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Education Management Organisations and the Privatisation of Public Education: a cross-national comparison of the USA and Britain

JOHN FITZ & BRYAN BEERS

ABSTRACT Education Management Organisations (EMOs), for-profit and non-profit management companies engaged in take-over and operation of public education, are becoming big business in the USA and the UK. It is estimated that in the US, EMOs were projected to generate up to \$123 billion dollars in revenue in 2000. In the smaller UK system it is estimated that about £5 billion of services in public education could be contracted out to private organisations per annum. This paper examines the policy frameworks that have enabled EMOs to take-over and progressively contribute to the privatisation of public education in two national settings, the USA and England and Wales. The British scene is distinctive because government policies that have sought to expand the role of the private sector, via public-private partnerships, in the provision of public sector services and its strong accountability system, have provided opportunities for EMOs to be engaged in, or take-over, schools and educational administrative services formerly provided by LEAs. In the US, in the mid-1990s, EMOs were invited to take over school districts and specific schools. However, this practice has been succeeded by a new focus on taking over the management of charter schools. A large capital market that is able to finance enterprises involved in educational services supports the development of EMOs in the US. Our research findings, however, point to halting progress by EMOs in public education in the US. There have been well-publicised failures to deliver the promised better education at a lower cost and also well-documented failure to raise student performance levels in school and school districts. The paper concludes with reflections on the extent to which EMOs have taken forward privatisation and its implications for the governance of education.

Introduction

There is nothing new in making a profit from education although profit making has historically occurred in several forms. What is relatively new is the recent development of private enterprises taking over public schools and/or local education authorities and engaging directly in teaching and learning activities for fees or profits. In this paper we will focus on the relatively recent creation of Education Management Organisations (EMOs), enterprises that offer to run or replace existing state schools and local authorities for a fee or for-profit. We also demonstrate, via a cross-national comparison, the importance of policy frameworks

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in providing opportunities for EMOs to become involved in public education. We argue that these regulate both the scale and speed of the privatisation of public schooling. The paper also explores subsequent modes of privatisation and their impact on the governance and organisation of public schooling in the United States of America and Britain [1].

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

The privatisation of education on an international scale has been encouraged by a little known agreement at the Uruguay meeting of the World Trade Organisation (WTO) that member states should promote the further 'liberalisation' of public services, including education (Hirtt, 2000; WTO, 2002). In other words, the WTO agreement seeks an expanded role both for market forces and for private investment in education and member states are expected to develop appropriate policy frameworks. In this paper we focus on two countries where privatisation has proceeded in line with WTO agreements, the USA and Britain, and we do so for three reasons. First, both have experienced private organisations taking over school and local education authorities, and moreover, US organisations have sought to get a toehold particularly in British education. Second, there are interesting comparisons and contrasts to be made in the respective policy frameworks that shape the processes of the privatisation in each national setting. Third, and consequent on the previous point, privatisation in each setting has developed a somewhat different trajectory as EMOs have responded to the local opportunities afforded them. The study therefore offers some insights into the interactions between local contexts and 'globalising' processes.

The first part of the paper considers the processes of privatisation of public education and the conditions that have given rise to its prominence in the US and in England and Wales. The second section of the paper outlines the antecedents of EMO interest in public education and the third and fourth sections review the structure and processes of business in the operation of public education in the US and England and Wales [2] respectively. We pay particular attention to the means by which privatisation has become institutionalised in each national setting. The structures and processes of institutionalisation provide a major theme for the contrast and comparison of privatisation and the operation of EMOs on either side of the Atlantic. The paper concludes with a consideration of the wider impact of privatisation on structures of governance and accountability on public education in the US and Britain.

Public Education, Privatisation 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 programmes. Over the last two decades commentators have expressed their concerns over the progressive 'commercialisation' of public education, in the so-called 'Cola-isation' of schools, where income is derived from vending machines, and displays of sponsors' logos and the advent of TV advertisements streamed at students via US Channel One television (Apple, 1979; Kaplan, 1996; Cohen, 2001; Shaker, 2001). Here, the concerns have been expressed

that institutions associated with education as a public good, as a civilising, transformative and democratising force, in effect, have become transformed into sites for the creation and reproduction of capitalist consumer culture. Similar concerns attend the privatisation of public education. Transferring public educational institutions to private control or privatising education, and or/involving business in education, it can be argued, carries with it the danger that its interests and values will come to predominate (see Hatcher, 1998, 2000; Levin, 2000) [3].

