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**Education Management Organizations and the Privatization of Public Education:  
A Cross-National Comparison of the USA and the UK**

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*Abstract* – This paper compares the development since the 1980s of privatization of education services in the US and the UK. In both countries Education Management Organizations have become institutionalized to some degree, with policy borrowing between the two countries and a common ideological predisposition toward market solutions. Despite this history, privatization remains small-scale and not especially lucrative to those entering the market. In the UK, the emphasis has been on Compulsory Competitive Tendering and the Private Finance Initiative: public sector structures to aid privatization within a governmental system. The result is privatization at 'glacial speed', with few opportunities for EMOs. In the US, it is the creation of capital markets and the roll-out of charter schooling which have sustained privatization - the activities of companies such as Edison and Tesseract are considered. Capital market growth and charter schooling represent much more general alternatives to public provision.

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## **1. Introduction**

Making profits from public education is not new. Historically, it has taken a variety of forms, but usually involving the provision of goods and services on the character of education in public schools. What is relatively new is the recent development of private enterprises taking over public education at the area and school levels for a fee or for profit-making purposes. Moreover, these enterprises have expanded their operations from indirect educational services to an involvement in the education of students. It is a trend that has also caught the attention of the news media (Baker, 2001; Palast, 2000). In this paper we will focus on the engagement of Education Management Organizations (EMOs) in an educational arena that historically has been the preserve of elected representatives and professional educational administrators, namely the organization of local education authorities and publicly maintained schools.

In terms of revenue, the scale of what we are talking about is impressive. Education Management Organizations (EMOs), for profit and non-profit organizations engaged in the take-over and operation of public education, have become big business. It is estimated that in the US last year, EMO's were expected to generate between \$100 – 123 billion dollars in revenue (Education Week 2000). In the smaller UK system, it is estimated that up to £5 billion of services in public education could be contracted out to private organizations (TES, 2000). Moreover, US-based EMOs have sought to extend their operations into the UK (Palast, 2000) and they are seeking market opportunities in Asia.

The first part of the paper considers the processes of privatization of public education and the conditions that have given rise to its prominence in the US and the UK. The second section of the paper outlines the antecedents of EMO interest in public and the third and fourth sections review the structure and processes of business involvement in the operation of public education in the US and the UK respectively. We pay particular attention to the means by which privatization has become institutionalized in each national setting. In this context we use 'institutionalization' to

denote the ensemble of sites, rules, regulations and resources that have generated structures of opportunity for EMOS to takeover aspects of public education. We aim to demonstrate how these regulatory frameworks operate on either side of the Atlantic and the consequences it has for the processes of privatization. The paper concludes with a consideration of the wider impact of privatization curriculum and pedagogic practice and on structures of governance accountability in education systems.

## **2. Public education, privatization and profit.**

Business interest and involvement in education is not new. Profits have been made from the construction of new plant, sale of equipment, books, curricular material and assessment and testing programs. Over the last two decades commentators have expressed their concerns over the progressive 'commercialization' of public education, in the so-called 'cola-risation' of schools – where income is derived from vending machines, displays of sponsors logos and advent of TV advertisements streamed at students via Channel One television (Apple, 1979; Shaker, 2001; Corporate Watch, 2001). Here, the concern is that institutions and processes fundamentally concerned with education as a public good, as a civilizing, transformative and democratizing force, in effect, have become transformed in the creation and reproduction of capitalist consumer culture. Similar concerns attend the privatization of public education (see Levin, 2000, Corporate Watch 2001)

Privatization is a general description of a process that occurs in many modes. In general, it involves the transfer of public money or assets from the public domain to the private sector. It also includes the provision of services by private corporations, enterprises and institutions that were once provided by the public sector. Privatization also inevitably means a shift in the control of public resources, and change in the structures through which public money is spent. Within these general parameters we can identify modes of privatization of education, the most prominent of which include:

Vouchers: where public money purchases places for selected children in fee-paying institutions. The Milwaukee Voucher Scheme (Witte, 1998) and Chile's voucher scheme are examples of this (McEwan and Carnoy, 2001).

Contracting Out: involves the purchase of services from private enterprises by schools or schools districts. School buses, assessment and psychological services, payroll facilities, and free school meals services fall into the category (Audit Commission, 1993).

Public Private Partnerships: where public authorities lease or rent plant designed and built by private bodies to house public services. Such schemes are prominent in the UK and will be discussed later in this paper.

Take-overs: denotes the provision, organization and management of aspects of public schools and educational services for profit or fee, by private commercial enterprises brought in to replace officials and administrators appointed by elected representatives (AFT, 2001; Education Week, 2000; Schrag, 1999). EMOs' take-over of public schools (US) and 'education association' management of local authority educational services (UK) are the prominent example here.

