

REPORT

NOT FOR PROFIT

THE ROLE OF THE
PRIVATE SECTOR IN
ENGLAND'S SCHOOLS

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INTRODUCTION

‘We have seen the future in Sweden and it works.’

Michael Gove, 2008

A political debate has started in England about the role of the private sector in our schools system. The education secretary Michael Gove has introduced ‘free schools’, new independent state schools operated on a not-for-profit basis which can be established where there is parental demand. Right-of-centre thinktanks and commentators are now arguing that the government should go further and allow profit-making private providers to set up free schools.

Proponents of for-profit schools argue that:

- competition between schools for pupils is the best way to increase the number of good school places and that only for-profit firms will have sufficient incentives to expand
- where for-profit providers have run schools around the world they have done so successfully
- allowing private companies to open new schools is the best way to finance the capital requirements of new school places
- schools need greater flexibility over pay and conditions to improve the quality of teaching and that allowing private providers into the system is the best way of achieving this
- the private sector already operates services in other parts of the education system, such as early years and alternative education services, so there can be no objection in principle to commercial organisations running schools.

This paper contests each of these arguments. While competition can play a role in public services, the evidence on the efficacy of increasing competition between schools is weak. The international evidence is clear that the strongest drivers of school improvement are high-quality leadership and teaching, school autonomy in areas like curriculum and assessment within a framework of robust accountability, and measures that systematically reduce class-based inequalities in attainment. Systems that have introduced market-oriented reforms are not sitting at the top of the international performance league tables. Instead, more competition-oriented systems tend to produce higher levels of educational segregation with richer and poorer children more likely to attend different schools.

In order to encourage innovation, there is a strong case for allowing new providers to set up or take over schools. But we already have a flourishing not-for-profit school sector in England: there are no competition or innovation grounds for allowing for-profit schools.

The international evidence on the performance of for-profit school providers is at best mixed. The evidence is limited to a small number of countries (Chile, the United States and Sweden) where commercial providers operate at scale. The evidence from these cases shows that in some cases not-for-profit providers proved more successful than their for-profit competitors, while in others commercial providers proved more successful. Much of the evidence in this area can also be legitimately contested on methodological grounds. Taken together, this hardly constitutes a convincing case for allowing private companies into the English school system. Still less does it support the claim that in opposing the privatisation of schools we are ‘condemning many of Britain’s least fortunate kids to a duff education’ (O’Brien 2011).

The financial case for private sector involvement is particularly weak: even at a time of budget cuts across the public sector, the government has recently found hundreds of millions of pounds to meet the rising demand for new school places. Moreover, looked at in the long term, it is much cheaper for the government to raise this capital funding itself than for the private sector to do so at the taxpayer's expense.

No one disputes that improving the status and standard of teaching is crucial to improving school standards – indeed, as numerous international surveys and a recent government white paper have argued, this is likely to be the single biggest factor in driving school improvement. There is a vital reform agenda here covering recruitment, professional development, remuneration and performance management. However, the argument that the best or only way to achieve this is to let private companies take over schools does not hold up to serious scrutiny.

Finally, proponents are correct to point out that the private sector already delivers a number of important services in our education system, including running institutions as important as pupil referral units and nurseries. However, the way these services are delivered is the legacy of decisions made by previous governments and those decisions do not logically bind us to supporting a for-profit takeover of schools.

There *is* a role for the private sector in our education system. Indeed, markets in education services are likely to continue to grow as parents choose to spend more money on their children's education. Home tutoring and online distance learning are likely to continue to expand. In this context, then, the key challenge for policymakers is to ensure that this inevitable rise in parental expenditure on their children's education does not widen inequalities.

However, while there is a role for the private sector, schools themselves should not be run for profit. Given parents' growing concerns about the wider commercialisation of children's lives, introducing commercial incentives into the state school system seems particularly perverse. This paper argues that schools should be public institutions, situated at the heart of local communities and run in the public interest.

1. THE CURRENT ROLE OF THE PRIVATE SECTOR IN ENGLAND'S SCHOOLS

The private sector has always played an important role in the English schools system. We need to distinguish at the outset between the for-profit commercial sector, with which I am concerned in this paper, and the wider fee-paying sector. The UK has long had a strong privately owned fee-paying sector, the existence of which has been the subject of considerable political debate, linked as it is with the reproduction of class-based educational inequalities. However, most of what we call private or 'public' schools in the UK context are run on a not-for-profit basis and possess charitable status.¹

In terms of the state sector for-profit commercial firms have largely been limited to an ancillary role, although their importance has been growing in recent years. In one of the most comprehensive analyses of that sector to date, Stephen J Ball (2007) describes the evolution of what he calls an 'education services industry' in England, which he links to a wider move towards the use of private providers across public services under recent governments.

There are five different areas of private sector involvement in state schools.

First, private companies routinely provide all sorts of day-to-day ancillary services to schools and local authorities. On the human resources side these include providing continuous professional development (CPD) programmes and supply teachers (a market Ball estimates to be worth around £600 million a year). They also include services such as grounds maintenance, IT support and the provision of financial and performance management systems.

Second, the government has contracted private companies to deliver important national education programmes. In recent years these have included, for instance, Teacher's TV, the Connexions service and the teachers' pensions scheme.

Third, companies have been heavily involved in infrastructure modernisation, especially in new school buildings and IT programmes. The Building Schools for the Future programme established in 2005 aimed to rebuild or renew every secondary school in England by 2020. As part of this scheme, each local authority had to select a private partner to help them carry out the work and manage projects.

The Labour government's original academies programme included an important role for the private sector. The Labour academies were required to have a philanthropic sponsor who would contribute £2 million of the total of around £25–30 million required to build a new school.

Private finance initiative (PFI) projects have also been deployed to deliver new school buildings. By 2004 there were 86 PFI schools projects in England, covering around 500 schools. Following the scrapping of Building Schools for the Future, the Coalition government announced that it would use the PFI model to rebuild between 100 and 300 schools (Vasagar 2011).

