



Is Wall Street Looking to Profit from School Reform?

Jeff Faux, Economic Policy Institute

The quest to improve America's schools has generated a one-sided narrative. Teachers and their unions are cast as villains, while "reformers" pushing privately run but publicly financed charter schools are portrayed as heroes. The standard story line claims that, if we free non-unionized charter schools to compete for dollars and students, American education is bound to improve.

Rarely mentioned in media accounts is the influence of the corporate sector. For twenty years, business oriented foundations – such as Gates (Microsoft), Walton (Wal-Mart) and Broad (Sun Life) – have poured billions into charter school start-ups touted by sympathetic academics and pundits. They have financed media campaigns and supported privatizing reformers.

In recent years, Wall Street hedge fund operators, leverage-buy-out artists and investment bankers have joined the crusade. They finance schools, sit on the boards of their associations and the management companies that run them. Tellingly, they often make support of charter schools one of the criteria for donations to politicians. Since most Republicans are already on board for privatization, the pressure to join the privatizers has been mostly directed at Democrats such as Andrew Cuomo. As Joanne Barkan noted in *Dissent Magazine*, privatizers are even targeting school board elections, in one case spending over \$630,000 to elect two members in a local school board race last year in Colorado.

Why are Wall Street financiers so committed to the charter school movement? They portray themselves (and are often touted in the media) as heroic philanthropists out to save our children from the clutches of teachers unions. As hard-headed, data-driven business types, they claim they are particularly suited to focus on measured improvements in student achievement.

The Evidence Shows Private Charter Schools Rarely Do Better

But after two decades, the data show that the charter school model has not delivered. The single most comprehensive study by researchers at Stanford University found that only 17 percent of charter school students performed better than their public school counterparts, while 46 percent did no better and 37 percent did worse. This study's conclusions have been reinforced by other studies, including investigations completed at the University of California, the Economic Policy Institute, and the policy research firm Mathematica.

Nor do many charter schools use resources efficiently. Those promoted as the most successful examples have been heavily subsidized by foundations and Wall Street donors. For example, the film *Waiting for Superman* portrays a heroic charter school organizer fighting a selfish teachers union; but as Diane Ravitch has pointed out, the school was heavily subsidized by pro-reform foundations, the "hero" educator claimed an annual salary of \$400,000, and low student scores for the first class were removed to massage the overall

achievement numbers. International data also raise serious questions, because U.S. schools are outperformed by foreign systems with government-monopolized and unionized schools.

Looking for Profits

When looking for what motivates capitalists, the answer is likely to have something to do with making money. Following the Bush/Obama bailouts, largely unregulated Wall Street firms are once again on the hunt for new profit-making businesses with upside potentials for financial markets. Opportunities to use public funds to boost profits are especially appealing. For example, the financial bubble of the 1990s was driven by new business start-ups exploiting technologies whose development had been subsidized by taxpayers. And the bubble of the 2000s was built on the boom in subprime mortgages organized and subsidized by Federal housing programs.

School reform has the potential to divert public school funding to create new profit-making ventures that could be capitalized and transformed into stocks, derivatives and leveraged securities. The pot is sweetened by a whopping 39% federal tax credit given to financiers of charter school construction – a credit that can double an investor's return in seven years.

Some "liberal" promoters claim that charter schools should not be considered private. But profit-makers who run charter schools are looking for an ideal combination of public subsidies without democratic accountability. These companies rent, buy, and sell buildings; make contracts for consulting, accounting and legal services; sell food and transportation; and pay their managers higher salaries than public school principals earn. In cases where city governments have given land to charter schools, real estate companies have ended up owning the subsidized land and buildings. In states where charter schools are required to be nonprofits, profit-making companies can still set them up and then organize a board of neighborhood residents who will give them the right to manage the school with little or no interference.

According to none other than Rupert Murdoch, the U.S. education industry represents a five hundred billion dollar opportunity for investors. Similarly, business consultant Rob Lytle told a meeting of private equity investors that "you start to see entire ecosystems of investment opportunity lining up" in the for-profit educational sphere. According to Stephanie Simon of Reuters, investment in for-profit education has already jumped from \$13 million in 2005 to \$389 million in 2011. Among others, Goldman Sachs and JP Morgan Chase have created multimillion-dollar funds for education investments. These "data-driven" investors are not so much interested in students' scores as in the opportunities to cut costs by using online technology. The central question, says education entrepreneur John Katzman is "how do we use technology so that we require fewer qualified teachers?"

Citizens Beware

In the end, charter schools and other forms of privatization may not fulfill all the profit-making dreams. But there is clearly money to be made. And where there is money to be made, we can be sure that there will be money to finance political campaigns, create career ladders for helpful experts and politicians, and pay for public relations campaigns. The data-driven entrepreneurs claim that it is all "for the sake of the children." But so far the numbers tell a different story.

Read more in Jeff Faux, "Education Profiteering; Wall Street's Next Big Thing?," *The Huffington Post*,

September 28, 2012.

<https://scholars.org>