Tax credits: rebates given to families choosing to use private, fee-paying schools in the US can be interpreted as another aspect of privatization (Olson, 2000)

This list is by no means exhaustive, and nor is privatization process confined to education. Other public sectors services such as prisons, hospitals, child care and care of the elderly have been subject to similar processes both in the US and UK. In this paper we will mainly discuss contracting out, public private partnerships and takeovers the key process through which public education has become a source of income generation and profit taking for commercial and non-profit enterprises and because there are fears that these processes directly impact both on the quality of educational services and on curriculum and pedagogy in public schools.

Not all enterprises involved in privatization of commercial and profit seeking. While corporations such as Advantage schools Inc., Edison, Tesseract (US) and Nord Anglia (UK) – all of which have been involved in public education takeovers – are both, Centre for British Teachers (CfBT) (UK), for example, is a non-profit making trust and collects fees for services rendered that sustains and expands the enterprise.

### **3. Antecedents of the private takeover of public education**

We cannot trace out the development and expansion of the role of business and commercial interests in public education in the detail in this paper. We can, however, identify two key moments when education-business connection was taken up by ideologues and politicians and entered the mainstream of political debate. These are Prime Minister James Callaghan's 'Ruskin College' speech in 1976 in the UK and the publication in the US of A Nation at Risk (NCEE, 1983).

Though there are considerable time and contextual differences between these events, there are compelling similarities with both in the messages and effects. Callaghan's speech suggested that public education was diverse in its quality, somewhat inward looking and not tuned enough to the needs of industry and the economy. A Nation at Risk had similar human capital overtones and it also drew attention to the perceived poor quality of public education.

Creation of the 'public education in crises' discourse generated nationally specific responses that had the common effect of institutionalizing business- influenced involvement in public education (Biddle and Berliner, 1992). In the US, Shipps (1997) records that A Nation at Risk "gave rise to more than 300 state and national business reports and commissions assessing – and usually flunking – the public schools." (Shipps, 1997, p.76). She notes these 'reports persistently drew parallels between good business practice and good schools and their prescriptions are widely repeated' (p.76). Through the 1980's and 1990's national business organizations, such as the

National Allowance of Business and the National Business Roundtable, persistently pressed for standards-driven reforms in order to produce the outputs represented in National Goals 2000.

British development of the education-business nexus took a different route. One official response to 'the crisis account' was curriculum reform, proposed both by Department for Education and Science, and Her Majesty Inspectorate. Though they had different visions of it, both called for a common curriculum for the nation's public schools so that all children would engage in similar subjects or areas of experience. In recognition of business interests, the curriculum was also 'vocalized' in one policy drive aimed at secondary school students. The Technical and Vocational Initiative provided extra funds for selected students, aged 14-16, in some public schools to develop vocational skills with programs that offered work experience (Dale, 1990).

Mrs. Thatcher's term of office as Prime Minister, which commenced in 1979, leading a government with neo-liberal ambitions, pushed the privatization agenda further. Under the general theme of rolling back the domain of the state, successive administrations de-nationalized industries such as gas, water, telecommunications, and oil exploration and production were sold off (Martin and Parker, 2000; Poynter, 2000). In education, its ideological preferences were first demonstrated in the Assisted Places Scheme, in which academically able students from financially disadvantaged families were offered state financed places at fee-paying schools. Their fees were paid for in part or full, in proportions related to family income (Edwards, Fitz and Whitty, 1989). Introduced in 1981, that scheme remained in place until 1997, when the incoming Labor Government scrapped it.

Thatcher's later, and more radical, reform of education through the Education Reform Act 1988, revitalized the education-business connection, and did so in a number of ways, we note briefly below:

1. National Curriculum subject panels included lay and business representatives in their membership.
2. Governance and financing of schools was modeled on a market system. Age-weighted per capital

funding for schools, given considerable autonomy from LEAs, constituted a system where schools were expected to compete for students. As in the private sector it was expected that poor schools would be forced to close.

3. Governing bodies were expected to include members of the civic and business communities.

4. Grant-maintained schools, schools that opted out from LEA control – modeled, one government adviser told us, on the devolved management structure experience in his days at Shell (Fitz, Halpin and Power, 1993) – had considerable powers to buy in educational services, such as payroll facilities, school meals supply and building and maintenance contracts.

The key point of the 1988 legislation was that it marked a key shift in the education-business nexus. While business influence was consolidated, education was also cumulatively constructed as a business because schools were expected to compete and operate like businesses. They were made directly responsible for the efficient use of resources and for 'outputs' as measured by student attainment in national assessments.

'Reaganomics' in the US and 'Thatcherism' in the UK, throughout the 1980's systematically and consistently turned to the private sector for solutions to supposed crises in public service provision in general and education in particular. There were three long-term effects. First, schools became increasingly subject to a 'bottom line' judgments of their standards or outputs as measured by public examination and assessment performance. Second, chronic under-funding of public services in general, and schools in particular, further encouraged by central government in the UK, pushed schools in the direction of seeking top-up funding from external sources. Third, public-private partnerships, where private enterprise was asked to invest in public service provision, was seen as a way of sustaining low-tax regimes while maintaining public services at a credible level. We think it was in this light that central government, states, and school districts went one step further, in handing over schools to for profit organizations.

