

## CHAPTER ONE



# The Private Can Be Public

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During the 1999–2000 school year, public school districts spent some \$35 billion on goods and services provided by private, for-profit businesses—about 10 percent of the nation’s annual K–12 education budget. In other words, districts large and small recognize that for-profit businesses can produce many educational goods and services more efficiently or effectively than districts can themselves. It makes good sense for districts to partner with the private sector. In fact, private businesses now provide not only the pencils, chalk, and computers but also the core of the instructional program in many districts. Most school districts are too small, for example, to develop and produce their own curricula; they buy complete instructional programs from textbook publishers. Teacher training is often provided by the same vendors that publish the textbooks or by firms specializing in various kinds of professional development. States contract with testing companies to develop and administer customized state exams. Districts choose from commercially available standardized tests to measure students against national norms. In short, private business already plays a major supporting role in the provision of public education.

The question now is: Should we give private businesses an even larger role in public education? Companies such as Advantage Schools, Edison Schools, National Heritage, and a dozen or so smaller firms are seeking to actively manage entire public schools—hiring and firing; supervision, evaluation, and compensation; professional development; curriculum, instruction, and assessment; educational technology; plant management—everything. These firms believe that, using economies of scale as well as other tools that are more

readily available to the private sector, they can build organizations that use time and resources more efficiently and effectively than public school districts, leading to higher student achievement at a similar cost.

Raising student achievement, of course, is not the only task we assign to the public schools. We also ask them to provide equal educational opportunity to all students and to socialize diverse young people into our democratic culture. Whether private business can fulfill these many roles and still make a profit is a question on which the jury is still out. The very early track record of school management companies was mixed, but recent experience has been more positive. Perhaps 200 public schools are currently under private management, and all of these are schools of choice. At the very least, private managers are offering schools that parents deem worthy of their choosing. And there is preliminary evidence that parents are choosing wisely. Students in schools run by the largest management company, Edison Schools, have, on average, posted meaningful achievement gains in every year those schools have been open. Not all of the schools managed by private firms are doing well; at least a few have closed after experiencing difficulties. It will be some time before the experience of schools under private management is sufficient to permit definitive empirical analysis.

Regardless, as a nation we seem to agree that our schools are not as good as they should be or need to be. Moreover, many academics, policy makers, and even public educators have concluded that some schools cannot or will not make the necessary changes on their own. They may be too paralyzed by politics, bogged down by bureaucracy, or incapable of innovation to move achievement forward rapidly. In this environment, experimentation is called for, particularly the kind that gives parents a wider range of educational options from which to choose. These choices could be charter schools, which are an independent form of public school, or contract schools, public schools that would be operated by private businesses. More radical advocates say private schools should also be available as a choice, reimbursed at taxpayer expense via vouchers. Charters and contract schools, as potentially powerful sources of market influence on a public education system that clearly needs it, deserve a serious trial.

What can or will for-profit firms do differently from public schools? For one, private businesses can make more effective use of scale than public schools. Most school districts are either too small or too large—too small to afford the kind of administrative supports they need, or too large for a public bureaucracy to remain easily governable and accountable. A for-profit firm is more likely to build an effective organization that can serve hundreds

or even thousands of schools, giving them the supports they need while leaving more resources to be spent at the school level. For another, the capital-raising ability of private businesses gives them the capability to make the financial investments in research and development and comprehensive school reform that public schools can only dream of. And finally, private businesses have more freedom than public entities to structure their instructional practices and employee contracts in ways that maximize their performance. Their relative freedom from the constraints of state rules and, sometimes, excessively constraining collectively bargained contracts allows them to stay focused on their mission and to steer all their resources toward accomplishing it.

### Scaling Up

Critics of private management ask: What can business do that the public sector cannot? The answer is: Anything that requires scale to accomplish. Private, for-profit firms must build organizations that achieve efficient and effective scale. They must deliver quality products and services at reasonable prices or be driven out of business. Firms that built bureaucracy that failed to deliver for the public schools would have no future. The political process often creates and protects bureaucracy; a competitive market discourages it. The market permits society to gain the benefits of scale without paying the costs of bureaucracy.