New IT hardware supplied to schools has largely been delivered by the private sector. For instance, companies such as Cleverboard, Hitachi and SMART, have sold interactive whiteboards to local authorities and schools, as well as providing ongoing training and technical support.

¹ This has begun to change with a number of companies such as Cognita, Sovereign and GEMS buying up private schools and developing chains in the fee-paying market; see Ball 2007: 65.

Fourth, the private sector provides a great deal of specialist and supplementary education in England. This includes, for example, prison education, some pupil referral units, and post-compulsory programmes of work-based learning. In particular, the market for private tutors providing home-based supplementary learning has grown enormously in recent years. In 2009, 11 per cent of parents said that their child received private tuition in an academic subject, including 12 per cent regarding primary school children and 8 per cent regarding secondary school children (Peters et al 2009). It is estimated that 38 per cent of children in London have received some form of private home tuition (Sutton Trust 2011). There are some very large companies involved in this market: Personal Tutors, for example, has over 10,000 tutors on its books (Ball 2007).

Finally, the private sector has been brought in to run a small number of local education authorities and schools where existing providers were judged to be failing. By 2005, 14 local authorities had their education responsibilities contracted out to either the private sector or not-for-profit trusts. As these contracts have run their course, many of these councils have now taken the education management function back in-house.

In a small number of cases we have seen local education authorities go one step further and contract private companies to run schools themselves. Three secondary schools in Surrey have been fully outsourced, two run by 3E's and one by Nord Anglia. In 2010, the US firm Edison Learning won a contract to run the failing Salisbury School in Enfield, now renamed Turin Grove School (Wilby 2010).

The future

So far, the government has agreed that free schools can only be established by not-for-profit trusts. Indeed, the deputy prime minister has said: 'To anyone who is worried that, by expanding the mix of providers in our education system, we are inching towards inserting the profit motive into our school system – again, let me reassure you: yes to greater diversity, yes to more choice for parents, but no to running schools for profit, not in our state-funded education sector' (Guardian 2011b).

Nevertheless, the calls for letting the private sector open free schools or take over existing maintained schools have been growing louder. Michael Gove himself has said he has no objection in principle to the idea, saying: 'I am a Conservative, I do not have an ideological objection to businesses being involved but the professionals should make that decision' (Barkham and Curtis 2010).

The right-of-centre thinktanks want Gove to go further and have published a series of reports to make the case for profit-making schools. Their central claim is that competition from new providers is the best way to improve school standards and that only the profit motive will encourage enough new providers into the system to make a difference. The Institute of Economic Affairs argues that the majority of new free schools in the Swedish case have come from the private sector and that these have been 'essential to the increase in competition per se. The implication is clear – without the profit motive, the UK's reforms may fail' (Sahlgren 2010).

The Reform thinktank has also argued that 'the government should remove restrictions on free schools to substantially increase the number of new institutions and allow the effects of choice and competition to work' (Bassett et al 2010). In a report published earlier this year, Policy Exchange argues that 'there are limits to the numbers of groups and individuals ready to sponsor an academy or set up a new Free School' and that 'effectively

harnessing the profit motive could really enhance capability and lead to the emergence of new Free Schools at a faster rate' (Laird and Wilson 2012).

Private companies themselves are keen to run schools. Edison Learning is reported to have aspirations to move into the academies and free schools market, initially in providing support services for schools but perhaps later in running schools themselves (Coughlan 2011a). Global Management Education Systems (GEMS), based in the United Arab Emirates, already runs fee-paying schools in the UK and wants to move into the state sector. Its chief executive Anders Hultin has said: 'Running a school is quite complicated. It can't just be handed over to amateurs. We are exploring opportunities right now, supporting groups of parents. That's a natural starting point' (Wilby 2010).

Despite Nick Clegg's opposition to commercial providers running state schools, it is likely that an increasing number of free school trusts will contract private firms to manage their schools. In December 2011, for instance, the proposed Breckland Free School, run by parent-led group the Sabres Educational Trust, proposed that it would contract the Swedish company IES to carry out the day-to-day management of the school. This kind of governance and operations split is permitted under the government's rules, because free schools are allowed to buy in services from the private sector (Coughlan 2011b).

The rest of this paper addresses the main arguments that are made in favour of for-profit schools and argues that none of them is convincing. Rather, I argue that policymakers should be focusing on doing the things that we know from international evidence do the most to raise school standards: strengthening school leadership, improving the quality of teaching, giving schools autonomy while holding them robustly to account, and systematically tackling inequalities between children from different class backgrounds.

2. COMPETITION, INNOVATION AND DIVERSITY

One of the central claims of supporters of for-profit schools is that competition between schools is the best way to raise educational performance and that only for-profit firms will have sufficient incentives to expand.

This chapter comes in two parts: first, it examines the evidence behind the claim that competition is the best way to improve school standards, and then it goes on to make an important distinction between promoting competition and promoting innovation by allowing new not-for-profit providers to run state schools. While the evidence for the benefits of competition in education is weak, there is a strong case for allowing new providers into the system in order to foster innovation. However, I argue that there is already a large and vibrant not-for-profit education sector in England that is keen to get involved in running schools. There is, therefore, no case for letting the private sector into the system on either competition or innovation grounds.

Competition and educational outcomes

The Coalition government believes that competition is critical to improving outcomes and efficiency in the public sector. The government's critics have argued that market-based reforms will lead to greater inequality in outcomes, because those with more financial, educational and social resources are more likely to exploit the opportunity of consumer choice.

In relation to education, secretary of state Michael Gove has argued that increased competition and choice in countries like Sweden has improved outcomes: 'In Sweden, the old bureaucratic monopoly that saw all state schools run by local government was ended and the system opened up to allow new, non-selective, state schools to be set up by a range of providers. It has allowed greater diversity, increased parental choice and has seen results improve – with results improving fastest of all in the areas where schools exercised the greatest degree of autonomy and parents enjoyed the widest choice' (Gove 2010).

