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# WORKING PAPER

*TOMORROW'S SCHOOLS TODAY:*  
**New Zealand's Experiment 20 Years On**

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By Mark Adams

MERCATUS CENTER  
GEORGE MASON UNIVERSITY

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# Working Paper

## *Tomorrow's Schools Today:* **New Zealand's Experiment 20 Years On**

By Mark Adams<sup>1</sup>

In 1989, the government of New Zealand embarked on a radical series of reforms continuing into the 1990s to address a failing schools system. The government halved the size of the educational bureaucracy, putting money and power directly into the hands of parents. Despite setbacks that may have hindered even greater success, educational quality was greatly enhanced by these policies. Coupled with new research, New Zealand's experience provides valuable lessons on reforming education. Although the goals of reformers differed, virtually all agreed on improving equality of access to high quality education and performance per dollar spent on education. This paper finds significant parallels between New Zealand in the 1980s and many states today and makes recommendations for policymakers based on the successes and failures of the New Zealand experiment.

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<sup>1</sup> Graduate Fellow, Mercatus Center at George Mason University. The author would like to thank Maurice McTigue, Chris Hixon and Richard Williams for help in preparing this document.

## **I. Introduction**

By the mid 1980s New Zealand's schools were widely thought to be failing students and contributing to the nation's high levels of crime and unemployment.<sup>2</sup> A group of reformers, mostly professional policy advisors within the Treasury, believed the economics profession had the answers to New Zealand's problems. According to economists, the problem lay with a large and inefficient educational bureaucracy. Decision makers were too far removed from the consequences of their choices to see whether their policies were improving educational outcomes. Furthermore, teachers and bureaucrats were not rewarded for performance in achieving these outcomes, meaning they would sometimes be forced to choose between their own best interests and those of students. The economists' solution was a radical devolution of decision-making power. Teachers have local knowledge about the needs of their school and community that allow them to make decisions better than bureaucrats. To give teachers the freedom to use their local knowledge, the government had to switch from directing activities to monitoring outcomes. Thus, schools didn't just become freer to act, they also had to be made accountable for the outcomes of their actions. The reformers decided that parents had the greatest stake in their child's welfare and would be better able to monitor educational outcomes than bureaucrats. This led to the abolition of roughly half the educational bureaucracy and its replacement with a Boards of Trustees elected by, and largely comprised of, parents.

This paper begins with an introduction to the problems facing New Zealand in the 1980s. The second section gives a chronology of reforms efforts under different governments. The third section examines the outcomes of reform, and the fourth section makes recommendations for policymakers in the United States. The fifth section concludes.

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<sup>2</sup>E Fiske & H Ladd, *When Schools Compete*; *Brookings* (2000), p30

Before reform, the government had attempted to micromanage the public sector, some 40 percent of the economy by 1984.<sup>3</sup> In that year, David Lange became New Zealand's new Prime Minister after his Labour Party won the general election. Labour was the left-wing party in a country with strong socialist traditions but, faced with the problems described above, began implementing market-based reforms. These reforms were continued after Lange's resignation in 1989 and Labour's subsequent general election defeat in 1990 by the National Party.

Reform efforts survived changes in political leadership, in part because of the importance in New Zealand's government of professional policy advisors. Graham Scott, Ian Ball, and Tony Dale write that advisors (including the authors) believed economic theory could explain why government was failing.<sup>4</sup> The first theory, known as "public choice," predicts that special interests will tend to be better informed than the general public. The theory shows that small, well-organized interest groups can co-opt public policy for their own ends. The advisors believed that such groups had prevented broader social interests from reforming education. The national crisis in New Zealand became the catalyst for putting economic theory into practice.<sup>5</sup>

The second theory that the advisors drew on was that of "agency cost." Agency costs arise because no employer can write a contract that specifies exactly what each employee should be doing all the time or expect to monitor an employee's activities every hour of the day. Eugene Fama and Michael Jensen extend the theory of agency cost by arguing that, in complex organizations, knowledge is localized and costly to transfer between employees.<sup>6</sup> In this version of agency costs it is better to leave decisions up to the individuals with local knowledge. This theory gave advisors the relevant knowledge for meaningful change in education. As predicted by the theory of agency costs, bureaucracies in New Zealand were both costly and ineffective. A primary reform across

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<sup>3</sup> G Scott, I Ball, T Dale, New Zealand's Public Sector Management Reform: Implications for the United States, *Journal of Policy Analysis and Management*, Vol. 16, No. 3, 1997 p358