Privatisation is a general description of a process that occurs in many modes but in one form or another 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. Privatisation also inevitably means a shift in the control of public resources, and changes in the structures through which public money is spent. Within these general parameters we can identify several different modes of privatisation 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 schemes are examples of this (McEwan & Carnoy, 2000).

Contracting Out: which 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 Britain and will be discussed later in this paper.

Take-overs: which denotes the provision, organisation 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, 2001a; Education Week, 2000; Schrag, 1999). EMOs' take-over of public schools (US), and 'education association' management of local education authority (LEA) services (Britain) are the prominent examples here.

Tax credits: rebates given to families choosing to use private, fee-paying schools in the US can be interpreted as another aspect of privatisation because families using fee-paying, private education receive a form of state or government subsidy (Olsen, 2000).

This list is by no means exhaustive, and nor is the privatisation process confined to education. Other public sectors services such as transport, prisons, hospitals, child care and care of the elderly have been subject to similar processes both in the US and in the UK. In this paper we will mainly discuss contracting out, public private partnerships and take-overs, the key processes 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. It is worth noting by way of conceptual clarification that not all enterprises involved in privatisation are commercial and profit seeking. While corporations such as Advantage Schools Inc., Edison, Tesseract (US) and Nord Anglia (Britain)—all of which have been involved in public education take-overs—are both, the Centre for British Teachers (CfBT) (Britain), for example, is a non-profit making trust and collects fees for services rendered that sustains and expands the enterprise.

Antecedents of the Private Take-over of Public Education

The education-business nexus cannot be traced out in detail in this paper. We can, however, identify two key moments when the 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 between both of them. 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 crisis' discourse generated nationally specific responses that had the common effect of institutionalising business-influenced involvement in public education (Biddle & Berliner, 1992). In the US, Shippo (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' (p. 76). She notes that these 'reports persistently drew parallels between good business practice and good schools and their prescriptions are widely repeated' (p. 76). Through the 1980s and 1990s national business organisations, such as the National Alliance of Business, and National Business Roundtable, persistently pressed for standards-driven reforms in order to produce the outputs represented in *Goals 2000* (US Congress, 1994).

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

Margaret Thatcher's term of office as Prime Minister, which commenced in 1979, leading a government with neo-liberal ambitions, pushed the privatisation agenda further. Under the general theme of rolling back the domain of the state, successive Conservative administrations nationalised industries such as gas, water and telecommunications, and oil exploration and production were sold off (Martin & Parker, 1997; Poynter, 2000). In education, in the government's 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 *et al.*, 1989). Introduced in 1981, that scheme remained in place until 1997, when it was terminated by the incoming Labour Government.

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

1. National Curriculum subject panels included lay and business representatives in their membership.
2. The governance and financing of schools were modelled 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 which had opted out from LEA control—modelled, one government adviser told us, on the devolved management structure experience in his days at Shell (Fitz *et al.*, 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, schools were also cumulatively constructed as businesses because they were expected to compete and operate like businesses and failure to do so meant the prospect of closure. 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 1980s systematically and consistently turned to the private sector for solutions to supposed crises in public services provision in general and in education in particular. There were three long-term effects. First, schools became increasingly subject to a ‘bottom line’ judgement of their standards or outputs as measured by public examination and assessment performance. Second, chronic under-funding of public services in general, and of 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. Arguably it was in this light that central government, states, and school districts went one step further, in handing over schools to for-profit organisations.

Education for a Profit: privatisation in the 1990s and the new millennium

We now turn to the idea of policy frameworks. Political and ideological preferences are converted by policy frameworks into institutional forms and practical programmes. In this sense, the notion of ‘policy framework’ is both usefully descriptive and analytically powerful because, employed comparatively, it assists in identifying the economic and political-cultural sources that regulate national variations in international projects such as privatisation. What then, were the mechanisms by which public education was subject to direct take-over by private enterprises and through which it became an increasing source of revenue for contractors and large, stock market—quoted corporations in the US and Britain?