We should note that we have had modest forms of competition in our education system for some time. This goes back to the 1980s and the decision to give parents greater choice over where to send their children to school, a change reinforced by school league tables, which were intended to give parents the information upon which to base those decisions. Of course parental choice has always been limited by, among other things, a shortage of good school places and the practical desire of parents to send their children to a school that is not far from where they live. Nevertheless, schools have long been competing for pupils and certainly head teachers want to see their schools do well compared with others in the league tables. The free schools policy is intended to increase those competitive pressures by bringing in new actors and much greater choice.

But what does the international evidence show about the impact of greater competition? The most important findings come from the OECD's analysis of the PISA results, which compare how well different systems do educationally according to results in a common test taken by a sample of students in each OECD country. The OECD's findings (2010) from the analysis of its 2009 results are clear:

- In countries where schools have greater autonomy over what is taught and how students are assessed, students tend to perform better.
- Within countries where schools are held to account for their results through posting achievement data publicly, schools that enjoy greater autonomy in resource allocation tend to do better than those with less autonomy. However, in countries where there are no such accountability arrangements, the reverse is true.

- Countries that create a more competitive environment in which many schools compete for students do not systematically produce better results.
- Within many countries, schools that compete more for students tend to have higher performance, but this is often accounted for by the higher socioeconomic status of students in these schools. Parents with a higher socioeconomic status are more likely to take academic performance into consideration when choosing schools.

So, according to the OECD, what counts is school autonomy over curriculum and assessment within a framework of thorough public accountability (such as via the publication of test results on a school-by-school basis). Systems which promote competition between schools for students do not perform generally better than those that limit competition. Moreover, the OECD confirms that competitive systems produce greater levels of school segregation (OECD 2010).

In a recent paper, Rebecca Allen and Simon Burgess examine in detail four countries where a large number of quality empirical studies on the effects of school competition exist (Allen and Burgess 2010). I briefly summarise their findings below, supplementing them with other evidence where appropriate:

UK

Some studies have found that schools in urban areas outperform those in rural areas, which might be accounted for by greater competition and choice in urban settings, which tend to provide a larger number of schools within traveling distance of a pupil's home. Bradley and Taylor find that schools in urban areas appear to improve their results in response to improvements in neighbouring schools, an association that is not present in rural settings (Bradley and Taylor 2007). Gibbons et al also find faster improvements in more dense areas, but that the effect of urban density is not large (Gibbons et al 2008a). Allen and Burgess, however, point out that we do not know whether it is competition that makes urban schools improve faster or other factors, such as gentrification for example (Allen and Burgess 2010).

To tackle this, other studies have looked at schools close to local authority boundaries, as these are likely to be less competitive simply because parents tend to choose to stay within a local authority area. They find no correlation between competition, measured in that way, and school performance (Gibbons et al 2008b, Burgess and Slater 2006).

Other studies looked at the case of grant-maintained schools in England, as they were allowed to take pupils from a wider geographical area than other schools. These studies do not find that competition from grant-maintained schools improved the performance of neighbouring schools (Clark 2009, Allen 2008, Allen and Vignoles 2009).

A recent LSE study is often cited to prove that competition in education works (Machin and Veroit 2011). It found that the introduction of sponsored academies in England by the last Labour government was accompanied by improvements in neighbouring schools. This was an important study, which showed Labour's sponsored academies improving at a faster rate than comparable schools. And contrary to recent claims, this held true even when GCSE equivalents were excluded from the data.² The study offers good grounds for believing that allowing new providers into the school system can increase innovation and improve outcomes. What the study does not show is that competition *per se* generated

² There has been criticism that schools were encouraging pupils to take vocational courses that are equivalent to GCSEs in terms of league table standing but which many observers have claimed are less rigorous. Most of these equivalents have now been removed from the league tables (see Richardson 2012).

these improvements. It is just as likely that better results in schools near academies rose because of a wider school improvement programme affecting all schools during that period.

United States

The story from the US is somewhat more positive for competition: Bayer and McMillan (2005) find a positive correlation between competition and pupil test scores. Other authors find positive impacts on neighbouring schools from competition from charter schools in Texas, Michigan and North Carolina (Booker et al 2008, Hoxby 2001, Holmes et al 2003).

However, further studies contest these findings and find null or negative impacts from charters on neighbouring schools in Milwaukee, Florida, California and Ohio (Sass 2006, Buddin and Zimmer 2005, Greene and Foster 2002, Carr and Ritter 2007).

Sweden

Bohlmark and Lindahl (2007) find that there is a modest but positive effect of free school growth on overall student performance in an area, with the highest ability students benefiting most. However, these improvements are modest and, importantly, peter out by the time children reach the age of 18 or 19. Children in areas with lots of competition from free schools are no more likely to go to university than children in areas with less competition. Once the focus shifts to long-term progression the impact is lost and those at the bottom end of the attainment spectrum hardly benefit at all. This is supported by Bjorklund's finding that while competition did not harm student performance, nor did it have a major impact. For low-income students there is no positive impact at all from having a higher degree of local competition from free schools (Bjorklund et al 2005).

Bjorklund et al find that free schools have a higher proportion of children with higher educated parents than children whose parents only have compulsory-level education (ibid). Most studies conclude that the free schools policy has increased school segregation, beyond the level which occurs because of residential segregation (Wiborg 2010).

Chile

Studies from Chile show a mixture of outcomes, with some indicating a positive impact from competition on student achievement (Auguste and Valenzuela 2006) and others either no impact (Hsieh and Urquiola 2006) or a negative impact (Carnoy and McEwan 2003).

Importantly Lara et al find that once the prior attainment of children attending public versus independent schools is taken into account, this largely accounts for the differences between them. In other words the private voucher schools are not outperforming municipal schools; rather, they are attracting the more able students (Lara et al 2010).

Studies show that the Chilean voucher scheme has increased school segregation (Elacqua et al 2006).

Overall the evidence does not show competition delivering major improvements in educational performance. The fact remains that those countries that do the best in the OECD's PISA rankings are not those that have greater levels of competition.