<sup>4</sup>Id., p359

<sup>5</sup> Supra note 2, p27

<sup>6</sup> E Fama, M Jensen; Agency Problems and Residual Claims, *The Journal of Law and Economics* 1983;E Fama, M Jensen; Separation of Ownership and Control, *The Journal of Law and Economics*, 1983

both education and many other public sectors was to eliminate much of the centralized bureaucracy and turn decisions over to the individuals with local knowledge. Although other countries implemented similar reforms, Scott, Ball, and Dale argue that New Zealand was more successful because reforms went further. Other countries let managers manage by eliminating bureaucratic constraints on decision making whereas New Zealand made managers manage by holding individuals responsible for results. To do this, the government had to shift from directing activities (e.g. telling engineers how to build roads) to monitoring outcomes (whether roads are being built on time and on budget). By focusing on outcomes New Zealand was able to take advantage of local knowledge, but still hold managers accountable for their actions.

Some of the most substantial reforms took place in education. The scale and success of these reforms have made New Zealand's experience relevant to policymakers in other countries. Several books have been authored on the subject, including works by Mark Harrison,<sup>7</sup> and Edward Fiske and Helen Ladd,<sup>8</sup> which are referenced in this paper. Many of the social and economic problems facing New Zealand, such as high unemployment and crime, could be traced back to failures in the education system.<sup>9</sup> In 1986, one third of all children left school with no diploma or equivalent certification.<sup>10</sup> In addition, centralized bureaucracy consumed seven out of every ten dollars spent on education<sup>11</sup> and directed every facet of school life down to the number of scissors in each school.<sup>12</sup>

Ministers were not free-market ideologues; one of the first actions of the new government was to phase out public funding of private schools (the action was later reversed). The move toward market-based reforms came later when ministers realized that bureaucratic solutions were not working.<sup>13</sup> In 1987 the Prime Minister, David Lange, took over the

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<sup>7</sup> M Harrison, *Education Matters: Government, Markets and New Zealand Schools*; *NZ Education Forum* (2004)

<sup>8</sup> *Supra* note 2

<sup>9</sup> *Id.*, p30

<sup>10</sup> New Zealand background Country Report - The Role of National Qualifications in Promoting Lifelong Learning; OECD (September 2004) p5

<sup>11</sup> M McTigue, M Ladner; *School Choice Kiwi-style*; Frontier Center for Public Policy (2001) <http://www.fcpp.org/pdf/kiwistyle.pdf>

<sup>12</sup> *Supra* note 2, p31

<sup>13</sup> *Supra* note 2, p33

education portfolio and commissioned progressive businessman Brian Picot to find a solution to the crisis in education. The result was the *Picot Report*, published in 1988.<sup>14</sup> Lange took much of the recommendations from the first report and published a second, *Tomorrow's Schools*,<sup>15</sup> under his own name.<sup>16</sup> The second report dealt less with how funding should create incentives for performance, and more on redesigning the management structure of schools. In particular, Lange focused on giving more decision-making power to principals and parents. Ministerial pronouncements made it clear that the *Tomorrow's Schools* reforms were never designed to privatize New Zealand's schools. Ministers saw better management of the nation's state schools as a means of securing the future of public schooling. Lange claimed the program "would create a powerful grass-roots lobby of 17,000 advocates for public education,"<sup>17</sup> referring to the new Trustee positions that would be created.

In 1989, the government set about putting the recommendations from *Tomorrow's Schools* into practice, albeit with concessions to teachers' unions. In the same year, Lange resigned and was followed by two Labour Prime Ministers in short succession. In 1990, the National Party regained power after six years in opposition. The new government chose to continue the reforms started by Labour and go beyond Picot's original recommendations. The new education minister, Lockwood Smith, believed in the fundamental right of parents to decide what is in the best interests of their child.<sup>18</sup> To this end he openly sought to shift central government's role from a supplier of education services to a purchaser of outcomes. Although the new government did not oppose public ownership of schools, this became a means to success rather than an end in itself.