#### **4. Education for a profit: privatization in the 1990's and the millennium**

What were the mechanisms by which public education was subject to direct takeover by private enterprises and through which it became an increasing source of revenue for contractors and large, stock market - quoted corporations? What we present here is an outline of the processes in two national contexts.

##### **4.1 UK Framework**

We have established in the previous section the ideological and political underpinnings of the transformation of public sector provision and the cumulative influence and involvement of business. In the policy arena there are four interlinked policies that have generated the capacity for private sector participation in public education and the forms of its engagement. These are Compulsory Competitive Tendering (CCT) Public Private Partnerships (PPP) and Private Finance Initiatives (PFI) and takeovers. Each will be discussed in turn.

###### **1) Compulsory Competitive Tendering (CCT)**

Commencing in 1980 under the Local Government, Planning and Land Act, CCT was introduced to require local authorities to put highways and building construction and maintenance out to tender (Audit Commission, 1993). CCT was extended to a larger range of activities by the Local Government Act 1988. Garbage collection, cleaning of buildings, education and welfare catering, ground maintenance, repair and maintenance of motor vehicles and management of sports and leisure facilities all services formally provided by in-house local authority staff and employers, were put up for tender. The Act required a client-contractor relationship to be established for each of these services. Local authority District Service Organizations were permitted to compete with private contractor and were successful in winning about 70% of contracts in the initial round of 5 year contracts awarded (Audit Commission, op cit, p.10). The Audit Commission Report also provides some justification for CCTs for it argues that CCTs saved about 7% of client side costs previously incurred (op cit p.9).

New arrangements for school inspections, introduced in 1992 can also be interpreted as an extension of the CCT principle. A national system of school inspection had existed since 1839. In 1992 Her Majesty Inspectorate gave way to the Office of Her Majesty's Chief Inspector, subsequently re-branded as the Office for Standards in Education (Ofsted). A feature of the new arrangements was that private contractors, replacing professional inspectors, HMI, would undertake full inspection of all public schools. Tenders were sought for 24,000 schools in England and Wales, in 4 year cycle (5 years in Wales) of full inspections. The cost was estimated at over £90 million per annum. This figure take no account of the opportunity costs occurred by schools, in preparing for a full inspection. When these are included, the cost of inspection for a median secondary school is about £66,000, and for a median size primary school, about £26,000 (Ofstin, 1998 p.16).

The inspection system commenced as a virtual cottage industry, where numerous small private contractors tendered for school inspectors, but it quickly became consolidated through the operation of organizations acting as contractors. Big contractors such as the Centre for British Teachers (CfBT), Millwharf, Severn Crossing, Cambridge Education Associates and Nord Anglia provided facilities for registered inspectors to undertake the inspections.

Soon after it was created, Ofsted was given the power to determine that a school was failing to provide and adequate standard of education. The Secretary of State was empowered to take over 'failing' schools by sending in an education association to run it. Those powers provided Ofsted and the Education Secretary with what some commentators have called, a 'nuclear weapon' (Hood, et al 1999). It has subsequently also provided also the means by which private take over of public education has been facilitated. We will return to this below.

## 2) Public Private Partnerships (PPPs)

Private investment in the public sector may take a number of forms. Two educational initiatives where private funds were sought to create and maintain new kinds of public education were the City Technology Colleges (CTC's) (1986) and Education Action Zones (EAZs) (1997).

The irony is that the first is a Conservative initiative; the second is a Labor government policy. They have much in common, apart from seeking private financing for education.

CTCs and EAZ were attempts to bring in private sector money to fund new directions in public education, each broadly aimed at inner urban communities. In the case of the CTCs, it was intended to establish about 20 secondary schools, financed by central government, to provide science and technology focused programs of instruction. Private enterprises were invited to purchase and refurbish or build new plant, while government would be responsible for recurrent costs. It proved difficult to generate private sector participation and central government finished up paying for much of the capital as well as recurrent costs, for schools, not all of which were in inner urban locations (Whitty, Edwards and Gewirtz, 1995). Very few corporations sponsored the new brand of schools, and local entrepreneurs in fact supported the majority.

A decade later a Labor government launched an area-based initiative designed to raise the quality of teaching and learning in a selected number of multiply disadvantaged communities. Education Action Zones, led by Zone directors and Education Action Forums – composed by educationalists business of community interests – usually comprising 2 secondary schools and adjacent primary schools -were established in about 25 sites across England (Power et al, 2000; Dickinson et al , 2000; Merrick, 2000)

Each zone was to receive a grant of £750,000 and a further £250,000 was available on a pound- for- pound basis for funds raised from sponsors, in cash or kind. Results, as with CTCs, have been uneven. One zone reportedly raised 3 times the target, while one zone has raised only one sixth of that figure (Power, et al op cit: Merrick, op cit).