The OECD is clear that, based on its analysis of the 2009 PISA results, competition is not correlated with high performance. The most important factors behind success are: providing all students with similar opportunities to learn (not segregating students down different educational tracks, for example), paying teachers more (which may be linked with the quality of teaching and the wider status of the profession), school autonomy in curriculum and assessment, strong forms of accountability, and high-quality pre-

primary provision (OECD 2010). According to the OECD, these things are more likely than competition to systematically improve educational standards.

Innovation and diversity

Commentators on school reform often fail to distinguish between promoting competition and promoting innovation through a greater diversity of providers. Even if the case on competition is weak, we might still want to encourage new actors to enter the schools system in order to bring with them new ideas and practices. Innovation is crucial to improving school standards: what we are doing currently is still failing far too many disadvantaged children, so within broadly the same level of resources we need to find ways of doing things differently.

The link between innovation and better educational outcomes is supported by international evidence. As we have seen, the latest OECD analysis of the PISA results across developed countries found that countries with greater school-level autonomy over what is taught and how it is assessed tend to perform better, so long as there is a strong framework of accountability in place (ibid). This is likely to be because these schools are better able to adapt what they teach to the needs of their learners. It might also be because it allows schools to innovate and try out new ideas, which across the whole system helps to improve outcomes.

The introduction of sponsored academies by the last Labour government was not essentially motivated by a desire to increase competition, but rather to introduce new leadership and stronger governance into schools that were underperforming. The most robust analysis of the first wave of sponsored academies has shown that these new forms of school outperformed comparable schools (Machin and Veroit 2010). Moreover they did this even when the contested GCSE equivalents are excluded from the data, and without any negative impact on neighbouring schools, which also improved over the same period. This shows that allowing greater autonomy and opening up the system to new actors can have beneficial effects.

We should of course note that innovation in a schools system is the product of a number of different things. Although evidence in this area is hard to come by, innovation is also likely to be driven by advancing continuous professional development among teachers, recruiting teachers and school leaders from a wide range of backgrounds, ensuring flexibility in the curriculum and utilising new technologies. But allowing new providers into the system should also generate new ideas and practices.

However, while there is a case for allowing new providers to run schools, do we need for-profit providers specifically in order to generate greater innovation? There might be, if there was a shortage of not-for-profit organisations willing to step forward to run schools. Proponents of letting for-profits into the system point out that in Chile and Sweden the overwhelming majority of new free schools or their equivalents are for-profit schools (64 per cent of free schools in Sweden and 56 per cent of charter schools in the US are run by private companies)(Laird and Wilson 2012).

However, unlike Sweden when it embarked on its free school reforms, England already possesses a large and vibrant not-for-profit education sector. The major churches in this country have long been involved in running state-funded schools: there are currently around 4,600 Church of England state schools, for example.

In addition there is the massive private fee-paying sector in this country, made up of around 2,600 schools, the majority of which are run by not-for-profit charities or charitable foundations. These have increasingly started to get involved in sponsoring academies in the state sector (Adonis 2011):

- Dulwich College is sponsoring an academy in Sheppey
- Wellington College is sponsoring an academy in Wiltshire
- the King Edward VI Foundation is sponsoring an academy in Birmingham
- the Girls Day School Trust has converted two of its private schools, in Liverpool and Birkenhead, into state academies
- three of the academy chains – built up by the Mercers Company, the Haberdashers Company and the City of London Corporation – have grown out of the management of historic private schools. The City Corporation now sponsors three academies in its neighbouring boroughs of Islington, Southwark and Hackney.

The rapid expansion of sponsored academies shows that there is a considerable appetite to run schools on a not-for-profit basis. Between 2002 and 2009, 203 academies were set up by not-for-profit organisations in England, each partly funded by philanthropic sponsors. Very many of these sponsors decided to sponsor more than one academy and we have seen a growth in so-called academy chains, which often take a single model for school improvement and apply it throughout all their schools. By February 2008 there were 40 sponsors of multiple academies either open or in the pipeline, including five (ARK, Harris, Oasis, ULT and British Edutrust) with plans for more than 10 each. All of this happened without any profit incentive.

This is also true if we look at the response to the government's call for free schools to be set up. Whatever one thinks of the free schools policy, it does demonstrate that there is an appetite among civil society, groups of teaching professionals and parent-led groups to get involved in running schools – and that this does not require a profit motive. This year the government received 281 applications to set up not-for-profit free schools and 37 applications to set up university technical colleges.

Conclusion

The case for for-profit schools rests on the claim that competition is the best driver for school improvement. The international evidence does not support this claim. The evidence on what works in terms of improving school standards emphasises other factors: the quality of teaching, the need to reduce educational inequalities and school autonomy and accountability. The claim that the one of the main barriers to improving standards is the exclusion of the private sector is simply not credible.

There *is* a case for opening the system up to new providers on innovation, rather than competition, grounds. However, there are already plenty of not-for-profit organisations willing to get involved in state education in England. There is no compelling innovation case for letting commercial organisations run schools.

3. THE PERFORMANCE OF COMMERCIAL SCHOOL PROVIDERS

Proponents of for-profit schools claim that where commercial providers have run schools they have done so successfully. This chapter puts that claim to the test. First, however, it examines the limitations of the evidence.

The limitations of the evidence

The evidence on the impact of profit-making providers in schools is limited for four reasons. First, there are very few developed countries in which private companies are involved in running publicly funded schools at scale. Lewis and Patrinos estimate that of all OECD countries only the Netherlands, Chile and Belgium have a majority of their children enrolled in publicly funded schools that are run by non-state providers (Lewis and Patrinos 2011). Unfortunately their figures are not broken down between profit-making and non-profit-making non-state actors, but we know that in the Netherlands and Belgium the majority of those private schools are charities rather than profit-making businesses.

In Chile, for-profits are a very significant sector, although still in the minority. In Sweden and England, where school reforms have attempted to bring in independent providers in recent years, less than 10 per cent of state-funded schools as of 2010 were in the independent sector – and in the US it is less than 15 per cent (*ibid*). This limited number of cases should make us wary of coming to strong general conclusions on the basis of the empirical evidence in this area.

