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Buying an education:

Where are the returns highest?

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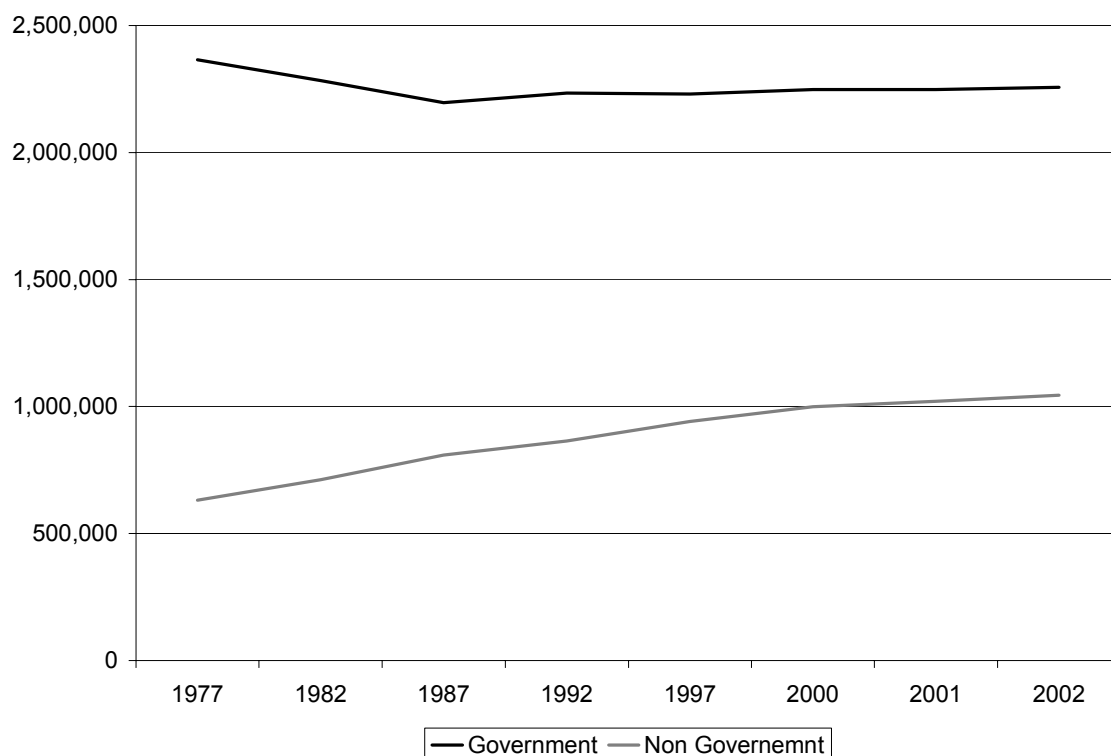
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The Australian education system is currently experiencing rapid change at all levels. This paper considers the recent trends in private school enrolments and fees in light of the new university arrangements which allow for Australian citizens to enrol as full fee paying students rather than having to rely solely on academic merit to earn a place. The paper argues that if parents are spending hundreds of thousands of dollars on their children's school education to ensure that they can gain a place in a prestigious university course then they would be financially better off sending their children to public schools and using the money saved to buy them a full fee paying place at an Australian university.

Trends in government and non-government school enrolments

Enrolments in Australian private schools have risen steadily in Australia over the past 20 years. The absolute number of students enrolled in government schools has actually declined from 2.36 million in 1977 to 2.26 million in 2002. This decline in government school enrolments occurred over a period in which the total number of children enrolled in schools increased by 300,000. Enrolments in non-government schools have, therefore, risen from 21.1 per cent of all school enrolments to 31.6 per cent over the period 1977 to 2002 (ABS cat. 4221.0). Figure 1 demonstrates these trends.

Figure 1 Enrolment in government and non-government schools 1977-2002



Source: ABS Cat. 4221.0, Table 6.

Trends in private school fees

The rise in private school enrolments does not appear to be the result of reductions in the relative cost of private schooling compared to public schooling. While there is little time-series data available on private school fees, a range of evidence suggests that private school fees have been rising at a rate which is significantly higher than the rate of inflation (see below). The cost of private school fees, relative to both public schools and the prices of other goods and services, has therefore been increasing. Reasons for such a strong increase in demand in an environment of rising prices may include:

- the perception that private schools deliver better academic results;
- the perception that public schools can not provide ‘discipline’; and
- the perception that the friends made at private schools will be more ‘beneficial’ in later life.

Table 1 shows the tuition fees for a selection of the more prestigious private schools in NSW and Victoria.