Though similar ideas inform CTCs and EAZs, Labor's version has different ideological basis, namely its Third Way approach to public sector policy development. It seeks to engage public and private sector organizations in collaborative ventures that eschew both purely 'market' solutions;

or 'command economy' answers to complex social issues. Another version of this so-called 'Third Way' approach is the National Grid for Learning (NGfL), a program to link all schools in England and Wales, via the Internet, to a virtual learning zone (Selwyn and Fitz, 2001). Central government provided free Internet connection for all schools, with the support of British Telecom.

Corporations such as Microsoft, Compaq, Research Machines and BT have been involved in developing the Grid, as participants in the policy community offering expert advice but also as contractors competing to supply managed services to schools and colleges (Selwyn and Fitz, 2001). Many of those interviewed by Selwyn and Fitz saw that it offered profit-marking opportunities in the claimed £1.8 billion of government money was being invested in the Grid. One corporation also candidly admitted that it also saw the advantage of generations of school children becoming familiar with its software 'architecture'

### 3) Private Finance Initiatives (PFIs)

The Conservatives introduced PFIs in 1992 but their role in public sector finance has been endorsed and expanded under Labour. Indeed the present government has signed projects worth about £12 billion between 1997-2000 (Ball, R. et al, 2000). Under PFI arrangements the private sector builds, designs, finances and sometimes operates a capital asset (schools, hospitals, prisons, etc), which the public sector pays a charge to use (Ball et al op cit: 107). An underlying principle is that the private sector takes the 'risk' in the purchase and development of site and plant, while the cost to the public purse is spread over the life-time of the project, ordinarily 20-30 years. In the British variant it is not clear whether the asset reverts to public ownership at the end of the contract.

Public sector unions in the UK are deeply suspicious of PFIs as a form of privatization because large areas of public expenditure have in effect become profit generating exercises for corporations and because they in turn can negotiate restrictions on use and make excessive profit via the development of land and plant 'surplus' to requirements. UNISON, the largest UK public sector union and the National Union of Teachers (NUT) expressed their views about doubtful of

the value for money of PFIs on their respective websites. The NUT notes that one prison PFI project yielded its private sector sponsors profits of £10.7 million, on a refinancing deal, of which only £1 million was returned to the national prison service (NUT, 2001a).

Unions also point out that contractors are able to lease school buildings to third parties outside designated 'core times', when schools are not in session or when time is not designated for community use. Nevertheless, by November 2000, 71 education projects, planned or up and running, worth £680 million had been signed, which involved 673 schools (NUT, 20001b)

On the basis of a consultancy report by Arthur Andersen and Enterprise LSE, the government has claimed to achieve a 17% saving on capital projects under PFI, although this figure has been challenged by two academics (Pollock and Vickers, 2001). They suggest there is little if any evidence to support savings of this kind. All the unresolved tensions in PFI funding can be illustrated in the case of Pimlico School, a large, well-known, secondary school in the heart of London and located on a desirable site not far from the Thames.

Built in the 1960's, Pimlico School is in a very poor state of repair – it is draughty and it leaks (Singh, 2001; Ball, 1999). In 1995, the school sought funds to undertake refurbishment and explored a PFI arrangement. Last year the school governors threw out the PFI proposals, much to the annoyance of the LEA, central government and the private investors. The governors were supported in their action by parents and by the local community. What has annoyed PFI critics, however, was the disparity in the funding offered for a straight refurbishment, some £2.5 million, and the money central government and the LEA were prepared to commit under PFI, which was £25 million or 10 times amount originally sought.

Under PFI, the school would have been demolished and it would also have suffered a cut of 25% of its playground space to provide a site for developers to build luxury flats in order to cover 'risks' on their investment (Ball et al, 1999). No work is presently planned for Pimlico School.

Moreover, Pimlico is not the only school where playground space has been one of the considerations as to whether PFI projects go ahead (Abraham, 2000). Commentators have also questioned whether PFI's involve any 'risk'. It can be argued that they have the merit of generating known income from a reliable source for 20-30 years (Cohen, 1999: NUT, 2001a).

#### 4) Takeovers

Put in proper proportion, while some LEAs have been taken over by private organizations, the number is small but the regulatory impact of takeovers has been significant. This relates to the means by which takeovers have been achieved. Under powers granted in 1993, and extended by the Labor government in 1997 under its 'Fresh Start' policy, school inspectors, could judge schools to be 'failing' to provide an adequate standard of education. 'Fresh Start' enabled these schools to be closed and reopened under new management, and where necessary, operated by private organizations. Moreover, school inspectors were given additional responsibilities to report on LEAs and where their operations have been judged inadequate private contractors have been invited to take over all or part of LEA responsibilities for managing schools and associated educational services (e.g. Lightfoot, 2000; Marrin, 2000). In consequence, some schools and some LEAs are now run by private organizations and are accountable directly to the Education Secretary. Regardless of scale, the 'iron fist' message to schools and the LEAs has been unequivocal. The framework has also generated major players in the education services arena.