Second, most studies of market-oriented education systems in the developed world do not distinguish between profit-making and not-for-profit schools. Instead, they simply compare state schools with state-funded but ‘privately provided’ schools, which may be run on a charitable basis or on a commercial basis.

Third, the research in this area, as with education research generally, measures success purely in terms of pupil test scores. While this is, of course, a very important measure of school performance – not least for children themselves when they leave school – it is not the only one. Schools are complex institutions with multiple objectives, many of which are not captured by exam results alone. Few of us want schools to be turned into ‘exam factories’, teaching strictly ‘to the test’ or playing the system rather than giving children a fully rounded education. It is also worth bearing in mind that in Sweden there has been controversy over whether test scores from some free schools have been deliberately inflated in order to demonstrate success and attract parents.

Finally, it may be impossible to control for some bias in the results of studies contrasting independent or free schools and state-run schools. Most research seeks to control for factors such as parental income or education in looking at these schools’ relative performance. However, there are many unobserved characteristics that might explain why children in independent schools do better than children in state-run schools. One factor may be peer effects, meaning that children of whatever background are likely to do better if they go to a school with a large proportion of high-attaining children. Some studies do attempt to control for this (such as Sahlgren 2010).

Another cause of bias may be that independent schools are simply attracting higher-attaining students. In Chile, there is clear evidence of this. Using longitudinal data that showed the prior attainment of children moving from primary to secondary school, Lara et al (2010) found that although the data showed that children did better in generally commercial non-religious voucher schools than in local authority schools, most of this difference was accounted for by the children’s own prior attainment. Private schools were successful not because they were better schools but because they were attracting

students who were more able. It is notable that longitudinal data in this area is hard to come by: for instance, none of the Swedish studies quoted in support of for-profit schools or free schools are backed up by data showing children's prior attainment.

Case studies

Chile

Chile has had a voucher system for schools since General Pinochet imposed market reforms in the early 1980s. Parents can choose to spend their vouchers from within a mix of local authority, not-for-profit and for-profit schools.

Chumacero and Paredes (2008) looked at the results of national standardised tests undertaken by fourth-grade students in 2005. The raw data showed that not-for-profit independent schools did better than for-profit schools. Once factors such as income and parental education are controlled for then the differences are smaller, but the pattern remains: children in not-for-profit independent schools (often church schools) outperform children in for-profit, commercially-run schools.

Chumacero and Paredes argue that the better comparison is between for-profit schools and municipal schools, because if the for-profits outperform traditional state schools then it is still worth retaining a for-profit sector (even if the not-for-profit non-state sector performs better still). Children in independent schools of both kinds perform better than those in local authority schools, controlling for income and parental education.

However, as set out above, Lara et al (2010) found that once you examine longitudinal data that allows you to account for the prior attainment of children at primary level, most of the differences between independent and municipal schools in Chile disappear.

Carnoy and McEwan (2003) looked at the non-religious voucher schools that emerged in the 1980s, the majority of which are commercially run. They find that their performance is worse than public or religious voucher schools (although we should note that they base this on school-level averages rather than student-level data). Interestingly, they found that the commercial schools operated at lower cost, which they attribute to their ability to pay lower salaries and hire less-qualified teachers. They conclude that this may be why these schools are underperforming.

Philadelphia, US

A different picture emerges in Philadelphia, where public schools were performing so poorly that the city decided to contract out 30 of its schools to for-profit companies and 16 to not-for-profit organisations. This provides a useful 'natural experiment' through which we can examine the impact of this reform on pupil test scores.

Using individual level data, Peterson and Chingos (2009) found that in this case the for-profit providers outperformed both the old public schools and the not-for-profit organisations in terms of pupil attainment. In maths, pupils in the for-profit schools gained 60 per cent of a year's learning each year over public school provision. In fact, in this case pupils in not-for-profit schools performed worse than pupils under the old public schools that preceded them: in maths, the authors estimated that this meant half a year's learning less each year than under the old city schools system. In reading, pupils lost 32 per cent of a year's learning each year under not-for-profit providers.

Nevertheless, there were important specifics in this case that need to be taken into account. As the authors point out, the not-for-profit organisations in Philadelphia (such as

the city's big universities) were inexperienced at running schools, whereas the for-profit providers were experienced major education companies with a long history of working in other states. What this study appears to show therefore is that in Philadelphia experienced for-profits outperformed inexperienced not-for-profits. It would be unwise to reach general conclusions on the basis of a single case.

Michigan and Florida, US

Using a four-year panel from the state of Michigan and a random effects model, Hill and Welsch examined student outcomes (student standardised test results) at school level in for-profit and not-for-profit charter schools (Hill and Welsch 2009).

They found that the ownership model (for-profit or not-for-profit) makes no difference to student achievement. This supports earlier findings from similar a study they cite in Florida which also found that the ownership model in charter schools made little difference (Sass 2006). They find some evidence that smaller for-profits perform less well than larger ones, but the effect is not a large one.

Sweden

For-profit school proponents generally point to Sweden, the inspiration for the free school reforms, to demonstrate the desirability of profit-making free schools. Following reforms that took place in 1992, everyone in Sweden is given a voucher to spend on education and anyone can try to set up a state-funded school. Today, around 10 per cent of state-funded schools are independently run, the majority of which are run for profit.

Sahlgren looked at average school-level grades across different types of schools and concluded that, in Sweden, the not-for-profit free schools performed better overall than the for-profit free schools (Sahlgren 2010).

As with the Chilean case, he found that for-profit schools performed better than local authority-run schools, but there are important reasons to be cautious about these findings. School-level averages are less useful than individual level data, which allows us to find out what is happening to each student (taking into account their background) in each school. Averages are, of course, affected by the distribution of students of different types of ability in a school. Furthermore, neither Sahlgren nor other studies (such as Tegle 2011, which also claims to show children in free schools doing better than children municipal schools) take into account the prior attainment of the children in these schools. These unobserved characteristics about the types of children in different types of school could affect the data significantly.

