

# *School Competition and Sorting of Students*

## **Non-Technical Summary**

It has been argued that school competition motivates principals to improve school quality. Based on this premise many policies, such as school vouchers or school autonomy, have been recently proposed to accelerate student mobility. School competition might increase inequalities, either through higher sorting of students between schools or across classes.

This paper investigates the effect of school competition on sorting within a school and between schools. The identification strategy is based on a two-stage design of the Polish comprehensive education. Admission to both stages is based on catchment areas with a school choice option. Students are more likely to exert the choice option at the entrance to the secondary stage, implying higher competition among these schools. However, this is true only in areas with low cost of school choice (e.g. urban areas). Capturing the effect of school competition on inequalities requires thus two steps. First is to compare sorting of students at the entrance across the stages of education, for areas with low cost of school choice. Second, to juxtapose this difference with the counterfactual difference for areas with high cost of school choice.

The study finds that:

- school competition increases sorting of students both across schools and classes;
- school principals strategically use classroom assignment for cream skimming of students.

The results bear relevance for policy makers who wish to use school competition as a mean to improve the quality of schools but also want to avoid its negative distributional consequences. The results underline the importance of school principals' incentive structure. The principals might create classes with a high level of peer quality to attract high-achievers or high-income students. Within-school tracking could be weakened by the incorporation of value added estimates of school performance into principals' objectives, as it motivates them to compete also for low-background or low-performing. Even though the value-added based accountability has been heavily discussed, not much attention has been paid to the potential distributional effects. The alternative policy could be to link school vouchers with the socioeconomic background, for instance, to offer them only to students with low-income. On the other hand, abolishing the teacher collective bargaining agreements allows school principals to compete based on wages rather than a composition of students.