Table 1 Year 12 tuition fees at various private schools

| School | Annual Fee | State and year |
|-------------------------|------------|-----------------|
| Scotch College | \$16,065 | (Victoria 2004) |
| Caulfield Grammar | \$14,490 | (Victoria 2004) |
| Haileybury College | \$16,002 | (Victoria 2004) |
| Melbourne Girls Grammar | \$14,508 | (Victoria 2004) |
| Ascham | \$16,000 | (NSW 2003) |
| The Scots College | \$16,768 | (NSW 2003) |
| Sydney Grammar | \$17,000 | (NSW 2004) |
| Trinity Grammar | \$13,240 | (NSW 2004) |
| PLC | \$16,000 | (NSW 2004) |

Source: Various schools; Tomazin (2003), and Brainworks International (2003)

Over recent years there has been a rapid rise in private school fees. Private primary school fees rose by 6.9 per cent in the year ending 30 September 2002 (Fenech 2003). Increases for 2004 Year 12 tuition fees have shown increases of 7.4 per cent on average for private schools (Tomazin 2003), with some schools increasing their fees by up to 16.5 per cent on the previous year (Moore and Crossen 2003). In addition to these escalating costs parents who send their children to private schools also face additional outlays for expensive uniforms, textbooks and field trips.

Recent changes in Australian higher education

Recent changes to higher education in Australia allow for Australian citizens who do not achieve sufficiently high marks in their schooling to gain entrance to university courses as 'full fee paying students'. Universities are able to set fees for such full fee paying places which can account for up to 30 per cent of all enrolments. However, for the time being at least, students must still have achieved marks within five points of the cut-off mark for that degree. The decision to allow Australian citizens to purchase their way into degrees ahead of students with better academic results was welcomed by university vice-chancellors (AVCC 2003).

Despite the issues of academic standards raised by the decision to allow full fee paying students into university ahead of their better performing peers, the new funding system does create an opportunity for parents seeking to ensure their children gain entrance to their degree of choice. That is, parents who in the past have spent tens, or even hundreds, of thousands of dollars on their children's private school education in order to ensure they gain entrance into their university course of choice can now, consider the possibility of diverting the money that would have been used for private schooling into paying full fees for a degree.

Current fees for full fee paying places at Australian universities

While the changes to allow full fee paying degrees for Australian citizens have only been announced recently, some information on the likely cost of such degrees is already available. Table 2 provides the cost of enrolment in 2004 for a range of different degree courses across a number of Australian universities. While expensive for average income earners, such fees are relatively low when compared to some private school fees.

Table 2 Cost of full fee paying courses at Australian universities

| | University of Sydney (2003 Australian students) | Melbourne University (2004 Australian students) | University of Queensland (2004 Australian students) |
|----------------------|--|--|--|
| Law (BA/BLlb) | \$17 520 (pa) 5 years fixed fee rate | \$21 000 (pa) 5 years | \$57 000 (total) 5 years |
| Science (Bsc) | \$17 520 (pa) 3 years | \$19 000 (pa) 3 years | |
| Commerce (Bcom) | \$12 300 (pa) 3 years | \$17 500 (pa) 3 years | |
| Pharmacy (BPharm) | \$17 325 (pa) fixed fee rate 4 years | | \$88 000 (total) 4 years |
| Commerce/Law | | \$21 000 (pa) 5 years | \$61 600 (total) 5 ½ years |
| Science/Law | | \$21 000 (pa) 5 years | \$69 000 (total) 6 years |

Source: Various universities

The total cost of private school education

Using Sydney Grammar as an example, to send a child to an exclusive private school for six years of high school a parent would need to spend \$102,000 per child. If the child had been sent to private school throughout primary school as well, then the total cost rises to over \$193,000 per child. While Sydney Grammar is one of Australia's most expensive private schools, the costs of sending a child to a more moderately priced school such as Victoria's Loreto Mandeville Hall still comes to \$118,000 for a fully private schooling. Table 3 provides data on the cost per year, and total cost, of sending a child to two private schools, Sydney Grammar School and Loreto Mandeville Hall in Victoria.

Table 3 Cost of private school education by year of enrolment

| | Sydney Grammar School (\$) | Loreto Mandeville Hall (\$) |
|------------------|----------------------------------|-----------------------------------|
| kindergarten | 10,632 | 7,410 |
| year 1 | 12,771 | 7,710 |
| year 2 | 12,771 | 7,710 |
| year 3 | 13,431 | 7,980 |
| year 4 | 13,431 | 7,980 |
| year 5 | 14,172 | 8,460 |
| year 6 | 14,172 | 8,460 |
| year 7 | 17,000 | 9,600 |
| year 8 | 17,000 | 10,110 |
| year 9 | 17,000 | 10,500 |
| year 10 | 17,000 | 10,500 |
| year 11 | 17,000 | 11,010 |
| year 12 | 17,000 | 11,010 |
| total years 1-12 | 193,380 | 118,440 |
| total years 7-12 | 102,000 | 62,730 |

Source: Sydney Grammar School (2003), Loreto Mandeville Hall (2003)

Given the length of time over which school fees can be paid (up to 13 years for a student who completes all of their schooling at a private school) it is important to take into account the 'opportunity cost' of the money invested in school fees. That is, if the money spent on private school fees had been invested in a managed fund the amount of money available for parents to spend on a full fee paying place at university would be significantly greater than the sum of the annual private school fees paid.