What of the scale? Of the 150 English LEAs, 120 have been inspected, and only 20 of these have been required to hand over some or all of their services to outside organizations (Mansell, 2001). Islington LEA in London was subject to a ministerially ordained take over by Cambridge Education Associates in seven year, £80 million deal (Mansell, 2001). Hackney, also in London, was taken over by Nord Anglia, a for-profit enterprise.

Consequent inspections by Ofsted two years after the Nord Anglia takeover found there were still weaknesses in the management and organization of Hackney's education services (Mansell,

2001). Other organizations, most notably Edison, have judged that LEA takeovers are simply not attractive business propositions (Palast, 2000; Mansell, 2001). Other major private providers of public education services, such as CfBT have also stayed out of LEA takeovers, although it did tender for the Islington contract three years ago. In most other LEAs only some elements of the service, most notably advisory-inspection services and school improvement arms have been taken over by private organizations.

Very few individual schools have been subject to take-over, even those placed under the 'Fresh Start' program. So far two schools in Surrey and another in Islington have been subject to outside intervention. The Surrey schools will be operated by 3Es, the entrepreneurial arm of Kingshurst CTC, ironically itself a state school (Barnard, 2000).

Key players on the British scene are the non-profit, charitable foundations such as CfBT. It began as an organization that supplied teachers of English to overseas governments, but CfBT has diversified its activities in the British scene in recent years. It is probably the largest contractor of school inspections in England, it runs the careers services for a consortium of LEAs, it manages one school in Islington, it is involved in the administration of the national literacy and numeracy strategies and it is also involved in the national system to introduce performance related pay for teachers. Its reported turnover is £65 million (Mansell, 2001, Lee et al, 1996).

#### **4.2 The US Framework**

In stark contrast to the UK's strongly national and centralized system, US public educational governance distributed across 50 states and some 15,000 school districts, each of which enjoys a considerable degree of autonomy. In effect, each school district can consider privatization of elements of its operation and can judge whether its school should be managed by outside organizations. It therefore offers a different structure and scale of opportunities for business and that has been extended with the introduction of charter schools. In states where they have been

mandated, charter schools offer the prospect of new start-ups in the public education system and these can be, and have been, initiated by for-profit enterprises or charitable organizations. The other distinguishing feature of the US framework is number and size of private organizations, EMOs, ready to invest in public sector takeovers and/or supply educational services. Each of these factors has had an impact on the scale and pace of privatization.

### **5. Institutionalization of the 'education business'**

What motivated individuals and organizations to identify public education as an arena for profit making is beyond the scope of this paper. The evidence is though that a business sector focused on the takeover of public schools and school districts established itself at the beginning of the 1990's. The American Federation of Teachers has identified 20 corporations providing educational services (AFT, 2001a). Of these 13 are identified as providing 'instructional services' and another 7 support/ non-instructional services. In the main, these are privately owned corporations: only three were or about to become publicly quoted companies – Edison Schools, Sylvan Learning Systems and Tesseract. (Education Week, 1999). These are corporations with a national profile and there are undoubtedly numerous others operating on the ground and limiting their operations to local public education systems. The list suggests that there are now established businesses that manage and operate for a profit, numbers of public schools and in many cases are seeking to expand their operations. This is only partly the story of institutionalization however, for there is also a second tier of involvement in the privatization of public education.

The second tier is composed of financial institutions that provide the funds for education businesses to take over schools. For example, EduVentures, Lehman Brothers and Montgomery Services are all engaged in seeking out venture capitalists who wish to invest in educational services organizations. And much of the publicity about how much the education business is worth seems to emanate from organizations such as EduVentures. For example, figures for the revenues generated

the privatization of public services are often those supplied by EduVentures. Education Week, to be fair acknowledges the source of the projects revenues in one prominent report on privatization and goes on to suggest that EduVenture figures are on the high side (Education Week, 2000).

Nevertheless, the second tier organizations have worked hard to make the sector look an attractive investment proposition.

Also in this tier are the moneylenders. How many corporations, and what financial backing they have provided for the privatisation of public education is difficult to determine. We can only present some examples in order to illustrate the general point. *Advantage Schools* Inc. has received 'mezzanine funding' from Price Waterhouse, probably in preparation for an initial purchase offer. *The Edison Project* has reportedly raised \$232 million in private capital is reported to filing a \$172 million initial purchasing offering (AFT, 2001a). Large investors are said to include JP Morgan Capital Corp and Investor AB each investing \$20 million. Other large investors include Vulcan Ventures (owned by Microsoft's Paul Allen) and UBS Capital (ibid). *Leona*, another enterprise offering for profit instruction service, was backed initially by philanthropist Alfred Taubman. *Mosaica*, founded Gene and Dawn Eidelman in 1997, 'has attracted private investment capital from Lepercq, a New York based venture capital firm and Murphy & Partners, a private equity fund. In three years, Mosaica predicts it will operate a network of 50 schools and will be one of the major players in the for-profit charter school industry' (AFT, 2001a). It is also reported that the Prudential Insurance Corp has loaned \$20 million in support of charter schools.