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<sup>14</sup> Department of Education, *Administering for Excellence: Report of the Taskforce to Review Education Administration* (1988)

<sup>15</sup> D Lange, D. (1988), *Tomorrow's Schools. The Reform of Education Administration in New Zealand*

<sup>16</sup> C Bennett, The New Zealand Principal Post-Picot; *Journal of Educational Administration* (1994)

<sup>17</sup> Supra note 7, p3

<sup>18</sup> Supra note 2, p181

## II. Chronology of the *Tomorrow's Schools* Reforms

Treasury reformers sought to make schools accountable to parents by transferring power from the central government bureaucracy to a locally elected board of trustees. Teachers and students were represented on the board, but only parents' representatives were allowed to vote. To avoid conflicts of interest, legislation in 1992 prevented a teacher from becoming a trustee of a school where they taught. The idea behind creating a boards of trustees was taken from the economic theory of agency cost: Devolving power downward can take advantage of the local knowledge available to teachers and parents who can better observe educational outcomes. In making schools accountable to parents, the government disenfranchised other interest groups, including the taxpayers who were funding the education system. Teachers and bureaucrats, who were concerned about losing their influence or jobs, resisted reform. The taxpayers who fund schools were also disenfranchised but are not a tightly organized interest group.

### Establishing Performance Goals and Accountability

In the new system, rigid control was replaced with a “tight-loose-tight” system.<sup>19</sup> Schools would be given clearly specified goals (tight), a large degree of flexibility in achieving them (loose), and held accountable through a tough inspection system (tight). Establishing goals and performing inspections that would hold the schools accountable were the new functions of the centralized bureaucracy. Thus, as New Zealand's schools gained greater autonomy, the role of the educational bureaucracy had to be curtailed or reformed. The Department of Education was replaced by a smaller Ministry of Education (MoE). Likewise, the Boards of Education, which played a similar role to the school districts in many American states, were abolished. Revision of the centralized national curriculum, although part of the original Picot reforms, had to wait until 1993.<sup>20</sup> Specific directions were replaced with seven general subject areas, such as math and English, and eight “essential skills,” such as “communication” and “problem-solving.” Individual

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<sup>19</sup> Supra note 2, p171

<sup>20</sup> Id., p114

schools were given discretion over how to achieve government goals in these subjects as well as the freedom to add additional subjects.

Prior to reform, the government had relied on a corps of inspectors who were not part of schools but were directly responsible to the Department of Education.<sup>21</sup> These inspectors not only monitored whether schools were meeting government targets, but played an active role in decision making.<sup>22</sup> Following the governance reforms, inspectors became dispassionate observers, monitoring performance rather than enforcing compliance.<sup>23</sup> The government also continued to monitor the performance of schools through competency tests at ages six and nine and through an oversight process.

The first duty of each new boards of trustees was to produce a charter establishing the principles for governing their school. Each charter was made in consultation with the local community and approved (or rejected) by the MoE.<sup>24</sup> Thereafter, schools were responsible to only the small and concerned constituency of parents, although the Ministry continued to hold each school accountable for following its charter. Schools were allowed to amend their charters at a later point through the same process. In extreme cases, the Minister of Education (and only the minister) could dismiss the board. A MoE appointed adjudicator would then decide if the principal should be allowed to stay.<sup>25</sup>

### Block Grants Based on Performance

For ordinary operating costs, the government issued block grants, based in part on total student enrollment. Whereas detailed budgets reflect the priorities of the central government, block grants allow spending to be tailored to local needs. The government did not, however, adopt Picot's recommendation that schools be given a block grant for staff. Unions successfully lobbied to maintain national pay scales that rewarded

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<sup>21</sup> Id., pp22-23

<sup>22</sup> Id.

<sup>23</sup> Id., pp95-96

<sup>24</sup> Id., p50

<sup>25</sup> Id., pp 293-4

qualifications and years of service, not quality of teaching or the difficulty of the job.<sup>26</sup> If a school hired fewer or less-qualified teachers, then savings went directly to the central government.

In 1991, the new Education Minister, Lockwood Smith, attempted to introduce block grants for staffing. Under the proposed scheme, teachers could not be paid less than they would have received under national pay scales, but parents and principals would be allowed to use their local knowledge to reward better performing teachers. With national pay scales were not only schools prevented from rewarding performance, but the scales were based only on qualifications and experience. The problem with national pay scales is that if good teachers are not rewarded, then some will opt either to put in less effort or leave education. With block grants, schools would have been able to hire teachers who are less highly compensated by national pay scales and keep the savings. In addition to compensating good teachers, schools could use the savings to reduce class sizes or increase spending in other areas. With block grants it would therefore be easier to attract and retain good teachers by paying them more.