Conclusion

On the basis of this limited research, the evidence is mixed. In only one case (Philadelphia) do the for-profits significantly outperform the not-for-profits. In the two cases where for-profit schools have been rolled out nationally (Chile and Sweden), the not-for-profits perform better than the for-profits and in a further two cases (Michigan and Florida) ownership structure has no impact on student attainment.

The strongest claim that could be made on the basis of this evidence is that in these cases the for-profits appear to do better than traditional municipal schools. However, although these studies control for factors like parental education and income, they generally do not control for other unobserved characteristics, such as prior attainment.

Proponents of for-profit schools claim that unless these are introduced into the English education system, our children's education will suffer. The evidence on the basis of this small number of case studies does not support such a claim. The claim that introducing the profit motive is necessary to improve school quality in England is simply not credible.

4. CAPITAL FOR NEW SCHOOL BUILDINGS

Proponents of for-profit schools claim that allowing private companies to open new schools is the best way to finance the capital requirements of new school places. In their recent report for Policy Exchange, Laird and Wilson (2012) argue that with a 60 per cent cut in capital funding by 2014/15, capital budgets for new school places are heavily constrained. At the same time, we know that we will need an extra 540,000 primary school places in England by 2018, with a particularly acute shortage in London.

However, private finance is not a sustainable solution to meeting this demand for new places. For a start, the government can borrow at much lower levels to finance capital expenditure than the private sector. This is particularly so at the moment, with interest rates on government borrowing at historic lows. The private sector would charge its higher costs back to the taxpayer, putting a longer-term squeeze on school budgets. It is perverse at a time of fiscal constraint to opt for the most expensive option.

It is also worth noting that any capital contribution the private sector might make would be tiny in relation to the capital expenditure requirements of the state sector as a whole. There simply won't be enough commercially run schools to make a big difference in overall investment

In short, for-profit schools are not a fix to the problem of paying for new school places. The government will have to pay – and we have every reason to believe that it will. Michael Gove has already announced an extra £250 million of funding for additional places in London alone, and the government has already found the money to pay for the free schools programme.

For-profit schools are not a viable solution to the need to find capital funding for new school places.

5. THE QUALITY OF TEACHING

In their report, Laird and Wilson (2012) claim that a further argument in favour of for-profit schools is that they will have the flexibility to vary teacher pay and conditions so as to improve the performance of teachers.

Laird and Wilson argue that: ‘The labour market for teachers is inflexible and doesn’t reward high performers. But it will remain difficult for schools to vary from these national norms until there is a critical mass of independent state schools.’ They claim that academies cannot vary teachers’ conditions inherited from their predecessor school. They add that chains of academies have innovated more, introducing master’s bursaries, travel opportunities and performance-related bonuses. They claim that for-profit companies are more likely to develop chains than not-for-profit trusts and therefore are more likely to unlock workforce innovation.

There is no question that improving the quality of teaching is crucial to raising standards. McKinsey & Company (2007) carried out international research into what drives school improvement and found that the quality of teaching was the most important factor. Studies have repeatedly shown that in the classrooms of the most effective teachers children learn more and at a faster rate than in those of the least effective teachers. McKinsey stressed the need to improve instruction in schools by recruiting the best people, training and developing teachers effectively, and ensuring that all children benefit from high-quality teaching. The OECD has found that countries with higher teacher’s salaries tend to perform better in PISA (OECD 2011). This may be because higher salaries attract a wider range of people into the profession.

So no one doubts the importance of this point. However, the argument that the best way to improve teaching quality is to allow for-profit providers into the system does not hold up to serious scrutiny. Schools already have a great deal of autonomy in areas such as remuneration and performance management. Insofar as recruitment, performance management and professional development can be improved, there is no reason why these steps cannot be taken under existing arrangements. None of the international studies on this question, by the OECD or McKinsey, have suggested that greater private sector involvement is the solution.

Moreover, the evidence from Chile suggests that, if anything, for-profit providers have tended to cut costs by paying teachers *less* (Carnoy and McEwan 2003). The international evidence suggests that, by contrast, the better performing systems tend to pay their teachers more than we do in this country.

The argument that introducing for-profit providers is the best way to improve the quality of teaching is not a strong one.

6. SCHOOLS AS PUBLIC INSTITUTIONS

Centre-right commentators have argued that because the private sector provides other public services, and indeed other services within the education system, there can therefore be no objection in principle to companies running schools for profit. For instance, Neil O'Brien argues: 'private companies are allowed to provide (state-funded) nursery education and also higher and further education. It's not clear why the school years should be so different' (O'Brien 2011, emphasis in the original). Reform claims that: 'It is inconsistent to ban the making of profits in schools funded by the taxpayer when the making of profit in publicly-funded hospitals, prisons and care homes is allowed' (Bassett et al 2010).

This section interrogates this argument, first, by situating the question within the wider debate about the role of the private sector in delivering public services, and then by setting out why schools specifically should remain in the public realm, operated on a not-for-profit basis.

The role of the private sector in providing public services

There are generally speaking three different political positions on the role of the private sector in delivering public services. First, there are those who believe that all public provision is, by definition, inefficient and creates the need for higher taxes, which in turn damage economic growth and general wellbeing. They therefore want to see a smaller state with many fewer services provided collectively and much greater private purchasing of services, such as more people using private schools and private health insurance. In those areas where collective funding of services remains, those services should as far as possible be delivered by the private sector and other non-state actors in civil society. Their position can be summed up by the expression 'private good, public bad'.

Second, there are those who believe in generous collective funding for public services and hold that those services should always be provided by the state. Those who share this view argue that it is wrong for public funds to be siphoned off into private profits and that the profit motive will mean that these companies will always sacrifice the public interest in favour of narrow private interests. By contrast, those who work in the public sector are generally motivated by a desire to serve the public, rather than make profits, and are therefore best placed to do so. This position is summed up by the expression 'public good, private bad'.