England and Wales 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 British policy arena there are four inter-linked 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 (PPPs), Private Finance Initiatives (PFIs), and take-overs. We will discuss each in turn.

Compulsory Competitive Tendering (CCT)

Commencing in 1980 under the Local Government, Planning and Land Act, CCT was introduced in England and Wales 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 Organisations were permitted to compete with private contractors and were successful in winning about 70% of contracts in the initial round of 5-year contracts awarded (Audit Commission, 1993, p. 10). It has been argued that CCT's saved about 7% of client-side costs previously incurred (Audit Commission, 1993, p. 9).

Although it is not generally thought of in this way, the new arrangements for school inspections, introduced in 1992 can be interpreted as an extension of the CCT principle. A national system of school inspection had existed since 1839. In 1992 Her Majesty's Inspectorate gave way to the Office of Her Majesty's Chief Inspector, subsequently re-branded as the Office for Standards in Education (OFSTED) in England while Wales retained the statutory designation of the Office of Her Majesty's Chief Inspector (OHMCI). A key 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 a 4-year cycle (5 years in Wales) of full inspections. The cost was estimated at over £90 million per annum. This figure takes 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 (Centre for the Evaluation of Public Policy and Practice and Helix, 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 'corporatised'. 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. CfBT at one time undertook about 10% of all school inspections in England (Lee *et al.*, 1999).

Soon after it was created, OFSTED was given the power to determine that a school was failing to provide an 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). In practice, the new inspection system has become the key means by which private organisations have been given the opportunity to take-over the running of schools and, more recently, LEAs. We will expand on this below.

Public Private Partnerships (PPPs)

Another path for private enterprise to become involved in the running of public education follows on Conservative and Labour attempts to increase the level of resources for the public sector without increasing taxes or the volume of public sector borrowing. The preferred solution over the last fifteen years or so has been programmes to encourage private sector investment in the public sector. 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). They have much in common, apart from seeking private financing for education.

CTCs and EAZs were both developed on the principle of bringing 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 programmes 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 *et al.*, 1993). Very few corporations sponsored the new brand of schools, and local entrepreneurs in fact supported the majority.

A decade later a Labour 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 governed by Education Action Forums—composed of educationalists and business or community interests—usually comprised 2 secondary schools and adjacent primary schools. Initially 25 were established in sites across England (Dickson *et al.*, 2001; Merrick, 2001; Power *et al.*, 2001). A further 48 were created in 1999–2000, while there are also numerous smaller versions which form part of the *Excellence in Cities* programme (Dickson *et al.*, 2001).

For the first 25 zones the government made available £750,000 for three years but they were also expected to raise a further £250,000 from sponsors, in cash or kind. Second round EAZs were funded differently. Their standard government grant is £500,000 per annum, but they can receive up to a further £250,000 to match funds raised from the private sector. (Dickson *et al.*, 2001). Results, as with CTCs, have been uneven and generally disappointing. Only 12 of the 73 EAZs have met the £250,000 target, and most of this is in 'kind' (Mansell, 2001a).

Though similar ideas inform CTCs and EAZs, Labour's version has a different ideological basis, namely its Third Way approach to public sector policy development. It seeks to engage public and private sector organisations 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 programme to link all schools in England and Wales, via the Internet, to a virtual learning zone (Selwyn & 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 & Fitz, 2001). Many of those interviewed by Selwyn & Fitz saw that it offered profit-making opportunities in the claimed £1.8 billion of government money that 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'.

Private Finance Initiatives (PFIs)

PFIs are another version of the proposed public/private solution to increase resources without incurring increased spending in the public sector. 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 *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.*, 2000, p. 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 practice, PFIs can also be interpreted as a creative arrangement to keep project costs off the conventional balance sheets of public borrowing (Allen, 2001, p. 20). PFI critics have asked whether the price for this is rather high (Monbiot, 2002; NUT, 2001a). They ask whether there is any risk involved for private sector partners and whether the returns on capital—estimated on one project, the London Underground system, to be as high as 18% per annum for 30 years—is somewhat excessive (Hutton, 2002).