Several studies in the United States indicate that teachers would financially benefit from switching to block grants although some teachers may be better off under centralized bargaining.<sup>27</sup> As public-choice theory predicts, organized special interests (in this case, teachers' unions) became the primary obstacle to reform for two reasons. First, teachers' unions only represent those who currently teach, not those who might be enticed into teaching by higher salaries. Second, unions do not perfectly represent teachers' interests when the interests of the union are different. If a teacher can command wages above the national pay scale then they do not benefit from the bargaining power of unions. Opposition to block grants by unions forced Smith to compromise by introducing grants only on a trial basis. When applications for the trial closed in 1992, only 3 percent of schools had opted-in.<sup>28</sup> That same year, block grants became compulsory for senior staff. The ministry increased incentives in 1996 and again in 1998 so that all schools would

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<sup>26</sup> Id., p161

<sup>27</sup> Supra note 7, p21

<sup>28</sup> Id., p217

receive a higher staffing budget if they opted for block grants.<sup>29</sup> Teachers' unions responded to Smith's renewed efforts with a grassroots campaign against block grants; successfully persuading 73 percent of boards to reject the option.<sup>30</sup> In 2000, the incoming Labour government abolished block grants for staffing entirely at state schools although they remain for some private schools receiving public money.<sup>31</sup>

### Tying Funding Levels to Performance

Schools gained greater discretion over their budgets but were now held accountable because funding levels were tied to enrollment. Enrollment levels became useful measures of success because parents had greater choice over where to send their children.

Successful schools would receive more funding but failing schools would have funding cut. Staffing levels were also based on the number of students enrolled. If enrollments fell, then the number of teaching jobs fell too, putting peer pressure on underperforming teachers. The system was not completely competitive though and was weakened over time. For example, complete discretion was reserved for operating costs alone; less than a third of total day-to-day expenses.<sup>32</sup> Furthermore, the government began weakening the link between operating grants and student enrollments. In 1995, the "Targeted Funding for Educational Assistance" (TFEA) program tied school budgets in part to the socio-economic status of students.<sup>33</sup> Although the program was aimed at poorer students, 60 percent of schools received funding on this basis. Smaller schools also received more direct funds per student to prevent rural school closures. A 1997 study by the United Nations found that per-pupil funding at primary schools accounted for just 56.4 percent of total operational funding.<sup>34</sup>

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<sup>29</sup> Supra note 7, p217

<sup>30</sup> Supra note 2, p162

<sup>31</sup> N. LaRocque, School Choice: Lessons from New Zealand, Briefing Papers. 12. *Education Forum* (2004) Table 7.3

<sup>32</sup> Supra note 7, p217

<sup>33</sup> Supra note 2, p143

<sup>34</sup> Id., p143, citing Pole (1997)

The total proportion of funding tied to students is even smaller than the UN figures reveal. The government retained ownership of capital (i.e. land and buildings) used by schools, and opted to fund new investment out of the central budget. Total capital spending per child in 2002–03 was NZ \$1,095 out of total spending of NZ \$4,625.<sup>35</sup> Government schools do not pay rent on the land or buildings they use. Free rent is an implicit subsidy based on an input (the value of the land and buildings) rather than an output (the number of students taught) or an outcome (the benefits arising from teaching those students). The value of this subsidy to each student rises as enrollments fall. Consequently failing schools may see per-student funding rise, rewarding schools for being less efficient.<sup>36</sup> By retaining control of capital budgets, the government also prevented popular schools from expanding without MoE permission. The ministry proved unwilling to pay to expand successful schools when other schools had space, thus limiting access to good schools.<sup>37</sup> By rewarding failing schools and constraining the expansion of successful schools, implicit capital subsidies work in direct opposition to the goals of New Zealand’s school reforms.

### Equality of Access

In 1986, one in three students in New Zealand left school without any diploma or similar certification.<sup>38</sup> Most likely to fail were poor and minority students.<sup>39</sup> Ministers believed that the high dropout rate in New Zealand’s schools contributed to the nation’s high unemployment, crime, and social polarization.<sup>40</sup> The government responded with a commitment to “lifelong learning.”<sup>41</sup> Each student would now complete modular units of learning or unit standards which would be entered into an individual Record of Learning.<sup>42</sup> Each student could therefore expect to leave school with a nationally recognized qualification associated with particular learning outcomes.

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<sup>35</sup> Supra note 7, p171

<sup>36</sup> Id., p222

<sup>37</sup> Supra note 2, p250

<sup>38</sup> Supra note 10, p5

<sup>39</sup> Supra 2, p31

<sup>40</sup> Id., pp30-31

<sup>41</sup> Supra note 7, pp.54-56

<sup>42</sup> Supra note 10, p8

The government sought to eliminate the disadvantage to students who did not have access to good local schools by eliminating geographical restrictions. The 1989 Education Act amended school zoning laws to allow students to attend any school with space, but children retained the right to attend a local school. The National Party sought to extend choice reform further by abolishing all zoning laws in 1991.<sup>43</sup> These reforms benefited parents who either did not, or could not afford, to live near the best school. Although choice has the potential to broaden, rather than redistribute access to the best schools, some beneficiaries of zoning objected; including childless homeowners. Before zoning was abolished, wealthy parents had bid up the value of houses near the best schools. That benefit disappeared once students could attend schools in other districts.