Most local school systems are very small operations. The average school district contains only six schools—four elementary schools, a middle school, and a high school—and serves 3,100 students. Thousands of school systems are smaller still. Of the nearly 15,000 school districts in America, roughly 7,000 are truly tiny, with fewer than 1,000 students, and 3,500 are well below the national average, with only 1,000–2,499 students. Relatively few school districts—barely 2,500 nationwide—exceed even the moderate size of 5,000 students.

Small size creates two problems. First, a superintendent and staff are clearly capable of supervising districts much larger than the districts that are typical of American education. Yet, with 15,000 mostly small school districts, the nation expends more resources than it should on redundant district administrative operations. At the same time, however, these administrative expenditures aren't enough to provide sufficient services in small districts. Because most districts are small, they have the resources to deliver only the most basic support. It is not unusual, for example, for a school district to have

only two professionals to supervise and support the district's full educational program, from the teaching of pre-reading skills in kindergarten to the teaching of Advanced Placement physics in high school. Such a district lacks the scale to offer anything more than essential services—facilities, accounting, payroll, and compliance. The instructional program is designed almost entirely by the teachers and principals. A for-profit firm, by contrast, could provide to hundreds or even thousands of public schools, and their teachers and principals, the support that they need—and that only a large-scale organization could possibly offer.

The idea that most school districts are actually too small may seem counterintuitive. After all, sheer size appears to have been unhelpful to the public schools. Twenty-five American school districts, including New York, Philadelphia, Chicago, and Detroit, possess the size—more than 100,000 students each—and the resources to build the kinds of organizations that might effectively support the schools, by recruiting and training high-caliber teachers, developing a demanding curriculum, and building an assessment system that accurately tracks student progress. But appearances can be deceiving. These school systems do not have vast resources at their disposal to build whatever kind of support system their schools may need. Resources are consumed administering programs and fulfilling mandates over which the local administration has little say. These urban systems contend with the toughest—and most expensive—educational challenges in the nation. Big as they are, moreover, these systems are not big by the standards of private enterprise. Public education has truly not given scale a try.

By serving as a sort of mega-district for a large number of schools, and thus putting scale to good use, a for-profit firm could free up more education dollars for use at the school and classroom level. Not only students but also their teachers would ultimately benefit. Public school systems that are too small to enjoy any economies of scale or too large to avoid the inefficiencies of public bureaucracy cannot maximize the education dollars devoted to teacher salaries. A typical school system spends only 45 percent of its revenue on teacher salaries. Meanwhile, school systems spend anywhere from 5 to 30 percent of their revenue on support systems and administration—what the private sector calls overhead. A private business aims to keep overhead below 5 percent. The point is not that education should work like a private business. The point is that a business has advantages of scale and political autonomy in supporting schools, advantages that ought to enable it to enhance productivity. For instance, teachers in Edison Schools work a school year that is 10 percent longer than the national norm, and Edison is able generally to pay

teachers 10 percent more than they would earn in another public school—all for the same dollars that other public schools receive.

Of all students, disadvantaged children could have the most to gain from the efficiencies of private management. Disadvantaged students are concentrated in the larger school systems where politics is most intense and change is hardest to bring about—because there is so much system potentially to change. Private management allows for a large system to contract for change on a limited basis—for, say, several needy schools—without having to change the entire school system, as ambitious internal reforms would demand. Private firms have already shown a great interest in serving the most disadvantaged of students. Edison’s 113 schools include contracts with many of the largest school systems, such as Dallas, San Francisco, Minneapolis, Miami, and Wichita. The students in Edison Schools are disproportionately needy or of minority background; 65 percent are eligible for federal free or reduced-price lunches, while 55 percent are black and 17 percent are Hispanic or Latino. Privatization could thus serve as an important equalizer in public education.

Larger scale could also enhance the way that schools purchase goods and services from the private sector. Currently, school districts depend on those textbooks and instructional programs that have proved strong enough to make it in the marketplace. The problem is that the education market is defined not by the nation’s 15,000 districts but by a handful of large “adoption” states—mainly California, Florida, and Texas. Their lists of “approved” textbooks and instructional materials largely determine the books and software that will be available to the rest of the states, because the remaining purchasers are too small and heterogeneous to strongly influence publishers. Moreover, as a fundamentally political process, state adoption decisions often focus more on pleasing various interest groups than on enhancing the schools’ instructional programs. Publishers frequently lard their products with every bell and whistle that is hot in the world of education, hoping that all of the state decision makers will find their interests represented. The result is textbooks and instructional materials that offer a little bit of everything to everyone, rather than a well-structured, cohesive, and effective program.