Perhaps not surprisingly, public sector unions in the UK are also deeply suspicious of PFIs as a form of privatisation 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 profits 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 doubts about 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; see also Allen, 2001). 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 (2000), the government has claimed to achieve a 17% saving on capital projects under PFI, although this figure has been challenged by two leading academics (Pollock & Vickers, 2000). 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 1960s, Pimlico School is in a very poor state of repair—it is draughty and it leaks (Ball, 2000; Singh, 2001). 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. The principal and senior management team, desperate for some remedy to the problems with building was more sympathetic to the PFI. 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 the 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.*, 2000). 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 (Abrams, 2000).

Take-overs

Put in proper proportion, while some schools and LEA operations have been taken over by private organisations, the number is small but the regulatory impact of take-overs has been significant. This relates to the means by which take-overs have been achieved. Under powers granted in 1993, and extended by the Labour government in 1997 under its 'Fresh Start' policy, school inspectors—often styled 'the education watchdogs'—could declare schools to be 'failing'. Fresh Start enabled these schools to be closed and reopened under new management, and where necessary, operated by private organisations. 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, 1999; Marrin, 2000). In consequence, some schools and some LEAs are now run by private organisations and are accountable directly to the Education Minister. 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 organisations (Mansell, 2001b). Islington LEA in London was subject to a ministerially ordained take-over by Cambridge Education Associates in a seven year, £80 million deal (Mansell, 2001b). Hackney, also in London, was taken over by Nord Anglia, a for-profit enterprise.

Subsequent inspections by OFSTED two years after the Nord Anglia take-over found that there were still weaknesses in the management and organisation of Hackney's education services (Mansell, 2001b). Other organisations, most notably Edison, have judged that LEA take-overs are simply not attractive business propositions (Palast, 2000; Mansell, 2001b). Other major private providers of public education services, such as CfBT have also stayed out of LEA take-overs, although in the latter 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 organisations.

Very few individual schools have been subject to take-over, even those placed under the 'Fresh Start' programme. 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, and this organisation provides a good illustration of the trend under discussion in this paper. CfBT began as an organisation that supplied teachers of English to overseas governments, but has diversified its activities in the British scene in recent years. It is now 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, 2001b, Lee *et al.*, 1999).

Overall, government action, under both Conservative and Labour administrations has been the key privatisation driver in the British context where numerous opportunities have been provided for the involvement in, and take-over of, public education by private and charitable enterprises. For commentators, such as Hatcher (1998, 1999, 2000) the framework as it stands amounts to a process of progressive privatisation both in the form of profit-making from state education and of a greater role for businesses and corporations in determining what schools and educational professionals do. It is certainly the case that numerous opportunities now exist for private enterprise to enter the arena of public education

and that in the case of EAZs they are invited to play a central role to determine the character of what schools and teachers do. However, as we shall argue later, the extent to which the system has been privatised is perhaps not as great as critics suggest.

The US Framework

Unlike the more centralised British education systems, educational governance in the US is 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 privatise elements of its operation and can judge whether its schools should be managed by outside organisations. This is a very different structure of business opportunities that has been extended with the introduction of charter schools. In 36 states where they have so far 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 organisations. The other distinguishing feature of the US framework is the number and size of private organisations, EMOs, ready to invest in public sector take-overs and/or supply educational services. Each of these factors has had an impact on the scale and pace of privatisation.

Institutionalisation of the 'education business'

What motivated individuals and organisations to identify public education as an arena for-profit making is beyond the scope of this paper. The evidence suggests that a business sector focused on the take-over of public schools and school districts was established at the beginning of the 1990s. 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 provide support/non-instructional services. In the main, these are privately owned corporations: only three were, or are 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, a good number of state schools, and in many cases they are seeking to expand their operations.

This is only partly the story of institutionalisation, however, for there is also a second tier of involvement in the privatisation 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 organisations. And much of the publicity about how much the education business is worth seems to emanate from organisations such as EduVentures. For example, figures for the revenues generated by the privatisation 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 privatisation and goes on to suggest that EduVenture figures are on the high side (*Education Week*, 2000). Nevertheless, the second tier organisations have worked hard to make the sector look an attractive investment proposition (see Walsh, 2000a).