For example, if parents were able to earn an average real rate of return of five per cent then the total cost of sending a child to Sydney Grammar for 13 years rises to over \$269,000. Table 4 provides more data on the cost of private schooling assuming an interest rate of five per cent.

Table 4 Total cost of private school education including forgone interest on school fees paid

| | Sydney Grammar School (\$) | Loreto Mandeville Hall (\$) |
|------------------|-------------------------------|--------------------------------|
| Total years K-12 | 269,833 | 165,171 |
| Total years 7-12 | 121,414 | 74,385 |

Source: Author's estimates, assumes a rate of interest of 5 per cent.

Differences in performance between schools

An important reason for sending children to private school is the expectation that it will result in a 'better' education, resulting in higher performance in final exams and, in turn, increased options for university entry.

It is important to note, however, that in the 2003 NSW Higher School Certificate (HSC), 74 of the top 130 students were educated in government schools compared to 44 from non-government schools and 12 students who were privately tutored. While the majority of the top performing government school students come from selective high schools such an outcome provides significant evidence for the hypothesis that relative school performance is determined primarily by the sample of students attending the school rather than by quality of teaching in schools.

That is, selective government high schools perform well primarily because they only select students who are highly likely to excel academically. Similarly, expensive non-government schools are highly selective across a broader range of criteria, including the ability to pay high fees and the willingness of the student to conform to a more rigid code of behaviour. 'Difficult' students, or students with physical or mental disabilities, who would divert attention away from the majority of students, can also be excluded from the school, freeing up both financial and teacher resources for the selected few.

Recent research has highlighted the effect that socio-economic status (SES) has on students' achievement. A report written by the Australian Council for Educational Research (ACER 2003) has found that SES influences children's achievement in two ways. The first is that students from schools with higher SES perform better on numeracy and literacy tests. The second finding is that students from families with higher SES also achieve higher tests scores (Rothman and McMillan 2003). These findings are of interest as SES was shown to affect students' achievement regardless of the type of school they attend. In essence it is not the school that directly affects students' performance but rather the location of the school in a high SES area and the individual SES of the child's parents.

Optimal strategy for parents

If the purpose of spending tens of thousands of dollars on private school education is to increase that children's chances of gaining entry to the university degree of their choice, then the Commonwealth Government has recently provided parents, by means

of full fee paying places at university, with a cheaper, and more direct, mechanism to achieve such an outcome. That is, if parents wish to improve their children's chances of gaining admission to the degree of their choice they are now provided with an alternative and, in turn, a new choice to make: would my money be better spent on a private school education or invested to purchase a full fee paying place at university after school?

The data presented above suggests that the best strategy for parents seeking to enhance their children's post-school education choices is to invest amounts similar to those required to send children to expensive private schools and use the accumulated savings to purchase a full fee paying university place.

Taking the most expensive school as an example, if a parent were to avoid annual fees of up to \$17,000 per year they could, over the course of a child's school life, save over \$269,000. Table 5 shows that this amount would easily cover the cost of a full fee paying degree, leaving, in the extreme case, a residual of more than \$230,000 which could either be gifted to the child, perhaps for a deposit on a house, or retained by the parents. At the other end of the spectrum, a student spending only 6 years at a moderately priced high school still costs more than twice the amount charged for a full fee paying commerce degree at the University of Sydney.

Table 5 Comparison of the cost of private school education with the cost of a full fee paying degree

| School | Cost (including forgone interest) | Cost of a commerce degree at the University of Sydney | Saving to parent of buying a degree rather than private school education |
|---|-----------------------------------|---|--|
| Sydney Grammar (kindergarten to Year 12) | \$269,833 | \$36,900 | \$232,933 |
| Sydney Grammar (years 7-12) | \$121,414 | \$36,900 | \$84,514 |
| Loreto Mandeville Hall (kindergarten to 12) | \$165,172 | \$36,900 | \$128,271 |
| Loreto Mandeville Hall (years 7 to 12) | \$74,385 | \$36,900 | \$37,485 |

Source: Sydney Grammar, Loreto Mandeville Hall, author's estimates

Conclusions

Recent reforms to higher education have further reduced the equity of access to Australian universities. Historically, some parents have attempted to improve the performance of their children by spending heavily on a private school education. While there are doubts about the benefits of such expenditure there is no doubt that

parents can now improve the chances of their children gaining entrance to university by funding a full fee paying place.

Some parents may still prefer to send their children to private schools for reasons associated with prestige, discipline, or social contacts. These advantages, however, come at a high price when the educational benefits are considered.

While the ideal university system would be based on merit rather than capacity to pay, it is important for parents to realise that they no longer need to spend hundreds of thousands of dollars on an indirect attempt to improve their children's prospects of attending the university of their choice. Now that the Federal Government has provided a direct means to ensure such access there is a significantly reduced role for expensive private schooling.

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