A for-profit management firm, by contrast, could not tolerate the kinds of compromises that yield dubious educational materials. A management company’s survival would depend on building effective support systems for its instructional programs. It would thus demand that publishers and software makers provide comprehensive and integrated services that contribute to an enhanced educational experience. The entry of for-profit firms into the

educational management field could force the purveyors of educational support materials to provide more effective products to the entire education market.

## R&D

Making private businesses accountable for raising student achievement also would substantially raise the nation's investment in educational research and development. It is difficult to estimate how much is spent on educational R&D each year, but the total does not exceed \$100 million. This is a pitiful .03 percent of public school spending. For-profit firms often spend 100 times that amount in percentage terms. And what little educational R&D does take place is not done by the people running the schools, who might know what research is needed. Education research and development is done mainly by university-based outsiders, with academic agendas of their own. Most of this research, moreover, is just that: research. There is little follow-through, or development, to put the research into practice.

Research and development is a powerful force in the private sector for innovations in goods, services, and productivity. Firms invest heavily in it to maintain competitive advantage. It is difficult to fathom how public education imagines bringing about great advances in teaching and learning when its current structure does not allow it to invest seriously in understanding or improving its practices. If businesses were responsible for running, say, 10 percent of America's schools, spending on education research and development could be expected to reach \$1 billion a year—ten times current levels. In fact, public education already puts more faith in the research and development performed by private businesses—textbook publishers and software vendors, to name a few—than it does in research sponsored by the government or foundations. For-profit management firms would expand their R&D efforts in an attempt to integrate all the elements that contribute to student achievement—curriculum, instruction, assessment, professional development, technology. The spending would address areas of schooling that have never been seriously researched before, such as management systems, compensation plans, and school organization. Estimating the impact of all of this new R&D is impossible, but it undoubtedly represents a dramatic upgrade of the unfortunate status quo.

Moreover, the schools have not maximized the potential of the R&D that has been done. Several promising “whole school reform” models, such as “Modern Red Schoolhouse” and “Atlas Schools,” both the products of

intense R&D efforts, have been placed on the market, but thus far their record in boosting student achievement has been pretty mixed. The disappointments, however, seem to have much more to do with the implementation of the models than with the models themselves.

Privatization could dramatically advance the implementation of comprehensive school reform. Comprehensive school reform has foundered on two obstacles. One is money. To change everything that a school is doing, from its curriculum to its technology, to its training and ongoing support, to its assessment of student progress, is potentially quite expensive. Relative to the normal funding of schools, the costs are simply huge. A typical school receives money for new curricula in perhaps one major subject area every two years. It receives money to pay for two or three days of teacher training per school year. Money for a comprehensive change does not exist, unless it can be raised from a government or philanthropic grant program or from a bond issue approved by local voters. These are tough ways to spur widespread reform. Private businesses, however, could fund comprehensive reform with investment dollars. Edison Schools, for example, invests about \$1.5 million in the start-up of each school and earns the investment back during the course of its contract. This money ensures that Edison's comprehensive reform model is launched as effectively as possible.

Another obstacle to comprehensive reform that businesses can help overcome is what is often called "buy-in." Comprehensive reform requires the enthusiastic assent and long-term cooperation of every teacher and administrator in the school. Without this buy-in, the reform breaks down. Teachers can close their doors and do their own thing; they can write off the reform as just another fad. Public schools struggle with the buy-in problem for many reasons, not the least of which is the fact that teachers and administrators have rights as public employees and need only go so far in cooperating with reform. A business's relative freedom from the constraints of traditional school systems allows it to reconstitute public schools with teachers and administrators who choose to do something different. Businesses have the ability to implement a contractually agreed-upon reform model—to garner buy-in and to work collaboratively toward better academic results.