The larger point is that there are now well-established channels for corporations to invest in the takeovers of public education and these investors clearly see an opportunity to obtain a return on their money. The scale of the sector is vast compared with the UK and is and it has an infrastructure to sustain its growth.. And there is the political rub. Not only do these organisations

present a credible alternative for school boards to choose between direct and privately managed services and schools they are in an extremely powerful position to shape national and local agendas about the desirability of handing over public education to private providers. Indeed, it is not unlikely that there are a powerful lobbies operating at national, state and local levels (AFT, 2001a).

How the sector has engaged with public education is still being documented. It is a short history that contains a number of well-documented failures but it also demonstrates the sector's capacity to change and adapt. That cycle can be illustrated through vignettes of key players in the privatisation of public education.

### *EMOs in operation*

Although EMOs vary in terms of their size and the services they provide, those that offer hard educational (curricular and administrative) services can be categorized according to their functions.

Type I-Nonprofit, single school operator.

Type II-Nonprofit, multiple schools operator.

Type III-For-profit, single school operator.

Type IV-For-profit, multiple schools operator. (Miron, 2000)

Within Type IV, a further distinction amongst EMOs can be made. There are those for-profit, multiple school operators who focus on the operation and management of Charter schools. There are also Type IV EMOs who concentrate on Contract schools within established school districts.

Such EMOs are contracted to manage schools within an existing school district. The individual EMO secures a contract with the school board, to provide the educational services that were previously delivered by the publicly funded school district. The contracted EMO outlines to the school district the results they will achieve. Whether this is a measurable improvement in

student achievement or a reduction in the costs associated with the delivery of education, such details are negotiated between the individual company and school district. If the EMO fails to meet the requirements outlined within their contract, the school district has the ability, through a vote of non-confidence by school board members, to release the company from its duties. The terms of an early release and the timelines for a transition period where the EMO withdraws their services is dependent upon the individual contract negotiated between the EMO and the school district.

Such EMOs can turn a profit by receiving funding from the school district, based upon an average per pupil expenditure, and scaling back expenditures within the classroom. The difference between the funding received and the expenditures translates into profit for the EMO. The largest expenditure within the classroom is that of teacher's salary. Therefore, it has been argued that EMOs reduce such expenditure by either employing less experienced teachers or using uncertified staff (Furtwengler, 1998a, 1998b)

*Edison Schools, Inc*

Edison Schools, Inc., formerly The Edison Project, was formed in 1991 under the direction of Chris Whittle. Whittle stated that he was initiating this new venture in the field of education in an effort to transform and build a new type of American School. Whittle's intent was to restructure American education and make a profit at the same time. (Saks, 1995)

The original plan for Edison was to open two hundred for-profit schools by 2000. In declaring the Edison Project, Whittle stated:

We will also be providing our services to other school systems, public and private. A public school system may want us to manage one or all of its schools, or a private system may want to use a teaching program, some software, or a video tape that we've developed. All this is part of our plan. (NEA, 1999)

It was reported that Edison said initially that it would attain profitability in the enterprise when operated 100 schools although that estimate has been change recently to 120 schools (AFT

2001a). The corporation says it expects to yield between four and eight per cent from each school site after one year's operation (ibid).

Edison got off to a slow start, behind schedule. By the summer of 1995, Edison had been in existence for four years, spent forty million dollars in research and development and had yet done nothing in a school. During these years, capital was spent on developing a school design for Edison and marketing the Project's services to school districts. In September 1995, Edison opened four elementary schools for the 1995-96 school year (Mount Clemens, Michigan; Boston, Massachusetts; Wichita, Kansas; and Sherman, Texas). Edison tried to approach other school districts throughout America and convince them of the prospects for their services.

Mount Clemens, Michigan was the first school district to enter into contract with Edison for a five-year term. Edison opened the Mount Clemens Public School Academy, which was charter school that fell under Michigan Charter School legislation. This legislation allowed for-profit companies to operate public schools.

Edison was providing these schools with start-up funds for curriculum development. Money was also allocated to each individual school to help fund its technology systems, school operations plan, and the recruitment and training of staff. Food Service and pupil transportation were the responsibility of Edison at the school, which was allowed to be sub-contracted to private service providers. Edison also had the option to purchase these services back from the school district for an additional reduction of the per-pupil allotment (Saks, 1995)

Money was the real stumbling block between Edison and the school districts. Edison wanted more money per pupil than the national average, but most of these districts spent around the national per pupil average and did not have the funds to meet Edison's requirement.

The contracts that Edison entered into spelled out clear performance standards that were outlined in an Accountability Appendix. Edison was to various methods to assess student

achievement: state and district standardized tests, customized Edison tests relating to its academic standards, and portfolios of student work that were linked to Edison's standards. In case of a dispute arising regarding academic gains, an objective third party selected by the school district was to be consulted in an attempt to help clarify any disagreements.