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, which reportedly has raised \$232 million in private capital, is reported to be 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 (AFT, 2001a). Leona, another enterprise offering a for-profit instruction service, was backed initially by philanthropist Alfred Taubman. Mosaica, founded by 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. Since the downturn in the US economy in 2001, it is reported that venture capital for education business has also been reduced, with potential knock-on effect for enterprises seeking to take over public education and fund charter schools’ start-ups (Walsh, 2001). It has also led to the consolidation of the ‘education business’ into fewer corporations. For example, Edison Schools Inc. has taken over LearnNow, while Mosaica has acquired Advantage Schools (Walsh, 2001). Little further evidence is needed to demonstrate the extent to which EMOs have become a solid part of corporate America.

The larger point though is that there are now well-established channels for corporations to invest in take-overs 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 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 directly versus privately managed services and schools; they are also 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 now powerful lobbies operating at national, state and local levels (AFT, 2001a).

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 categorised according to their functions. Miron (2000), for example suggests the following typology:

- 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.

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. Here, 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 no 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 its services is dependent upon the individual contract negotiated between the EMO and the school districts. EMOs can turn in a profit by receiving funding from the school district, based upon an average per pupil expenditure, either by increased efficiency and/or by scaling back expenditures within the schools and classrooms. The difference between the funding received and the expenditures translates into profit for the EMO. The largest expenditure within the classroom is that of the teacher's salary. Therefore, it has been argued that EMOs reduce such expenditure either by employing less experienced teachers or using uncertified staff (Furtwengler, 1998a,b).

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. As with the English situation, that cycle can be illustrated through vignettes of key players in the privatisation of public education.

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 to make a profit at the same time (Saks, 1995). The original plan for Edison was to open two hundred for-profit schools by 2000.

It was reported that Edison said initially that it would attain profitability in the enterprise when it operated 100 schools although that estimate has been changed 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 (AFT, 2001a).

Edison got off to a slow start, behind schedule. By the summer of 1995, Edison had been in existence for four years, had spent \$40 million 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 a 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 services 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 committed to employ various methods to assess student achievement: state and district standardised tests, customised Edison tests relating to its academic standards, and portfolios of student work that were linked to Edison's standards. In the 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 is currently responsible for the operation of one hundred and thirteen schools in twenty-one states and the District of Columbia. (Miron & 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' organisations—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 30%. These cost savings could then be invested into the instructional programme 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 and its contract with Dade County, Florida was not renewed. Contracts with EAI were terminated after failing to raise levels of student achievement sufficiently, failure to reduce costs, denial of special education programmes and misrepresentation of test score results (General Accounting Office, 1996; Furtwengler, 1998a,b; AFT, 2001b). Research conducted at the University of Maryland, Baltimore County indicated that standardised achievement test scores for EAI students decreased and then increased to pre-programme level (Fowler & 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 can be interpreted as an attempt by the company to distance and shield itself from previous failures in Baltimore and Hartford. Tesseract changed direction to concentrate on charter applications in states with permissive charter school legislation and so the company now focused much of its efforts within the state of Arizona. In June 2000, however, it was reported that Tesseract was in financial difficulty and had been forced to sell two of its Arizona-based charter schools as well as its for profit business college (Walsh, 2000b).

The general move away from taking over school districts and/or their schools and into

charter schools reflects the importance these schools have assumed in the development of privatisation. EMOs such as Advantage Schools, Beacon Schools, Leona, Millburn, 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. Moreover, the provision of after-school services such as childcare, club activities and the like also provides additional and potentially profitable revenue streams. On current trends then, the scale and pace of privatisation is likely to be determined by state legislation on charters and on the development of school district policies which free up schools to operate under charter arrangements.

Discussion

What then are the relative determinants of the scale and pace of privatisation in each national setting? Three general points can be made. First, privatisation 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 1980s there was a considerable amount of ‘policy borrowing’ between the two national systems. This also helped to sustain the dominant belief that there were lessons to be learned from the private sector by public services. Third, when looked at in terms of impact, privatisation 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 privatisation 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’ organisations and community groups opposed to privatisation have mounted well-organised and publicised critical evaluations of privatisation initiatives (e.g. AFT, 2001b). For corporations, the relatively low levels of per capita funding for public schools has made it difficult to turn a profit without offering parents additional services. All this has muted the potential interest in take-overs of school districts and their schools.