### **Breaking the Mold**

The same freedom from constraints that gives businesses an advantage in implementing whole-school reform also allows them to experiment and innovate in ways that public schools find difficult. Most public schools are organized

and managed in pretty much the same way, according to the putatively impartial rules of civil service, often with the added constraints of collective bargaining agreements. These rules, like all other rules in public education, are products of political battles fought and settled over the course of more than a century. To be sure, every rule has some higher public purpose—for example, protecting schools from political patronage or ensuring that teachers are treated equitably. But it is also true that the rules that organize public education were not necessarily established to maximize the ability of schools to help students succeed.

These rules are not going to change substantially or rapidly. There are too many powerful interests vested in the status quo and too much uncertainty about what kinds of changes would truly promote better teaching and learning. The beauty of privatization is that new forms of organization can be introduced into public education without making wholesale changes to public education itself. Businesses can be contracted to run public schools based on alternative models of school organization. Teachers and administrators who want to work under new work rules can do so voluntarily. Educators who want to stick with the current system are free to stay the course.

What innovations might business use? The list is very long. Teachers are currently paid on the basis of seniority and education. A business-run school might introduce merit pay and school-wide performance bonuses. Public education debates these ideas endlessly but usually steps away from the plate before implementing anything meaningful. A business-run school might pay more for teachers in shortage positions, such as math and science, to ensure that skilled professionals cover these courses. This is another innovation that is generally too hot for public education to handle.

Businesses would most likely change the supervision and evaluation structures in a school as well. Most schools are run as flat organizational structures in which only specific administrators are permitted to supervise and evaluate teachers. The problem with this system is that the administrators are generally too few to support the teachers or to hold them accountable. Businesses could organize schools around teams, with senior teachers accountable for supervision and evaluation. Schools could offer the senior teacher post to teachers who want more responsibility and pay but don't want an exclusively administrative position.

Business-run schools could also work creatively with class size. Public education is forever mandating maximum class sizes for different grade levels. But class sizes should vary with the specific needs of the students and teachers. Some students need one-on-one tutoring. Some need small group instruc-

tion. Others would prosper in large classes. Some could work independently with lessons delivered over the Internet. Teachers also differ. A veteran teacher might be able to handle a large class, a new teacher a class only half that size.

The point is not that any of these innovations are clearly going to promote school improvement. The point is that many of the organizational tools that the private sector uses to great effect are rejected by the public sector, often because they are simply too controversial for public education to embrace broadly. All of these ideas deserve a chance. Private management provides one.

### Public Education's Best Hope

The prospects of substantial improvement in public education without substantial changes in the education system itself are not good. Which is why policy makers are looking for ways to change the system through an injection of market forces, as well as imposing rigorous standards of accountability. But there is reason to believe that current efforts will fall short of their desired effects, and that political pressures for more radical change will continue to mount. The choices that policy makers are now granting parents are not generating the kind of competition that is likely to shake up most school systems or to significantly increase the supply of good schools. Choice now is essentially among existing public schools and a limited number of charter schools—less than 2,000 nationwide, scattered across 36 states. When choice is this limited, even the least successful of schools face little pressure to change what they are doing.

Critics of vouchers fear what the unleashing of market forces and the loss of democratic control might mean for the values of public education. They fear that schools catering to parents will appeal to sectarian or ideological interests, that schools will segregate children more than public education already does, that schools will no longer socialize children into a common democratic culture. These fears may be overblown, given that there is no evidence that private schools now turn out bad citizens or that the public schools now do an effective job of promoting unity, tolerance, or democratic understanding. Still, there is no denying that vouchers will limit the ability of society to govern what is taught and to whom.

For those who worry about the unpredictable consequences of vouchers, but who recognize the need to bring competition, choice, and change to public schools, private management offers a very attractive compromise. Private firms competing with one another for the business of public education are an

important source of market influence on education. Add this influence to that of private firms operating schools of choice, and public education could have a powerful engine for school improvement driven by the market. Yet this engine would be governed more by the democratic process than would a market driven by private vouchers. What's more, because private management could be introduced directly into any of the nation's 80,000 public schools, private management might improve the quality of schools more rapidly than would vouchers for private schools, which must change the public schools indirectly through competition. In this sense, private management may be the best hope for keeping public education public.

### Note

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