Instead of allowing popular schools to expand, the government required oversubscribed schools to implement enrollment schemes. The ministry decided how many students a school could admit but the school chose which students to admit, provided they did not discriminate on economic, racial, or religious grounds.<sup>44</sup> By limiting access to successful schools the government created an incentive for those schools to favor students from wealthier families. New Zealand allows schools to charge voluntary user fees in addition to raising money from other voluntary and commercial activities. Students from wealthier families can typically be expected to pay higher user fees.<sup>45</sup> Indeed, critics note that enrollment schemes have led schools to discriminate against disadvantaged students by picking students from affluent areas or using subjective criteria.<sup>46</sup> In 2000, the new Labour government responded to unequal access under the existing enrollment schemes but chose not to introduce capital grants which would have allowed good schools to expand. Instead, ministers reintroduced zoning laws and took away schools' powers to control admissions.<sup>47</sup>

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<sup>43</sup> Supra note 31

<sup>44</sup> Id., pp217-18

<sup>45</sup> Id., p83

<sup>46</sup> Id., p218

<sup>47</sup> Supra note 31

Choice in New Zealand did remain in one aspect of the education system: Since 1975, private schools have been allowed to integrate into the public system.<sup>48</sup> Integrated schools are subject to greater regulation than other private schools but less than state schools. In return for integration, schools are permitted to receive the same non-capital grants as government schools. As state schools receive an implicit subsidy in the form of capital, integrated schools are also permitted to charge tuition fees to cover their capital costs. Allowing private schools to recoup capital costs is necessary if parents are to be given alternatives to failing schools. By keeping capital costs out of the block grants, the government made this option unavailable to low income families. In response the National Party established the Targeted Individual Entitlement (TIE) in 1998—a voucher scheme for low income families—but this was abolished by the incoming Labour government in 2000.<sup>49</sup>

### III. Outcomes

One of the first and most noticeable effects of New Zealand’s reforms was an increase in the amount of money reaching students. Transferring decision making power to school staff and parents eliminated the need for a costly and ineffective bureaucracy. Prior to reform, 70 percent of the education budget went to the bureaucracy and just 30 percent reached the classroom.<sup>50</sup> Following reform this ratio was reversed, doubling the amount of money reaching classrooms.<sup>51</sup> Some of the saved money was used to improve student-teacher ratios. As of January 2009 these ranged from 15:1 to 29:1 depending on the age of the child.<sup>52</sup> While spending in the classroom and student-teacher ratios, among other measures, have shown clear improvement, these are activities. Measuring outcomes has proven more difficult for both supporters and critics.

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<sup>48</sup> This was permitted by the Private Schools Conditional Integration Act (1975)

<sup>49</sup> Supra note 31

<sup>50</sup> Supra note 11

<sup>51</sup> Id.

<sup>52</sup> Ministry of Education; *Resourcing Handbook: School Staffing*, (2008) p15

[http://www.minedu.govt.nz/~media/MinEdu/Files/EducationSectors/PrimarySecondary/SchoolOpsResourcing/2009\\_FSA\\_Handbook\\_Chapter2\\_update1\\_Dec\\_08.pdf](http://www.minedu.govt.nz/~media/MinEdu/Files/EducationSectors/PrimarySecondary/SchoolOpsResourcing/2009_FSA_Handbook_Chapter2_update1_Dec_08.pdf)

One reason for the difficulty is that while activities can be measured by an outside observer, it is far harder to measure outcomes without local knowledge. For example, testing cannot measure whether a teacher had left students with a lifelong passion for her subject or simply taught them to pass tests. Moreover, different students may benefit from different approaches. For example, most students would gain little from attending a music conservatoire but a small number will gain greatly. New Zealand's reforms allowed for a range of schools reflecting the diversity of students. This difficulty in monitoring outcomes was, in part, the reason for devolving the monitoring of outcomes to parents. *Tomorrow's Schools* altered the goals of education: In contrast to the standardized approach that existed before reform, choice and governance reforms have allowed schools to teach students differently according to individual needs. Whether a Maori school serves students better by teaching Maori culture or the Kings and Queens of England is a normative judgment that cannot be empirically assessed. What is clearer is that parents have proven enthusiastic supporters of the reforms—a fact even vocal critics accept.<sup>53</sup>