Nevertheless, there are two other features in the US which have kept privatisation 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 take-overs and charter school development without resort to public private partnerships of the kind that dominate the British scene. With 36 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; Olsen, 2000) that tells us little about the picture on the ground. In Michigan for example, 72% of charter schools are operated by for-profit organisations (Miron, 2000). Major players in the provision of education services see this as the next frontier although there are states where for-profit charters are currently prohibited.

By contrast, privatisation 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 take-overs compared with the US. Paradoxically, privatisation has frequently followed the naming of schools and LEAs declared 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 organisations. It has been the government's insistence on PFIs as the exclusive vehicle to refurbish plant in the public sector that has largely brought about the major involvement of private enterprises in public education.

Again, the interesting feature here is the institutionalisation of the process. The Treasury oversaw PFIs initially but these duties have been transferred to Partnerships UK (Partnerships UK, 2001), a public/private organisation 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, 2001b). 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 to private contractors at the expense of other public schools.

The privatisation of public education in the UK has so far moved at glacial speed; about 90–95% of all LEA funding has been devolved to schools which means that there are very restricted opportunities to profit from LEA services. And there is the chronic under-funding of education overall, 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 and accountability-focused environment that characterises schooling in the UK, and which has intensified under Labour, there are limited opportunities for innovations that might generate profit.

In the US, by contrast, privatisation via charter schools, has been accompanied by innovations in school organisation, curriculum and pedagogy. For some organisations, such as National Heritage, this has been an attraction of both charter schools and privatisation because each of the policies enable it to operate outside the constraints imposed by school district programmes. (AFT, 2001a; Miron, 2000). Longer school days, centrally devised literacy programmes and curricula, the introduction of strict dress including school uniforms, and enforced codes of behaviour, all look like the restoration of 'traditional education'—teacher-centred, whole class teaching, drill and well ordered classrooms (see Fitz *et al.*, 1993). Innovation in this 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 the easing out of 'high maintenance' students and students with special education requirements (Miron, 2000, Walsh, 1999).

Conclusion

We began this paper by showing that there has been considerable investment in the privatisation of public education in the US and Britain. Advocates of privatisation in both countries also share common beliefs about its purported beneficial effects. National policy contexts, however, have provided very different structures of opportunities for the privatisers and also different sets of constraints on the processes and character of privatisation. 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.

Privatisation in the UK has been driven primarily in response to central government policies, firstly in relation to taking 'failing' schools and LEAs out of local control, and secondly by the government's determination to push forward its investment in public sector institutions via public private partnerships. However, taking over schools and LEAs has not proved financially attractive to the private sector where the main players are non-profit organisations who, in reality, operate and control very few of the institutions which are 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 how 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. However, it is clear from this analysis that where a propitious policy climate prevails, and where there is also sufficient scope for profit to be made, the privatisation of educational services is likely to be a significant part of the future educational landscape—at least in the two countries which are the subject of this study.

NOTES

- [1] Since elected legislatures were established in each of the three of the 'home' nations within the United Kingdom—Northern Ireland, Scotland and Wales in 1999 it is now even more difficult to speak of a 'UK' policy framework in education in any meaningful sense. Each home nation now has considerable latitude to devise its own educational policies. In reporting thematic research conducted cross-nationally between the UK and elsewhere there is no elegant or strictly correct terminology to speak about sub-sets of home nations. The work reported here refers to EMOs in England and Wales only, although particular aspects of privatisation such as Private Finance Initiatives (PFIs), for example, apply and have been employed in Northern Ireland and Scotland. For simplicity then we have used Britain and England and Wales somewhat interchangeably in this article.
- [2] In legislative terms it is still possible to speak of 'England and Wales' because the new National Assembly for Wales does not have tax-raising powers nor can it draft primary legislation. Nevertheless, although the privatisation policy framework set out in this paper applies equally in Wales as it does in England, there are significant differences in detail. For example there are no Educational Action Zones (EAZs) in Wales and nor are there any specialist schools and moreover, none are planned.
- [3] Some of the best material on privatisation, EMOs and corporations involved, government policies and local experiences of privatisation 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/privatization

National Union of Teachers @ www.teachers.org.uk and www.data.teachers.org.uk/nut/action

UNISON @ www.unison.org.uk/campaigns/index

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