The school district has the option to terminate the contract if Edison fails to account for its expenditures or fails to meet the performance standards specified in the contract. Edison can nullify the contract if the school board is unable to make the required payments or adhere to Edison's recommendations for personnel, curriculum, or other various matters. (Saks, 1995)

Edison currently is responsible for the operation of one hundred and thirteen schools in twenty-one states and the District of Columbia. (Miron and Applegate, 2000). Edison is distinctive in that it has consistently entered into contracts with school districts to operate public schools: other EMOs have avoided the difficulties associated with this strategy – community opposition, and opposition from education administrators and teachers organizations- and have exclusively pursued the development of charter schools for profit.

*Tesseract Group (Educational Alternatives, Inc.)*

Tesseract Group, formerly known as Educational Alternatives Inc.(EAI), is another company in the business of managing public schools. EAI secured its first public school contract in Dade County, Florida in 1990. In 1992, the company was contracted to operate multiple schools in Baltimore, Maryland. In October 1994 EAI secured its largest contract in Connecticut. It was hired to manage the entire Hartford school district (McCarthy, 1995).

EAI claimed that they could reduce costs within the schools they managed by thirty percent. These cost savings could then be invested into the instructional program of the school. EAI implemented these cost savings through cutting personnel, increasing class size and eliminating special education classes to help fund operating expenses. (McCarthy, 1995)

In November, 1995, EAI's five-year contract in Baltimore was terminated after only three and a half years. The Hartford contract was terminated in 1996, only one year after its enactment. The school district in Dade County, Florida decided not to renew EAI's contract with South Pointe Elementary school (Tesseract Group, 2000).

Contracts with EAI were terminated after failing to raise levels of student achievement sufficiently, failure to reduce costs, denial of special education programs and misrepresentation of test score results (General Accounting Office, 1996; Furtwengler, 1998a,b). Research conducted at the University of Maryland, Baltimore County indicated that standardized achievement test scores for EAI students decreased and then increased to pre-program level (Fowler and Lose, 1996). Therefore, no significant increase in student achievement occurred under EAI.

EAI repackaged itself and changed its name to The Tesseract Group in December of 1997. This was an attempt by the company to distance and shield itself from previous failures in Baltimore and Hartford. (Fowler and Lose, 1996) Tesseract's mission statement is to be a dominant provider to the education market through its public charter schools and the expansion of its private school networks. (Tesseract Group, op.cit). Currently, Tesseract concentrates on charter applications in states with permissive Charter School legislation. With such parameters, the company now focuses its efforts within the state of Arizona.

The general move away from taking over school districts and/or their schools and into charter schools reflects the importance those schools have assumed in the development of privatization. EMOs such Advantage Schools, Beacon Schools, Leona, Millburn, and Mosaica and National Heritage – to name but a few – as well as Edison and Tesseract see more profit in building, or transforming existing schools into, charter schools. Here, they are less constrained by school district staffing policies, curriculum and pedagogy. On current trends then, the scale and

pace of privatization is likely to be determined by state legislation on charters and an on school district policies freeing up schools to operate under charter arrangements.

## **6. Discussion**

What then are the relative determinants of the scale and pace of privatization in each national setting? Three general points can be made. First, privatization in the US and the UK has a shared political and ideological heritage, in which there is a common adherence to the idea that private providers, competition, site-based management and structures that encourage choice between schools will generate both efficiency and higher standards. Second, during the 1980's there was a considerable amount to 'policy borrowing' between the two national systems that also sustained the dominant belief that there were lessons to be learned from the private sector by public services. Third, when looked at in terms of the impact, in one sense, privatization is still relatively small scale in both countries.

In the US, early interventions by EAI/Tesseract and Edison have not been as successful as either the corporations or privatization advocates predicted. School district politicians and administrators and third party evaluations have found no clear evidence of increases in student test scores compared with those obtained by school districts when changes in the social composition of schools have been accounted for. Nor have there been the anticipated efficiency savings. Indeed, in some early instances, private operators incurred more cost per head than other schools in the same district. Moreover, teachers' organizations and community groups opposed to privatization have mounted well-organized and publicized critical evaluations of privatization initiatives (e.g AFT 2001b). For corporations, the relatively low levels of per capita funding for public school has made it difficult to turn a profit without offering parents additional services. All this has muted interest in takeovers of school districts and their schools.

Nevertheless, there are two other features in the US that has kept privatization rolling: the creation of a capital market targeted at public education and the cumulative roll-out of charter

schools. The tier of venture capitalists and the resources they can now tap enables service providers to pursue takeovers and charter school development without resort to public private partnerships of the kind that dominate the British scene. With thirty-six states having charter school legislation corporations have progressively moved into this sector seeking profits. Although about 10% of charters are managed by for profit companies (Education Week., 2000; Olson, 2000) that tells us little about the picture on the ground. In Michigan for example, 72% of charter schools are operated by for profit organizations (Miron, 2000). Major players in education services see this is the next frontier although there are states where for profit charters are prohibited.