Critics instead charge that the difficulty in measuring outcomes is itself a fault of New Zealand's education system. The nation has no system of compulsory examinations. Critics allege that the lack of standardized testing increases the costs to parents of choosing a desirable school because there is not enough publicly provided information to help choose. The charge goes that low-income families (who may themselves be less educated) are less able to evaluate the quality of schooling than wealthier families. This claim is not supported by evidence: The Smithfield Project found that poor families make the same choices as wealthy families and experts do.<sup>54</sup> Moreover, parents take into account learning outcomes that cannot be measured—such as leadership, creativity, or moral values—when choosing a school. This use of local knowledge is an intended benefit of the *Tomorrow's Schools* reforms. Standardized testing can lead schools to

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<sup>53</sup> Supra note 2, pp73-77

<sup>54</sup> Id., p218, citing Treasury (1997) p70

“teach to the test.”<sup>55</sup> By contrast New Zealand’s schools can, and must, respond to parents’ demand whether results are quantifiable or not. For example, parents are frequently vocal on matters of health and safety, and discipline.<sup>56</sup> That these benefits are hard to quantify appears to be more of a disadvantage to academics and policymakers than to parents.

Critics also allege that choice shuts out poorer families from the best schools. While disparities exist between schools,<sup>57</sup> the evidence suggests that choice works to reduce inequalities of opportunity. A study in the UK found that homes in the same zone as top schools could be worth 16–20 percent more as parents bid up property value.<sup>58</sup> With zoning, wealthy families can buy a better public education and shut out the less affluent. By contrast, choice allows poor families to attend good schools in another district. More importantly, competition under choice has the potential to improve the quality of schooling overall, allowing more children to attend good schools.

There is some evidence that school enrollment policies do contribute to unequal access to education, although the evidence is based on a single year when enrollment schemes were replaced by lotteries.<sup>59</sup> Assigning students to schools by lottery may improve access for poorer families when schools are prevented from expanding. As noted above, the system of enrollment schemes provides schools with an incentive to discriminate against lower-income families because these families will tend to make smaller donations. This is a consequence both of user fees and MoE control over capital budgets. While lotteries may eliminate discrimination on the basis of income, they do not eliminate the source of the inequality. Some children will still have to attend bad schools even though the criteria for discrimination has been changed. To achieve real improvements in equality, access to good schools must be increased rather than redistributed.

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<sup>55</sup> T Kane, D Staiger; The Promise and Pitfalls of Using Imprecise School Accountability Measures; *The Journal of Economic Perspectives*, Vol. 16, No. 4 (2002), p 109

<sup>56</sup> *Supra* note 2 p76

<sup>57</sup> *Id.*, pp. 193-4

<sup>58</sup> David Leech & Erick Campos: Is comprehensive education really free?; *Journal of the Royal Statistical Society.*, Vol. 166, No. 1, (2003), pp. 135-154

<sup>59</sup> *Supra* note 2, p195

As was noted above, free rent is a subsidy to schools that is unlinked to enrollments; meaning that underperforming schools receive a higher subsidy per student. If the MoE were to charge schools rent for land and buildings then all schools would be forced to base spending decisions on total costs. The capital budget (including all revenues from rent) could then be distributed among schools—allowing good schools to expand and take in more students. Policymakers tend to view expanding schools (or building new schools) as inefficient when some schools have space. In fact, this eliminates the inefficiency created when land and buildings are unused even though some students are unable to attend the best schools. Achieving the goal of giving each child access to the best possible education means forcing some failed schools to close.

As mentioned earlier, one third of the students left school in 1986 without any diploma or equivalent certification.<sup>60</sup> In 2001, the figure was 17 percent; lower than before the reforms but higher than in 1989.<sup>61</sup> In 2007, the Ministry of Education reported this number dropped to 4.9 percent.”<sup>62</sup> For students in the poorest 30 percent of the country, however, it rose to 9.3 percent—higher than the 2.1 percent reported for the wealthiest 20 percent but a significant improvement on pre-reform numbers for the nation as a whole.<sup>63</sup>