Finally, there is the position associated with the last Labour government, supportive of generous public provision and universal high-quality services but entirely pragmatic about who provides them. In other words, if a private provider can show that it is capable of providing a better outcome at a lower cost then there can be no reason in principle for opposition. Where there might be a risk of private companies profiteering at the public's expense, appropriate regulations can be put in place to limit this. In this way, public and private interests can come together to mutual benefit. This position is generally summed up by the expression 'what matters is what works'.

This author shares the pragmatism of that third position, but adds to it a concern about the growing privatisation of the public realm and a consequent belief that we should put limits on the degree of private sector involvement. This position is based on the following principles:

We should support high-quality universal public services and generous collective provision.

There are times when a case can be made for opening up provision of those services to private or third sector providers. This could be because an existing public provider has

failed; because a private or third sector provider can mobilise resources the public sector lacks to add additional capacity quickly; or because non-state actors can demonstrate that they can increase innovation and productivity, delivering better outcomes at the same or a lower cost.

However, if private providers are employed too widely then the profit-seeking ethic may start to corrode the strong public realm that is essential in a good society, by undermining important social norms.

In his paper *Everyday democracy*, Marc Stears describes the problem this way:

‘Unfettered capitalism is not only to be criticised because it generates material inequality, but also because it encourages us to interact with each other in a particular way. Put simply, a society that celebrates the free market above almost anything else is a society that encourages people to see each other as tradable objects rather than as people with feelings, commitments, dependents and dependencies.’

Stears 2011

Public service reform agendas that push market relationships into institutions like schools, day centres and hospitals can sometimes improve outcomes or efficiency – but, taken too far, they may do so at a wider cost. In Stears’ terms, a good society cannot be one in which all our relationships are transactional. Rather, a good society rests on a foundation of interpersonal relationships between citizens based on norms of mutual respect, trust and reciprocity. A good society requires the active participation of its citizens in public affairs, which in turn rests on widely shared norms of citizenship and public service. For these norms to take root they need to be embodied in shared public institutions. If these public institutions are privatised then they cease to stand as visible markers of these values in the community. As I show below, these concerns are particularly acute in the case of schools.

Schools as public institutions

Laird and Wilson argue that: ‘Despite particular opposition and cultural aversion to “for-profit” provision in the delivery of 4–16 school education, the private sector has faced considerably less opposition in moving into other areas of public service delivery’ (Laird and Wilson 2012). They go on to give examples of areas of the education system where private providers currently deliver services. These include pupil referral units and alternative education, special educational needs provision and early years services, where private companies have for a long time run nurseries and daycentres. In their report, they set out at great length the degree of private sector penetration into some of these areas. We learn, for example, that in Middlesbrough some 80 per cent of free nursery provision is delivered by the private sector.

At no point, however, do the authors give an indication of whether any of this provision is effective or of a better quality than that provided by the public sector. There is in fact a wealth of evidence which shows that in the Scandinavian countries early years provision is of a much higher quality than that provided in this country – there, it is generally provided by the state (Esping Anderson 2009). Laird and Wilson argue that private providers are likely to deliver better value for money in early years because they can pay their staff less. This is despite the fact that most of the evidence on how to ensure high-quality early years services is that higher-skilled and better-paid staff secure the best

outcomes (Lawton and Cooke 2008). The problem with early years services in England is not the high level of skills and pay among the workforce, but rather the opposite.

Beyond the specific evidence about the performance of public or private providers in these sectors, there is no logic in the argument that because previous governments have privatised certain services then later generations are bound to privatise more services. Every public service is a complex mix of public, private and third sector provision, very often the result of a series of historical political decisions and compromises between contending political forces. The reason that residential care homes are mainly in the private sector is because the previous Conservative government privatised that sector. The reason most early years services have been in the private or third sectors is because, prior to 1997, the state played very little role in providing such services.

The fact that these services are composed as they are does not bind us to introduce a similar mix in schools. The most important question is whether the proposed mix of provision is effective and delivers what we want from it.

Putting those other cases to one side, there is an important reason why schools in particular should be run on a not-for-profit basis in the public realm.

Schools have a special status because they play a critical role in shaping the kind of people we want children to become, as John White says:

‘This means thinking about the personal qualities he or she should possess – such things as wholehearted absorption in activities and relationships, kindness, respect for others as equals, independence of spirit, and enjoying working with others towards shared goals. In a modern democratic society, possessing these and other personal qualities requires a broad experience of a range of different activities as well as extensive knowledge and understanding – about human nature, the rest of the natural world, our own and other societies. It also depends on possessing the basic skills of literacy, numeracy and ICT.’

White 2006

As a result, schools have numerous complex objectives, including:

- teaching basic skills, knowledge and understanding
- preparing young people for economic participation and entry into the labour market
- enabling personal fulfillment by helping young people to enjoy learning, experience a range of absorbing activities, be enabled to make choices, achieve success in different areas of activity, develop strong and caring relationships with others and live a healthy lifestyle
- promoting social and civic involvement by educating young people to work together to achieve shared goals, relate to people from different backgrounds to their own, understand how to deal with and manage interpersonal conflicts, reflect on human nature, participate in community and public life, be aware of current affairs and understand the rights and responsibilities of citizenship
- encouraging the development of practical wisdom by helping young people to think rationally, weigh up short and long-term consequences and be able to sensibly manage their desires and emotions.

There are three reasons for thinking that the private sector might be less effective at performing this complicated role than a not-for-profit provider.

First, the complexity and multiplicity of these objectives means that it would be extremely difficult to contract a private provider to deliver all of them effectively. While you could incentivise a private company to improve test scores, that is not the only outcome we want our schools to achieve. We are already concerned about the rise of 'teaching to test' in existing not-for-profit operators working under competitive conditions. The profit motive would only accelerate and exacerbate these tendencies.

Second, schooling is an essentially relational and co-productive exercise. The relationships between teachers, parents and children are vital to the learning process and achieving the complicated outcomes we want. For those relationships to flourish, they must be based on a shared sense of trust and reciprocity. If a school's management has one eye on their children's wellbeing and another on rewarding its shareholders, that trust is likely to be corroded.

