cfm?ID=178>

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