# Do private schools save the taxpayer money?

**Rodney Nillsen**

One of the main points of dispute in the debate over school funding is whether Government subsidies to private schools save the taxpayer and the government money. The Minister, Brendan Nelson, in a letter to the *Herald* of 25th-27th March, said that students in private schools save the taxpayer $4 billion per year. But what the minister's statement does not address is how different government policies, or a different level of subsidy to the private schools, would affect the *magnitude* of those savings.

There are two conflicting factors influencing the possible level of savings. On the one hand, the more students who go into the private schools, the more the savings. On the other, more students will go into the private schools if there is a greater government subsidy, and the greater the subsidy the less the savings. These two factors interact, with one factor increasing the savings and the other decreasing the savings.

Another way of looking at the problem is to observe that if no subsidy is offered, fewer students would go to private schools and the savings comparatively would be small; while if the government offered a private student subsidy equal to the cost of a public student, then more students would go to private schools, but the savings would be zero. So, somewhere in between the government offering a zero subsidy and offering a highest possible subsidy (equal to the cost of a public student), there should be a level of subsidy that maximises the savings. How the conflicting factors balance, and where the maximum savings might occur, is a problem that can be investigated using high school mathematics.

A crucial question is: how is student demand for private schools related to the level of subsidy? The simplest answer is that the relationship is given graphically by a straight line, the so-called "linear model". Now, it might happen that the number of private enrolments at the highest possible subsidy is *less* than twice the number of private enrolments at no subsidy—in this case, the savings are maximised by offering a zero subsidy. On the other hand, it might happen that the number of private enrolments at the highest possible subsidy is *greater* than twice the number of private enrolments at no subsidy—in this case, the savings are maximised by offering a subsidy per private student somewhere between zero and 50% of the cost of a public student.

Now, in his letter to the *Herald*, the Minister stated that public schools enrol 68% of students while receiving 76% of public funds. This means that the subsidy to a private student under present Government policy is 67% of the cost of a public student. The point is that this 67%, being greater than zero and greater than 50%, is more than the subsidy that would maximise savings under the linear model. Consequently, as the Minister said in his letter that the Government is currently saving $4 billion, under the linear model it can be deduced that the Government could save at least $500 million more than this, by optimising the level of subsidy, and this estimate is conservative.

There are various mathematical possibilities for how the demand for private education might vary in relation to subsidies, and the linear model may not be the most realistic, although it is widely used. The way in which private school student demand might vary in relation to subsidies is open to empirical study, using historical data, market research and the levels of family incomes. However, even allowing for its limitations, the analysis supports the argument of Ross Gittins in the *Herald* of March 23rd, to the effect that when it comes to saving money, the Government is more interested in saving it in the public schools rather than in the private schools.

Of course, one hopes the Government has more in its mind than merely saving funds, for otherwise we might as well not have an education system at all. If a main aim of Government policy is to save public funds, which is the impression it so often gives, it should explain upon what basis it is following a policy of maximising the savings. But if saving some public funds is essentially an incidental effect of policy, rather than a *purpose* of policy, the Government should be open about the wider purposes of its policy and admit that there are associated substantial public costs in assisting a non-public sector.

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