Privatization in Britain is still closely tied to central government's regulation of the education system. In general, there exist fewer opportunities for the private sector to initiate takeovers compared with the US. Paradoxically, privatization has frequently followed the declaration of named schools and LEAs to be 'failing' by Ofsted, the schools inspectorate. This has provided both the structure of opportunity and an additional source of revenue for educational consultancies, a number of which are non-profit organizations. It has been the government's insistence on PFIs as the exclusive vehicle to refurbish plant in the public sector that has also brought about the major involvement of private enterprises in public education.

Again, the interesting feature here is the institutionalization of the process. The Treasury oversaw PFIs initially but these duties have been transferred to Partnerships UK (Partnerships UK, 2001), a public private organization that seems to act as a cross between, broker, venture capitalist and contract regulator responsible for the nature of contracts between the state and private sectors. Whether or not to pursue a PFI project is a decision for public sector bodies to which Partnership UK and private enterprise respond. One grave danger of PFIs though is that miscalculations of the full costs can have a serious impact on public services. In one case one LEA has been forced to reduce its funding of schools by £6000 pa in order to meet its PFI payments on one contract (NUT,

2001). This situation is not confined to the UK. There are also US instances where it is claimed that school districts gave priority to their obligations private contractors at the expense of other public schools.

The privatization of public education in the UK has moved at glacial speed. Devolution of funding to schools – about 90- 95% of all funding has been devolved to schools – means there are restricted opportunities make profits from LEA services. And there is the chronic under funding, even relative to the US (Palast, 2000), which again provides little latitude for profit taking by slimming down already lean services. In the standards-driven environment that characterizes schooling in the UK, and which has intensified under Labor, in which schools are required to teach a centrally determined, monitored and assessed National Curriculum, where league tables of schools' performance in national tests are published in the local and national press, and where schools are subject to target setting, regular full inspections, performance related pay for teacher and national strategies for teaching literacy and numeracy, there are limited opportunities for innovations that might generate profit.

In the US, privatization, certainly in the charter schools, has been accompanied by innovations in school organization, curriculum and pedagogy and some organizations such as National Heritage this has been an attraction of both charter schools and privatization (AFT, 2001a; Miron, 2000). Longer school days, centrally devised literacy programs and curricula, the introduction of strict dress including school uniforms, and enforced codes of behavior, all look like the restoration of 'traditional education' – teacher centered, whole class teaching, drill and well ordered classrooms (see Fitz, Halpin and Power, 1993). Innovation in the context has not been equated with progressive education. Some of these strategies have enabled reductions in the number of qualified teaching staff, the use of non qualified teachers and easing out 'high maintenance' students and students with special education requirements (Miron, 2000, Walsh, 1999).

## **6. Conclusion**

We began this paper by showing that there has been considerable investment in the privatization of public education in the US and UK. Advocates of privatization in both countries also share common beliefs about its purported beneficial effects. National policy contexts, however, have provided different structures of opportunities for the privatisers and also different sets of constraints on the processes and character of privatization. The capital market and the existence of charter schools in the US have enabled EMOs to refocus their profit making activities and at the same time push forward an agenda of traditional education. In addition, the private sector has drawn upon a political network of institutions seeking to reform or restructure the dominant form of public education presently under the jurisdiction of school districts. Overall, EMOs have not experienced the success that was expected of them when they launched into the field of public education.

Privatization in the UK has been driven primarily in response to central government policies, in relation to taking 'failing' schools and LEAs out of local control and in its determination to push forward its investment in public sector institutions via public private partnerships. Taking over schools and LEAs has not proved financially attractive to the private sector where the main players are non-profit organizations that in reality operate and control very few institutions directly involved in instruction.

In one sense EMOs have not yet transformed the landscape of public education. The number of school and local education authorities they control remains very small. Nevertheless, they have been an increasing presence and they have the capacity to expand their field of operations. Indeed, in the arena of education policy making their presence should not be underestimated. That is particularly the case in the USA where a neo-conservative and avowedly business friendly administration now prevails at the federal level. Further research is required to understand EMOs operate as policy actors at national, state and local levels and to what extent they are able to create

and sustain a purchase on the provision of public education. In the US, their success thus far, and perhaps their chief importance, is that they have convinced local politicians and school administrators, where school and local authorities are under pressure, that there is an alternative way of addressing perceived problems. There is also another dimension to their impact. Now that EMOs have refocused their activities through charter schools, in some states they already present a new challenge to public educators and to the notion of public education more generally. EMOs have shown a willingness to create a parallel system of public schools alongside existing, locally controlled systems. What capacity they have to sustain that trend has yet to be determined.

## **7. Notes**

(1) Some of the best material on privatization, EMOs and corporations involved, government policies and local experiences of privatization are to be found on the websites of teachers' and public sector workers' unions. Three sites have been extensively consulted in researching this paper:

American Federation of Teachers: [www.aft.org/privtization](http://www.aft.org/privtization)

National Union of Teachers: [www.teachers.org.uk](http://www.teachers.org.uk) and [www.data.teachers.org.uk/nut/action](http://www.data.teachers.org.uk/nut/action)

UNISON: [www.unison.org.uk/campaigns/index](http://www.unison.org.uk/campaigns/index)

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