One possible effect of school choice may be increased racial segregation.<sup>64</sup> In New Zealand this is largely due to native Maoris choosing schools that specialize in teaching Maori culture.<sup>65</sup> De-zoning Maori schools may therefore have reduced geographical segregation of families.<sup>66</sup> Choice may also have played an important role in the resurgence of Maori culture. More importantly, Maori students are performing better since reforms started. For the first time ever in 2001, the Maori rate of participation in tertiary education exceeded that of non-Maori.<sup>67</sup> The number of Maori completing

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<sup>60</sup> Supra note 10, p5

<sup>61</sup> Supra note 7, p103

<sup>62</sup> P Stock; *School Leavers: 2007*; Ministry of Education (2008)

[http://www.educationcounts.govt.nz/statistics/schooling/school\\_leavers2/school\\_leavers/28964/28965](http://www.educationcounts.govt.nz/statistics/schooling/school_leavers2/school_leavers/28964/28965)

<sup>63</sup> Id.

<sup>64</sup> Harrison, *Education Matters*; *NZ Education Forum* (2004) pp 226-7

<sup>65</sup> Id.

<sup>66</sup> Id., p228

<sup>67</sup> Supra note 10, p17

formal qualifications—such as diplomas or certifications—has doubled between 1997 and 2001. For New Zealand’s other major ethnic group, Pacific Islanders, the figure increased 42 percent.<sup>68</sup> In 2007, 10 percent of Maori left school with little or no formal attainment—the highest number of any racial group but still substantially lower than one third for the entire country.<sup>69</sup> The figure was 3 percent for Europeans.<sup>70</sup>

Recent evidence suggests New Zealanders now enjoy one of the world’s leading educational systems, albeit at a cost. In 2004, the country reported the fifth-highest percentage of national income spent on education out the 31 developed nations in the OECD.<sup>71</sup> The cost appears to be justified because reforms have allowed that money to be spent effectively. The country performed fourth highest in science and reading, and seventh highest in math in the same group of developed countries, outperforming OECD averages on all metrics.<sup>72</sup> Despite changes in political parties and some backsliding towards increased centralized bureaucracy, many of the reforms have survived thanks to widespread support among parents.<sup>73</sup>

Some slippage has occurred. Central administration costs rose from 4.7 percent before Picot to 6.4 percent in 1993–94.<sup>74</sup> In 2002, the Labour government introduced a new curriculum. The eight essential skills outlined in the 1993 curriculum were replaced with five vaguer key competencies. These were supplemented by eight values—including equity and ecological sustainability—and a further eight principles. If governments are unable to resist further temptation to politicize the curriculum, the efforts of reformers may be undone.

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<sup>68</sup> Id.

<sup>69</sup> Supra note 61

<sup>70</sup> Id.

<sup>71</sup> OECD Factbook (2008) <http://puck.sourceoecd.org/vl=1629258/cl=23/nw=1/rpsv/factbook/>

<sup>72</sup> Id., Educational outcomes are for 2006

<sup>73</sup> Supra note 2, p8

<sup>74</sup> Supra note 7, p218, citing Treasury (1997) table 4.22, p138

## IV. Applicability to the United States

In 2004 the United States spent the second highest percentage of national income on education out of 31 developed OECD countries,<sup>75</sup> but in 2006 ranked just 22nd in science and 26th in mathematics.<sup>76</sup> In both instances this was below the OECD average. The US was unranked in reading.<sup>77</sup> The evidence indicates that Americans are paying for a world class education system but are not getting one. Like New Zealand in the early 1980s, the education system isn't translating money into results.

The United States is roughly 75 times more populous than New Zealand. The Department of Education reports serving “more than 14,000 school districts and approximately 56 million students [...] 97,000 public schools and 28,000 private schools.”<sup>78</sup> Unlike New Zealand, the United States has federal and state governments with overlapping responsibilities. The overall federal role, however, is small with a budget of under \$70 billion.<sup>79</sup> Education in the United States remains primarily a state and local responsibility. New Zealand is approximately the same size as the average U.S. state. Furthermore, most states operate Departments of Education and school districts similar to the former Department of Education and Boards of Education in New Zealand. Lessons from New Zealand are thus directly relevant to the United States today.

In 2001, President Bush signed into law the *No Child Left Behind Act* in an attempt to bring accountability to the U.S. education system. A similar scheme in Florida, launched in 1999, was the subject of an empirical study by David Figlio and Cecilia Rouse.<sup>80</sup> Florida aimed to equalize access to education by giving students from low-income families vouchers to attend another school if their local school was deemed to be failing. Figlio and Rouse found systematic improvements in test scores under the Florida

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<sup>75</sup> Supra note 70

<sup>76</sup> Id.

<sup>77</sup> Id.