This is why, in general, people are less worried about private provision in public services that are transactional and episodic, such as processing tax forms or parking fines, but much more wary when it comes to services where the relationships between user and professional are intense and long-term. Incidentally, the public remain skeptical about the use of private providers in 'relational' services areas, even where private providers have been the norm for some time (see the figures on social care in table 1 below).

Third and finally, schools inculcate values and send out important messages to children. We want schools to encourage children to be good citizens, to respect their neighbours, to look after other people, to participate to some degree in public affairs. No doubt proponents of private sector involvement would argue that schools could simply be contracted to provide these things. But institutions and the values they embody matter in terms of the cultures, relationships and behaviours they encourage and instill.

As American philosopher Michael Sandel has commented:

'Markets are not mere mechanisms. They embody certain norms. They presuppose, and also promote, certain ways of valuing the goods being exchanged. Economists often assume that markets are inert, that they do not touch or taint the goods they regulate. But this is a mistake. Markets leave their mark. Often market incentives erode or crowd out non-market incentives.'

Sandel 2010

This may be of lesser concern in a country like Sweden, which enjoys a strong public realm and a generous welfare state, including universal state-provided childcare for example. But Britain has a much weaker public realm and the profit-seeking ethic is much more pervasive. For example, in an important report published in 2009, the Department for Children, Schools and Families found worrying evidence of the impact on children of the ubiquity of commercial marketing. This includes pushing inappropriate products (such as fast food, alcohol and violent video games) and worrying messages (such as the increasing sexualisation of children and representations of the 'ideal body type', particular for young girls) (DCSF 2009).

The report did not find systematic evidence of negative impacts of private sector involvement in schools, largely due to a lack of research in this area. However, it did highlight some examples that gave rise to concern, such as the controversy surrounding Cadbury’s ‘Get Active!’ campaign, in which children were encouraged to collect tokens from chocolate bars which could then be exchanged for school sports equipment.

Sandel quotes a number of examples of US companies that sponsor schools pushing advertising and selling biased products of limited educational worth to schools:

- Channel One was set up as an TV channel aimed at school students, showing programmes in the classroom, eventually reaching 40 per cent of teenagers in the United States. An independent study found that its programming was in fact of limited value, with just 20 per cent of its schedule addressing public affairs and the majority filled with advertising, sports, weather and natural disasters.
- A study by the Consumers Union found that 80 per cent of all free educational products offered to schools were biased towards a company’s own products (Sandel 2005).

This kind of profiteering behaviour is not only bad for children in the direct sense of poor products being pushed on them. It also communicates a wider set of messages about how it is appropriate to act.

And it is not just the effect on children that we should be concerned with, but also the wider impact on our society. The importance of education means that the public nature of schools serves as a vital marker of our shared commitment to children and of the importance of collective provision in the public interest. To remove such a visible marker would be to further obscure and diminish the public realm and dissipate the power of the values it embodies.

These concerns about allowing the private sector to run schools appear to be widely shared among the public. Table 1 shows that 55 per cent of the public oppose private providers running schools. Interestingly, there is more support for not-for-profit charities getting more involved, which provides public support for the position outlined earlier in this paper.

Table 1
Attitudes towards charities and private companies running public services

	Support	Neither support nor oppose	Oppose
Attitude towards charities			
...providing personal care for older people	53	24	21
...running state schools	36	29	33
...running NHS hospital	36	26	37
Attitude towards private companies			
...providing personal care for older people	31	24	43
...running NHS hospital	22	20	57
...running state schools	19	24	55

Source: British Social Attitudes, 2007

Conclusion

This section has argued that it is inappropriate to run state schools for profit. This is because schools have multiple and complex objectives, which would be very difficult to contract out to a private company to deliver. It is also because schooling is an essentially relational exercise that requires trust on all sides, trust which the profit motive may start

to corrode. And, finally, it is because schools play a crucial role in forming character and imbuing norms and values. To remove schools from the public realm would further corrode the values of civic participation, shared commitment and public service that we should as a society want to promote.

CONCLUSION

This paper has argued against the introduction of for-profit schools in the English state education system. It has done so by scrutinising the arguments of those who favour the introduction of for-profit providers.

It has argued that while managed competition in public services has its place, there is no evidence that increasing competitive pressures in a schools system improves outcomes. There is a strong innovation case for allowing new providers to set up schools, but given the strength of the not-for-profit sector in this country, there are no compelling reasons for thinking that commercial providers would add any additional value.

The paper explored the performance of for-profit providers and found that it was at best mixed. In the two national case studies we looked at for-profit schools were out-performed by not-for-profit schools. Given that all the international evidence on school improvement points to the primary importance of school autonomy and accountability and of quality of teaching, rather than school ownership or management model, there is no compelling empirical case for allowing for-profit schools.

The financial case for private sector involvement is particularly weak: even at a time of budget cuts across the public sector, the government has recently found hundreds of millions of pounds to meet the rising demand for new school places. Moreover, looked at in the long term, it is much cheaper for the government to raise the capital funding required than for the private sector to do so at the taxpayer's ultimate expense.

No one disputes that improving the status and standard of teaching is crucial to improving school standards. There is a vital reform agenda here covering recruitment, professional development, remuneration and performance management. However, the argument that the best or only way to achieve this is to let private companies take over schools is simply not credible.

Finally, proponents are correct to point out that the private sector already delivers a number of important services in our education system. However, the way these services are delivered is the legacy of decisions made by previous governments, decisions which do not logically bind us to supporting a for-profit takeover of schools now or in the future.

There is an important role for the private sector in our education system. Indeed, markets in education services are likely to continue to grow as parents choose to spend more money on their children's education. The key challenge for policymakers is to ensure that this inevitable rise in parental expenditure on their children's education does not widen inequalities. Policymakers should be looking at how they could support children from disadvantaged families to access these services.

However, while there is a supportive and ancillary role for the private sector in our state education system, schools themselves should not be run for profit. Schools work best as public institutions, situated at the heart of local communities and run in the public interest.

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