<sup>78</sup> <http://www.ed.gov/about/overview/budget/index.html>

<sup>79</sup> Id.

<sup>80</sup> DN Figlio, CE Rouse; Do accountability and voucher threats improve low-performing schools? *Journal of Public Economics*, 2006

program. The authors also found that both the threat of vouchers and the stigma of receiving a failing grade brought improvements in the worst performing schools. Other states have also introduced accountability measures with positive outcomes. In a survey of all 50 states, Martin Carnoy and Susanna Loeb (2002) find that states with strong accountability measures in place made significantly greater gains in national testing.<sup>81</sup> Furthermore, the authors found that strong accountability measures were not correlated with lower rates of high school completion or increased numbers of students being held back a grade.

Accountability measures in the United States have delivered demonstrable improvements in performance, but benefits may have been limited. When Thomas Kane and Douglas Staiger studied the impact of linking financial rewards to test results in the United States, they found that imprecise testing measures can be counter-productive.<sup>82</sup> The authors noted that testing encourages teachers to “teach to the test” and, in some cases, even cheat.<sup>83</sup> Linking test results to pay does provide an incentive for teachers to use their local knowledge to deliver improvements but does not utilize the local knowledge available to parents. Whereas tests are only a snapshot of student performance, parents can monitor their child’s performance all year round. Tying pay to testing also cannot tailor education to local needs, or address parents’ concern for non-academic components of education such as discipline. In New Zealand, these problems were overcome by making schools directly accountable to parents through a board of trustees.

Lessons from New Zealand indicate that U.S. students may be better served if policy makers switch from directing activities to monitoring outcomes. If the United States were to implement New Zealand-style reforms, more resources could be directed toward classrooms and away from the bureaucracy. Making schools directly accountable to parents would ensure this money is spent effectively. Reform would be most likely to succeed if schools are also be given the maximum freedom to respond to the demands of

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<sup>81</sup> M Carnoy, S Loeb, Does External Accountability Affect Student Outcomes? A Cross-State Analysis, - *Educational Evaluation and Policy Analysis*, 2002

<sup>82</sup> T Kane, D Staiger; The Promise and Pitfalls of Using Imprecise School Accountability Measures; *The Journal of Economic Perspectives*, Vol. 16, No. 4 (2002), pp. 91-114

<sup>83</sup> Id., p109

parents, including the power to control their entire budget and to set hiring and firing policy.

The evidence from New Zealand and Florida suggests that accountability works best when parents can choose the school they believe is right for their child. Fully funding schools through block grants creates a strong link between performance and rewards. To ensure equal access to schools for children in all income brackets, block grants need to incorporate the cost of land and buildings. This allows new schools to be built and good schools to expand in response to demand from parents.

## **V. Conclusion**

The *Tomorrow's Schools* reforms in New Zealand fundamentally overhauled an education system that was bureaucratic and inefficient. Even leading critics of the reforms, Edward Fiske and Helen Ladd, admit that “literally no-one, not even the most vocal critics of the new fiscal and enrollment policies . . . wanted to go back to the old highly regulated system.”<sup>84</sup>

New Zealand's reforms were premised on a shift from directing activities to monitoring outcomes. Schools were given the freedom to teach and were made accountable to parents through a board of trustees. New Zealand discovered that parents have local knowledge that allows them to better judge the quality of teachers than MoE bureaucrats. The reforms allowed schools to respond directly to the demands of parents based on this local knowledge. The results of reform indicate substantial improvements in overall performance with fewer students being failed.

However, the benefits of reform were significantly limited by restrictions imposed by the government. Schools were not given complete freedom over staffing budgets. Block grants for staffing would have allowed schools to pay more to attract and retain good

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<sup>84</sup> Supra note 2, p73

teachers. In addition, the overall effect on teaching salaries need not be negative and the best teachers would be rewarded for their performance.

Another reform that may have had perverse consequences results from the fact that only a portion of school's operating costs are tied to enrollments. Consequently, funding per student may fall at good schools that are able to attract more students. Capital expenditures remain entirely under the control of the Ministry of Education. The government could increase the benefits by giving each school a block grant based purely on student enrollments. This would create stronger incentives for schools to respond to parent's demands. By making these grants include the cost of land and buildings new schools can be built and good schools can expand when parents demand it. This would allow every student the opportunity to attend a good school

The United States currently has one of the most expensive education systems in the world but some of the worst educational outcomes in the developed world. Policymakers in the United States can learn from New Zealand's successes and failures to give Americans the education system they pay for.